Report No. 1578-KO

Korea: Appraisal of the Korea Development Finance Corporation

May 26, 1977

Industrial Development and Finance Division
East Asia and Pacific Projects Department

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CURRENCY EQUIVALENTS

US$1.00	=	Won 485.00
W 1,000	=	US$2.06
W 1,000,000	=	US$2,061.85

ABBREVIATIONS

ADB	-	Asian Development Bank
AFDC	-	Agriculture and Fishery Development Corporation
BOK	-	Bank of Korea
DEG	-	Deutsche Entwicklungsgesselschaft
EPB	-	Economic Planning Board
ERR	-	Economic Rate of Return
IFC	-	International Finance Corporation
IRF	-	Industrial Rationalization Fund
KDB	-	Korea Development Bank
KDFC	-	Korea Development Finance Corporation
KDLC	-	Korea Development Leasing Corporation
KIC	-	Korean Investment Corporation
KIFC	-	Korea Investment and Finance Corporation
KIST	-	Korea Institute of Science and Technology
K-TAC	-	Korea Technology Advancement Corporation
MIB	-	Medium Industry Bank
NIF	-	National Investment Fund
RCB	-	Regional Commercial Bank
USAID	-	U.S. Agency for International Development

FISCAL YEAR

January 1 - December 31

KOREA

APPRAISAL OF THE KOREA DEVELOPMENT FINANCE CORPORATION

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This report was prepared by Messrs. T.N. Dinh and Alain Soulard following a field appraisal of KDFC in February 1977.

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KOREA

KOREA DEVELOPMENT FINANCE CORPORATION

BASIC DATA
(as of December 31, 1976)

1. Year of Establishment: 1967

2. Ownership as of December 31, 1976

	Number of Shareholders	Subscribed Capital (₩ million)	Percent
Domestic shareholders:			
Financial institutions	16	1,053	21.1
Private corporations	91	1,341	26.8
Individuals	271	868	17.4
Sub-total	378	3,262	65.2
Foreign shareholders	10	1,212	24.2
IFC	1	526	10.6
Sub-total	11	1,738	34.8
Total	389	5,000	100.0

3. Operations

	1968-72	1973	1974	1975	1976	Total
Approvals						
Domestic currency loans (W million)	2,491	1,693	1,770	502	450	6,906
Equity investments and debentures (W million)	1,816	231	1,262	529	1,639	5,477
Foreign currency loans ($ thousand)	50,829	30,713	23,970	42,912	64,697	213,121
Total (W million) 1/	22,251	14,164	14,657	21,844	33,467	106,383
Commitments						
Domestic currency loans	2,421	1,763	1,770	502	350	6,806
Equity investments and debentures (W million)	1,816	62	1,152	632	1,774	5,436
Foreign currency loans ($ thousand)	41,678	33,882	17,019	41,614	68,055	202,248
Total (W million) 1/	18,765	15,327	11,176	21,317	35,131	101,716
Disbursements						
Domestic currency loans (W million)	2,366	1,563	1,670	402	538	6,539
Equity investments and debentures (W million)	1,816	62	601	1,014	1,502	4,995
Foreign currency loans ($ thousand)	37,289	11,991	34,209	23,683	64,928	172,100
Total (W million) 1/	20,100	7,541	21,565	12,791	35,589	97,586

4. Status of Loans (Cumulative to December 31, 1976)

	Domestic currency (W million)	Foreign currency ($ thousand)
Approved	6,906	213,121
Committed	6,806	202,248
Disbursed	6,539	172,100
Outstanding at year end 1976	2,838	143,835

5. Earnings Record

year ending December 31	1973	1974	1975	1976
Profit after tax and provisions as % of average equity	15.7	15.8	18.6	18.7
Book value as % of par value	183	203	212	192
Cash dividend as % of par	15	10	10	20
Stock dividend as % of par	-	10	10	-
Cash dividend payout ratio 2/	43.7	32.9	27.1	48.5
Return on total assets (%) 2/	8.7	7.0	8.6	7.4

1/ Exchange rate applied: US$1 = ₩281.90 for 1968 = ₩374.10 for 1971
= ₩305.20 for 1969 = ₩399.70 for 1972
= ₩317.40 for 1970 = ₩398.50 for 1973
= ₩485.00 for 1974, 1975 and 1976

2/ Net income before tax + interest expenses to total assets.

AEP Projects Department
April 20, 1977

BASIC DATA

6. Financial Position (W million)

	1973	1974	1975	1976
Total assets	26,832	44,163	53,034	87,835
of which loan and investment portfolio (net)	22,269	40,144	47,947	77,232
Long-term debt				
Won subordinated loan	2,025	2,025	2,025	2,025
Foreign currency loan	18,711	35,204	42,579	71,213
Total term debt	20,736	37,229	44,604	73,238
Equity	5,489	6,077	6,993	9,581
Current ratio 1/	2.4	1.8	1.7	1.5
Long term debt/equity ratio	3.8	6.1	6.4	7.7
Reserves and provisions as % of portfolio	13.0	9.1	9.2	7.2
Debt service cover ratio 4/	1.7	1.4	1.3	1.3
Interest cover ratio 5/	1.7	1.6	1.5	1.4

7. Interest Rates and Charges (as of December 31, 1976)

Interest rate on domestic currency loans	18% - 20%
Interest rate on foreign currency loans	
IBRD fifth loan	10.5% - 11%
ADB second loan	10.85% - 11.35%
IFC syndicated loan	Spread of 1.25% over average borrowing cost 2/
Commitment charges	1% to 1.5% p.a. on undisbursed amount
Penalty charges	25% p.a. on overdues

8. Status of IBRD Loans as of December 31, 1976 (in US$ thousand)

Loan No.	Date of Signature	Rate of Interest	Amount 3/	Committed	Disbursed	Outstanding
529-KO	January 31, 1968	6.5%	4,950	Fully committed	4,950	865
622-KO	June 26, 1969	6.5%	19,726	Fully committed	19,726	8,345
735-KO	May 17, 1971	7.25%	29,125	Fully committed	29,125	20,854
905-KO	June 13, 1973	7.25%	40,000	39,654	39,487	36,597
1145-KO	July 23, 1975	8.50%	55,000	48,240	31,843	31,843

9. IFC Investment Summary as of December 31, 1976 (in US$)

Investment No.	Date Approved	Amount	No. of Shares
129-KO	January 30, 1968	702,042	38,500
259-KO	July 24, 1973 (exercise of rights)	356,208	28,233
352-KO	August 20, 1976 (exercise of rights)	291,221	28,132
Stock Dividends		-	31,341
Total Commitments		1,349,471	126,206
Less: Sale of fraction shares on stock dividends		8	-
Sale of participation to DEG		262,385	21,000
Held by IFC as of December 31, 1976		1,087,078	105,206

Return on IFC Investment to December 31, 1976

Profit on equity investment:	
Profit on sale of shares	262,623
Cash dividends received	505,798
	768,421

1/ Including current maturities of loans and debts.
2/ Relending rate currently works out at 10.95% p.a.
3/ Net of cancellations.
4/ Profit after tax + interest charges + non cash charges + loan collections to interest charges + repayments of borrowings.
5/ Net earnings before interest tax and depreciation to interest charges.

AEP Project Department
April 20, 1977

KOREA

APPRAISAL OF THE KOREA DEVELOPMENT FINANCE CORPORATION

SUMMARY

i. The Korea Development Finance Corporation (KDFC) was established in 1967 with the active assistance of the Bank Group, including IFC which at present owns about 10.5% of KDFC's share capital. KDFC has to date received five Bank loans totalling US$150 million of which the latest for US$55 million is expected to be fully committed by mid-1977. KDFC has also obtained from the Asian Development Bank (ADB) two loans totalling US$70 million since 1974. With IFC's assistance, KDFC raised in May 1976 its first foreign commercial loan of US$19.8 million from its foreign shareholders including IFC itself.

ii. In 1976 the Korean economy achieved a real growth rate of 15.2% as compared with an average of 8.5% p.a. in the two previous years. This performance almost equalled the record growth rate of 16.7% achieved in 1973, and resulted primarily from the strong performance of exports which increased in 1976 by about 44% in volume. The Government set two major economic targets for 1976, namely, to restrain the rate of inflation to 10% p.a., and to reduce by about US$0.5 billion the balance of payments current account deficit which amounted to US$1.9 billion in 1975. The first goal was achieved. Wholesale prices, which had increased by nearly 80% between the end of 1973 and the end of 1975, are estimated to have increased by only 10% in 1976. The second target has been substantially exceeded since the current account deficit for 1976 is estimated to have been kept below US$300 million. In 1976, the Government introduced restrictive monetary policies which resulted in a growth of domestic credit by only 20% in 1976, compared with increases of 54% and 32% in 1974 and 1975 respectively. In order to contain credit demand by Korean industries and improve resource allocation, the Government undertook in August 1976 an upward adjustment of the general interest rate structure. Both deposit and lending rates were raised by an average of 2 percentage points. A prime lending rate system was established for working capital loans and differential rates introduced for capital loans depending on their maturity.

iii. Since the previous Bank appraisal in 1975, KDFC's performance has continued to be highly satisfactory from both the institutional and developmental standpoints. KDFC remains one of the best organized, most efficient and innovative DFCs with which the Bank Group is associated. The quality of KDFC's management and staff is reflected in its high professional standards, particularly in appraisal and follow-up work. KDFC's financial performance and position remain satisfactory. As of December 31, 1976, its total assets amounted to US$181 million equivalent, and its net worth to US$19.8 million equivalent. Its 1976 earnings represented a return of 18.7% on average net worth. Its portfolio is exceptionally sound and has been free of arrears for the past two years. Since its inception, KDFC has approved financial assistance for the manufacturing, mining, agro-industrial, fishing and transport

sectors aggregating W 106.4 billion of which 29% was approved in 1976. Its disbursements over the period 1971-76 accounted for approximately 2.8% of the total fixed manufacturing investment in Korea.

iv. While KDFC remains a relatively small source of finance for the Korean industry, it has played an important qualitative role through its contributions toward improving both the resource allocation and resource mobilization systems in Korea. With its high appraisal standards, KDFC has been an efficient allocator of Bank Group funds and other resources available to it, to industrial projects that are economically and financially viable. A sample of 59 KDFC-financed projects shows an average economic rate of return of 33% and a financial rate of return of 26%. KDFC-supported projects are estimated to have annual exports of about US$600 million and to have generated additional direct employment for some 26,000 persons. KDFC's portfolio is highly concentrated in export-oriented projects and is reasonably diversified in sectoral and geographical terms.

v. Apart from its efficient operational and financial performance, KDFC has exhibited an innovative approach to development banking and shown a commendable record of developmental achievements. These include over the years, the following, inter alia: (a) the identification of investment opportunities and promotion of projects in relatively new sectors such as deep sea fishing and marine transport; (b) the promotion and establishment in 1971 of the Korea Investment and Finance Corporation (KIFC), a specialized financial intermediary designed to develop the short-term money market and securities markets; (c) the promotion and establishment in 1975 of the Korea Development Leasing Corporation (KDLC) whose object is to lease industrial machinery to smaller firms which cannot afford outright purchases; (d) its assistance in setting up in 1976, jointly with the Korea Institute of Science and Technology (KIST), the Korea Technology Advancement Corporation (K-TAC), with the objective of advancing and commercially exploiting domestic technological discoveries; (e) a scheme (started in 1976) of co-financing with the Regional Commercial Banks smaller projects in backward areas; (f) KDFC's contribution to the promotion and establishment in 1976 of a zinc smelting project involving a total investment of US$66 million; (g) studies of the machinery industry and some agro-business activities; and (h) its considerable assistance in improving the design of projects it has financed. KDFC is expected to further enhance its developmental impact over the next few years.

vi. KDFC has projected a growth rate of about 15% p.a. in its disbursements over the five-year period 1977-81, which would maintain its present share of total industrial investment financing. Its requirements of foreign exchange resources for the two-year period starting July 1, 1977 are estimated at about US$150 million. A Bank loan of US$70 million is recommended, which would cover about 47% of the above-mentioned amount, with the balance expected to be met by another ADB loan, and a second foreign commercial loan of up to US$30 million to be raised from KDFC's foreign shareholders and IFC. Notwithstanding its recent success in, and present attempts at, raising some resources from the foreign private markets, it is realistic to expect that KDFC will have to continue to rely on official sources (IBRD, ADB, et al,) for a major proportion of its foreign exchange requirements in the foreseeable future.

vii. The proposed loan would support a major component of the Government's development strategy, namely the expansion of export-oriented industries. In addition, it would help continue the mutually beneficial relationship between KDFC and the Bank Group.

viii. In view of the strength of KDFC's management and staff, and the soundness of its financial position and portfolio, an increase is recommended in the debt/equity limit from 8.5:1 (imposed under the latest Bank loan) to 10.0:1, which would enable KDFC to incur the additional borrowings necessary for it to achieve its projected level of operations. The free limit would be increased from US$2 million to US$2.5 million. As with the previous Bank loan (No. 1145-KO), the proceeds of the proposed loan could be used to finance up to 60% of the cost of domestically procured equipment and machinery, and 35% of local civil work, each representing the estimated foreign exchange components, respectively. The other terms and conditions of the loan would be similar to those of recent Bank loans to DFCs, including a flexible amortization schedule conforming substantially to the aggregate of the repayment schedules of subloans.

KOREA

APPRAISAL OF THE KOREA DEVELOPMENT FINANCE CORPORATION

I. INTRODUCTION

1.01 The Korea Development Finance Corporation (KDFC) was established in 1967 with the active assistance of the Bank Group. The Bank has since made five loans to KDFC totalling US$150 million, including the latest one for US$55 million which became effective in September 1975. The Asian Development Bank (ADB) made its first loan to KDFC in 1974, which was followed in 1976 by a second loan of US$40 million. At KDFC's inception, IFC took an equity participation of about 14% of KDFC's share capital. Following the sale, in 1975, of part of its shares to the German Development Corporation (DEG), IFC's participation has been reduced to about 10.5% of KDFC's share capital, but IFC remains KDFC's largest shareholder. With IFC's assistance, KDFC was able, in May 1976, to secure its first foreign commercial loan of US$19.8 million from its foreign shareholders, including IFC itself.

1.02 To maintain its share of industrial financing at the average level of the past 5 years KDFC will require, over the 2-year period starting mid-1977, resources totalling about US$168 million of which US$150 million will be in foreign currency. KDFC has requested a sixth loan from the Bank in an amount of US$70 million towards meeting part of these requirements; in addition KDFC intends to raise, during that 2-year period, a second commercial loan of US$25 to 30 million from its foreign shareholders and a third loan from ADB.

1.03 KDFC's performance since the previous appraisal in 1975 has been highly satisfactory. From the institutional standpoint, the soundness of its management and staff has enabled KDFC to further improve the high standard of its internal operations and to maintain the exceptional quality of its portfolio. From the developmental standpoint, the objectives outlined by KDFC in its statement of Development Strategy for 1976-77 have, by and large, been successfully achieved. This report recommends a new Bank loan of US$70 million, to help KDFC sustain its operations and pursue its developmental role.

II. ECONOMIC AND INDUSTRIAL ENVIRONMENT 1/

2.01 The recent performance of the Korean economy and, in particular, of the industrial and financial sectors is analyzed in Annex 1. Salient features are summarized hereunder.

1/ The latest Bank Economic Report on Korea (No. 1489-KO, dated February 23, 1977) provides a review of the recent developments in the economy and of its objectives as outlined in the Fourth Five-Year Plan (1977-1981).

2.02 Recent Economic Performance. Even during 1974-75, when the world-wide recession slowed down the growth of its exports, the Korean economy achieved a real growth of more than 8% p.a. The measures taken in December 1974 by the Government, which aimed at smoothing the impact of the recession and, in particular, at maintaining investment levels in industry, have enabled Korean exporters to take full advantage of the recovery in export markets which started in the latter half of 1975. Korean exports increased sharply in 1976 and reached an estimated US$7.8 billion, a 56% gain in current terms over the 1975 level. This remarkable expansion of exports led a general recovery of the economy and a real growth of over 15% was achieved in 1976, second only to the exceptional 16.7% record in 1973. As a result of these impressive export gains, Korea's current account deficit was reduced from US$1.9 billion in 1975 to less than US$300 million in 1976.

2.03 Industrial Structure and Investment. Manufactured exports which accounted for about 90% of all commodity exports in 1976 have undergone considerable changes in their composition over the last decade. Light industrial products still form the bulk of Korean exports of manufactures but there has been a substantial shift towards more skill-intensive products even within the light industrial sector; more importantly, heavy manufactures such as industrial machinery, transport equipment and electronics have gained in importance. This trend is reflected in the changing structure of the manufacturing output and in the relative shares of fixed investment allocations within the manufacturing sector. Heavy manufactures, which in 1976 contributed just over one third of the total manufacturing value-added have absorbed about 78% of the ₩ 714 billion fixed investment in the manufacturing sector during the year 1976. Seventy-two percent of the ₩ 154 billion fixed investment in light industries was in textiles. Total annual investment outlays in the manufacturing sector are expected to reach ₩ 911 billion in 1977, of which heavy and chemical industries would absorb 74%.

2.04 Recent Financial Developments. Because of its heavy dependence on foreign trade, Korea was hard-hit by the 1974-75 world-wide inflation which followed the dramatic increases in petroleum prices since 1973. Wholesale prices are estimated to have increased by close to 80% between the end of 1973 and the end of 1975. Financial measures taken by Government during that period in the face of rising unemployment and of the rapid drawdown of Korea's foreign exchange resources included a devaluation of the Won by 17.5% 1/ and selective increases in interest rates. As a result of the tight monetary policy followed in 1976, inflation has been largely brought under control and wholesale prices are estimated to have increased by only 9% on a year-end basis. In order to contain excessive loan demand and improve fund allocation, the Korean Government undertook in August 1976 an upward adjustment of the general interest rate structure. Both deposit and lending rates were raised by 2% on average. A prime lending-rate system was established for working capital loans and differential rates introduced for capital loans depending on their maturity.

1/ From ₩ 400 to ₩ 485 to the US dollar.

2.05 The Fourth Five-Year Plan (1977-1981). Over the next five-year period, the Korean economy is expected to grow at an annual rate of 9.2% fueled by an annual increase of 16.5% in the volume of manufactured exports. The manufacturing sector is expected to contribute 54% of the incremental GNP during the Plan period, increasing at a rate of 14.2% p.a. In order to sustain such growth, gross fixed investment would rise at 7.8% p.a.; the share of manufacturing would marginally increase from 24.6% of total gross fixed investment over the Third Five-Year Plan to 26.7% over the Fourth Plan period. The shift in Korea's export strategy towards more skill-intensive products will be further accentuated and rendered possible by a deepening of the industrial structure. The share of light industries in total manufacturing investment is expected to decrease in favor of heavy and chemical industries which would absorb 64% of total manufacturing investment. Investment priorities within the heavy industrial sector will be somewhat shifted from highly capital intensive industries towards the skill-intensive machinery and electronics industries. The Fourth Plan projects a declining investment ratio from 27.7% of GNP in 1976 to 26% in 1981. National savings which in 1976 stood at 21% of GNP and thus financed approximately 80% of gross fixed investment in that year would rise to 26% of GNP by 1981. The Government expects to further reduce the rate of inflation to around 7% p.a. by 1979.

III. KDFC's ROLE IN THE ECONOMY

KDFC's Role within the Financial Sector

3.01 KDFC's charter stipulates that the purpose of its establishment is to provide medium- and long-term financial assistance to the private sector. In spite of some overlapping in their activities and clientele, KDFC and the other two development finance institutions operating alongside it in Korea, namely the Medium Industry Bank (MIB) and the Korea Development Bank (KDB), fulfill somewhat different functions and aim at different sectors of the economy. While MIB confines its financing to small and medium industries 1/ KDB, which is the largest source of industrial financing in Korea for both the public and private sectors 2/ is largely used by the Government as the executing arm of its industrial policies. As a consequence, KDB is called upon to finance large Government industrial projects particularly in the non-manufacturing sectors, (power, transportation) 3/. KDB's lending to the private

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1/ The definition of which was revised in January 1977 to include manufacturing enterprises with up to 300 regular employees or total assets of up to ₩ 500 million (US$1 million).

2/ Outstanding loans to the private sector accounted for 38% of KDB's outstanding portfolio as of December 31, 1975.

3/ The non-manufacturing sectors accounted for 63% of KDB's outstanding portfolio at end-1975.

sector is considerably larger than KDFC's 1/ but unlike KDFC a large majority 2/ of KDB's loans is for domestic currency financing 3/. Another feature of KDB's and MIB's financing is the much higher share of working capital loans in their total lending operations which reflects the fact that, unlike KDFC, they are empowered to and accept domestic currency deposits. In conclusion, the scope of KDFC's operations is clearly different from that of MIB and somewhat more restricted than that of KDB since it caters essentially to the medium- and long-term foreign currency requirements of private enterprises essentially in the manufacturing sector; in the particular field of foreign exchange financing, however, the importance of KDFC's role comes close to, and indeed may exceed, that of KDB 4/.

3.02 Because of its large domestic currency financing and of its involvement in the non-manufacturing sectors, KDB remains by far the largest source of term finance for industry. It is estimated that in 1975, KDB's disbursements of equipment loans accounted for about 6% of the total fixed capital formation in all economic sectors. Since the start of its operations in 1968, KDFC had approved up to end-1976 loans in an aggregate amount of W 100.9 billion (of which 93% was in foreign currency) and invested a total of W 5.5 billion in equity participations and convertible debentures. About 76% of KDFC's disbursements over the period 1971-76 were for the manufacturing sector. Transportation, essentially shipping, has absorbed close to 75% of the disbursements in the non-manufacturing sector (Annex 2). KDFC's cumulative disbursements in the manufacturing sector over the last 6 years represented about 2.8% of the total fixed investment in that sector. Considering that KDFC financed an average of 37% of total project costs during that period, KDFC-supported projects have accounted for about 7.6% of total manufacturing investment.

Economic Impact of KDFC-Financed Projects

3.03 Table 1 in Annex 3 gives partial economic indicators of the 283 projects financed by KDFC between the start of its operations in 1968 and December 31, 1976. The aggregate investment cost of these projects is estimated at about W 270 billion of which KDFC's financing accounted for

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1/ Outstanding equipment loans to the private sector were as of December 31, 1975, 3.5 times larger than KDFC's total loan portfolio.

2/ 87% of the equipment loans approved by KDB in 1975 were in domestic currency.

3/ Funded by a number of specialized Government funds such as NIF and IRF which are on-lent at preferential interest rates (Annex 1, para 27).

4/ Outstanding foreign currency loans by KDB to both the public and private sectors amounted to US$101 million as of December 31, 1975 as against close to US$90 million for the private sector only in KDFC's portfolio. KDB's foreign currency loan commitments in 1976 amounted to US$70.3 million as against US$68.1 million for KDFC.

W 100.9 billion or about 37% 1/. The additional direct employment generated by these projects should reach about 26,000 at full capacity operation. Of the incremental sales attributable to these projects about one half is exported which represents annual gross exports of some US$600 million. The average incremental value added is estimated to represent 30% of incremental sales.

3.04 Employment Creation. The average cost of fixed investment per job for the projects approved by KDFC has increased from US$21,500 in 1975 2/ to US$25,400 in 1976. Table 7 in Annex 13 shows the main characteristics of the projects approved by KDFC under the latest IBRD Loan No. 1145-KO; the average investment cost per job created by these projects works out at US$20,000. KDFC-financed projects do not appear unduly capital intensive considering that KDFC was set up to operate in the medium- to large-scale sectors of industry and that in recent years it has, in line with Government policy, financed a number of shipping projects which are generally capital-intensive. The average cost per job would have been even higher in 1976 if KDFC had not started lending through its scheme of cooperation with some Regional Commercial Banks (RCBs) to much smaller projects in the less developed areas of Korea. Eighteen such projects were approved in 1976 for which the average cost per job can be estimated at US$7,200 (Annex 4, Appendix 5).

3.05 Size of Operations. The average size of KDFC's domestic currency loans has remained at about W 100 million (US$210,000 equivalent) over the last 3 years while foreign currency loans have increased from an average of US$0.86 million in 1974 to US$1 million in 1975 and marginally declined to US$0.9 million in 1976 3/. The 1976 decline was entirely on account of the 18 RCB subprojects for which the average subloan amounted to US$280,000. Annex 13 shows, however, that from a share of 38% of total loan amounts approved in 1975, loans exceeding W 1 billion (US$2 million) have in fact increased to 44% in 1976. While KDFC should and will pursue its limited but qualitatively useful effort in assisting smaller projects in less developed areas through the RCB scheme, institutions like the Medium Industry Bank (MIB) and the Citizens National Bank (CNB) already exist in Korea which cater to the needs of the small- and medium-sectors of industry; it would not serve any useful purpose for KDFC to shift the main emphasis of its operations to smaller industries.

1/ On an approval basis.

2/ By way of comparison, the average cost of fixed investment per job for a representative sample of DFC projects approved in 1975, was US$26,810 world-wide and US$31,130 for East Asia (see Table 6, Annex 2 of Report No. 1543 dated March 22, 1977, entitled "Employment Creation and Small-Scale Enterprise Development").

3/ Excluding a US$5 million subloan to the Korea Development Leasing Corporation a subsidiary of KDFC, which was on-lent to a total of 26 projects (Annex 4, Appendix 1).

3.06 KDFC started to routinely calculate the economic rate of return (ERR) in all its project appraisals in 1973. Table 2 in Annex 3 shows the financial and economic rates of return of a sample of 59 projects appraised by KDFC. The weighted average financial and economic rates of return work out at 25.9% and 33.4% respectively which indicates clearly that funds available to KDFC have been allocated to projects that are both financially and economically viable.

General Developmental Objectives

3.07 As a private development finance institution, KDFC has endeavored to contribute to the realization of the general economic plans and policies of the Government. These plans and policies are reflected in KDFC's charter and policy statement in a list of general developmental objectives which include inter alia (i) the promotion of export and import substituting industries; (ii) the diversification of portfolio both in terms of sectoral and geographical distribution; (iii) the diversification of clientele through the financing of new ventures and broadening of share capital ownership; (iv) managerial and technical assistance to clients particularly with the aim of improving project design; and (v) the mobilization of domestic and foreign currency resources. KDFC's recent performance in achieving these objectives is discussed below.

3.08 Contribution to Exports. In line with a high priority objective contained in its policy statement, KDFC's portfolio reflects an emphasis on export-oriented projects. As indicated earlier, it is estimated that annual export sales by the projects approved by KDFC up to end-1976 amount to US$600 million or about one-half of their total incremental sales. Table 3 in Annex 3 shows the degree of export-orientation of KDFC-financed projects over the last 4 years. Heavily export-oriented projects (i.e., projects exporting over 50% of their output) accounted for 53% of loan approvals by amount during that period and reached a high of 71% in 1976.

3.09 Sectoral Diversification. Substantial changes have taken place over the last few years in the sectoral distribution of KDFC's financing. Tables 3, 4 and 5 of Annex 13 show that non-manufacturing industries have gained in importance and accounted for 40% of KDFC's total outstanding portfolio as of December 31, 1976. Since 1971, KDFC has promoted several deep-sea fishing and marine transport projects which, because of their large financing requirements, represent respectively 9.6% and 17.9% of its cumulative loan approvals and over 80% of total approvals in the non-manufacturing sector. With over two-thirds of KDFC's loan approvals since 1968, the manufacturing sector still is predominant in KDFC's portfolio. The share of light industries (essentially food and textile industries) has gradually declined from 43% of KDFC's cumulative loan approvals over the period 1968-70 to about 30% for the whole 1968-76 period; textiles however remain the largest subsector in KDFC's loan portfolio in manufacturing. Within the heavy manufacturing sector basic metals, transport equipment and petro-chemicals account for a low share of KDFC's operations relative to their importance in the total gross fixed investment in Korea. Projects in these sectors are usually beyond KDFC's financing capacity (except on a joint-financing basis) because of their large financial requirements. KDFC's heavy industry portfolio is concentrated in chemicals and rubber, metal products and to a lesser extent machinery and electrical products 1/. Machinery and electronics are two labor- and skill-intensive activities the development of which the Government emphasizes over the Fourth Plan period. KDFC, so far, has achieved only modest success in its efforts to increase its assistance to these sectors. Many projects in the field of electronics are established as joint ventures with foreign investors, thus leaving limited scope for KDFC to have a significant role in project formulation. Machinery projects have so far been essentially conceived as large industrial complexes (beyond KDFC's financing capacity) and have encountered numerous difficulties. KDFC acknowledges the importance of the domestic machinery industry for employment creation and import substitution; and its Development Strategy statement for 1976-77 expressly designates machinery manufacturing as a priority activity to which KDFC plans to step up its assistance.

3.10 Regional Dispersal of Portfolio. Excluding KDFC's financing of the fishing and marine transport industries which can hardly be categorized by the location of their head offices, the Seoul area proper has declined in KDFC's operations from close to 45% of all approvals over the period 1968-70 to just under 30% on a cumulative basis over 1968-76. The share of the surrounding Kyung-Gi province increased from 11% to 32%. The Pusan area has marginally increased its share from 7% to nearly 9% over the same period. This geographical distribution is in line with the evolution of investment dispersal for Korea as a whole. As a means of contributing to the decentralization of investment from over-crowded industrial centers, KDFC initiated in 1976 a scheme of cooperation with some Regional Commercial Banks (RCBs) in the less developed areas of the country. About 8% of KDFC's foreign currency loan approvals in 1976 were allocated to the financing of projects under this scheme.

3.11 Diversification of Clientele. KDFC has been reasonably successful in diversifying its clientele, whether such performance is measured by repeat loans or by the share of the largest borrowers in KDFC's total portfolio. Table 6 in Annex 13 shows that as of December 31, 1976, borrowers having received more than one loan accounted for 37% (by number) of KDFC's 184 clients and repeat loans represented by amount about 59% of cumulative loans approvals by KDFC since its inception. KDFC's exposure in any single enterprise is regulated by the financial prudence limits listed in its policy statement (shown in Annex 8) 2/. These limits do provide for a reasonable diversification of KDFC's portfolio and accordingly KDFC's ten largest borrowers accounted for less than 22% of its total outstanding portfolio. In view of the state of development of the Korean industrial sector and of KDFC's 10-year existence these ratios appear to be generally satisfactory. It was appropriate for KDFC in the early years of its existence to attempt to build up a sound portfolio, based on considerations of financial prudence more than on developmental objectives. KDFC has since become increasingly involved in

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1/ Including electronics.

2/ KDFC's financial commitments in whatever form to a single enterprise cannot normally exceed 25% of KDFC's equity. Only in one case had this limit been slightly exceeded as of December 31, 1976, and that with the Bank's concurrence.

new and riskier ventures. New projects (as distinct from expansion of existing projects) which accounted for 24% of KDFC's loan approvals over the period 1968-72 reached 31% of loan approvals over the period 1971-76.

3.12 Managerial and Technical Assistance. KDFC encourages project sponsors to approach it at an early stage of project formulation, so as to be in a position to make substantial contributions to project design. Annex 5 gives a selection of cases in which KDFC was instrumental in modifying project design. In a number of cases KDFC's recommendations aimed at strengthening the financial structure of the borrowers which, beside improving the client's debt-servicing capacity, also represented a useful contribution to resource mobilization. As a development institution, KDFC has gone further and has rendered advisory and consultancy services relating to three principal areas: (a) technical design, choice of technology and selection of machinery; (b) market analysis and production plans; and (c) corporate organization and legal set-up of the proposed projects. KDFC's objective of contributing to employment generation and to a deepening of the industrial structure is also reflected in the list of new technologies introduced in Korea by KDFC-financed projects. Annex 6 gives an outline of KDFC's performance in this area over the last 2-year period.

3.13 Resource Mobilization. Until 1976, KDFC had relied almost exclusively on the Bank for financing its foreign currency commitments. In 1973, however, the Government allowed KDFC to approach the Asian Development Bank (ADB), as a means of broadening KDFC's sources of funds, and in October 1974 KDFC obtained its first loan from ADB. From its inception in 1967 to May 1976, KDFC raised a total of US$221.8 million 1/ in foreign currency, consisting of five Bank loans totalling US$148.8 million, two ADB loans for a total of US$70 million and a US$3 million loan from USAID.

3.14 During negotiations for the two previous Bank loans (in 1973 and 1975), the Bank urged KDFC to raise some resources from the foreign private capital markets, so as to supplement its funds from official sources (e.g. the Bank, ADB, et al). KDFC's efforts in that direction remained unsuccessful until 1976, in part because of the difficult situation of the international capital market in 1974-75 (i.e. the unavailability of medium- and long-term funds), compounded by the difficulties of Korea's balance of payments which severely curtailed the country's overall borrowing capacity in those markets during that period. In 1976, however, KDFC managed to raise its first foreign commercial loan, of about US$20 million, from its foreign shareholders and IFC, largely with the help of IFC which acted as the manager in syndicating that loan. Considering the difficulties inherent in this type of resource mobilization, KDFC's performance so far has been satisfactory. As a result of its borrowing from ADB and commercial sources, KDFC's reliance on Bank funds has gradually been reduced, from 77% of its total assets at the end of 1974 to 66% in 1975 and 55% in 1976.

1/ Net of cancellations.

3.15 In recognition of the fact that commercial banks (which are controlled and partly funded by the Government) and KDB are in a much better position than KDFC to satisfy the domestic currency requirements of Korean industry, KDFC's domestic currency financing has been limited. Such a policy was justified considering that, unlike KDB and the commercial banks, KDFC does not have access to domestic currency deposits nor to the various Government subsidized funds 1/. KDFC's domestic currency resources have however been built up from W 3.35 billion 2/ at its establishment to W 12.3 billion as of December 31, 1976. Apart from cash generated from its operations in an amount of W 1.4 billion, the W 8.95 billion increase was entirely due to equity build-up, either in the form of retained earnings (W 3.9 billion), fresh share capital issues (W 2.39 billion) for cash or stock dividends (W 1.26 billion). KDFC's policy of broadening its equity base aims at enlarging its capacity for raising additional foreign currency borrowings rather than at increasing its domestic currency operations. As a consequence of this policy, KDFC has felt no need to raise additional Won resources through borrowings and has enjoyed a very satisfactory level of liquidity. With the changes currently being considered by Government which would eventually enable financial intermediaries to raise long-term private savings for relending with a positive spread and with the reduced reliance on foreign savings envisaged in the Fourth Plan for financing Korea's gross investment, KDFC closely watches the domestic capital market with a view to issuing medium or long-term bonds to expand its domestic currency operations.

3.16 Approximately one half of KDFC's domestic currency operations to date has been in the form of short- to medium-term loans 3/ extended by KDFC as a banking service to its borrowers of foreign currency funds. More important from KDFC's developmental viewpoint was the W 5.5 billion cumulative approvals of investment operations (i.e. subscription to convertible debentures and equity participations) through which KDFC has had a useful, albeit marginal, effect on the distribution of corporate ownership.

3.17 Since its establishment, KDFC has played a substantial role in indirectly mobilizing domestic savings at the project level by requiring its borrowers to increase their equity contributions. Annex 5 contains a selection

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1/ Such as the National Investment Fund (NIF) which is made available to KDB and other eligible banking institutions by the Government for on-lending at a subsidized rate of 13% to 14% p.a. with a 1.5% interest spread.

2/ Consisting of a W 1.35 billion paid-in share capital and a W 2 billion Government loan.

3/ W 6.9 billion cumulative approvals between 1968 and 1976.

of cases in which a strengthening of the financial structure was required by KDFC as a condition of its lending. While this was mainly aimed at improving the borrower's debt servicing capability, it also represented a useful contribution to the mobilization of domestic resources. On the foreign currency side, KDFC has, particularly over the last 2-year period, been able to help mobilize foreign currency resources through its joint financing operations with foreign financial institutions and investors including IFC. Appendix 6 of Annex 4 shows summarized data on such operations which have contributed an aggregate amount of US$33.9 million over the period 1975-76.

Promotional Activities

3.18 KDFC's record in implementing its general developmental objectives has been remarkable, particularly in the past two to three years in the area of promotional activities. In the earlier years of its operations KDFC followed a somewhat passive financing policy, in view of the need to develop staff capacity and to rapidly build up a sound portfolio, and because of the abundance of entrepreuneurship in the country and the availability of well-conceived projects seeking KDFC's financing. With the development of its staff capability, KDFC has become increasingly involved in promotional activities. In 1975, KDFC adopted a two-year Development Strategy statement which outlined specific promotional activities on which KDFC intended to place special emphasis over the period 1976-77.

3.19 The 1976-77 Development Strategy. The specific promotional activities emphasized by KDFC in its Strategy Statement can be broadly classified under 4 headings:

(a) Development of the Korean financial system: Establishment of a leasing company to assist enterprises, particularly small- and medium-scale firms, which cannot afford outright purchases of machinery and equipment.

(b) Deepening of the domestic industrial structure: (i) increased financial assistance to the domestic machinery manufacturing industry; and (ii) establishment with the Korean Institute of Technology (KIST) of a joint venture to promote new technologies and exploit them commercially.

(c) Diversification of KDFC's Portfolio: (i) sectoral diversification through the promotion of agro-industrial projects and (ii) increased geographical dispersal with the financing of small enterprises through selected Regional Commercial Banks (RCBs) located in the less developed areas of the country.

(d) Foreign currency resource mobilization: (i) diversification of KDFC's borrowings with the objective of lessening reliance on official sources, and (ii) indirect mobilization through joint-financing operations with other foreign institutions and investors.

3.20 Project Promotion Office. In order to implement these promotional activities, identify projects, and generally monitor KDFC's progress in these areas, a separate unit, the Project Promotion Office, was set up by KDFC in March 1975. Its staff consisted at end-January 1977 of six professionals. KDFC's performance in implementing its promotional program is analyzed in detail in Annex 4 and summarized below.

3.21 Korea Development Leasing Corporation. KDFC's objective of supplementing its own development banking functions through the establishment of specialized financial intermediaries had resulted in 1971 in the creation of the Korea Investment Finance Corporation (KIFC), a financial intermediary engaged in money market and investment banking operations. KIFC's success has since led to the creation of nine similar institutions, with a consequent development of an active money market and improved mobilization of resources. Similarly, KDFC sponsored the establishment of the Korea Development Leasing Corporation (KDLC) which was incorporated in 1975 as a joint venture with Orient Leasing Company (OLC) of Japan. The lease instrument is particularly well-suited to Korean industry because the high indebtedness of enterprises has often resulted in a lack of collateral to be pledged against additional loans. Leasing is therefore very attractive especially to small- and medium-sized enterprises. Furthermore, leasing can in the long run contribute substantially to the development of the domestic capital goods industry through the leasing of domestically manufactured machinery and equipment. Operations have expanded rapidly, but have been hampered by KDLC's shortage of resources. In order to alleviate this problem, KDFC requested and the Bank approved a US$5 million sub-loan which was made available to KDLC from the proceeds of the latest Bank loan to KDFC. This amount has been fully committed in 1976 on account of 26 leasing projects, the main characteristics of which are shown in Appendix 1 of Annex 4. Toward meeting part of its resource requirements over the coming months, KDLC has recently completed negotiations with IFC for a minority participation in its share capital and a loan of up to US$15 million.

3.22 K-TAC. The Korea Technology Advancement Corporation (K-TAC) was established in 1974 under the joint sponsorship of KDFC and of the Korea Institute of Science and Technology (KIST) with the objective of promoting the commercial exploitation of the patents and technical processes developed by KIST. During the year 1976, K-TAC promoted two projects (for bronze powder and cordierite saggar production) for which KDFC provided financial assistance in the form of loans and equity participation. Details of these projects appear in Appendix 2, Annex 4.

3.23 Machinery Industry. An analysis of the capital goods manufacturing industry in Korea by KDFC has shown that assistance to such large manufacturing complexes as those of Changwon are beyond the financial and technical means of KDFC. KDFC decided to focus its assistance on the small- and medium-scale machinery manufacturers who possess adequate know-how. Seven such projects have been financed over the period 1975-76, for a total of US$6.5 million, about 6% of KDFC's total lending during that period. KDFC has also been assisting the domestic machinery manufacturing indirectly by financing in some instances the foreign currency component of domestically procured capital goods, under the latest loan, No. 1145-KO 1/. This facility has been utilized by KDFC for a total of US$3.6 million or 6.5% of the total loan amount (the list of these projects is given in Appendix 3, Annex 4).

3.24 Agro-Industry. KDFC has made a start in financing industries processing agricultural raw materials so as to encourage crop diversification and integrate farm production into the commercial sector. KDFC's relative inexperience in this type of operations justified a cautious approach. Two types of activities have been assisted by KDFC so far: viticulture and dairy production (Appendix 4, Annex 4).

3.25 Assistance to Small Industries in Backward Areas. In order to improve the geographical dispersal of its operations and broaden its clientele, KDFC started cooperating with selected Regional Commercial Banks (RCBs) in the less developed areas of Southern Korea. The objective is to channel foreign currency funds to small enterprises in backward areas, and to help the participating RCBs build up their appraisal and follow-up capability. Details of the progress made and difficulties encountered are given in Appendix 5, Annex 4. Under this scheme, cooperation agreements have been entered into with four of the ten RCBs operating in Korea. Under these agreements, KDFC finances the foreign currency requirements (up to US$500,000) of small industrial projects identified and appraised by the RCBs in accordance with the guidelines issued by KDFC. The RCBs finance the domestic currency requirements of these projects and are responsible for their follow-up. KDFC has been providing useful training to the RCBs' staff. An initial amount of US$5 million from the proceeds of the latest Bank loan, was fully committed by KDFC during the year 1976 on account of 18 projects under this scheme (particulars of these subprojects are attached to Appendix 5). In view of the encouraging response shown by RCBs, KDFC intends to pursue and, resources permitting, to expand this cooperation scheme to other regional banks. Additional resources have been earmarked for 1977 out of the second ADB loan and KDFC plans to utilize a part (still undetermined) of the proceeds of the proposed Bank loan starting in the latter half of 1977.

3.26 Resource Mobilization. As indicated earlier, KDFC has indirectly mobilized foreign currency borrowings amounting to US$33.9 million over the 2-year period 1975-76 through its joint-financing operations with foreign financial institutions and investors. KDFC's promotional efforts in this area during the year 1976 focused essentially on the establishment of a US$66 million zinc smelting project financed jointly with IFC 2/ and other investors and a steel pipe manufacturing project with the Bank of America. Appendix 6 in Annex 4 shows data on these operations. KDFC emphasized in its previous

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1/ A percentage of 60% for the foreign exchange component of domestically manufactured capital goods was agreed upon under the Bank loan.

2/ IFC's financial assistance consists of a US$13 million loan and a US$4 million equity participation.

Strategy statement its intention to lessen its dependence on official sources of foreign currency funds (IBRD, ADB, et al) by attempting to borrow from foreign commercial sources. KDFC's efforts have come to fruition in May 1976 with the US$19.8 million foreign commercial loan syndicated by IFC. Foreign commercial borrowings are important for KDFC to broaden and diversify its resource base. They are, however, likely to account for a limited share of KDFC's total resources in the future because of the difficulties inherent in obtaining them and of KDFC's limited capacity to on-lend these relatively costly commercial funds without jeopardizing its competitive position or the profitability (see para 6.02) on which it depends for its ability to raise new share capital.

3.27 New Developmental Objectives. In the four main areas outlined in its previous Strategy statement, KDFC has achieved satisfactory progress. Capitalizing on its experience of the last 18 months, KDFC has revised and updated its developmental and promotional strategy. A new statement of Development Strategy has been adopted by KDFC covering the period 1977-78 (Annex 8), which proposes to consolidate and expand the past achievements. KDFC intends in that 2-year period to focus on (i) project promotion and fund allocation; (ii) resource mobilization; and (iii) research activities. Specifically, KDFC will continue and expand its program of cooperation with the RCBs placing emphasis on the training of the RCBs' staff in appraisal techniques and follow-up work; and further expand assistance to K-TAC. In pursuance of its efforts to promote the domestic machinery industry, KDFC will establish, within its own organization, an Engineering Consulting Office which will identify and promote new machinery projects; this office may eventually be spun-off as a separate consulting entity. KDFC is also cooperating with IFC in the study of a scheme of financial assistance to the Korean machinery industry. Diversification of the source of its foreign currency borrowings remains a primary objective of KDFC; preliminary soundings for a second foreign commercial loan of up to US$30 million have already been initiated, and this loan may materialize in the latter part of 1977. If market conditions remain favorable, KDFC hopes to be able to reduce its reliance on official sources of funds to about two-thirds of its overall resources by 1981.

3.28 KDFC's record of developmental and promotional achievements over the last few years has been impressive. The implementation of the new objectives contained in its Strategy statement for 1977-78 is expected to further enhance KDFC's developmental contribution over the next few years.

V. INSTITUTIONAL ASPECTS

4.01 Share Capital and Ownership. KDFC is a privately owned company, with a reasonably broad-based ownership 1/. Including IFC which owns 10.5%, foreign shareholders accounted for about 35% of KDFC's paid-in share capital

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1/ Apart from IFC, no single shareholder owns more than 4% of KDFC's share capital.

as of December 31, 1976. Apart from IFC and the German Development Corporation (DEG), a semi-public institution, the foreign shareholders are commercial banks, most of which are from the U.S. and Japan. Among the domestic shareholders, insurance companies, commercial banks and securities companies account for about 25% of KDFC's share capital while industrial companies and private individuals own a total of about 40% (Annex 9). KDFC's initial paid-in share capital of ₩ 1.35 billion had increased to ₩ 5 billion by end-1976 through stock dividends totalling ₩ 1.26 billion and two rights issues for cash in 1973 and 1976 of ₩ 1.02 billion and ₩ 1.37 billion respectively. Of the latest rights issue of 274,000 shares in November 1976, about 18% were allocated to KDFC's staff.

4.02 Board of Directors. KDFC has a 13-member Board including its President. Five Directors, including IFC's representative (Mr. N. Nishihara), represent the foreign shareholders. The Korean Directors are leading members of the financial and business community. Mr. C.S. Hong, a prominent industrialist, has been the Board chairman since KDFC's establishment in 1967. The Directors are elected for a term of one year and meet regularly to deal inter alia with approvals of loans and investments exceeding US$2 million and with operational and policy matters. Between meetings of the Board, authority to conduct KDFC's operations and approve loans and investments under US$2 million is delegated to an Executive Committee composed of four Board members (with the Chairman and President serving as ex officio members). Since November 1976, KDFC's President has been given authority to approve loans and investments of up to US$300,000 under the scheme of cooperation with RCBs. Annex 10 shows the composition of the Board and Executive Committee.

4.03 Management, Organization. KDFC remains one of the best managed DFCs with which the Bank Group is associated. Its senior management team consists of a President and two Vice Presidents; each Vice President is responsible for three of KDFC's six departments. Mr. C.H. Kim, a former Governor of the Bank of Korea, has been KDFC's President since 1967 and was recently reappointed at the latest shareholders' meeting in February 1977. He continues to provide KDFC with his wise and capable leadership. The previous Vice President in charge of the Administration, Operations and Accounting departments, Mr. C.K. Lee 1/, was appointed in March 1977 as President of KDLC, a company affiliated with KDFC (para 3.20). He was replaced by Mr. B.C. Yoon, the former manager of the Operations Department. Mr. T.Y. Hahm, formerly manager of the Appraisal Department, was appointed as Vice President in 1974 and is in charge of the Planning, Appraisal, and Project Promotion Departments. In order to effectively handle the increasing accounting workload and intensify promotional activities, two new units have been established at the departmental level, namely a Project Promotion Office (in March 1975) and an Accounting Office (in July 1976). All departments are headed by competent managers. At present KDFC has no regional office. A new Engineering Consulting Office is expected to be established in the coming months. KDFC's organization chart is appended to this report.

1/ KDFC has made available to both KIFC and KDLC their top management (President and Vice-President).

4.04 Staffing. As of end-January 1977, KDFC had a total staff of 110 including 6 managers and 65 professionals. The quality of KDFC's professional staff, both in terms of academic and professional background, is excellent at all levels, and is reflected in the high standard of KDFC's operations. The competitiveness of KDFC's employment conditions still gives KDFC an edge over other financial institutions in Korea, but has slowly been eroded in the last few years in comparison with the large private industrial groups. Professional staff turnover, which had been minimal until 1972, increased considerably in recent years, and a total of 13 professionals 1/ left KDFC over the last 2 years. Turnover was especially high among junior officers and engineers. Such a level of staff turnover, however, has proven to be manageable by KDFC, and has had no discernible effect on the quality of its operations, no doubt because of KDFC's basic staff strength and the fact that the turnover did not involve its key staff. The recruitment of 19 new professionals in 1976 brought a net increase of 9 to KDFC's professional staff. Annex 11 shows KDFC's recruitment plan for the 1977-81 period. Staff training and development has received considerable impetus in recent years. In-house and overseas training has generally focused on project appraisal techniques, accounting, finance, management techniques, law, taxation, etc. In 1976, KDFC initiated a new staff development policy for deserving young professionals whereby overseas academic training, in disciplines relating to its business, is financed by KDFC. Two trainees were sent to the U.S. in 1976 for training in business administration.

4.05 Operational Policies. Guidelines for KDFC's operations are set forth in its Statement of Investment and Operational Policies which has been updated and revised from time to time since its adoption by KDFC's Board of Directors in 1967. No substantial amendments have been made since the last Bank appraisal except with respect to (i) increasing the debt/equity limit to 8.5 times the aggregate paid-in capital and free reserves in January 1976 and (ii) increasing KDFC's maximum financial exposure limit to 25% of the total sum of its paid-in capital and free reserves. Both changes received the Bank concurrence. To supplement these general guidelines, and set out its immediate developmental and promotional objectives, KDFC adopted in 1975 a statement of Development Strategy for the period 1976-77 which has now been revised and updated for 1977-78 (para 3.26).

4.06 Project Appraisal. The standards of KDFC's project appraisal work continue to be very high. KDFC's appraisal reports, because of their quality, have often been used as models and training materials not only for other Korean institutions, but for many overseas DFCs. The technical, marketing, and financial aspects are usually analysed thoroughly, and, since 1973, KDFC routinely calculates the economic rate of return on all the projects it finances. KDFC continues to draw substantially on the expertise of the Korean Institute of Science and Technology, which holds a participation in KDFC's share capital. KDFC intends to further improve its coverage of the technological aspects of projects with the contemplated establishment of the Engineering Consulting Office (para 3.26).

1/ Not inclusive of the professionals made available to KDLC by KDFC.

4.07 Project Supervision. In spite of staff constraints, particularly in terms of engineering staff, the Operations Department, which is in charge of project follow-up, has been considerably strengthened over the years. Reporting requirements are outlined in KDFC's loan agreements and are strictly enforced. Annual audit reports are required from clients and are used as the basis of an annual follow-up report on each project which analyses sales and price trends, market shares, liquidity and earnings ratios, etc. In addition, plant visits are carried out by the follow-up staff at time intervals depending on the project's performance 1/. The Operations Department systematically analyses actual project costs and benefits for comparison with earlier appraisal estimates; the results of such analyses 2/ speak very well of the quality of KDFC's appraisal work. The Operations Department is also in charge of procurement, supervision of disbursements, collateral, loan collections, and makes recommendations to management for action on problem projects. These recommendations range from additional financial assistance for projects experiencing severe cost overruns, to loan reschedulings or the suspension of disbursements. KDFC's follow-up procedures are thorough. The absence of arrears in excess of three months over the last two years (para 5.07) attests to the quality of KDFC's appraisal and supervision work.

4.08 Procurement and Disbursement. KDFC's procurement and disbursement procedures are appropriate. KDFC normally requires that its borrowers submit at least three competitive quotations from suppliers and sometimes, depending on the type of equipment and size of the contract, insists on international competitive bidding (ICB). The merits of the various offers are evaluated jointly by the sub-borrower and the Operations Department. The final procurement contract is subject to KDFC's approval. Disbursements are authorized against submission of satisfactory documents and progress reports on project implementation.

V. OPERATIONS

5.01 Foreign Currency Lending Operations. Foreign currency lending accounted for 88.3% of KDFC's total financial assistance from its inception to end-1976. Cumulative loan approvals in foreign currency amounted to US$213.1 million as of December 31, 1976 on account of 254 loans. KDFC's foreign currency lending increased from US$17.4 million in 1972 to US$64.7 million in 1976 on an approval basis, which represents an average annual

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1/ In 1976 approximately 120 field visits have been made by the 14 follow-up officers of the Operations Department.

2/ A study of a sample of 26 projects financed in 1975 and 1976 showed cost overruns and underruns varying between 0.3% and 36% in comparison with earlier estimates, with an average margin of error of about 6%, despite world wide inflationary trends.

growth of 39%. On a year-to-year basis however the growth has not been regular; the level of approvals has been a direct function of resource availability. There was for instance a 12% decline in foreign currency approvals in 1974 as a result of the delay in effectiveness of the first ADB loan. This decline was followed by a 79% increase in 1975 when KDFC's foreign exchange resources were replenished by both its first ADB loan (effective October 1974) and the latest Bank loan (effective August 1975). In 1976, the growth in the volume of foreign currency approvals was 51%, partly as a result of the availability of the US$20 million IFC syndicated loan.

5.02 Domestic Currency Operations. KDFC's aggregate approvals in domestic currency for the period 1968-76 amounted to W 12.4 billion (US$25.6 million). Loans in domestic currency accounted for 56% of this amount, while subscription to convertible debentures and equity participations represented respectively 18% and 27%. As indicated earlier, KDFC makes short- and medium-term loans in domestic currency essentially as a service to its borrowers of foreign currency. KDFC considers that KDB and the commercial banks are, because of the resources available to them, better equipped to handle domestic currency lending. Priority is therefore given in KDFC's domestic currency operations to investment operations (i.e., convertible debentures and equity participations as distinct from straight lending) through which it can achieve a more substantial developmental impact. Investment operations which accounted for 40% of KDFC's total domestic currency operations in 1974 increased to 76% in 1976. Nine new equity participations have been approved in 1976 for a total of W 1 billion (US$2.1 million) bringing KDFC's total outstanding equity investment portfolio as of December 31, 1976 to W 3.3 billion in 21 companies. KDFC's operations up to end-1976 are summarized in Annex 13, Table 1.

5.03 Financial Position. A detailed analysis of KDFC's financial position and performance is presented in Annex 14 together with tables showing KDFC's audited accounts for the last 4 years. As of December 31, 1976, KDFC's total assets stood at W 87.8 billion (US$181 million) having increased by 66% during the year. This unprecedented assets growth reflected the delayed effect on disbursements of the rapid increase in total approvals in 1975 and 1976. Total disbursements showed an increase of 178% in 1976 over their 1975 level, which, after allowing for collections, brought about a 60% increase in outstanding portfolio. This growth of KDFC's portfolio was essentially on account of foreign currency loans which have increased from 70% of total assets in 1973 to 81% in 1976.

5.04 The growth of the foreign currency loan portfolio was financed by rapid draw downs on KDFC's foreign currency resources 1/. While total outstanding term debt inclusive of domestic currency borrowings (i.e. the subordinated Government loan) increased by 97% over the period 1975-76, KDFC's equity grew by 57% only, from W 6.1 billion to W 9.6 billion. The debt/equity

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1/ Both increasing by 67% in 1976.

ratio consequently increased from 6.1:1 to 7.7:1, still within the contractual limit of 8.5:1. Part of the increase in KDFC's equity came from the November 1976 rights issue for cash of ₩ 1.37 billion (para 4.01). The current ratio 1/ has decreased from 1.8 in 1974 to 1.5 in 1976 but still leaves KDFC with a comfortable liquidity position. The debt service coverage has remained at the level of 1.3 times over the last 2 years which is satisfactory.

5.05 Earnings Performance. KDFC's net income for 1976 reached ₩ 1.55 billion, an increase of 27% over the previous year. Net income has increased at an average rate of 30% p.a. over the last 2 years. Loan income represents about 85% of KDFC's total gross income. Administrative expenses have continued to decline as a percentage of average total assets from 1.6% in 1974 to 1.4% and 1.2% respectively in 1975 and 1976, which is a good indicator of the efficiency of KDFC's operation. Income growth has been more than offset by rapidly increasing financial expenses which have caused a marginal reduction in KDFC's gross spread. As a consequence, net income has slightly declined as a percentage of average total assets from 2.5% to 2.2%. A higher leverage has however raised returns to average net worth from 15.8% in 1974 to 18.7% in 1976. The level of KDFC's earnings has remained adequate to allow for both dividends and increases in retained earnings.

5.06 Share Prices and Dividends. The book value of KDFC's shares stood at ₩ 9,581 per share as of December 31, 1976 as against a par value of ₩ 5,000. The market value of KDFC's shares, which are lightly traded, has fluctuated between ₩ 7,200 and ₩ 6,000 in 1976. Except in 1973 when it declared a 15% cash dividend, KDFC's dividend policy since 1970 has been to declare a 10% cash and a 10% stock dividend every year. In 1976, however, a 20% cash dividend was declared following the November 1976 rights issue, which is roughly in line with the dividend policy of other private financial institutions in Korea, but well below the level of cash dividends usually distributed by private industries. The pay-out ratio averaged 39% over the last four years and reached 48.5% in 1976, which is still moderate.

5.07 Quality of Portfolio. KDFC's portfolio is of exceptionally good quality. Table 4 in Annex 14 summarizes KDFC's collection performance and arrears situation over the last four years. KDFC experienced its first arrears problems in 1972 with six loans in arrears for over 3 months at the end of the year. The financial measures taken by Government in August 1972 coupled with KDFC's intensified collection efforts had reduced arrears to two loans by end-1973. No loan was in arrears for a period of more than 3 months at year end-1975 and 1976. Collection ratios over the last 4 years ranged from 98.2% to 99.4% reflecting a nearly perfect performance. Since its establishment, KDFC has had to foreclose mortgages on two loan accounts in 1972 and

1/ Including current portions of loans and term debt.

1975; amounts written off on these two accounts amounted to a total of W 88 million. No reschedulings were made in 1976 1/. With some 60% of KDFC's outstanding loan portfolio still in grace period, the re-emergence of some arrears should be expected in the future. Provisions for doubtful accounts stood at W 1.1 billion as of December 31, 1976 and together with free reserves accounted for 7.7% of total portfolio, which is more than adequate. The exceptional soundness of KDFC's portfolio is attributable more to the quality of its appraisal and follow-up work, to its ability to identify and remedy problem projects at an early stage, and, more importantly, to the strength of the Korean economy particularly in the last two years, rather than to any overly conservative lending policy on KDFC's part.

5.08 Terms and Conditions of Lending. The lending rates currently charged by KDFC are shown in Table 1, Annex 1. Although the Government does not formally regulate the level of KDFC's interest rates, these are expected to be in line with those of other financial and banking institutions in Korea. On the domestic currency side, lending rates have been broadly aligned on the level of the standard banking rates which was adjusted upward on August 2, 1976 (paragraph 27, Annex 1). The interest rate now stands at 20% p.a. while 18% p.a. is charged for priority 2/ projects. On the foreign currency side, KDFC's standard interest rate applicable is 10.75% p.a, with differential rates of 10.5% to 11% p.a. being applied in consideration of the degree of contribution to the economy 3/ of a project and of the credit standing of the borrower. Of all the subloans approved by KDFC under the latest Bank loan approximately 87% were charged a rate of 10.75%, 10% a rate of 10.5%, and 3% a rate of 11%. On the subloans financed from the proceeds of the IFC syndicated foreign commercial loan, KDFC charges an interest spread of 1-1/4 percentage points above its average borrowing rate; the relending rate is currently set at 10.97% p.a. For all its foreign currency loans, KDFC passes on the foreign exchange risk to the subborrowers. Maturities generally are five years for domestic currency loans and 7 to 12 years for foreign currency loans.

5.09 Audit. KDFC's accounts have, for the past two years, been audited by the Lybrand Accounting Corporation, which is associated with the Coopers & Lybrand Group. Their reports meet the Bank's requirements. KDFC's accounts have always been certified without qualification.

1/ In 1975 the repayment schedules of 3 loans with a total principal outstanding of W 1 million (US$2,000) were extended by one year.

2/ Priority projects are defined in the Law on Tax Deduction and Exemption as power, petrochemical, shipbuilding, machinery, electronics, steel, non-ferrous metals, mining, and fertilizer industries.

3/ A high degree of contribution to the economy is accorded to (i) priority projects as defined above; and (ii) industries listed in KDFC's Development Strategy statement.

VI. PROSPECTS AND RESOURCE REQUIREMENTS

6.01 Business Prospects. KDFC's operational projections and business forecasts are analyzed in Annex 15. KDFC estimates that over the two-year period starting mid-1977 its total financial assistance (loans and investments) will reach W 79.2 billion (US$163.3 million) on a commitment basis. Foreign currency loans are projected to account for US$147 million or 90% of total commitments. Approvals which had increased by 51% in 1976, because of the expeditious processing of loan applications financed from the proceeds of the US$20 million IFC syndicated loan, are projected to grow by a moderate 9.5% in 1977 and 19% in 1978. The Fourth Five-Year Plan is projecting an annual real growth of industrial investment of about 8% over the period 1977-81. KDFC's disbursements over the same period are forecast to increase at an average rate of just under 15% p.a.. Assuming a reduction in the rate of inflation to about 7% p.a., the real growth in KDFC's disbursements would work out at approximately 8% p.a., thus keeping pace with the projected real growth of industrial investment over the Plan period. KDFC should therefore be in a position to maintain roughly the share of its financing of industrial investment at the same level as in the last five-year period, or approximately 3%. The achievement of this larger volume of business would depend primarily on KDFC's capacity to raise additional borrowings. In view of the debt/equity limitation (para 6.03), KDFC's borrowing capacity will itself depend on its ability to expand its equity base.

6.02 Financial Forecasts. KDFC's financial performance and structure are expected to remain quite satisfactory over the next five years. Profits after tax are projected to increase from an expected W 2.1 billion in 1977 to W 4.4 billion in 1981, a growth rate of approximately 20% p.a.. Net income as a percentage of both average equity and average total assets is expected to marginally decline from the 1976 level 1/ owing to a slight erosion of the interest spread. In fact, an increase is projected in gross income (from 10.9% of average total assets in 1976 to 11.6% by 1981) which would, however, be more than offset by a rise in KDFC's average interest expenses (from 6.5% to 7.7%). The projected increase in financial charges reflects the expected proportionate reduction in official funds (such as those from IBRD and ADB) and the increased share of higher-cost foreign commercial borrowings. KDFC envisages continuing its usual policy of declaring a 20% dividend (10% cash; 10% stock). A 10% cash dividend is rather conservative by Korean standards and KDFC may need to adjust its future dividend policy in order to strike an appropriate balance between the objective of increasing cash returns to its shareholders to render future share issues more attractive, on the one hand, and the need to expand the equity base through retained earnings and stock dividends, on the other. KDFC's debt service coverage is expected to remain at the satisfactory level of 1.2 to 1.3 through the projected period. The interest cover ratio would marginally decline from 1.4 in 1976 to 1.3 by 1979 which would still be adequate. On the whole KDFC's profitability is expected to remain satisfactory.

1/ Respectively from 18.7% in 1976 to 18.3% in 1981 and from 2.2% in 1976 to 1.9% in 1981.

6.03 Debt/Equity Limit. KDFC's total assets are projected to rise from W 87.8 billion at end-1976 to W 260 billion by 1981, a rate of increase of close to 25% p.a.. This increase will be financed by a corresponding 25% p.a. rise in term liabilities; equity growth, however, will be slightly lower (at about 23% p.a. on average over the same period) thus bringing the debt/equity ratio up from 7.7:1 in 1976 to 8.2:1 by 1981. Contrary to the growth of its portfolio and borrowings, the increase in KDFC's equity (and therefore in the debt/equity ratio) will not be uniform from year to year since it will partially be on account of two large share issues for cash of W 3 billion and W 4 billion respectively planned for 1978 and 1981. In the years preceding these share issues the debt/equity ratio would reach 8.48:1 and 9.3:1 (in 1977 and 1980 respectively). At end-1977 the ratio is expected to come quite close to the existing contractual limit of 8.5:1. This limit could even be exceeded, if the second commercial loan expected in early 1978 were to materialize ahead of schedule. KDFC realizes the need to broaden its equity base as the best means of easing this constraint. It feels however, that the planned share issues of W 3 billion and W 4 billion for 1978 and 1981 represent the maximum that it can raise following the W 1.37 billion increase of November 1976. Furthermore KDFC takes the view that a more conservative dividend policy in order to achieve a higher level of retained earnings and stock dividends would be unacceptable to its shareholders and could jeopardize the success of its future share issues. An increase in the contractual debt/equity limitation from 8.5:1 to 10:1, which would enable KDFC to incur the additional borrowings required for financing its operations over the next few years, is therefore recommended, on the grounds of KDFC's strong management and staff, the high standards of its operation and the soundness of its financial position and of its portfolio which is free of arrears.

6.04 Won Resource Position and Requirements. KDFC's resource position as of December 31, 1976, is shown in Annex 16. Domestic currency commitments for the two-year period 1977-78 are estimated to amount to W 7.9 billion. At end-1976 domestic currency resources available for commitment amounted to W 3.3 billion. KDFC expects to raise a further W 3 billion through its 1978 share capital increase, and W 5.9 billion through Won loan collections, disposition of equity investments and internal cash generation 1/. These additional domestic currency resources should enable KDFC to cover projected commitments and at the same time maintain a satisfactory level of liquidity.

6.05 Foreign Exchange Resource Position and Requirements. Uncommitted foreign currency resources amounted to US$39.3 million as of December 31, 1976, consisting of US$7.1 million from the previous Bank loan and US$32.2 million from the latest ADB loan. This uncommitted balance is expected to be fully utilized by the middle of 1977. Commitments over the two-year period starting July 1, 1977 are estimated to reach US$147 million. In order to meet

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1/ Accounting respectively for W 2.2 billion, W 0.3 billion and W 3.4 billion.

this level of commitments and maintain an adequate balance of resources available for approvals, KDFC will need to borrow a total of US$150 million. The proposed US$70 million Bank loan would cover slightly less than one half of KDFC's requirements with the balance to be met by another loan of US$50 million from ADB (expected in late 1978), and a foreign commercial loan of about US$30 million from its foreign shareholders to be raised with IFC's assistance.

VII. THE LOAN OBJECTIVES AND MAIN FEATURES

7.01 Objectives of the Loan. The Bank Group's association with KDFC since the latter's inception in 1967 has been a productive and mutually beneficial one. Through KDFC as an intermediary, Bank Group resources (totalling US$161.3 million, on a commitment basis and including the IFC syndicated loan) have been efficiently allocated to some 215 projects which are economically as well as financially viable, in the manufacturing, mining, agro-industrial, tourism and transport sectors of the Korean economy. This association has enabled the Bank Group to exert its influence in encouraging KDFC to sustain and improve its operational standards as well as to enhance its developmental contribution. It is expected that over the period of commitment of the proposed loan, KDFC will achieve further improvements from both the institutional and developmental points of view.

7.02 Economic Justification. As indicated in paragraph 3.05 the weighted average economic rate of return on a large sample of KDFC-financed projects was 33.4%. Subloans to the projects approved so far under the previous Bank loan ranged in size between US$110,000 and US$3.95 million 1/; economic rates of return ranged from 15% to 67%. Subprojects to be financed under the proposed loan, although not yet identified are expected to yield similar economic benefits. As with the previous Bank loan a proportion of up to 10% of the proposed loan is expected to be utilized by KDFC for financing small-scale industries in backward areas with the Regional Commercial Banks. As an intermediary for allocating Bank funds to projects smaller than the Bank could finance directly, KDFC's performance has been, and is expected to remain very effective.

Main Features of the Loan

7.03 Utilization of Loan Proceeds. Aside from the financing of direct imports of machinery and equipment, KDFC would be authorized to use the proceeds of the proposed loan to finance the foreign exchange component of domestically procured capital goods estimated at 60% and that of local civil works estimated at 35%. Financing of the foreign exchange component of local procurement was already allowed under the previous Bank loan to KDFC and accounted for about 6.5% of the total loan amount. This proportion is expected to increase slightly under the proposed loan.

7.04 Relending Rate. As under the previous Bank loan (para 5.08) KDFC expects to relend the proceeds of the proposed loan at an average interest rate of 10.75% p.a.. In practice, differential rates of 10.5% to 11%

1/ With an average subloan size of US$941,000.

p.a. will be applied depending on the degree of contribution to the economy of subprojects. The 10.75% rate will give KDFC a spread of 2.25% (assuming a Bank lending rate of 8.5%), which is appropriate. Considering that KDFC's borrowers will bear the foreign exchange risk, which has averaged 7% per annum over the period 1968-76, the proposed nominal relending rate of 10.75% represents an effective rate of 17.75% which does not appear unduly low.

7.05 Free Limit. On the basis of KDFC's high appraisal standards and the proven ability of its management and staff, it is recommended that the free limit be increased from the level of US$2 million (under the previous Bank loan) to US$2.5 million. With the proposed free limit, it is estimated that projects accounting for about 15% of the total number of subloans and about 40% of the total loan amount would still require Bank review prior to approval, which would be adequate. As with the previous loan there would be no aggregate free limit. No ceiling on the size of individual subloans is necessary since KDFC's Policy Statement provides for a statutory exposure limit in a single enterprise of 25% of KDFC's net worth which represented about US$5 million as of December 31, 1976.

7.06 Amortization Schedule. As usual with Bank loans to DFCs the proposed loan would have a flexible amortization schedule which would conform substantially to the aggregate of the repayment schedules of the subloans made by KDFC to its clients. The loan is expected to be fully repaid within a period of seventeen years including a grace period of about 3 years. The estimated disbursement schedule of the loan is shown in Annex 17.

VIII. AGREEMENTS REACHED AT NEGOTIATIONS

8.01 During negotiations, agreements were reached on the following:

(a) a new debt/equity limit of 10.0:1 (paragraph 6.03);

(b) a percentage of 60 for financing the foreign exchange component of domestic equipment and 35 for local civil works (paragraph 7.03); and

(c) a new free limit of US$2.5 million (paragraph 7.05).

KOREA

KOREA DEVELOPMENT FINANCE CORPORATION

Economic, Industrial and Financial Environment

A. The Korean Economy

1. The Economic Setting. Over the last 15 years Korea's economy has maintained an average real growth of about 10% p.a., which has transformed Korea from one of the poorest developing countries with heavy dependence on agriculture, and a relatively poor endowment of natural resources, into a semi-industrialized middle income nation with an increasingly strong external payments position. Over the Third Five-Year Plan period (1972-1976) the GNP growth rate reached an average of 11% p.a. in real terms. Even during the recessionary years of 1974 and 1975 when Korea was hard hit by the energy crisis and worldwide recession which slowed down the growth of its exports, Korea's GNP grew by more than 8% p.a.; for 1976, GNP growth is estimated at over 15%. The impressive 1976 performance resulted from an increase of more than 40% in the volume of exports during that year aided by a very good performance in the agricultural sector. The engine of growth of the Korean economy over the last 15 years has been the rapid expansion of exports from less than US$200 million in 1965 (9% of GNP) to nearly US$8 billion by 1976 (36% of GNP), an average real rate of growth of over 33% p.a. Korea was able to nearly double the volume of its exports between 1973 and 1976 in spite of a relatively slow growth in world trade. Manufactured exports have played a dominant role in the process of export expansion and their share in total merchandise exports rose from 80% in 1965 to 90% in 1976. Some progress has been achieved in diversifying the commodity structure of exports and moving in the direction of more sophisticated skill-intensive products, nevertheless, more than half of Korea's manufactured exports consists of textiles, clothing and footwear and only a little over a quarter consists of heavy manufactures. Over the last 15 years, the average growth rate of production in the mining and manufacturing sector has been with 19% p.a. almost twice as high as the 10% aggregate growth rate of GNP. As a consequence, the share of mining and manufacturing has risen from 12% of GNP in 1961 to an estimated 36% by 1976. Korea's remarkable success in expanding its exports has been made possible by the very fast growth of investment. Fixed investment rose from about 11% of GNP in 1960 to more than 20% by 1966 and has generally been about 23% to 26% of GNP since then. Fixed investment in mining and manufacturing accounted for 24.6% of total investment outlays over the Third Plan period.

2. After the 1973 unprecedented boom which resulted in a real GNP growth of 16.1% 1/ and an increase in the volume of export of 54%, a recessionary period followed during 1974-75 with sharply rising import prices and depressed export demand. The Government's response to a sharply increased inflation, 2/ rising unemployment, and the rapid drawdown of Korea's foreign exchange reserves, included a 17.5% devaluation of the Won in December 1974, gradual adjustment of domestic prices towards world market levels, intensive export promotion, and additional financial assistance to Korean enterprises to allow the build up of manufacturing inventories. The deterioration in Korea's terms of trade reached about 19% in 1974 and another 10% in 1975. From mid-1975 the world economy began to show signs of recovery and the level of exports which had continued to be sluggish in the first half of the year picked up. As a consequence, exports reached US$5 billion for the whole year, a 12% increase over the previous year. GNP growth in real terms which had slowed down to 8.6% in 1974 reached only 7.9% in 1975.

3. The measures taken by the Government to smooth the impact of the recession allowed a continued growth in fixed investment during the period 1974-75, and enabled Korean exporters to take full advantage of the recovery in export markets which started in the latter half of 1975 and reached full development in 1976.

4. Performance in 1976. The Korean economy performed remarkably well in 1976. GNP is estimated to have grown in real terms 3/ by 15.2%, second only to the exceptional 16.7% recorded in 1973. This growth was brought about by the sharp expansion of exports which increased in volume by more than 40% during the year. 4/ The value of exports reached an estimated US$7.8 billion while imports rose to US$8.1 billion, thus resulting in a trade deficit of about US$300 million (which compares with a level of US$1.7 billion in 1975). During the year 1976, the ratio of gross domestic investment to GNP has remained roughly at its 1975 level of 27%. Domestic savings on the other hand have increased from 18% a year earlier to 21% of GNP in 1976 thus financing approximately 80% of gross investment. Wholesale prices are estimated to have increased by only 9% during 1976 on a year-end basis.

5. Objectives of the Fourth Five-Year Plan. Along with the general objectives of further strengthening Korea's balance of payments and maintaining a rapid growth of employment, a major goal of the Fourth Five-Year Plan's industrial policy is to achieve a structural shift within the manufacturing sector towards more skill-intensive sectors such as machinery and electronics where Korea enjoys a competitive advantage over other developing countries.

1/ In 1975 prices.

2/ Wholesale prices increased by nearly 80% over that period.

3/ Based on 1970 constant market prices.

4/ In 1972 and 1973 the export volume increased respectively by 46% and 54%.

This strategy will also help deepen the structure of the industrial sector. Over the five-year period of the Plan, the GNP is expected to grow at a rate of 9.2% per annum fueled by a 16.5% annual growth in the volume of manufactured exports. The manufacturing sector which now accounts for 32% of GNP is expected to increase at 14.2% p.a., a higher rate of growth than that of GNP, which would bring the contribution of the mining and manufacturing sector to 41% of GNP by 1981. It is expected that some 38% of the two million new jobs to be created during the Fourth Five-Year Plan period will be in the mining and manufacturing sector. As in previous years, Korea's development would essentially be export-led, the ratio of commodity exports to GNP which reached 27% in 1975 would rise to 42% by 1981. However, compared to their real growth rate of 32% p.a. over the period of 1965-75 exports are projected to increase at a more modest 16.8% p.a. The Plan is based on the assumption that Korea's exports of textiles, clothing and other light manufactures have a limited growth potential and are subject to encroachment by other developing countries. Korea's comparative advantage will therefore increasingly lie in industries which require more skilled labour and greater industrial sophistication such as machinery, electronics and shipbuilding. The real growth of exports of these products would be around 30% p.a. over the 1976-81 period. The share of manufactures is expected to rise from about 85% of total merchandise exports in 1975 to 92% by 1981. In order to sustain the projected GNP growth rate of 9.2% p.a., gross fixed investment would need to rise at 7.8% p.a. In relation to GNP, the projected investment is slightly lower than in the Third Plan period (26.2% of GNP as against 26.9% during the 1972-1976 period). The share of manufacturing investment in total gross fixed investment is projected to increase by only 2% from its average share of 24.6% during the Third Five-Year Plan to 26.7% during the Fourth Five-Year Plan. The shift in Korea's export strategy towards more skill-intensive exports is reflected in both the planned structure of industrial output and in projected investment allocations. The share of heavy and chemical industries is expected to rise from 43% of total manufacturing value added in 1975 to nearly 52% by 1981. Investment in light industries is expected to decrease from 40% of total investment outlays in the manufacturing sector over the Third Plan period to 36% over the next five years; conversely, investment in the heavy and chemical industries would increase from 60% to 64%. The share of highly capital intensive industries such as basic metals, shipbuilding and chemicals would be reduced in relative terms from approximately 75% of investment outlays in heavy and chemical industries over the Third Plan period to 61% over the Fourth Five-Year period. Investment in machinery and electronics would concurrently increase from 25% to 39%.

B. Industrial Sector

6. The Role of Industry in the Economy. Since the early 1960's, manufacturing has been the fastest growing sector in the Korean economy. Over the last five years, its growth reached nearly 19% p.a., almost twice as much as the rate of growth of the aggregate GNP. Manufacturing contributed about 52% of the increase in GNP during that period and grew in relation to GNP from

24.4% in 1971 to 36% in 1976. 1/ The share of manufactures is estimated at 90% of commodity exports in 1976, compared to 82% in 1965. With close to three million persons employed, the manufacturing sector accounted for about 21% of the total labour force in 1976. In spite of the increased importance of relatively capital intensive industries such as steel, petrochemicals and shipbuilding in Korea's gross manufacturing output, the manufacturing sector accounted for only 24.6% of total investment outlays over the 1972-76 period, and there has been no perceptible increase over the last 10 years in the incremental capital-output ratio in the manufacturing sector which remained at 1.3. 1/ Over the last decade the average cost of job creation in the manufacturing sector has been stable at about US$5,000 in 1975 prices.

7. Current Performance. Value added in the manufacturing sector is estimated to have increased by 26% in real terms 1/ in 1976 compared to 12% in 1975 and a record growth of 31% in 1973. Exports have increased by more than 40% in volume during the year 1976. Demand for Korea's traditional exports of light industrial products such as textile yarns, fabrics, and clothing continued to expand and maintained a share of about 35% of total commodity exports. The concentration of Korea's exports toward the U.S. and Japan has been substantially reduced as a result of its efforts to develop other markets such as Europe and the Middle East; by 1976 the combined share of the U.S. and Japan had dropped to 56% from a level of 70% in 1974. Commodity exports to the Middle East which were earlier negligible amounted to more than US$300 million in 1975 and Korea has been winning construction contracts, mostly in the Middle East, worth about US$2.5 billion in 1976.

8. Structure of Industry. The following table shows the changes which have taken place in the structure of industry between the years 1971 and 1975:

1/ At 1970 constant market prices.

Value Added in Manufacturing /a
(W Million)

	1971 Value Added	1971 %	1975 Value Added	1975 %	Growth Rate %
Light Manufactures					
Food, beverage, tobacco	191.0	29.0	268.0	20.4	9
Textile, footwear, leather	150.4	22.8	423.6	32.3	29
Wood, furniture, paper printing	48.1	7.3	65.4	5.0	8
Rubber, clay, glass, stone products	40.5	6.1	66.5	5.0	13
Plastics	9.5	1.4	12.1	1.0	6
Sub-Total	439.5	66.7	835.6	63.7	17
Heavy Manufactures					
Chemicals, petroleum and coal	117.4	17.8	181.9	13.9	12
Basic metals, metal products	22.3	3.4	51.0	3.9	23
Machinery (including electrical)	35.6	5.4	125.9	9.6	37
Transport equipment	28.1	4.2	81.7	6.2	31
Sub-Total	203.4	30.8	440.5	33.6	21
Miscellaneous industries	16.3	2.5	35.1	2.7	21
TOTAL	659.2	100.0	1,311.2	100.0	19

/a At 1970 constant market prices.

Within light manufacturing industries, food processing has declined from 29% of total manufacturing value added in 1971 to 20% in 1975, while textile, footwear and leather increased from 23% to 32%, due to the buoyancy of these traditional export items. The change in the pattern of exports, towards more sophisticated items has been a slow one, because of the continued demand for light exports. Consequently, the share of light manufactures in total manufacturing value added has only marginally decreased from close to 67% in 1971 to about 64% in 1975. The share of heavy manufactures in manufacturing value added has conversely risen from about 31% in 1971 to close to 34% in 1975.

Chemicals, petroleum and coal still account for the largest share of heavy manufactures but the expansion of these industries has been slower than the overall growth in manufacturing value added and their contribution to total manufacturing value added has consequently declined from 18% to 14%. Basic metals and metal products have roughly maintained their share. A substantial increase has taken place in the share of transport from 4% to 6% and more strikingly in the share of machinery which has risen from 5% of manufacturing value added to close to 10%. Machinery manufacturing has had the highest growth rate within the manufacturing sector with an average of 37% p.a.

9. Size Distribution of Industry. The following table shows the distribution of manufacturing firms by size of employment in 1974.

Size Structure of Industry

	No. of Establishments		No. of Workers		Value Added	
	No.	%	No.	%	Won billion	%
5-49 workers	20,357	84.1	252,462	18.4	187.5	9.6
50-200 workers	2,611	10.8	256,917	18.8	305.6	15.7
Over 200 workers	1,247	5.1	860,298	62.8	1,458.8	74.7
Total	24,215	100.0	1,369.677	100.0	1,951.9	100.0

Source: Report on Mining and Manufacturing Survey, EPB 1974.

Of the 24,000 industrial enterprises operating in Korea in 1974, 95% belonged to the small- and medium-size category. 1/ These enterprises, however, accounted for only 37% of industrial employment and 25% of industrial value added. The sectoral distribution within the small, medium and large sector is quite similar although the proportion of enterprises involved in the chemical, petroleum, oil and plastics industries is naturally slightly higher in the medium and large categories. This clearly indicates that small and medium industries in Korea are competitive with large scale enterprises and perform important ancillary functions. The contribution of the small- and medium-scale enterprises to Korea's exports has increased from 32% in 1970 to 34% in 1975, which is another indicator of their economic viability. The relative importance of small- and medium-size enterprises in the overall industrial structure has however been declining as the Korean economy expanded

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1/ Small and medium industries are defined in the Small Industry Basic Act as enterprises with less than 200 workers or with total assets of less than W 50 million. (This definition was revised upwards in January 1977). For convenience, small industry is defined here as enterprises with 5-49 workers and medium industry as enterprises with 50-200 workers.

and modernized. Small and medium industries which accounted for 59% of employment and 39% of industrial value added in 1967 had seen their contribution decline by 1974 to respectively 37% and 25%. In spite of the emphasis placed on developing the heavy and chemical industries which will further increase the relative importance of large-scale enterprises, Government is aware of the beneficial effect that small and medium industries have on employment generation, income distribution and geographical dispersal of investment and has been recently intensifying its efforts to promote these industries.

10. Geographical distribution. Approximately one-third of the population of Korea is concentrated in the three largest cities of Seoul, Pusan and Taegu. As indicated in the following table the regional distribution of industry follows the same pattern.

Geographical Distribution of Industry
(percent)

	1971			1974		
	No. of Establishment	No. of Workers	Value Added	No. of Establishments	No. of Workers	Value Added
Seoul & Pusan	30.3	45.4	45.2	32.5	46.3	42.8
Other Regions	69.7	54.6	54.8	67.5	53.7	57.2
	100.0	100.0	100.0	100.0	100.0	100.0

Source: Report on Mining and Manufacturing Survey, EPB 1974.

There has been no significant change in the geographical distribution of industry between 1971 and 1974 and Seoul and Pusan remain the largest industrial centers in Korea. The Government, however, has become increasingly aware of the need to achieve, through a wider geographical dispersal, a better distribution of employment opportunities and a reduction of the congestion and overcrowding in Seoul and Pusan. The Government has therefore been promoting the development of industrial centers outside these two areas principally through the establishment of free trade zones and industrial estates. Major examples of this policy are the iron and steel plants in Pohang, the petrochemical complex in Ulsan, the integrated chemical industry in Yeosu, and the machinery center at Changwon.

11. Financial position. The interest rate structure and slowdown in economic activity during the period 1970-72 had resulted in a deterioration of the financial position and structure of business enterprises. Companies had become highly dependent on the high cost short-term "curb market" for their financing. In August 1972, a Presidential decree froze all loans from the unorganized money market and new measures were adopted which lengthened maturities of certain loans, reduced interest rates to 16.8% p.a. and converted loans from shareholders into equity. These measures as well as the

remarkable performance of the Korean economy in 1973 resulted in a considerable improvement of the financial position and performance of Korean enterprises. The aggregate debt/equity ratio of manufacturing enterprises fell from 3.9 in 1971 to 3.1 in 1972 and 2.7 in 1973. The average interest rate on borrowings of manufacturing enterprises concurrently declined from 13.4% to 8.6%. Profitability also improved markedly with net profits increasing from an average of 1% of total assets in 1971 to 7.9% in 1973. With the quadrupling of oil prices at end-1973 and sharp increases in the costs of raw materials enterprises were again subject to considerable financial strains. Capacity utilization declined and costs of production increased substantially. In an effort to sustain the economic activity and employment, the Government helped finance the build-up of manufacturing inventories. Enterprises had to resort to increased borrowings and the aggregate debt/equity ratio increased to 3.2 in 1974 and 3.4 in 1975. Profitability decreased with net income declining as a percentage of total assets from 7.9% in 1973 to 5.7% and 3.9% respectively in 1974 and 1975.

12. Industrial development strategy. Export orientation has been the dominant factor influencing the structure and rate of expansion of the manufacturing sector. Export growth has been accompanied by a policy of selective import-substitution which has helped the aggregate dependence upon imported intermediate inputs and capital goods remain at roughly the same level over the last decade. Although import substitution has played a significant role in some sectors and over specific time periods, its contribution to the growth of manufacturing output has been very limited. It is estimated that over the period 1960-68 domestic demand contributed some 60% to the growth of manufacturing, while export expansion and import substitution contributed respectively 38% and 2%. The emphasis given to exports of light manufactures has resulted in a rather high degree of dependence upon imports as a source of raw materials and intermediate inputs, as is reflected in the fact that the domestic value added content of Korea's exports is only about 50%. While it is clear that Korea's poor natural resource endowment limits the scope for backward linkages, there is a real need for Korea to undertake a deepening of its industrial structure. A shift in manufacturing towards more skill-intensive products will also enable Korea to face competition from less industrialized countries where unskilled labour is cheaper. Awareness of the desirability of deepening Korea's industrial structure was present in the formulation of both the Second and Third Five-Year plans and lies behind the decisions to build the first integrated steel mill and petrochemical complex. The long-term Plan covering the decade up to 1981 which was published by the Economic Planning Board (EPB) in 1973 emphasized the accelerated development of the heavy and chemical industries as a critical element of Korea's future industrialization. The recent economic setbacks have rendered a re-examination of this long-term development plan necessary and while the emphasis remains on developing heavy industry and on increasing the domestic content of exported manufactures some heavy capital-and energy-intensive projects have been deferred or altogether cancelled. As indicated earlier the share of basic metals, shipbuilding and chemicals will be reduced from 75% to 61% of investment outlays in heavy industries while machinery, and electronics industries will benefit from this reallocation of investment.

13. Trends in industrial investment. Fixed investment in the manufacturing sector amounted to approximately W 714 billion in 1976 which represented an increase of about 15% in nominal terms over 1975. Some 78% of this amount was invested in the heavy industrial sector, principally basic metals, chemicals and transport which received respectively 34%, 20% and 15%. Investment in light industries amounted to W 154 million of which 72% was in textile industries. About two-thirds of total manufacturing investment was financed by foreign and domestic loans with the remainder coming from equity investments, bond issues and internally generated funds. Over 60% of investment expenditures was for procurement of machinery and equipment. Investment in non-manufacturing industries 1/ increased by 17% in nominal terms. Investment in power accounted for 74% of this increase. During the Fourth Five-Year Plan period the growth rate of GNP is expected to be 9.2% per annum with mining and manufacturing growing at 14.2% p.a. Total gross fixed investment is projected at W 18,000 billion 2/ for the plan period with manufacturing accounting for 24.6%

14. Total investment outlays in the manufacturing sector for the year 1977 are projected at W 911 billion 2/. Heavy and chemical industries would absorb 74% of the total, with basic metals, petrochemicals, machinery and electronics accounting respectively for 21%, 15%, 12% and 5%. Light industries would absorb 26%.

15. Government incentives. The Korean industrial incentive policy has, over the past ten years, been highly responsive to particular and changing circumstances. The array of incentives has varied with Government policies and priorities for industrial development. These policies have, with variable emphasis, included the promotion of export industries and of foreign investment, the geographical dispersal of industry, the assistance to small and medium industries and, more recently, the investment in heavy industries. Incentives have included full exemption or reduction of the corporate income tax, deferment, reduction or exemption from import duties, easy access to financing and to special lines of credits at preferential interest rates, accelerated depreciation and protection of import substituting industries through tariffs.

16. A comprehensive incentive system was established during the first half of the 1960's which generally favored exports over import substitution. The main elements of the incentive package included unrestricted access to and tariff exemptions on, imports of raw materials and capital goods, generous waste allowances in determining duty-free raw material imports, direct and indirect tax reductions, access to subsidized credit for working capital and fixed investment, and rate reductions on certain inputs. Key import

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1/ Fisheries, mining, construction, electricity, hotels and transportation.

2/ At 1975 prices.

substituting industries received protection from imports through tariffs and quantitative import controls. Estimates of effective subsidy rates show, however, that export activity was generally favored over import substitution. The international competitiveness of Korean industry had substantially improved between 1970 and 1973 due to several devaluations of the Won and the Government consequently decided to reduce export incentives. Reductions in corporate income tax were abolished and preferential interest rates increased. In 1975, tariff exemptions on imported inputs were abolished in favor of a system by which tariff on imported inputs is paid at the time of importation and rebated at the time of export. Tariff exemptions for export industries on imports of machinery and equipment were abolished in 1974, 1/ payment of custom duties, however, can be stretched over a three-year period.

17. While key import substituting industries have been granted many of the preferences given to exporters, production for domestic sale has generally been subject to higher duties, taxes and interest charges. It has, however, benefited from tariffs and restrictions on imports. Over the last few years there has been a modest decline in tariff rates, 2/ and increased reliance on import restrictions, 3/ as a means of affording protection to domestic producers particularly in the case of capital goods. As a counterpart for the protection afforded to domestic producers through import controls, the Government has established controls over the prices charged by these industries. 4/

18. In the case of capital goods, exporters are no longer exempt from import tariffs and importation of certain capital goods is restricted. Other incentives for the purchase of domestically produced machinery include target ratios of domestically supplied capital goods in the total fixed capital cost for a number of industries and the establishment of several specialized medium-and long-term Government funds to provide Won financing for procurement of domestically manufactured machinery. The largest of these funds is the National Investment Fund (NIF) which over the Fourth Five-Year Plan period is expected to finance nearly 18% of investment in the machinery sector and to finance roughly 13% of the total fixed capital formation in manufacturing.

1/ Only in the case of capital goods imported under foreign capital financing is there still complete and automatic exemption from tariffs.

2/ The average tariff rate which has remained roughly stable between 22% and 24% 1969 to 1972 has rapidly declined to about 12.8% in 1975.

3/ The number of prohibited items has declined from 77 in 1968 to 66 in 1975, but items subject to import restrictions have increased from 398 to 579 in 1976.

4/ In March 1976 Government enacted the Price Stabilization and Fair Trade law.

C. The Financial Sector

19. Institutional Set-up. The financial sector of Korea consists of the Bank of Korea, Deposit Money Banks, non-monetary financial institutions and a Securities Exchange. The Bank of Korea performs regular central banking functions, including the supervision of commercial banks.

20. Deposit Money Banks include commercial banks and specialized banks. Commercial banks receive most of their funds through deposits from the public. They can make all kinds of loans but have traditionally concentrated on short-term lending; roll-over of short-term loans is common. There are five nationwide commercial banks, ten banks with localized operations and eleven branches of foreign banks which together had 693 branches/offices around the country at end-1976 (all these fall under the term "commercial banks"). Four of the five nationwide commercial banks are fully controlled by the Government which, under Korean law, automatically receives majority rights if its holding in a nationwide bank is 10% or more. The fifth bank is controlled by the semi-official Korean Traders Association. All commercial banks are subject to control and supervision by the Bank of Korea while specialized banks are directly controlled by the Ministry of Finance. The Specialized Banks were all established under a Special Banking Act and are subject to only a few specific Articles of the Bank of Korea Act and General Banking Act. Specialized banks, as their name implies, were founded for particular purposes or sectors (such as small-scale industry financing or agricultural financing) and Government funds constitute a major source of their financial resources in addition to resources raised otherwise. Specialized Banks include the Korea Development Bank, the Korea Exchange Bank, which was established in 1967 mainly to relieve the Bank of Korea of commercial foreign exchange business, the Medium Industry Bank which extends financial and technical assistance to small- and medium-scale industries, the Citizens National Bank (mainly for mobilizing small savings and financing household loans and small enterprises), the Korea Housing Bank, the National Agricultural Cooperative Federation (NACF) and the Fisheries Cooperative.

21. Besides the above-mentioned banking institutions (the "Monetary System") there are several non-bank finance institutions, namely trust accounts of commercial banks, five life insurance companies, the postal savings system, the Korean Development Finance Corporation (KDFC) which specializes in providing medium- and long-term capital, the Korean Investment Corporation (KIC), primarily a broker for the offering and distribution of corporate securities, ten short-term finance corporations 1/ and the Korean Capital Corporation, all of which deal in short-term money market instruments. In addition, there were 211 mutual savings and finance companies and some 1,200 authorized credit unions at end 1976. Three leasing corporations and a merchant bank (Korea Merchant Banking Corporation) have been established over the last few years as joint ventures between Korean and foreign interests.

1/ Including the Korea Investment and Finance Corporation (KIFC).

22. As of November 31, 1976, total loans outstanding to the manufacturing sector by all banking institutions in Korea amounted to over W 2,360 billion (US$4.9 billion equivalent), 80% of which was for operating funds, mainly supplied by commercial banks. The largest supplier of equipment fund loans is KDB which, as of November 31, 1976, had an outstanding portfolio of Won 209 billion (US$430 million) or about 45% of the total outstanding medium and long-term credit by banking institutions to industry as of that date.

23. Capital Market. The Korea Stock Market was moribund for many years but showed signs of life in 1972. Before then the yields on stocks were unattractive as both commercial banks and the "curb market" paid high interest rates. The market was also thin because closely held companies were reluctant to go public. With the mid-1972 economic boom and additional financial measures, the public showed growing interest in the stock market. The curb market was severely checked as a result of the August 1972 measures and with decreasing interest rates at commercial banks, yields on stocks became attractive. In addition, the overall investment climate became very favourable after August 1972, and the campaign for more stock listings and for companies to go public was intensified. The result was a large increase in stock exchange activity in the second half of 1972 and in 1973. In 1974, trading activities on the exchange slowed down considerably, due to the gloomy business outlook stock listings, however, continued to rise reaching almost W 500 million at the end of 1974. The following table summarizes the stock exchange activity over the last six years (figures are shown as of the end of each period):

	No. of Listed Companies	No. of Shareholders (in '000)	No. of Listed Stock (in million)	Capital of Listed Stock (W billion)	Market Value of Listed Stock (W billion)
1971	50	81.9	170.2	141.4	108.7
1972	66	103.3	209.8	174.3	245.9
1973	104	200.0	305.1	251.6	426.2
1974	128	199.9	487.6	381.3	532.0
1975	189	290.7	825.0	643.4	916.0
1976	274	764.9	1,580.9	1,153.3	1,436.1

With the general improvement of the business climate and the improved export prospects, trading picked up again around mid-1975 and for the year as a whole the number of stocks listed almost doubled.

24. In 1976, the capital market was rather sluggish in comparison to the previous year mainly because of the Government's tight monetary policy. The general stock price index stood at 415.3 at end-1976, an increase of 8% only during the year, versus a 44% gain a year earlier. On the other hand, the issuing market was very, active during the year as a result of Government's efforts to promote the "going public" of privately held companies. The number of listed companies increased by 85 to 274 in the year and a total of W 263 billion was mobilized through the capital market, a 69.5% gain

over the previous year's level. During the year, the number of shareholders increased substantially. Over the years, the ownership structure has broadened, though as at October 31, 1976, more than 68% of all shareholder still held less than 100 shares each and accounted for only 2.05% of all shares outstanding. The importance of the Government as a shareholder of listed companies also decreased; while the Government (including public bodies) held about 39% of the total number of listed stocks in 1970, its holdings had declined to 13% by October 31, 1976. The proportion held by banking institutions also declined from 15% to 9% during the same period.

25. The rapid increase in the volume of operations on the Stock Exchange has rendered certain improvements necessary. Among others the call market has been replaced by a continuous auction market, investment trust companies have been established, and the information system greatly improved. Several weaknesses remain, however. One of the more important problems lies in existing laws which stipulate that new equity issues have to be at par irrespective of the market price of stocks. These regulations are currently under review by the Government.

26. Interest Rates, Inflation. The Government of Korea through the Monetary Board determines interest rate ceilings on deposits and loans which apply to all banking institutions. Although specialized financial institutions such as KDFC or the short term finance companies are not legally bound, in practice, they too have to follow Government policies. The development of Korea's interest rate structure has, between 1968 and 1973, seen a continuous reduction in both deposit and lending rates. The lowering of the rates coincided, in general, with the Government's success in gradually bringing inflation down until late 1973. With the emergence of the oil crisis and worldwide inflation, Korea's price structure was particularly hard-hit because of its high foreign trade dependence. Wholesale prices are estimated to have increased by nearly 80% between the end of 1973 and the end of 1975. While the Government selectively increased interest rates at the end of 1974, 1/ a general increase of interest rates was not adopted because enterprises were already facing severe financial strains and Government hoped to succeed in bringing inflation under control. During the year 1976, wholesale prices are estimated to have increased by only 9% on a year end basis and 11.2% on an annual average basis.

27. However, on August 2, 1976, the Government made an extensive upward adjustment in the interest rate structure in order to contain excessive loan demand and to better allocate funds. To stimulte domestic savings, the interest rates on time deposits have been raised by 1.2% to a level of 16.2% p.a. for maturities beyond one year and by 2.1% for 3 to 6 months deposits which now

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1/ Raising rates on time deposits for over three months and over six months from respectively 12% and 13.2% to 15%, and preferential rates for loans from the NIF and IRF from 9% and 8% respectively to 12%.

yield 15% p.a. General lending rates 1/ have conversely been increased by 1.5% to 3.5% and now range between 17% and 19% p.a. depending on (i) the financial rating of the borrower for working capital loans (with a differential of 1% in the applicable rate); and (ii) on loan maturity for equipment financing (with rates of 17% p.a. for loans maturing in less than three years, 18% for 3 to 8 years and 19% over 8 years). Interest rates applicable to loans from certain specialized Government funds such as NIF and IRF also differentiate according to maturity and have been increased from 12% to 13% for three-year loans and 14% in excess of three years.

28. Prior to August 1976, Korean commercial banks had already resorted to various practices which resulted in increased collateral requirements and higher effective lending rates for their less creditworthy borrowers. Such practices include the collection of interest in advance, 2/ the establishment of compensating balances in time deposits or even the opening of installment saving accounts which are used both as collateral and sinking funds. Actual requirements vary among borrowers depending on their credit standing. The August 1976 measures can therefore be construed as ratifying and rationalizing a system which already differentiated between borrowers on the basis of the risks involved. A positive element of rationalization has been introduced by Korean financial authorities who have established a list of criteria for enterprises to quality as prime borrower; this should eliminate subjective judgements on a company's creditworthiness. The introduction of a prime rate system for working capital loans and of differential rate according to loan maturities is an important step towards improving the overall allocation of funds to industry.

1/ Unless otherwise specified, this discussion applies to the so-called "general lending rates" as opposed to the "preferential rates" applicable to various priority sectors. Generally speaking, general lending rates are applicable to loans made by KDB and Deposit Money Banks from their own funds (essentially deposits and equity); preferential rates apply to loans made from specialized Government funds (NIF, IRF, etc.). At end 1976, loans at preferential interest rates accounted for approximately 40% of the total outstanding portfolio of banking institutions in Korea.

2/ Quarterly or monthly depending on the financial rating of the borrower.

AEP Projects Department
April 20, 1977

ANNEX I
Table 1

KOREA

KOREA DEVELOPMENT FINANCE CORPORATION

Rates of Interest in Korea as of December 31, 1976
(percent per annum)

A. Commercial Banks

Deposit Rates	
a. Time Deposits	
Over 3 months	15.0
Over 6 months	15.6
Over 1 year	16.2
b. Installment Savings	
Over 1 year	12.2
Over 2 years	13.2
Over 3 years	14.2
c. Wage Earners' Savings Scheme 1/	
Over 1 year	23.8(13.2)
Over 3 years	24.2(14.2)
Over 5 years	28.2(16.2)
Lending Rates	
a. Operating Funds	
Ordinary loans	
Prime enterprises	17.0
Other enterprises	18.0
Commercial notes	
Prime enterprises	17.0
Other enterprises	18.0
Overdraft	
Prime enterprises	18.0
Other enterprises	19.0
b. Term Loans	
Less than 3 years	17.0
3 to 8 years	18.0
Above 8 years	19.0
c. Export Finance	8.0
d. Financing of raw material import by export industry	EURO + 2.5
e. National Investment Fund	
Less than 3 years	13.0
3 to 8 years	14.0

1/ Figures in parantheses show the basic interest rates payable by financial institutions; the remainder is subsidized by Government.

B. Korea Development Bank

	Up to 3 years	3 to 8 years	Over 8 years
a. Capital Loans 1/			
Government funds	13.5	13.5	13.5
Machine Industry Promotion Funds	13.0	14.0	15.0
Special Equipment Funds	13.0	14.0	-
Internal Funds (priority industries)	13.0	14.0	15.0
Internal Funds (non-priority industries)	17.0	18.0	19.0
Foreign Commercial Funds 2/	12.0	12.0	12.0
b. Working Capital Loans 1/			
Government Funds	17.0	17.0	17.0
Machine Industry Promotion Funds	13.0	13.0	13.0
Special Equipment Funds	13.0	13.0	13.0
Internal Funds (prime clients)	17.0	17.0	17.0
Internal Funds (other clients)	18.0	18.0	18.0
Foreign Commercial Funds 2/	12.0	12.0	12.0
c. National Investment Fund 1/3/	13.0	14.0	-
d. Tourism Development Fund 1/3/	7.5	7.5	7.5
e. Industrial Rationalization Fund 1/			
Direct Loans	13.0	14.0	-
through Banking Institutions	11.5	12.5	-
f. Government Special Fund Loans 1/4/	6-9	6-9	6-9
g. Foreign Currency Loans			
Foreign Commercial Funds 5/	9.0	9.0	9.0
USAID (3rd Loan)	10.0	10.0	10.0
KfW (4th Loan)	9.0	9.0	9.0
ADB (5th Loan)	10.75	10.75	10.75
IBRD (2nd Loan)	10.7	10.7	10.7
h. Penalty rate on overdue loans	25.0	25.0	25.0

1/ In domestic currency.
2/ Exchange risk passed on to borrowers.
3/ Capital and working capital loans.
4/ For power development, shipbuilding, coal mining, public utilities, maritime transportation, railways and roads.
5/ Export Industries only.

C. Medium Industry Bank

a. **Internal Fund Loans**	
Small and Medium Industry Loans (prime enterprises)	17.0
Small and Medium Industry Loans (other enterprises)	18.0
b. **Government Funds**	
Equipment Loans	13.5
Cooperatives	13.0
Working Capital Loans	17.0
c. **Foreign Loan Funds**	
USAID and OECF, Japan	8.0
Exim Bank Japan	8.25
KfW	9.0
ADB	11.1
IBRD	10.5

D. Korea Development Finance Corporation

a. **Medium- and Long-term Domestic Currency Loans**	
Priority projects	18.0
Others	20.0
b. **Foreign Currency Loans**	
IBRD	10.5 to 11
ADB	10.85 to 11.35
IFC syndicated loan	1.25% spread over average borrowing cost

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KOREA

KOREA DEVELOPMENT FINANCE CORPORATION

Share of KDFC's Disbursements in Manufacturing Sector Fixed Investment 1971-76

Industry Branch 1/	Gross Fixed Capital Formation (Won billion: current prices) 1971-76	KDFC Disbursements 2/ (Won billion: current prices) 1971-76	Share of KDFC Disbursements %
Manufacturing		Loans	
Food, Beverages & Tobacco	133.8	6.8	5.08
Food	84.3	1.6	1.90
Beverages & Tobacco	49.5	5.2	10.50
Textiles, Apparel & Leather	427.3	20.8	4.87
Wood and Wood Products	30.7	0.8	2.60
Paper and Printing	60.8	1.5	2.46
Chemicals, Petroleum, Coal & Rubber	433.3	7.4	1.71
Chemicals	290.7	4.8	1.65
Petroleum & Coal	99.6	0.2	0.20
Rubber	43.0	2.4	5.58
Non-Metallic Minerals	126.9	6.6	5.20
Basic Metals	531.2	3.6	0.68
Metal Products, Machinery & Equipments	502.6	13.0	2.59
Metal Products	26.1	5.3	20.31
Machinery & Equipment	84.9	2.3	2.71
Electrical & Electronic Machinery & Equipment	104.3	3.4	3.26
Transport Equipment	287.3	2.0	0.70
Other Manufacturing	27.3	0.1	0.37
		Equity Investments and Convertible Debentures 3/	
		3.9	
Total Manufacturing	2,273.9	64.5	2.83
Non-Manufacturing			
Fisheries	n.a.	2.8	n.a.
Transportation Services	n.a.	15.0	n.a.
Others	n.a.	2.1	n.a.
Total Non-Manufacturing	n.a.	19.9	n.a.
Total	n.a.	84.4	n.a.

1/ Korean Standard Industrial Classification.
2/ Varying exchange rates applied according to year in which disbursements were made.
3/ Breakdown by industry branch not available.

AEP Projects Department
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KOREA

KOREA DEVELOPMENT FINANCE CORPORATION

Economic Impact of KDFC-Financed Projects 1/

Partial Economic Indicators of Projects

	1968-72	1973-74	1975	1976	1968-76
No. of projects 2/	100	72	45	66	283
Total project costs (EW million) 3/	43,767	81,781	51,396	93,397	270,341
Amount of KDFC financing (EW million) 3/	20,435	27,327	21,314	31,828	100,904
Share of KDFC financing (%)	47.7	33.4	41.5	34.4	37.4
Incremental annual sales (Won million)	98,390	220,596	110,138	161,566	590,690
Incremental annual value added (Won million)	27,549	61,767	38,489	52,306	180,111
Increase in fixed assets (Won million)	36,936	59,782	46,066	70,227	213,011
Additional employment (Number)	9,016	7,104	4,419	5,710	26,249
Additional annual payroll (Won million)	6,293	5,854	6,589	10,448	29,184
Incremental annual gross exports ($'000)	125,525	232,475	52,439	189,838	600,277
Net annual balance of payments effect (Net Foreign Exchange Earnings and Savings) ($'000)	78,185	150,815	60,465	158,406	447,871
Memorandum items					
Sales per employee (Won '000)	10,913	31,052	24,924	28,295	22,503
Value added per employee (Won '000)	3,056	8,695	8,710	9,160	6,862
Fixed assets per employee (Won '000)	4,097	8,415	10,425	12,299	8,115
Annual payroll per employee (Won '000)	698	824	1,491	1,830	1,118
Ratio of sales to fixed assets	2.66	3.69	2.39	2.30	2.77
Ratio of value added to fixed assets	.75	1.03	.84	.74	.85
Ratio of value added to sales	.28	.28	.35	.32	.30
Export share of sales (%)	61.9	44.3	23.1	57.0	49.3
Payroll share of value added (%)	22.8	9.5	17.1	20.0	16.2

1/ Based on projections made in project appraisal reports; equity investment and debenture financing are excluded.

2/ Net of projects subsequently withdrawn.

3/ Won equivalent at varying exchange rates.

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KOREA DEVELOPMENT FINANCE CORPORATION

Economic and Financial Rates of Return on a Sample of 59 KDFC Financed Projects/1

Name of Borrower	Type of product or service	Increase in annual Capacity(%)	Annual capacity after project completion	New or expansion	Total project cost Foreign $'000	Total project cost Local W million	KDFC Financing Foreign $'000	KDFC Financing Local W Million	Share of KDFC financing (%)	Export share of sales (%)	Financial rate of return (%)	Economic rate of return (%)
Projects under Construction												
1. Hae Un Dae Development	Hotel	-	353 rooms	N	3,860	2,716	1,300	180	16	-	16.0	16.0
2. Dong Yang Farm	Wine grapes	-	2,200 M/T	N	132	784	80	200	28	-	23.0	-
3. Hyundai International	Brake and steering	-	50,000 sets	N	1,700	726	1,700	-	53	-	17.9	36.8
4. Taechang Enterprise	Cotton yarn	-	9,500 M/T	N	3,800	1,254	3,800	-	60	72	16.5	22.1
5. Chonju Paper	Newsprint	118	133,000 M/T	E	11,264	5,269	1,314	64	6	-	26.0	23.5
6. General Motors Korea	Truck,cabs and car body	-	50,000 units	N	5,160	2,703	3,500	-	30	-	21.4	11.8
7. Dong Yeom	Woven fusible interlining	-	15 mil. yds.	N	1,080	654	1,040	50	47	100	37.6	76.4
8. Sam Ryoung Trading	Embroidered fabrics	-	1,200 yds.	N	785	245	785	-	61	100	28.0	34.0
9. Busan Steel Pipe	Steel Pipe	-	200,000 M/T	N	11,427	6,291	2,000	-	8	80	26.0	37.0
10. Korea Zinc	Zinc ingot	-	50,400 M/T	N	24,379	20,979	4,000	485	7	30	-	24.0
11. Sam Yung Chemical	Polypropylene film	7	41,000 M/T	E	17,000	421	14,000	-	55	15	29.5	61.3
12. Il Shin Spinning	Cotton yarn	2	14,975 kg	E	1,900	239	1,470	-	61	100	23.7	41.0
13. Korea Hapsum	Nylon filament yarn & staplefiber	47	93.3 M/T	E	5,037	1,478	2,000	-	25	59	28.3	47.3
14. Kony Precision	Quartz crystal unit	100	6,200 thous. pcs.	N	500	136	500	-	64	100	36.7	38.5
15. Yun Han Manufacturing	Automatic battle equipment	188	4 units	N	1,296	1,104	1,216	100	40	-	23.3	34.2
16. Nam Hae Ceramics	Cordierite saggar	100	21,300 M/T	N	355	750	355	60	25	-	-	15.0
17. Tong Yang Moolsan	Diesel engine	21	38,200 Units	N	1,490	831	1,470	200	59	-	15.8	20.9
18. Korea Petrochemical	Polypropylene	12	86,600 M/T	E	1,500	1,013	1,500	-	42	27	19.1	67.3
19. Joong Ang Shipping	Marine transportation	25	41,229 DWT	E	2,680	78	2,300	-	81	100	18.4	19.6
20. Han Kook Tire	Radial Tire	9	3,301 thous. pcs.	E	3,000	1.514	2,000	-	33	65	-	29.0
Projects in Operation												
1. Korea Textured	Stretch yarn	114.0	4.6 mil. lbs.	E	920	199	920	-	65	57	-	16.0
2. Taw Yang Industrial	Tuna	-	852 M/T	N	500	40	500	-	83	100	-	27.0
3. Ihn Sung Fisheries	Tuna	-	1,020 M/T	N	600	50	600	-	83	100	-	24.0
4. Taeyoung Shipping	Log transportation	-	84,910 M^3	N	2,200	23	2,200	-	97	100	-	22.0
5. Hae Chang Fisheries	Tuna	34.4	1,718 M/T	E	1,000	30	1,000	-	98	100	-	20.0
6. Kyungbo Industrial	Gingham fabrics	-	4.6 mil. yds.	N	1,420	443	1,420	-	56	100	-	45.0
7. Sajo Industrial	Tuna	33.6	4,770 M/T	E	1,672	618	1,572	-	49	100	27.4	27.7
8. Kukje Shipping	Log transportation	100.0	123,000 M^3	E	1,800	19	1,800	-	98	100	20.1	19.1
9. Korea Line	Container feeder service	-	8,280 of 40' van	E	1,500	19	1,300	-	84	-	16.0	16.0
10. Dongwon Industrial	Tuna	19.7	7,937 M/T	E	1,500	19	1,300	-	92	100	-	25.0
11. Hai Tai Confectionery	Fruit Juice	-	24,024 M/T	N	1,579	816	1,579	-	44	-	38.0	15.0
12. Kimpo Ceramics	Tiles	-	1.02 mil. M^2	N	1,300	1,011	1,300	100	45	91	22.0	28.0
13. Dong Yang Tinplate	Tinplate	74.9	60,000 M/T	E	1,175	410	1,175	-	58	12	50.0	53.0
14. Daehan Glass	Glass bottles	41.7	87,000 M/T	E	1,000	521	1,000	-	48	-	15.0	69.0
15. Kangwon Industrial	Steel making and rolling	104.4 100.0	294,000 M/T 240,000 M/T	E	6,890	4,639	580	150	5	-	10.0	47.0
16. Miwon Trading and Shipping	Molasses transportation	59.9	178,668 M/T	E	3,180	37	2,778	-	85	100	19.0	19.0
17. Ilshin Spinning	Spinning and weaving	34.3 and 71.1	13.7 mil. kg. 27.2 mil. M	E	7,064	1,591	2,500	-	23	82	44.0	44.0
18. Hai-Tai Agriculture Development	Wine grapes	-	1,980 M/T	N	-	680	-	200	22	-	27.0	-
19. Korea Iron & Steel	Steel products	-	7.9 mil. Nm^3	N	1,420	381	1,420	-	64	-	31.0	-
20. Kia Industrial	Body shells for passenger cars	-	25,000 sets	N	4,000	1,102	4,000	200	70	-	32.6	2.8
21. Samsung Electronics	Refrigeration compressor	-	250,000 Units	N	3,450	1,018	3,350	150	66	-	19.2	32.7
22. Oriental Brewery	Beer	27	9.5 mil. c/s	N	6,190	5,489	2,017	-	11	-	13.0	30.9
23. Heung-A Shipping	Shipping	61	31,779 DWT	E	2,330	1,906	1,165	-	19	49	30.5	31.6
24. Kyung Bang	Cotton & cotton blended yarn	27	15,793 M/T	E	3,400	2,187	3,400	-	43	67	24.3	32.8
25. Sam Yang Tire	Tire	10	2,9 mil. units	E	2,300	1,033	2,300	-	52	100	38.0	46.0
26. Korea Ferrite	Anisotropic barium-ferrite magnet	-	1,200 M/T	N	810	284	810	-	58	81	30.5	29.8
27. Hanil Synthetic Fiber Ind.	Acrylic yarn & woven fabrics	18.3 and 50.0	2,025,000 yds.	E	1,820	449	1,820	-	66	28	31.4	49.5
28. Tongyang Polyester	Polyester filament yarn	19.0	17,850 M/T	E	1,270	285	1,270	-	68	87	94.3	66.7
29. Chonbang	Cotton yarn & fabrics	7.0	20,771,000 Kg 27,020,000 M	E	1,870	405	1,870	-	69	100	20.0	28.5
30. Young Poong Mining	Zinc Concentrates	47	1,320,000 M/T	E	1,834	530	1,326	-	45	48	33.4	71.3
31. Ssangyong Cement Ind.	Remicon	32	2,368,000 M^3	E	1,674	616	1,410	-	48	-	46.5	-
32. Hanil Shipping	Shipping	173	17,660 DWT	E	3,435	67	2,779	-	78	-	24.1	24.1
33. Dongsue Shipping	Shipping	21	35,520 DWT	E	1,988	38	1,903	-	82	19	23.9	23.9
34. Korea Chemical Carriers	Transportation of Petro-chemical products	50	15,980 M/T	E	3,550	164	2,500	-	64	96	20.3	21.5
35. Chun Ri Shipping	Log transportation	150	12,590 M^3	E	2,450	68	2,000	-	77	52	21.6	22.2
36. Y. H. Shipping	Log transportation	50	12,560 M^3	E	1,970	59	1,750	-	84	100	18.0	18.5
37. Korea Line	Transportation of iron ore and coal	78	176,438 DWT	E	4,235	149	3,700	-	81	100	-	22.7
38. International Steamship	Grain transportation	99	34,200 L/T	E	5,810	160	4,000	-	65	100	19.3	19.9
39. Korea Marine Transport	Grain transportation	20	96,214 DWT	E	3,300	127	3,000	-	84	100	17.9	18.5
										Weighted 2/ average:	25.9	33.4

1/ Based on appraisal reports for all projects for which KDFC calculated the ERR. KDFC started calculating the ERR of its projects in June 1973.
2/ Weighted by total project cost.

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KOREA DEVELOPMENT FINANCE CORPORATION

Degree of Export Orientation of KDFC Projects
(1973-1976)

Categories 1/	1973			1974			1975 2/			1976			Cumulative Total		
		Loan Amount			Loan Amount			Loan Amount			Loan Amount			Loan Amount	
	No. 3/	$	₩	No. 3/	$	₩	No. 3/	$	₩	No. 3/	$	₩	No. 3/	$	₩
No exports (less than 5%)	19	8,593	1,173	16	10,863	1,070	27	25,279	322	13	11,037	-	75	55,772	2,565
Some exports (5% - 25%)	4	2,467	320	4	3,078	-	4	3,873	-	6	5,604	100	18	15,022	420
Export-oriented (25% - 50%)	1	-	200	-	-	-	4	3,146	-	6	2,313	50	11	5,459	250
Heavily export-oriented (over 50%)	17	19,653	-	11	10,029	700	12	10,614	180	41	45,743	300	81	86,039	1,180
Total	41	30,713	1,693	31	23,970	1,770	47	42,912	502	66	64,697	450	186	162,292	4,415

1/ % of export sales out of total incremental sales.

2/ The increased proportion of "no export" projects in 1975 was due to the fact that substantial amounts of financing approved during the year were for machinery and related industries and for agricultural projects in accordance with KDFC's recent development strategy. (Of the $25,279 thousand and ₩322 million approved for "no export" projects in 1975, $16,833 thousand were for machinery and related industries, and $80 thousand and ₩300 million were for agricultural projects.)

3/ Number of projects

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KOREA DEVELOPMENT FINANCE CORPORATION

KDFC's Achievements in Implementing Its Development Strategy Statement for 1976-1977

1. KDFC, in connection with the appraisal of the fifth IBRD credit line in 1975, had formulated a Development Strategy statement covering the two-year period 1976-77. In this statement KDFC outlined specific activities and areas in which it proposed to exercise efforts so as to fulfill better its developmental role. The main elements of this strategy which were reviewed and agreed upon with IBRD are as follows:

   1. Establishment of the Korea Development Leasing Corporation (KDLC);

   2. Establishment, jointly with the Korea Institute of Science and Technology, of the Korea Technology Advancement Corporation (K-TAC) in order to provide financial and other assistance to both K-TAC and projects sponsored by K-TAC;

   3. Assistance to the industrial machinery and machine tools manufacturing sector in Korea;

   4. Identification and promotion of agro-industrial projects;

   5. Assistance to smaller-sized enterprises located in the less developed areas of Korea through a scheme of cooperation with selected Regional Commercial Banks;

   6. Promotion jointly with other foreign financial institutions of large projects exceeding KDFC's limited financing capacity.

2. KDFC's performance in achieving these objectives is described hereunder. A Project Promotion Office was set up within KDFC in March 1975, which is specifically in charge of implementing KDFC's Development Strategy. This office had, as of end January 1977, a professional staff of six persons.

3. In view of the effective progress achieved by KDFC during the year 1976 towards implementing its Strategy statement, KDFC has revised and updated this statement and formulated a new outline for its Development Strategy covering the period 1977-78. While maintaining emphasis on the continuation of its scheme of cooperation with the Regional Commercial Banks, and of its assistance to K-TAC, KDFC has been including additional areas such as intesified resource mobilization and research activities. KDFC's Development Strategy statement for 1977-78 appears in Annex 8.

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KOREA DEVELOPMENT FINANCE CORPORATION

Summary Description of the Korea Development Leasing Corporation (KDLC)

Background and Objectives

1. Leasing is a relatively new concept in Korea. The Korea Development Bank established the first leasing company, Korea Industrial Leasing Company (KILC) as a wholly-owned subsidiary in 1972, and contributed substantially to the drafting of the Law on "Promotion of the Leasing Industry" which was enacted by the Korean Government in December 1973. In 1975 two more leasing companies were established as joint ventures between Korean interests holding majority participations and foreign leasing companies: the Korea Development Leasing Company (KDLC) with a participation by Orient Leasing Company of Japan (OLC) and Whashin Tiger Leasing Incorporated (WTL) with the Tiger Leasing Group of the U.S. It seems unlikely that new leasing companies will be licensed in the near future.

2. Although still representing a minimal source of industrial financing, the leasing business has been gaining wide acceptance in Korea as is reflected by the growth in the total assets of those leasing companies. Leasing is encouraged by the Government as a means to alleviate the shortage of medium- and long-term funding experienced by Korean enterprises in general, and small- and medium-sized firms in particular. The high indebtedness of Korean companies as reflected by their generally high debt/equity ratios makes it difficult for these firms to raise additional term resources and has resulted in a lack of collateral to be pledged against additional loans. Lease financing, however, is unrelated to the lessee's capital base since the ownership of the asset financed remains with the lessor. The lease instrument, because of its flexibility, is particularly attractive to small- and medium-sized enterprises which would otherwise be denied access to what is tantamount to an unsecured loan. Furthermore, leasing can contribute substantially to the development of the domestic capital goods industry through the leasing of domestically manufactured equipment.

3. KDFC's efforts to supplement its own term financing functions by developing the financial system in Korea have resulted in the establishment of specialized subsidiaries. In 1971, KDFC established the Korea Investment and Finance Corporation (KIFC) as a combined money market/investment banking type financial intermediary. KDFC's interest in promoting the leasing industry in Korea was reflected by its intention, as stated in its previous development strategy statement, to establish the Korea Development Leasing Corporation (KDLC).

Ownership and Capitalization

4. KDLC was incorporated in February 1975 with an authorized share capital of W 3 billion; its paid-in share capital which currently amounts to W 1.5 billion, will be increased by W 300 million in the second quarter of 1977. IFC is expected to take up an equivalent of W 118 million of the proposed increase. KDLC's domestic shareholders currently hold 55% of its share capital including a 37% participation by KDFC. Orient Leasing Corporation of Japan (OLC) is the main foreign shareholder with 35% out of total foreign holdings of 45%. OLC, in its capacity as one of the largest leasing companies in the world, is taking an active part in KDLC's management and is also providing KDLC with technical expertise and training. The following table gives a breakdown of KDLC's ownership structure at present:

Ownership of KDLC

(Par value: W 10,000 per share)

Shareholders	No. of Shares	% of Total
Domestic:		
KDFC	55,500	37
Cho-Heung Bank	13,500	9
Commercial Bank of Korea	13,500	9
Subtotal	82,500	55
Foreign:		
Oriental Leasing Co.	52,500	35
Baring Sanwa Multinational Ltd.	7,500	5
Private Investment Company for Asia	7,500	5
Subtotal	67,500	45
Total	150,000	100

Following the proposed share capital increase, the proportion of domestic to foreign ownership would become 51:49.

Organization and Management

5. The Board of Directors of KDLC comprises nine members of which five members are nominated by domestic shareholders and four by foreign shareholders. Mr. C. H. Kim, President of KDFC is the Chairman of the Board. The Board of Directors has delegated authority on matters of ordinary business operations to an Executive Committee which comprises three directors: the Chairman of the Board, the President and the Executive Vice President of KDLC.

6. KDLC's top management consists of three executive officers: the president, Mr. C. K. Lee, a former Senior Vice President of KDFC who was appointed in February 1977; the Executive Vice President, Mr. Y. Ohnishi, who is also a Director of OLC; and a Vice President, Mr. C. H. Khoo, a former manager of KDFC's Operations Department.

Operations

7. KDLC's operations have until now been limited to writing financial leases and issuing guarantees for leases of foreign equipment. KDLC is planning to expand its operations in the future by either providing maintenance services directly or by associating itself with some equipment manufacturers.

8. KDLC's activities have expanded very rapidly in 1976 from their 1975 level. Although the scale of operations remains modest, the constraint is not one of lack of demand but rather one of shortage of funds. As of the end of 1976, KDLC had entered into 63 contracts amounting to W 7.1 million, as against a volume of contracts of W 0.9 billion at the end of 1974. In addition, KDLC had extended payment guarantees for two lease contracts between domestic firms and Orient Leasing Company amounting to US$766,000. The rapid growth of KDLC's leasing operations was reflected in its balance sheet at the end of 1976, with total assets reaching W 3.5 billion as against W 1.6 billion at end of 1975 1/. Net income based on the "financing method" of accounting shows an increase from W 1.3 million in 1975 to W 91 million in 1976. The main highlights of KDLC's financial performance for the years 1975 and 1976 are summarized hereunder:

1/ Based on the presentation of financial statements according to the "financing method" of accounting.

Financial Results	1975	1976
	(million Won)	
Total assets	1,598	3,511
Total revenues	201	457
Total expenses	198	331
Income before tax	3	126
Income after tax	1	91
Paid-in capital	1,500	1,500
Shareholders' equity	1,501	1,593
Book value per share	10,007	10,620

Resources

9. The advantages inherent in the lease instrument are particularly well suited to the Korean industrial context and prospects look promising; but, the availability of funds has been a major constraint to the growth of the three existing leasing companies as a more important source of industrial finance. The number of applications received by KDLC is another indication of the considerable potential demand for leasing in Korea. The capacity of the leasing industry to achieve its potential depends on its success at mobilizing financial resources especially in foreign currency. Foreign currency resources are essential in view of the present state of development of the local machinery industry which limits the prospects for increasing the leasing of domestically manufactured equipment. At present approximately 16% of the equipment leased by KDLC is domestically manufactured, a proportion which KDLC expects to increase to 25% over the next two years.

10. In addition to its equity, KDLC's source of funds consisted essentially of a US$5 million subloan made available by KDFC from the proceeds of the fifth IBRD credit line. This amount has been fully committed on account of 26 leasing projects, the main characteristics of which appear in Table 2 of this Appendix. Other sources of funds included a W 500 million line of credit from KIFC and another W 500 million credit from the Cho-Heung Bank and the Commercial Bank of Korea. For the year 1977, KDLC forecasts a scale of operations of about W 7.3 billion (US$15.1 million) on an execution basis and it envisages raising resources amounting to at least US$16.5 million. Loans of US$1 million each from Sanwa Bank and from PICA, two foreign shareholders of KDLC are at various stages of negotiation. KDLC is actively negotiating with IFC an equity investment of W 118 million in its share capital and a loan of up to US$15 million. These resources should enable KDFC to finance its projected volume of operations through 1977 and to establish its credit so as to be able to raise the additional resources necessary to achieve its objective of a scale of operations of W 13.5 billion (US$27.8 million) by 1981.

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KOREA DEVELOPMENT FINANCE CORPORATION

Summarized Data on Korea Development Leasing Corporation
(in million won and thousand dollars)

		1975	1976	Cumulative
Operating Results				
Contract:				
Won currency	₩	925	2,598	3,523
Foreign currency	$	-	7,370	7,370
Total	E₩	925	6,173	7,098
	E$	1,907	12,728	14,635
Execution in receivable:				
Won currency	₩	474	1,931	2,405
Foreign currency	$	-	2,797	2,797
Total	E₩	474	3,288	3,762
	E$	977	6,779	7,756
Leased equipment at cost:				
Domestic	₩	121	731	852
Imported	E₩	183	1,337	1,520
Total	E₩	304	2,068	2,372
	E$	627	4,265	4,892
Guarantee:				
Contract	$	329	437	766
Outstanding	$	301	547	848
Financial Results				
Total assets		1,588	3,328	
Total expenses		189	436	
Total expenses		201	464	
Income before tax		(13)	(28)	
Net income after tax		(13)	(28)	
Paid-in capital 1/		1,500	1,500	
Shareholders' equity		1,487	1,460	
Book value per share (Won)		9,913	9,731	
Dividend (Won)		-	-	
Net income after tax/net worth (%)		(0.9)	(1.9)	
Others				
Number of shareholders		10	10	
Number of employees		26	34	

1/ 150,000 shares of par value ₩10,000 each.

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KOREA DEVELOPMENT FINANCE CORPORATION

Summarized Data on Leasing Projects Financed by KDLC from KDFC's Loan
(in US$ '000)

	No. of Projects	Lease Contracts Amount	%
A. Sectoral distribution			
Industrial Sector:			
Food and Beverage	4	1,247	26.0
Textile, wearing apparel and leather	8	1,577	32.8
Chemical, petroleum, coal, rubber and plastic products	5	223	4.7
Metal products, machinery and equipment:			
Metal products	3	150	3.1
Machinery	4	971	20.2
Electrical and electronic equipment	2	634	13.2
Total 1/	26	4,802	100.0
B. Geographical distribution			
Province:			
Seoul Area	8	878	18.3
Gyeonggi	12	2,066	43.0
Jeon Nam	2	916	19.1
Gyeong Bug	3	552	11.5
Gyeong Nam	1	390	8.1
Total 1/	26	4,802	100.0

1/ KDFC's total subloan to KDLC from the proceeds of Loan 1145-KO amounts to US$5 million. Total figures exclude an aggregate contingency allowance of US$198,000.

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ANNEX 4
Appendix 1
Table 2

KOREA

KOREA DEVELOPMENT FINANCE CORPORATION

Korea Technology Advancement Corporation (K-TAC)

Background and Objectives

1. K-TAC was incorporated in September 1974 as a fully-owned subsidiary of the Korea Institute of Science and Technology (KIST) 1/ with a paid-in share capital of W 365 million. KIST regulations which are currently under review have so far precluded KDFC from taking a participation in K-TAC's equity. Although KDFC has not been lending directly to K-TAC it has extended substantial financial assistance to projects promoted jointly with K-TAC. Accordingly, Mr. T. Y. Hahm, Vice President of KDFC, is serving as a member of K-TAC's Board of Directors.

2. The objective of K-TAC's establishment is the commercialization of KIST's research and technology developments. Specifically, K-TAC is engaged in selling technical patents and processes developed by KIST to Korean industrial enterprises. In order to ensure the satisfactory implementation of certain new technological processes, K-TAC is also involved in the promotion of new enterprises established specifically to apply those new technologies on a commercial scale. Depending on its capacity to attract additional private investment in such vetures, K-TAC may choose to establish those enterprises as separate legal and financial entities, or may undertake such projects on its own.

Management and Objectives

3. K-TAC's Board of Directors comprises six members including KDFC's representative. Mr. S. J. Hahn, President of KIST, is the Chairman of the Board. K-TAC's top management consists of a President, Mr. Y. G. Yun, a former head of a Research Group of KIST, and a Managing Director, who supervise three departments in charge of development, production and operations. K-TAC's staff at end-1976 comprised 32 persons.

1/ KIST was established in 1966 under the auspices of the Korean Government with outside technical assistance. KIST's present staff of 50 researchers is primarily engaged in applied research in various disciplines; its major objective is to achieve transfers of technology to the Korean industry. KIST has also been relied upon by KDFC for specific technical aspects of its project appraisal.

Operations and Resources

4. K-TAC's activities in 1975 were limited to the sale to private enterprises of such technical know-how as Freon and Modacrylic Fiber technology which had been developed by KIST. K-TAC receives know-how fees which constitute part of its financial resources. During the year 1976, K-TAC promoted with KDFC's assistance two new projects: a bronze powder project which is being implemented by K-TAC itself; and a cordierite saggar project for which a new venture has been established in which both K-TAC and KDFC have taken equity participations. Details of these two projects are summarized below.

5. Bronze Powder Project. The purpose of this project is to manufacture high quality bronze powder for oilless bearings with an initial production capacity of 150 M tons per year. The limited scale of operation and the future possibility to include the production of other metal powders, such as kelmet and brass, have led K-TAC to undertake this project on its own. It is envisaged that after the project reaches maturity it will be spun-off as a separate legal entity. Total project cost amounts to US$433,000 of which US$122,000 is in foreign exchange and W 150 million in domestic currency. Financing has been arranged through K-TAC's contribution of W 100 million, and two loans from KDFC in foreign curency for US$122,000 and in domestic currency for W 50 million. Construction of the project has been completed and test operations of the plant are in progress. The project is expected to go into commercial operations by the end of the first quarter of 1977, and to generate at full capacity net foreign exchange savings of US$0.5 million per year.

6. Cordierite Saggar Project. The Nam Hae Ceramics Company (NHC) was established in March 1976 to produce cordierite saggar for mosaic tile, with a capacity of 6,500 M tons a year. K-TAC will be the largest shareholder with 50% of NHC's share capital amounting to W 300 million at project completion. KDFC and a ceramic tile manufacturer will respectively hold participations of 20% and 10% while the balance will be taken up by private investors. In addition to its equity participation of W 60 million, KDFC has approved a foreign currency loan amounting to US$355,000 representing the foreign exchange component of project costs which are estimated to reach a total of US$1.85 million. Construction of the project is in progress and commercial operations are expected to start in July 1977. At full capacity operation, it is expected that the project will generate net foreign exchange savings of about US$1.3 million per year.

7. Aside from these two projects, K-TAC also arranged the sale of technical know-how developed by KIST in the production of ceramic core for fixed carbon film resistors. KDFC provided financial assistance to the newly established company in the form of a foreign currency loan of US$155,000 and subscription to W 30 million convertible debentures.

KOREA

KOREA DEVELOPMENT FINANCE CORPORATION

The Machinery Manufacturing Sector

Objectives

1. The Government's concern for achieving a deepening of the Korean industrial structure and for reducing its dependency on imported goods and equipments has been reflected in the Fourth Five-Year Plan (1977-81). The Plan proposes to increase the share of total investment allocated to the manufacturing sector, and within this sector, allocate a higher share of investment for machinery manufacturing. Investment allocations to the machinery industry would increase from 10% of total manufacturing investment in the Third Plan to nearly 18% in the Fourth Plan.

2. The Government's efforts to promote investment within the machinery sector have so far given mixed results. Until recently, the Government had been placing emphasis on the development of large-scale machinery plants and had been encouraging the establishment of such firms within the Changwon Industrial Complex. The number of plants in operation or under construction in this industrial complex lags far behind the Government's original expectations. The Government consequently realized that a more diversified set of promotional measures was needed to develop the machinery sector and consequently took new measures which include in particular: (i) the provision of medium term credit in domestic currency, out of the proceeds of the National Investment Fund (NIF), for purchase of domestically produced capital goods; (ii) the designation by the Ministry of Commerce and Industries (MCI) of a number of medium- and small-scale manufacturers of machinery components and parts which are to receive special financial assistance; and (iii) the encouragement of technology transfer through the establishment of specialized technological research institutions.

3. By pledging in its Development Strategy statement to assist in the development of the domestic machinery sector as early as 1975, KDFC appears as a forerunner of the newly formulated Government policy outlined above.

Achievements

4. KDFC's experience in financing projects in the machinery sector has proved that, in view of its limited financial resources, it could not get involved in the financing of such large projects as those located

within the Changwon Industrial Complex. There is little scope for KDFC to be influential in modifying project design to its satisfaction were it to take a minority stake in such projects. KDFC consequently decided to direct its financial assistance toward small- and medium-scale machine shops which often have accumulated substantial technical know-how. In view of the favorable market prospects in Korea, KDFC also forsees real growth potential in the manufacturing of agricultural equipment.

5. Financing of Machinery Projects. Loan amounts approved for machinery projects increased from 5% of KDFC's total approvals in 1975 to nearly 7% in 1976. A total of 7 projects were approved for the period 1975-1976 in an amount of approximately US$6.3 million. KDFC has already contacted several of the 52 medium- and small-scale producers of machinery components and parts identified by MCI for which the Government is considering special financial assistance and various fiscal incentives. It is expected that the number of firms eligible for preferential assistance by the Government will be increased to 500 by 1981.

6. Financing of Locally Procured Machinery. Aside from its direct financial assistance to machinery manufacturers, KDFC has also been helping the local machinery manufacturing industry indirectly by providing financial assistance in domestic currency to its borrowers for procurement of domestically manufactured equipment. It had also been agreed with KDFC that the proceeds of loan 1145-KO could be utilized to finance an agreed percentage (assumed to represent the share of imported materials and components) of the cost of domestically procured capital goods. The percentage of 60% was agreed upon on the basis of evidence submitted by KDFC. Table 1 attached to this Appendix gives a list of 15 projects for which KDFC has been utilizing this facility. A total of US$3.6 million was utilized which represents approximately 6.5% of the total loan amount.

7. Technology Transfer. KDFC's privileged relations with Korea Institute of Technology have led to the establishment of the Korea Technology Advancement Corporation (K-TAC) which is specifically in charge of promoting technology transfers to the Korean industries. A description of KDFC's involvement with K-TAC is provided in Appendix 2. In addition, KDFC is currently considering the establishment of an engineering consulting office. DEG, a foreign shareholder of KDFC has indicated that it would be willing to partially finance the cost of a foreign engineer, assigned for a period of several months to a year within KDFC, to start such an office. KDFC would provide additional funding as well as staffing and office space within its premises. Depending on its success, such an office could ultimately become a separate entity. Establishment of such an office would serve two main purposes. Firstly, it would enable KDFC to benefit from its technical knowledge and expertise when selecting and promoting machinery manufacturing projects (the engineering office would, in particular, assess the feasibility and desirability of adopting technical processes existing or developed by foreign companies). Secondly, the engineering office could provide local firms with technology consulting services.

8. IFC is currently studying the development prospects of the machinery manufacturing industry in Korea and, in this respect, has received substantial assistance from KDFC. A definite formulation of the project has yet to be reached but there is a possibility that KDFC be used as a channel of funds for the Korean machinery sector.

ANNEX 4
Appendix 3
Table 1

KOREA

KOREA DEVELOPMENT FINANCE CORPORATION

Loans Approved for Procurement of Domestic Equipment
Under IBRD Loan No. 1145KO
(in US$ '000)

Subborrower	Product	Major Equipment	Cost of local equip. (A)	KDFC financing (B)	B/A(%)
1. Kangwon Ind.	Steel products	Loading and unloading facility	824	500	60
2. Korea Technology Advancement	Metal powder	Bronze powder manufacturing equipment	55	20	36
3. Se Shin Commercial	Machine tool	Metal processing machinery	85	50	59
4. Seshin Precision	Wrist-watch case	Metal processing machinery	99	42	42
5. Kwang Jin Electronic	Telephone carrier equipment	Machine tools	172	103	60
6. Korea Container	Marine container	Sheet metal processing facility	383	230	60
7. Sam Han Chemical Machinery	Chemical machinery	Metal processing machinery	208	126	60
8. Song Won Industrial Co.	Polyurethane	Chemical plant and machinery	336	200	60
9. Nam Hae Ceramics Co.	Cordierite saggar	Cordierite powder processing facility	505	103	20
10. E-Hwa Textile Co.	Synthetic fabrics	Weaving machine	422	253	60
11. Sung Nam Can	Printed cans	Dryers for printed tinplate	294	115	39
12. Hyup Dong Weaving	Synthetic fabrics	Weaving machine	588	300	51
13. Dong Myung Ind.	Paint	Dissolvers, tanks and a boiler	1,300	750	58
14. Shin Sung Ind.	Synthetic fabrics	Weaving machine	1,225	735	60
15. Poong Won Development	Caustic-lime	Roller mill and crusher	170	100	59
Total			6,666	3,627	54

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KOREA

KOREA DEVELOPMENT FINANCE CORPORATION

Agro-Industrial Projects

1. Background. In recent years the Korean Government has been placing heavier emphasis on the promotion of agro-processing industries as an effective means of reducing the disparity between urban and rural incomes. The development of industries processing agricultural raw materials can encourage crop diversification and integrate farm production into the commercial sector. A specialized Government agency, the Agriculture and Fishery Development Corporation (AFDC), has been since 1967 extending limited financial assistance in the form of equity participation and term finance to the agro-processing sector. KDFC, whose financing of this type of activity has been minimal in the past, feels that the prospects for growth in the agro-industrial sector are quite promising and that it can complement AFDC's action in this sector. KDFC consequently designed its development strategy statement to reflect the intention to increase its support to agro-processing industries.

2. Achievements. In view of its relative inexperience in this type of operations KDFC's involvement with the agro-processing sector has been cautious and limited to two types of activity: viticulture and dairy production. In these two fields, however, KDFC has been showing quite an innovative approach.

3. Viticulture. KDFC carried out a feasibility study on viticulture which concluded that there is a potential for grape cultivation for wine production. On the basis of this study, KDFC has identified and promoted two viticulture projects jointly with the Oriental Brewery (OB) Group and the Hai Tai Group. These projects are still in an experimental stage; the ultimate objective is the utilization of idle slope land and the substitution of grain liquors with grape alcohol. The two projects consist of the establishment of vineyards over a total area of 190 ha and in both cases provide for the development of two nurseries of 10 ha each which will produce vine stocks for distribution to contracting farmers. The total cost of these two projects is approximately US$3.1 million of which KDFC is financing approximately US$1 million essentially in the form of equity participations and loans in domestic currency.

4. Dairy Production Projects. As a means of increasing rural income the Government has been placing emphasis on projects which can both increase rural employment during the off-season and can help put idle land, essentially slope lands, to productive use. On-farm rearing of dairy cattle qualifies under this criteria and, with adequate marketing channels, milk can be processed into dairy products. Two dairy projects representing a fairly innovative approach are now at various stages of realization. In both cases

a manufacturer of dairy products imports several hundred heads of dairy cows and distributes up to 5 or 6 heads to selected farmers. Eligible farmers should possess some idle wooded land which can be used as pasture land. Under the terms of the contract the farmer is given a six year loan 1/ by the dairy manufacturer to whom he undertakes to supply his whole production of raw milk. Ownership of the cattle heads is transferred after full repayment of the loan. Technical assistance such as nutritional advice and veterinary services is provided by the dairy producer. KDFC's Board of Directors has already approved a foreign currency loan of US$367,000 to a first project for financing the importation of 324 heads of cattle to be distributed to 66 participating farmers.

1/ Including a 2-year grace period.

KOREA

KOREA DEVELOPMENT FINANCE CORPORATION

KDFC's Scheme of Cooperation with Regional Commercial Banks (RCBs)

1. Of the specific areas listed in its Development Strategy statement for the period 1976-77, the proposed scheme of cooperation with selected Regional Commercial Banks (RCBs) certainly appears to be the most innovative and promising area.

Background and Objectives

2. While its longer-term objectives may still include the setting up of one or several regional offices, KDFC felt it could have an immediate effect on improving the overall geographical and clientele dispersal of its operations by establishing privileged links with certain Regional Commercial Banks (RCBs). KDFC also felt that such a scheme of cooperation would improve its impact on the small scale enterprises located in backward areas. KDFC began consulting with several RCBs in mid-1975. Between August 1975 and December 1976 arrangements were contracted with four out of the ten Regional Commercial Banks existing in Korea. Summary data on the RCBs collaborating with KDFC is shown in Table 1.

3. Basically, the objective of this collaboration agreement is for KDFC to provide the foreign currency requirements of projects identified and appraised by the RCBs along guidelines issued to them by KDFC. The RCBs themselves finance the domestic currency requirements and assume the general supervision and follow-up of these projects. KDFC has been impressing on the RCBs' management the desirability of improving the appraisal and supervision capability of their staff. To achieve that objective, KDFC has provided, and will continue to provide, substantial training to the staff of the RCBs.

4. At the outset, KDFC earmarked and allocated to the participating RCBs an amount of US$5 million out of the fifth IBRD credit line. This amount was totally committed by KDFC on account of 18 projects (particulars of which appear in Table 2 of this Appendix), over a period of approximately one year. In order to cover the additional foreign currency requirements of this scheme through the first half of 1977, KDFC has earmarked an amount of US$8 million out of the second ADB credit line of US$40 million.

Nature and Scope of Collaboration

5. KDFC has issued guidelines for collaborating RCBs which essentially define: (i) the type of industries eligible for financing under the agreement; (ii) the financial tests under which the proposed company should

qualify; (iii) the type of equipments eligible for financing; and (iv) the general terms and conditions of KDFC's foreign currency loans. These guidelines emphasize in particular the need to give high priority to export and import substituting industries and the desirability of promoting the creation of new, and modernization of existing, small enterprises. In this respect, no limit is set on the assets size of the project sponsor, nor on maximum employment, KDFC however has established a limit of US$500,000 as the normal upper limit of foreign currency loans to any single enterprise. Working procedures have been laid out by KDFC which delineate the respective responsibilities of the RCBs and of KDFC. The RCBs, after selection of a prospective borrower, are required to submit summarized information on the proposed project to KDFC. After approval of the project, in principle, KDFC issues guidelines on the various aspects to be covered in the appraisal report, responsibility of which rests with the RCBs. The findings of the appraisal staff are summarized in a standard appraisal form submitted to KDFC. After reviewing the appraisal report KDFC notifies the RCB of its decision to approve or reject a loan. A loan agreement must then be contracted between KDFC and the borrower. The Regional Bank to whom most of the fixed assets of the borrower have usually been pledged in guarantee for earlier loans (and which does not wish to share its mortgage rights with other banks such as KDFC) extends to KDFC a full payment guarantee. The RCB is responsible for project supervision which includes regular reporting on project construction and completion, follow-up assistance, and collection of principle and interests on due date. The same procedures are used for procurement and disbursement as in KDFC's other projects. The collaboration agreement with the RCBs stipulates that a commission currently fixed at 0.5% per annum of the amounts outstanding will be payable by KDFC to the Regional Bank for its mediation and supervision services.

Participating RCBs

6. Because of their receptiveness to the proposed collaboration scheme and their location in the southern part of Korea (which is a relatively less developed area), two Regional Commercial Banks were originally selected in 1975: The Taegu Bank and the Chunbuk Bank. Due to its location in a principally rural area, the Chunbuk Bank had, by the end of 1975, been unable to identify any potential project for financing. KDFC consequently decided to enter into a business agreement with the Bank of Pusan in March 1976, in spite of the much more advanced character of this area and asked the Bank of Pusan to place primary emphasis on assistance to small-scale industries. Lending out of the US$5 million allocation was therefore limited to projects promoted by the Bank of Taegu and Bank of Pusan. In December 1976 with the second ADB line of credit being made available to KDFC, a fourth Regional Bank, the Kwangju Bank entered into an agreement with KDFC.

7. In view of the lagging demand for investment experienced by the Chunbuk Bank, KDFC decided to sponsor jointly with the Asiatic Research Center of Korea University, a study of the current economic position and

development prospects of the Chunbuk Province. KDFC, which will finance part of the costs involved in carrying out this survey scheduled for completion by late 1977, has included in the terms of reference the identification of prospective industrial projects which could ultimately be financed jointly by KDFC and the Chunbuk Bank.

8. Although the willingness of the RCBs to accept KDFC's procedures and requirements, as well as the limited foreign currency resources available to KDFC for promotion of such projects, does constrain the scope for an expansion of the scheme of collaboration to the other RCBs, KDFC intends to place priority on the assistance to smaller commercial banks such as the Chunbuk and Kwangju Banks which are located in less developed areas.

Financing

9. Experience has shown that small scale enterprises in provincial areas have not had, so far, an easy access to foreign currency resources although the Medium Industry Bank has been active in this type of business. The demand for foreign currency funds by the RCBs could actually have largely exceeded the limited resources tentatively allocated by KDFC. In addition to the US$5 million from the fifth IBRD line of credit, KDFC has allocated US$8 million out of the second ADB line of credit. At end January 1977, an amount of US$4 million had already been earmarked out of the second allocation on account of 12 projects which had been identified and were being appraised by the RCBs. KDFC also intends to utilize part of the proceeds of the proposed sixth Bank loan to pursue its collaboration with the RCBs.

Training

10. KDFC has been active in providing training assistance to the staff of the participating RCBs. Particular areas in which KDFC's training has been emphasized relate to project identification, appraisal, and follow-up. In addition to occasional field visits by KDFC's staff in which extensive discussions of appraisal techniques are carried out with the appraisal staff of the RCBs, KDFC has also been arranging, during the year 1976, formal one-week training sessions in Seoul for four staff members of the Taegu, Pusan and Kwangju Banks. The novelty of such appraisal techniques for the RCBs' loan officers makes it necessary for KDFC to provide continuous training for an extended period of time. Consequently, KDFC intends to organize, in 1977, a training session which will accommodate 15 persons including representatives of the projects financed, as well as some RCB officials.

Characteristics of Projects Financed under the RCB Collaboration Agreement

11. The main characteristics of the 18 projects financed for a total of US$5.1 million out of the fifth IBRD line of credit are summarized in Tables 2 and 3. KDFC's financing under the RCB scheme accounts respectively for 27%

by number and 8% by amount of its total loan approvals during the year 1976. Loans ranged from US$130,000 to US$525,000 with an average of US$280,000 which is nearly 3.5 times smaller than the overall average of US$966,000 for KDFC's lending in 1976.

12. Table 4 attached to this Appendix gives the partial economic indicators of projects financed under the RCB scheme. This data clearly shows that KDFC's lending went to much smaller projects than in its other operations. The average investment cost for projects financed by the RCB amounted to US$655,000 as against a US$2.9 million average for all loan approvals by KDFC in 1976. The average investment cost per job created can be estimated at US$8,400 as against a US$33,700 overall average, a clear indication that the RCB projects are much more conducive to labor employment than KDFC's usual operations. It is also worth pointing out that in spite of this smaller size the contribution of these projects to Korean exports is not negligible as reflected in the share of exports to total sales 1/ which averages 72% for projects financed under this scheme as against 57% for all KDFC financed projects.

13. Table 3 shows the summarized characteristics of the 18 loans approved and of the sponsoring firms. The distribution of sponsoring firms in terms of assets size, sales volume and employment shows that they belong to the small- and medium-size sector, at least in relation to KDFC's normal lending operations. The distribution of loans approved by purpose shows the high incidence of new projects which accounted for 42% of the amounts loaned as against 22% only for KDFC's overall operations in 1976. With 10 out of the total 18 projects promoted by the Taegu Bank which is located in a major textile region, it is hardly surprising that the textile and wearing apparel sector accounts for nearly 70% of the total amounts loaned under the RCB scheme. Since a heavy concentration within one sector may prove a cause for concern, KDFC has been impressing on participating banks the need to diversify their portfolio and the Taegu Bank has agreed to do its best to identify potential projects in other sectors to the extent possible.

1/ At full capacity operation.

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ANNEX 4
Appendix 5
Table 1

KOREA

KOREA DEVELOPMENT FINANCE CORPORATION

Summary Data on Participating Regional Commercial Banks (As of September 1976)1/

	Daegu Bank	Bank of Busan	Chunbuk Bank	Kwangju Bank
Date of Agreement	August 27, 1975	March 4, 1976	August 22, 1975	December 17, 1976
Date of Establishment	October 7, 1967	October 25, 1967	November 10, 1969	November 20, 1968
Paid-in Share Capital (₩ million)	6,000	10,000	1,700	2,000
No. of Branches and Offices	38	49	17	19
No. of Employees	1,356	2,039	350	388
Financial Highlights:				
Total assets (₩ million)	182,457	330,127	39,060	27,055
Deposits (₩ million)	82,563	127,703	17,028	18,421
Loans and Bills Discounted (₩ million)	69,394	138,762	15,510	13,306
Equity (₩ million)	7,609	13,744	1,933	2,244
Operating Income for 6 months (₩ million)	6,931	14,157	1,715	1,490
Net earnings after tax (₩ million)	679	1,343	129	168

1/ The regional commercial banks close their books semi-annually, on March 31st and September 30th.

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Appendix 5
Table 2

KOREA

KOREA DEVELOPMENT FINANCE CORPORATION

List of Projects Financed under KDFC's Scheme of Cooperation with Regional Commercial Banks
(thousand won & US$)

	Project products	Total project cost	KDFC financing	RCB financing	Sponsors' own contribution
Daegu Bank:					
1. Daeha Textile Company	Synthetic fabrics	₩ 52,110	-	₩ 20,000	₩ 32,110
		$ 340,000	$ 340,000	-	
2. Keum Sung Textile Dyeing & Printing Ind. Co., Ltd.	Cotton cloth	₩ 18,200	-	-	₩ 18,200
		$ 113,000	$ 113,000	-	-
3. Han Jin Textile Company	Embroidered fabrics	₩ 178,860	-	₩ 77,000	₩ 101,860
		$ 408,000	$ 408,000	-	-
4. Dae Sung Underwear Mfg. Co.	Knit wear	₩ 60,700	-	-	₩ 60,700
		$ 330,000	$ 330,000	-	-
5. Daemyung Industrial Co.	Dies & plastic prod.	₩ 183,080	-	₩ 57,000	₩ 126,080
		$ 237,000	$ 237,000	-	-
6. Goo Guek Textile Co.,Ltd.	Embroidered fabrics	₩ 200,800	-	₩ 85,000	₩ 115,800
		$ 525,000	$ 525,000	-	-
7. Silla Textile Co.	Embroidered fabrics	₩ 149,400	-	₩ 49,400	₩ 100,000
		$ 240,000	$ 240,000	-	-
8. Bo Kook Moolsan Co., Ltd.	Embroidered fabrics	₩ 157,400	-	₩ 115,000	₩ 42,400
		$ 189,000	$ 189,000	-	-
9. E-Hwa Textile Company	Synthetic fabrics	₩ 182,300	-	₩ 35,000	₩ 147,300
		$ 486,000	$ 486,000	-	-
10. Hyap Dong Weaving Company	Synthetic fabrics	₩ 708,980	-	₩ 477,000	₩ 231,980
		$ 300,000	$ 300,000	-	-
Subtotal		₩1,891,830	-	₩ 915,400	₩ 976,430
		$3,168,000	$3,168,000	-	-
Bank of Busan:					
11. Daeil Textile Ind. Co.	Woolen yarn & fabrics	₩ 55,060	-	₩ 20,000	₩ 35,060
		$ 200,000	$ 200,000	-	-
12. Dae Sung Rope Mfg. Co., Ltd.	Textile ropes	₩ 118,700	-	₩ 35,000	₩ 83,700
		$ 354,000	$ 354,000	-	-
13. Seshin Commercial Co.	Hand tools	₩ 80,800	-	₩ 15,000	₩ 65,800
		$ 330,000	$ 330,000	-	-
14. Sam Hwa Steel Wire Rope Co.	Wire ropes	₩ 105,200	-	₩ 50,000	₩ 55,200
		$ 340,000	$ 340,000	-	-
15. Seshin Precision Ind. Co.	Watch cases	₩ 240,000	-	₩ 60,000	₩ 180,000
		$ 120,000	$ 120,000	-	-
16. Andrew Trade Corporation	Plastic products	₩ 32,400	-	-	₩ 32,400
		$ 222,000	$ 222,000	-	-
17. Chae-il Grinding Wheels Mfg. Co.	Grinding wheels	₩ 60,700	-	₩ 25,000	₩ 35,700
		$ 150,000	$ 150,000	-	-
18. Song Woun Ind. Co., Ltd.	Polyurethane resin	₩ 661,400	-	₩ 80,000	₩ 581,400
		$ 200,000	$ 200,000	-	-
Subtotal		₩1,354,260	-	₩ 285,000	₩1.069,260
		$1,916,000	$1,916,000	-	-
Total 1/		₩3,246,090	-	₩1,200,400	₩2,045,690
		$5,084,000	$5,084,000	-	-
		E$11,776,969 (100%)	E$5,084,000 (43%)	E$2,475,052 (21%)	E$4,217,917 (36%)

1/ Exchange rate applied: US$1 = ₩485

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Table 3

KOREA

KOREA DEVELOPMENT FINANCE CORPORATION

Characteristics of Loan Approvals under the RCB Scheme of Cooperation
(in US$'000)

	No.	Loan Amount	%
A. CHARACTERISTICS OF LOANS			
a. Purpose			
New project	8	2,132	42
Expansion	10	2,952	58
Total	18	5,084	100
b. Size (in US$'000)			
Below 200	6	972	19
201-300	4	999	20
301-400	5	1,694	33
401-500	2	894	18
Above 500	1	525	10
Total	18	5,084	100
c. Sectoral Distribution			
Textiles and weaving apparel	11	3,485	69
Chemicals and plastics	3	659	13
Non-metallic mineral products	1	150	3
Metal products and machinery	3	790	15
Total	18	5,084	100
B. CHARACTERISTICS OF PROJECT SPONSORING FIRMS 1/			
a. Assets Size (in ₩ million)			
Below 200	4	1,207	27
201-500	4	1,215	28
501-1,000	3	929	21
1,000-1,500	2	543	12
Above 1,500	2	530	12
Total	15	4,424	100
b. Sales Volume (in ₩ million)			
Below 200	2	630	14
201-500	5	1,257	28
501-1,000	1	340	8
Above 1,000	7	2,197	50
Total	15	4,424	100
c. Number of Employees			
Below 200	10	2,811	64
201-500	3	1,170	26
Above 500	2	443	10
Total	15	4,424	100

1/ Excluding 3 newly established firms.

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KOREA

KOREA DEVELOPMENT FINANCE CORPORATION

Partial Economic Indicators 1/ of Projects Financed under KDFC's Scheme of Cooperation with Regional Commercial Banks

	RCBs 3/	Total 4/
Number of Projects	18	68
Total Project Cost (₩ million)	5,713	93,397
Amount of KDFC Financing (US$'000)	5,084	31,828
Share of KDFC Financing (%) 2/	43.2	34.4
Incremental Annual Sales (₩ million)	12,620	161,566
Incremental Annual Value Added (₩ million)	5,085	52,306
Increase in Fixed Assets (₩ million)	4,899	70,227
Additional Employment (Number)	1,398	5,710
Incremental Annual Gross Exports (US$'000)	18,855	189,838
Net Foreign Exchange Earnings and Savings (US$'000)	14,810	158,406
Memorandum Items		
Sales per Employee (₩'000)	9,027	28,295
Value Added per Employee (₩'000)	3,504	9,160
Fixed Assets per Employee (₩'000)	3,505	12,299
Annual Payroll per Employee (₩'000)	1,046	1,830
Total Project Cost per Employee (US$'000)	8,426	33,725
Ratio of Sales to Fixed Assets	2.6	2.3
Ratio of Value Added to Fixed Assets	1.0	0.7
Ratio of Value Added to Sales	0.4	0.3
Export Share of Sales (%) 2/	72.5	57.0
Payroll Share of Value Added (%)	29.5	20.0

1/ Based on full capacity operation as projected in appraisal reports.

2/ Exchange rate applied: Won 485 = US$1.00.

3/ Except one, all projects were approved in 1976.

4/ Total Loan Approvals by KDFC during the year 1976.

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KOREA

KOREA DEVELOPMENT FINANCE CORPORATION

Summary of Joint Financing Operations, 1975-1976
(₩ million: US$ thousand)

Name of Client Firm	Main Business	Production	Cumulative KDFC Financing $	Cumulative KDFC Financing ₩ 1/	Other Financing $	Other Financing ₩ 2/	Name of Foreign Joint Financing Partner
1. Chonju Paper Mfg. Co.	Paper	Newsprint	1,314	372	8,458	-	Escher Wyss Co.
2. KDLC	Financing	Lease financing	5,000	551	-	525	Orient Leasing Co.
						75	PICA
						75	Baring Sanwa-Multinational Ltd.
3. G. M. Korea	Automobile	Truck cabby & car body shells	3,500	-	2,660	-	FNCB
4. Korea Zinc Co.	Zinc refinery	Zinc ingots	4,000	485	13,000	1,940	IFC
5. Pusan Steel Pipe Ind'l	Steel pipe	Steel pipe	2,000	-	5,950	-	Bank of America
6. Kwang Jin Electronic Industrial Co., Ltd.	Electronic equipment	Telephone carrier	291	-	-	207	Fujitzu Limited
7. Korea Hapsum Co., Ltd.	Textile	Nylon textured yarn	2,853	80	3,037	-	Nissho Iwai of West Germany
8. Hankook Tire Mfg. Co.	Automobilities	Tires	2,000	-	800	-	
	Total		20,958	1,488	33,905	2,822	

1/ Includes equity participations.

2/ Represents equity investments.

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KOREA

KOREA DEVELOPMENT FINANCE CORPORATION

KDFC's Influence in Improving Project Design

1. Annex 12 of the appraisal report of Loan 1145-KO to KDFC presented a selection of 10 cases for the period 1968-1974, in which some modifications in project design suggested by KDFC were actually implemented by the projects sponsors. A selection of 14 new cases covering the period 1975-1976 is appended to this annex.

2. In about half of the examples listed hereunder recommendations by KDFC aimed at strenghtening the financial structure of the proposed project by requiring from project sponsors that they increase their equity contributions. Such a requirement represents on KDFC's part a legitimate attempt to better allocate its scarce resources and to indirectly help mobilize domestic savings. Commercial lenders too, occasionally require higher equity financing of project costs which effectively reduces the risks of default. As a development oriented financial institution, however, KDFC attaches more weight to project merits than to the solidity of collateral. Ascertaining that a project is viable and, if desirable, improving its conception is for KDFC the best guarantee that the borrower will be able to repay its loan.

3. Accordingly KDFC makes full use of the professional experience of its appraisal staff to advise borrowers on possible ways to improve the design of their project. Aside from financial restructuring and co-financing operations, KDFC's advisory functions relate to three principal areas: (a) technical design, choice of technology and selection of machinery; (b) market prospects and related production capacity; and (c) organizational and legal set-up of the proposed projects. The economic benefits of the projects such as their contribution to the deepening of the industrial structure and to employment creation also rank high among KDFC's concerns and have in some instances led to the addition of certain productions, better capacity utilization or procurement of locally manufactured equipment rather than import.

KOREA

KOREA DEVELOPMENT FINANCE CORPORATION

KDFC's Influence in Improving Project Design: a Selection of Cases

1. Korea Ferrite Corporation

A. The Original Project

The original local currency cost of the project was to be financed by ₩170 million in equity, ₩59.2 million in bank loans and a ₩55 million loan from the shareholders.

B. KDFC's Suggested Modification

KDFC suggested that the share capital be increased to ₩205 million, and the shareholders' loan reduced to ₩20 million.

C. Reasons for Modification

There was a need to strengthen the applicant's equity position and financial structure.

2. Chun Ri Shipping Co., Ltd.

A. The Original Project

The original project was the purchase of a bulk carrier of about 10,000 DWT operated for grain transportation on the Korea/U.S.A. route. The vessel acquisition cost was to be financed by a loan from KDFC and a share capital increase of ₩200 million.

B. KDFC's Suggested Modification

KDFC recommended that the applicant purchase a log carrier instead of a bulk carrier, and increase its share capital by ₩505 million.

C. Reasons for Modification

KDFC believed that the applicant lacked the necessary experience for operating a bulk carrier, and that the applicant's financing capacity was too limited to allow acquisition of a bulk carrier.

The share capital increase of ₩505 million was considered necessary to strengthen the applicant's equity position and to improve a debt-heavy financial structure.

3. Korea Technology Advancement Corporation

A. The Original Project

The initial proposal called for a new bronze powder manufacturing plant with an annual production capacity of 150 metric tons, to be developed as a separate division within K-TAC's organization.

B. KDFC's Suggested Modification

KDFC suggested that within two or three years following the start of operations the plant be separated from K-TAC as an independent legal entity.

C. Reasons for Modification

(1) It seems desirable that the project eventually become a separate legal entity so that K-TAC can pursue its own objectives.

(2) It is expected that the project will take two or three years to reach the optimum scale of operation.

(3) This is in line with the general objective of broadening the ownership of Korean industries.

4. Sam Ryoung Trading Co., Ltd.

A. The Original Project

The initial proposal called for the installation of 10 sets of embroidery machines for the establishment of a new embroidery plant.

B. KDFC's Suggested Modification

KDFC suggested that the number of sets of embroidery machines be reduced to 6.

C. Reasons for Modification

(1) At the outset, the applicant, a newly organized company, should alleviate the risks involved in marketing a relatively large product in the overseas market.

(2) The cost of the original project seemed beyond the company's financing capacity.

5. Y. H. Shipping Co., Ltd.

A. The Original Project

The original project was to purchase a bulk carrier of about 16,000 DWT to be operated on the Korea/Middle East route.

B. KDFC's Suggested Modification

KDFC recommended that the applicant change the vessel type from a bulk carrier to a log carrier for operation on the Korea/Southeast Asia route.

C. Reasons for Modification

KDFC thought it would be more desirable for the applicant to acquire another log carrier to supplement and strengthen its current log shipping services, on the Korea/Southeast Asia route. KDFC believed that the applicant lacked sufficient experience to start operating a bulk carrier on the Middle East route.

6. Korea Zinc Co., Ltd.

A. The Original Project

The initial proposal called for the establishment of a new zinc refinery with an annual production capacity of 80,000 M/T of electrolytically refined zinc ignot of special high grade, with financing from both KDFC and commercial sources.

B. KDFC's Suggested Modification

KDFC suggested that the applicant scale down the annual production capacity from 80,000 M/T to about 50,000 M/T and recommended joint financing between KDFC and IFC.

C. Reasons for Modification

(1) To reduce the risks involved in marketing a larger production in the overseas market.

(2) To provide more favorable long-term financing under a KDFC/IFC joint financing arrangement.

7. Joong Ang Shipping Co., Ltd

A. The Original Project

The original project was to purchase a ten-year-old bulk carrier.

B. KDFC's Suggested Modification

KDFC advised the applicant to purchase a newer carrier.

C. Reason for Modification

KDFC believed that the originally projected ten-year-old vessel was too old to be operated efficiently.

8. International Steamship Corporation

A. The Original Project

The local currency cost of the project was to be financed by ₩200 million in equity and ₩222 million from other banks.

B. KDFC's Suggested Modification

KDFC suggested that the share capital be increased by ₩300 million and that the bank loan be reduced to ₩122 million.

C. Reason for Modification

There was a need to strengthen the applicant's equity base to improve its financial structure.

9. Andrew Trade Corporation

A. The Original Project

The applicant, as a sole proprietorship, proposed the expansion of its plastic molding capacity through the installation of 11 sets of injection molding machines.

B. KDFC's Suggested Modification

KDFC suggested that the company be converted into a joint stock company.

C. Reasons for Modification

(1) Broadening of the company's ownership.

(2) A lower income tax rate is applied to joint stock companies, as compared with the rate applied to sole proprietorships.

10. Nam Yang Dairy Products Co., Ltd.

A. The Original Project

The applicant planned to distribute 324 head of pregnant dairy heifers to over 60 dairy farmers. The ownership title of the cattle would have been transferred to the participating farms after repayment of a three-year credit.

B . KDFC's Suggested Modifications

KDFC suggested that the applicant not transfer the ownership title until full repayment of the proposed KDFC loan, and extend the credit term to farmers to six years, including a two-year grace period which is in line with KDFC's own terms.

C. Reasons for Modification

(1) KDFC desired that the ownership title of the proposed heifers be held by the applicant until the KDFC loan has been fully repaid.

(2) KDFC intended to reduce the repayment burden of the participating farmers by extending the credit term to six years.

11. Kony Precision Company, Ltd.

A. The Original Project

The initial proposal was to establish a new quartz crystal manufacturing plant with an annual production capacity of 10 million units, at an estimated total cost of US$750 thousand in foreign exchange and ₩100 million in local currency. KDFC was requested to finance the full foreign exchange cost, with the local currency cost to be provided by share capital.

B. KDFC's Suggested Modifications

KDFC recommended that the annual production capacity be reduced to 6.2 million units, and also proposed that the share capital be increased to ₩120 million from the initial ₩100 million.

C. Reasons for Modification

(1) The annual capacity of 10 million units was considered to involve a high risk in marketing for a start-up company, considering the capacity of the existing companies.

(2) KDFC's estimate of local currency requirement for the project was greater than the applicant's estimate, thus it was desirable to increase equity contribution by the applicant for successful implementation of the project.

The modifications resulted in a reduction of the foreign exchange cost to US$500 thousand which was fully financed by KDFC.

12. Yun Han Manufacturing Co., Ltd.

A. The Original Project

The proposed project was to establish a new assembly line to manufacture automatic bottling machinery and to expand the applicant's existing chemical plant manufacturing facilities. The applicant's original proposal was to implement the above project in two stages. The project cost was estimated at US$800,000 in foreign exchange and ₩1,091 million in local currency for its first stage project, and US$500,000 and ₩45 million for its second stage project. The two projects were to be implemented in 1976 and 1978, respectively. KDFC was requested to finance the foreign exchange cost of US$800,000 and ₩100 million for the first stage project.

B. KDFC's Suggested Modification

KDFC suggested that the applicant combine the first and second stage projects, purchasing additional second-stage equipment amounting to about US$400,000.

C. Reasons for Modification

(1) KDFC believed that the applicant's implementation plans could be accelerated.

(2) The addition of the second stage items will enable the applicant to diversity its production.

(3) Construction of the new plant to accommodate the second stage equipment was under way, and KDFC believed that combining the two projects would accomplish cost savings in project implementation.

13. Dong Yang Textile Manufacturing Co., Ltd.

A. The Original Project

The local currency cost of the project was to be financed by a commercial loan of ₩150 million and ₩197 million from funds generated by operations.

B. KDFC's Suggested Modification

KDFC suggested that the share capital be increased by ₩100 million to ₩500 million, and that the bank loan be reduced to ₩50 million.

C. Reason for Modification

KDFC believed that financing through share capital increase would help the company strengthen its equity position and improve its financial structure.

14. Goo Guek Textile Company, Ltd.

A. The Original Project

The applicant proposed the establishment of an embroidered-fabrics manufacturing plant with three sets of embroidery machines, as a sole proprietorship.

B. KDFC's Suggested Modification

KDFC suggested that the company be converted into a joint stock company.

C. Reasons for Modification

(1) Broadening the company's ownership.

(2) A lower income tax rate is applied to joint stock companies as compared with the rate applied to sole proprietorships.

AEP Projects Department
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KOREA

KOREA DEVELOPMENT FINANCE CORPORATION

Major Technologies Introduced via KDFC-Financed Projects
(From 1975 to 1976)

	Applicant	Project products	Techniques employed or developed	Origin of Techniques provided	Technician trained in foreign countries and visiting foreign technicial (man-month) Trained	Visiting
1.	Daehan Synthetic Fiber Co.	Polyester S.F.	Automatic mixing technique of polymer chip	Chemtex Co., USA	-	-
2.	Chosun Steel Wire Ind Co.	Submerged arc welding rod, carbon dioxide gas, shielded arc welding rod	Automatic welding rod manufacturing techniques, through drawing and copper plating of wire rod.	Kobe Steel Co., Japan	2	2
3.	Lucky, Limited	High-fructose syrup	Isomerization of glucose produced from starch.	KIST, Korea	-	-
4.	Korea Nylon Co	Nylon tire cord	Direct spin-drawing system	-	-	-
5.	Taeyang Metal Ind. Co.	Bolt and nut	Cold thread rolling	-	-	-
6.	Koryo Technical Ceramics Co.	Ceramic core	Processing techniques of local kaolin for ceramic core	KIST, Korea	-	-
7.	Korea Iron and Steel Co.	Oxygen gas	Air liquefaction-rectification process	Nippon Oxygen Co., Japan	-	7
8.	General Motors Korea Co.	Truck cabs Passenger-car body shell	Stamping, fabrication and painting techniques	Isuzu Motor, Japan	80	12
9.	Kia Industrial Co.	Passenger-car body shell	Stamping, fabrication and painting techniques	Toyo, Japan	12	-
10.	Samsung Electronics Co.	Compressors for refrigerator	High precision machine assembling techniques	Kelvinator International Corp. USA	6	5
11.	Hyundai International Co.	Automobile brake (hydraulic)	High precision machining and assembling techniques	Girling Ltd., UK Burman and Suns Ltd., UK	15	4
12.	Korea Ferrite Co.	Anisotropic bariumferrite magnet	Crushing, pressing and grinding of raw material	Shinei Seiki Co., Japan	-	3
13.	Dongyeom Co.	Woven fusible interlining	Resin adhesives coating	DRBA, W.G.	-	2
14.	Korea Technology Advancement Co.	Bronze powder	Automization and reduction method	KIST, Korea	-	-
15.	Dong Woo Precision Machine Mfg. Co.	Hydraulic actuation unit of brake and clutch	High precision machining and assembling	Shinei Industry Co., Japan	10	-
16.	Pusan Steel Pipe Ind. Co.	Steel Pipes	Steel pipe manufacturing techniques by means of Stretch Reducing Mill (SRM) and electric welding process	Equipment suppliers of W/G & USA	60	15
17.	Korea Zinc Co.	Zinc, and by-products including sulfuric acid, cadmium ingot, lead and silver cakes.	Electrolytic process for zinc extraction, Jarosite process for residue treatment, Dorr Fluo-Solids process for roasting of zinc concentrates and Monsanto process for sulfuric acid manufacturing.	Toho Zinc Co., Japan Genie Metallurgique (MECHIM), Belgium	50	30
18.	Kwang Jin Electronic Ind. Co.	Telephone carrier equipment	Open wire, tall cable and coaxial cable carriers of FDM type, and PCM cable carrier of TDM type.	Fujitsu Limited, Japan	16	5
19.	Nam Hae Ceramics Co.	Cordierite saggar	Synthesizing cordierite saggar from clay, kaolin and talc.	KIST, Korea	-	-
20.	Dong Yang Moolsan Co.	Power tiller	Power tiller manufacturing techniques	Iseki Agricultural Mfg. Co., Japan	7	15
21.	Yun Han Manufacturing Co.	Automatic bottling machinery	Machining and assembling techniques	Mitsubishi Heavy Industries, Japan	15	8
22.	Korea Petrochemical Ind. Co.	Polypropylene	Amoco-Chisso PP process	Chisso Engineering Co., Ltd. Japan	10	5

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ANNEX 6

KOREA
KOREA DEVELOPMENT FINANCE CORPORATION

Summary Description of Korea Investment and Finance Corporation

1. Background and objectives. Because of the conditions prevailing in the Korean financial environment prior to KIFC's establishment in 1971, the short-term financial needs of local industry were, to a large extent, satisfied by the unorganized money market or "curb market," where interest rates of up to 6.5% per month were common. A study of the financial sector in which KDFC participated concluded that such funding needs could be satisfied by a new class of institutions dealing in short-term credit instruments of all kinds, underwriting and distribution of corporate securities. Consequently, KIFC was established in 1971 under the sponsorship of KDFC and IFC as a combined money market/investment banking type financial intermediary. KIFC became the first institution to operate under the Short-Term Financing Business Law which was enacted in September 1972. Subsequently, nine other short-term financing companies were established in 1973 and 1974. The ten companies had, as of December 31, 1976 a portfolio of discounted notes outstanding amounting to ₩430.4 billion.

2. Ownership and management. KIFC's paid-in capital was increased to ₩3 billion in 1976; 62% is owned by domestic shareholders, and 38% by foreign shareholders. IFC and KDFC own 20% each. Mr. C.H. Kim, President of KDFC has been Chairman of the Board since KIFC's inception while Mr. B.J. Lee, a former Senior Vice President of KDFC was appointed President of KIFC in August 1973.

3. Operations. The growth of KIFC's operations has been very rapid. KIFC's discounted notes outstanding at the end of 1976 amounted to ₩56.3 billion, an 82% increase over year end 1975. Outstanding notes sold totalled ₩53.2 billion of which 75% was KIFC paper. In 1976, KIFC managed underwritings of three share issues amounting to ₩716 million which were heavily over-subscribed, on the other hand, the greater part of the three bond underwritings managed during the year for ₩2.1 billion had to be taken up by the company.

4. Performance. In general, KIFC's growth and performance have been very satisfactory. The company's total assets increased by 80% in 1976 to ₩45.6 billion as against ₩25.4 billion at end 1975. Profitability expressed in terms of net income after tax as percentage of average equity remained at approximately 31% in 1976 in spite of a ₩1 billion share capital increase during the year.

KOREA

KOREA INVESTMENT AND FINANCE COMPANY

Basic Data Summary
(Year-end, in million won)

	1973	1974	1975	1976
Notes outstanding				
Discounted	15,632	25,169	31,050	56,339
Sold	13,955	22,633	29,020	53,170
of which: KIFC paper	9,844	17,751	21,701	39,656
Industrial paper				
with recourse to KIFC	43	60	26	64
without recourse	4,068	4,852	7,293	13,450
Financial results				
Total assets	11,580	20,688	25,401	45,613
Total revenues	1,618	3,242	4,851	7,469
Total expenses	1,265	2,536	3,742	5,839
Income before tax	353	706	1,109	1,630
Net income after tax	292	588	953	1,359
Paid-in-capital	1,300	2,000	2,000	3,000
Shareholders' equity 1/	1,670	2,772	3,425	5,384
Book value per share (won) 1/	12,845	13,857	17,125	1,795 2/
Dividend (won)	1,500	2,000	2,000	200 3/
Net income after tax/average equity (%)	22.4	26.5	30.8	30.9
Others				
Number of eligible issuers	106	128	150	191
Number of shareholders	245	273	274	344
Number of employees	46	55	60	73

1/ Before dividends.

2/ Par value split to 1,000 won.

3/ Subject to approval by Shareholders' Meeting.

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KOREA DEVELOPMENT FINANCE CORPORATION

Outline of Development Strategy for 1977-1978

A. Background

In July 1975, KDFC adopted, in consultation with the World Bank, a Statement of Development Strategy for 1976-1977 outlining some specific developmental objectives and activities, apart from its normal financing activity. Many elements contained in the statement have since been implemented, including:

(a) the establishment in 1975, jointly with the Korea Institute of Science and Technology (KIST) of the Korea Technology Advancement Corporation (K-TAC) which has now entered the operating stage.
(b) the creation in March 1975 of a Promotion Unit within KDFC's organization;
(c) co-financing of small enterprises in conjunction with the Regional Commercial Banks;
(d) financial assistance to agro-industry;
(e) financial assistance to, and promotional inputs into, a number of projects in the machinery industry sector (see also para III (B));
(f) promotion, jointly with IFC and joint financing arrangements amounting to $67.6 million, in setting up the electrolytic zinc refinery project in 1976;
(g) the acquisition with IFC's assistance, of KDFC's first foreign commercial loan of about $20 million in April 1976.

B. New Objectives

It is KDFC's intention to consolidate its past developmental achievements including those noted above, as well as to further enhance its development impact. During the two-year period 1977-1978, KDFC expects to provide term finance to industry amounting to $147 million in foreign exchange and W7.9 billion in domestic currency. In parallel with the continuing expansion of its financing, KDFC will in the same two-year period focus on the development objectives outlined below.

I. Project Promotion and Resource Allocation

(a) KDFC plans to establish, in collaboration with the German Development Corporation (DEG), an engineering consulting office within KDFC's organization, whose object will be to identify and promote feasible machinery projects (this office may be spun off subsequently as a separate company);
(b) Continuation and expansion of KDFC's program of cooperation with the Regional Commercial Banks for financing small-scale enterprises, especially in backward areas. In this context, greater efforts will be made by KDFC to help these banks improve their capability for project appraisal and follow-up work;

(c) Continuation of assistance to K-TAC (which to date has developed two projects) 1/ with a view to advancing and exploiting commercially, additional domestic technological inventions and discoveries;
(d) Intensification of KDFC's efforts at improving resource allocation through promotional inputs and the introduction of appropriate changes in the design of projects financed by KDFC.

II. Resource Mobilization

(a) KDFC will attempt to raise additional private funds, both foreign and domestic, in order to gradually reduce its dependence on its traditional (and official) sources of funds (IBRD, ADB, et al). KDFC's objective would be to reduce the proportion of official funding (from IBRD, ADB, et al) to around 2/3 of its overall resources by 1981.
(b) On the foreign currency side, KDFC will intensify its efforts (which already came to fruition in April 1975 with the acquisition of the foreign commercial loan refered to in paragraph A(g)) at mobilizing private commercial funds, primarily through its foreign shareholders and IFC, with a view to gradually reducing its dependence on its traditional sources of funds (IBRD, ADB, et al). Specifically, KDFC will endeavor to raise another foreign commercial loan of up to $30 million during 1977-78;
(c) On the domestic currency side, KDFC will sustain its resource mobilization efforts through additional share issues (the next one for W3 billion is contemplated for 1978), and will consider issuing medium-term bonds, perhaps in 1979;
(d) At the project level, KDFC will expand its efforts at arranging joint financing with both foreign and local institutions, for large projects.

III. Research

(a) KDFC will strengthen its research capability and activity. One specific study to be undertaken by KDFC jointly with the Asian Research Center (of the Korea University) relates to Chunbuk province, a backward area, with a view to identifying and promoting projects suitable for development in that area. This survey is scheduled for completion in late 1977.
(b) KDFC cooperates and will continue to cooperate, with IFC in a current study for developing a framework for financing Korea's machinery industry. (This represents a joint undertaking by IFC, KDFC and the Korean Eximbank).

1/ these projects are a bronze powder project and a cordierite saggar project.

AEP Projects Department
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KOREA

KOREA DEVELOPMENT FINANCE CORPORATION

List of Shareholders As of December 31, 1976

	No. of Shareholders	No. of Shares	Percentage of Total
Foreign shareholders:			
Deutsche Gesellschaft für Wirtschaftliche Zusammenarbeit (Entwicklungsgesellschaft) Gmbh	1	34,684	3.47
The Bank of Tokyo Ltd.	1	30,408	3.04
The Industrial Bank of Japan	1	30,408	3.04
Deutsche Bank, A. G.	1	24,520	2.45
The Chartered Bank	1	19,620	1.96
Bank of America	1	25,151	2.52
Citibank Overseas Investment Corporation	1	25,151	2.52
United California Overseas Investment Corporation	1	20,120	2.01
Irving International Financing Corporation	1	17,964	1.79
Bank of Montreal (Bahamas & Caribbean) Ltd.	1	14,374	1.44
Sub-total	10	242,400	24.24
International Finance Corporation	1	105,206	10.52
Total Foreign	11	347,606	34.76
Domestic shareholders:			
Insurance companies	12	105,565	10.56
Commercial banks	4	105,124	10.51
Securities companies	26	26,835	2.68
Private corporations	65	241,280	24.13
Individuals	271	173,590	17.36
Total Domestic	378	652,394	65.24
Grand Total	389	1,000,000	100.00

AEP Projects Department
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KOREA

KOREA DEVELOPMENT FINANCE CORPORATION

Board of Directors

(Elected at the Shareholders' Meeting held on February 25, 1977)

Name	Principal Interest
Representing Korean Shareholders	
1. Mr. Chai Sun Hong 1/	Chairman, Korea Development Finance Corporation
2. Mr. Chin Hyung Kim 1/	Representative Director-President, Korea Development Finance Corporation
3. Mr. Yong Wan Kim	Honorary Chairman, Kyungbang Ltd.
4. Mr. Tai Sup Choi	President, Hankuk Glass Industry, Co. Ltd.
5. Mr. Yong Joo Kim	Chairman, Chonbang Co., Ltd.
6. Mr. Sung Taek Suh	President, Ssangyong Cement Industrial Co., Ltd.
7. Mr. Soo Kon Pae 1/	President, The Commercial Bank of Korea
8. Mr. Chi Bok Kim	President, Dae Han Fire & Marine Insurance Co., Ltd.
Representing foreign shareholders	
9. Mr. Philip D. Sherman 1/	Vice President, Seoul Branch Citibank, N. A.
10. Mr. Taichi Morikawa	General Manager, The Bank of Tokyo, Seoul Office
11. Mr. Edward K. Taapken	Vice President & Manager, Seoul Banch, Bank of America
12. Mr. Ulrich M. Soldat	Deputy Regional Representative, Deutsche Bank A. G., Hong Kong Regional Office
Representing IFC	
13. Mr. Naokado Nishihara	Special Representative in the Far East, International Finance Corporation

1/ Also Executive Committee Members.

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KOREA

KOREA DEVELOPMENT FINANCE CORPORATION

Professional Staff Recruitment Plan. 1977-1981

	1976*	1977	1978	1979	1980	1981
Managers	6	-	1	-	-	-
Appraisal Staff:						
Financial analysts	9	2	1	2	1	-
Economists	4	-	-	1	-	-
Market analysts	9	1	1	1	1	-
Engineers	9	-	1	-	1	-
Sub-total	31	3	3	4	3	-
Others:						
Accountants	3	-	-	1	-	1
Officers in charge of follow-up	12	-	4	1	2	2
Officers in charge of general affairs	19	2	1	-	3	3
Sub-total	34	2	5	2	5	6
Total	71	5	9	6	8	6

* Number of professional staff as of December 31. Net increase in professional staff was 9 during the year.

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ANNEX 11

KOREA

KOREA DEVELOPMENT FINANCE CORPORATION

Statement of Operational Policies

(Approved at the Board of Directors' Meeting on April 25, 1967. Amended at the Board of Directors' Meetings on February 29, 1968; February 26, 1973; February 26, 1974; December 17, 1974; June 19, 1975; and July 23, 1976.)

The Korea Development Finance Corporation, whose object is to promote the expansion of private enterprise in the Republic of Korea, will be guided by the policies set forth below:

I. The Scope of Investment Activities

1) KDFC will invest only in productive enterprises. While its primary activity will be manufacturing and processing industry, it may invest also in other types of enterprises, including transport, tourism, and large-scale commercially-oriented agriculture. However, trade, real estate and small-scale agriculture will be excluded.

2) KDFC will finance only private enterprises which are properly organized and managed. KDFC will not invest in undertakings which are Government-owned and operated, but a Government holding of not more than 15% of the voting stock of a private enterprise shall not make such enterprise ineligible for financial assistance from KDFC. KDFC will finance both new enterprises and existing ones for expansion or improvemennt.

3) In its operations, KDFC will give due regard to the Government's general economic plans and policies. The following categories of industries will receive high priority, in accordance with the Government economic policies and objectives:

   a) export industries;

   b) import-substitute industries;

   c) industries producing raw materials necessary for production of export commodities and import-substitutes;

   d) indigenous local industries which have special advantage in comparative costs and potential marketability in foreign markets;

   e) participation or assistance in the turn-over of the government-owned industries to private ownership.

4) KDFC will assist private enterprises in the following ways:

   a) medium and long-term loans;

   b) equity participation (through underwriting, conversion rights, direct participation in share capital or otherwise);

   c) guarantee of payment for machinery and equipment imported or otherwise;

   d) guarantee and underwriting of corporate securities;

   e) technical and managerial consultant services; and

   f) any other appropriate manner.

5) KDFC will seek through its operation to broaden the ownership of private securities in Korea.

6) KDFC's financial assistance will be primarily for expenditures for fixed assets. KDFC will, however, consider requests for permanent working capital in conjunction with its financial assistance for such capital expenditures.

7) KDFC will study periodically the trend of over-all industrial development and investment opportunities in the private sector in cooperation with research institutes for promotion of new enterprises or expansion of the existing ones.

II. Basis for Investment Decisions

8) KDFC will make investment decisions only on the basis of sound investment criteria and standards, and will provide financial assistance only to those projects which are financially and economically sound and technically feasible. Special attention will be given to the ability of management and the profitability of the enterprise.

III. Diversification of Portfolio

9) KDFC will diversify its portfolio in order to maintain a reasonable level of risk.

10) KDFC will not provide financial assistance of less than the Won equivalent of $50,000. The maximum financial commitment in whatever form, including loan, share capital or guarantee or any combination thereof, that KDFC may make to any single enterprise will not normally exceed 25% of the total of KDFC's paid-in capital and free reserves.

11) KDFC will not commit to any single enterprise in form of share capital more than 10% of KDFC's paid-in capital and free reserves. The aggregate equity investment of KDFC at any time will not exceed the total of its paid-in share capital and free reserves.

12) In undertaking large-size projects, KDFC will seek cooperation with other financial institutions, both domestic and foreign.

IV. Turn-over of Portfolio

13) In order to recover its resources for new commitments and to encourage widespread ownership of private securities, KDFC will revolve its portfolio whenever it can do so on satisfactory terms. In selling an investment it will pay due regard not only to its own interests but also to the interests of other participants in such investment, as also to the interest of the concern whose shares are involved.

V. Relationship with Enterprises Financed

14) KDFC will not take a controlling interest in any enterprise in which it has invested, or any other interest which would give it primary responsibility for management, except that in the case of jeopardy, it may take such action as may be necessary to protect its interest. To this end it will not take up more than 25% of the share capital of an enterprise, except as the result of an underwriting commitment undertaken in the expectation that the investment would in fact be within the limit cited.

15) In accordance with normal banking practice, KDFC will require its borrowers to provide and to maintain adequate security, to keep records and accounts in accordance with sound accounting practices, and to furnish whatever information on their operations and accounts KDFC deems desirable. KDFC will take the right to inspect the enterprises it finances as well as their operations and accounts.

16) Business secrets and other information furnished by applicants or clients will be treated as confidential.

VI. Financial Guidelines

17) KDFC will lend and invest its resources in such a way as to maintain the value of its capital. KDFC will pass to its clients any foreign exchange risk it assumes or find other suitable means to cover it.

18) KDFC will not incur any debt in excess of eight and a half times the aggregate of its paid-in capital and free reserves.

19) KDFC will maintain accounting records adequate to reflect its business operations in accordance with sound and generally accepted international accounting practices and standards. KDFC will employ qualified and independent public accountants to audit its books and cerfity the accounts annually.

VII. Profits and Their Distribution

20) KDFC will seek to develop earnings sufficient to cover expenses and taxes, to provide reserves adequate to the size and risks of its portfolio and to protect its equity against erosion and to pay satisfactory dividends. It will seek profits on its equity investments and will impose interest rates, fees and other charges for its loans and services which will permit it to achieve that level of profitability. It will build and maintain reserves consistent with sound financial management. It will set aside each year from net income before tax the amount required by law as the legal reserve. In addition, it will accumulate other reserves, including reserve for losses, as considered prudent by the Board of Directors.

VIII. Staff

21) KDFC will build up a technically qualified staff capable of carrying the responsibilities which KDFC's objectives create, and able to provide the services to clients which those objectives call for.

IX. Revision of Policies

22) Any proposal to revise this Statement of Investment and Operational Policies shall be considered by the Board of Directors only after each member has been given an adequate opportunity to study and comment on the proposal, and it shall be approved at a meeting of the Board of Directors by two thirds of all directors.

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KOREA

KOREA DEVELOPMENT FINANCE CORPORATION

Summary of Operations, 1968-1976
(As of December 31, 1976)

	1968-1972		1973		1974		1975		1976		Total	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Domestic Currency Loans (₩ million)												
Approvals	35	2,491	12	1,693	14	1,770	5	502	5	450 1/	71	6,906
Commitments	34	2,421	13	1,763	14	1,770	5	502	4	350 1/	70	6,806
Disbursements	-	2,366	-	1,563	-	1,670	-	402	-	538 1/	-	6,539
Repayments	-	967	-	509	-	431	-	687	-	1,107 1/	-	3,701
Outstanding at year end	-	1,399	-	2,453	-	3,692	-	3,407	-	2,838 1/	-	-
Domestic Currency Convertible Debentures (₩ million)												
Approvals	8	1,200	-	-	3	210	3	180	4	610	18	2,200
Commitments	8	1,200	-	-	2	110	2	250	4	440	16	2,000
Disbursements	-	1,200	-	-	-	110	-	250	-	440	-	2,000
Repayments	-	125	-	129	-	153	-	98	-	42	-	547
Conversions into investment	-	250	3	400	-	-	-	-	-	-	-	650
Outstanding at year end	-	825	-	296	-	253	-	405	-	803	-	-
Domestic Currency Equity Investments (₩ million)												
Approvals	4	616	4	231	12	1,052	6	349	9	1,029	35	3,277
Commitments	4	616	2	62	11	491	7	764	8	1,334	32	3,267
Disbursements	-	616	-	62	-	491	-	764	-	1,062	-	2,995
Debentures converted	-	250	-	400	-	-	-	-	-	-	-	650
Sales of equity investment	-	50	-	-	-	-	-	148	-	122	-	320
Outstanding at year end	-	816	-	1,278 2/	-	1,769 2/	-	2,385 2/	-	3,325 2/	-	-
Domestic Currency Guarantees (₩ million)												
Approved	1	30	-	-	-	-	2	424	-	-	3	454
Outstanding	-	8	-	-	-	-	-	424	-	424	-	-
Foreign Currency Loans (US$ thousand)												
Approvals	82	50,829	34	30,713	28	23,970	43	42,912	67	64,697	254	213,121
Commitments	76	41,678	36	33,882	24	17,019	41	41,614	55	68,055	232	202,248
Disbursements	-	37,289	-	11,991	-	34,209	-	23,683	-	64,928	-	172,100
Repayments	-	2,629	-	2,807	-	6,965	-	5,988	-	9,876	-	28,265
Outstanding at year end	-	34,660	-	43,844	-	71,088	-	88,783	-	143,835	-	-
Totals (₩ million equivalent) 3/												
Approvals 4/	129	22,251	50	14,164	57	14,657	57	21,844	85	33,467	378	106,383
Commitments 4/	122	18,765	51	15,327	51	11,176	55	21,317	71	35,131	350	101,716
Disbursements	-	20,100	-	7,541	-	21,565	-	12,791	-	35,589	-	97,586
Repayments	-	2,554	-	2,360	-	3,529	-	4,786	-	6,237	-	19,466
Outstanding at year end	-	17,546	-	22,727	-	40,763	-	48,768	-	78,119	-	-

1/ Excluding loans to KDFC employees approved and disbursed in 1976 for an amount of ₩295 million; outstanding at year end in an amount of ₩235 million.

2/ Excluding a stock dividend of ₩251 million: ₩9 million from Dong A Pharmaceutical Co., Ltd., in 1973 ₩141 million from Chunju Paper Mfg. Co., Ltd., ₩25 million from Hanyang Food Co., Ltd. in 1975 and ₩76 million from Han Kuk Tire Mfg. Co., Ltd. in 1976.

3/ Excluding guarantee operations.

4/ Exchange rate applied: US$1 = ₩281.90 for 1968
₩305.20 for 1969
₩317.40 for 1970
= ₩374.10 for 1971
= ₩399.70 for 1972
= ₩398.50 for 1973
= ₩485.00 for 1974, 1975 and 1976

AEP Projects Department
April 20, 1977

KOREA DEVELOPMENT FINANCE CORPORATION

ANNEX 13
Table 2

Characteristics of Loans Approved, 1968-1976
(W million; US$ thousand)

	1968-1972					1973					1974				
		Amount					Amount					Amount			
	No. 4/	W	$	E(W)Total 2/	%	No. 4/	W	$	E(W)Total 2/	%	No. 4/	W	$	E(W)Total 2/	%
(a) Type of loans															
Local currency loans	35	2,491	-	2,491	12.2	12	1,693	-	1,693	12.1	14	1,770	- -	1,770	13.2
Foreign currency loans	82	-	50,829	17,944	87.8	34	-	30,713	12,239	87.9	28	-	23,970	11,625	86.8
Total	117	2,491	50,829	20,435	100.0	46	1,693	30,713	13,932	100.0	42	1,770	23,970	13,395	100.0
(b) Purpose of Loans															
New projects	36	390	17,311	6,573	32.2	11	-	9,087	3,621	30.0	7	480	3,640	2,245	16.8
Expansion	45	1,105	29,360	11,421	55.9	26	1,017	21,181	9,458	67.9	26	910	20,330	10,770	80.4
Balancing, modernization and replacement	10	150	3,649	1,392	6.8	1	-	445	177	1.3	-	-	-	-	-
Working capital	9	756	509	959	4.7	4	646	-	646	4.6	3	370	-	370	2.8
Other	2	90	--	90	0.4	1	30	-	30	.2	1	10	-	10	-
Total	102	2,491	50,829	20,435	100.0	43	1,693	30,713	13,932	100.0	37	1,770	23,970	13,395	100.0
(c) Size distribution (W million)															
Below 100	27	741	2,027	1,420	6.9	7	176	658	439	3.1	4	110	90	154	1.1
100-200	26	620	6,743	2,849	13.9	12	447	3,165	1,708	12.2	11	500	2,037	1,488	11.1
200-300	21	260	9,684	3,652	17.9	6	200	3,255	1,497	10.7	6	610	1,664	1,417	10.6
300-400	9	420	5,567	2,430	11.9	7	870	4,027	2,475	17.8	5	150	3,272	1,737	13.0
400-600	4	350	3,493	1,519	7.4	6	-	7,858	3,131	22.4	3	-	3,111	1,509	11.3
600-800	8	100	10,229	3,838	18.8	-	-	-	-	-	4	300	4,652	2,556	19.1
800-1,000	7	-	13,086	4,727	23.2	4	-	8,748	3,486	25.0	2	100	3,587	1,840	13.7
Above 1,000	-	-	-	-	-	1	-	3,002	1,196	8.6	2	-	5,557	2,694	20.1
Total	102	2,491	50,829	20,435	100.0	43	1,693	30,713	13,932	100.0	37	1,770	23,970	13,395	100.0
(d) Geographical distribution															
Seoul Area	40	1,015	13,040	5,269	25.8	17	1,050	11,028	5,445	39.1	14	440	8,212	4,423	33.0
Busan area	6	300	3,804	1,734	8.5	1	-	1,300	518	3.7	2	250	630	556	4.1
Kyunggi-Do	19	476	4,930	2,171	10.6	8	547	4,063	2,166	15.5	11	630	6,282	3,677	27.5
Kyungsangbuk-Do	11	470	4,564	1,926	9.4	4	-	3,741	1,491	10.7	3	250	866	670	5.0
Kyungsangnam-Do	2	-	2,616	830	4.1	1	-	281	112	.8	-	-	-	-	-
Chungchungnam-Do	1	30	477	176	0.9	1	96	-	96	.7	-	-	-	-	-
Chungchungbuk-Do	2	200	292	282	1.4	-	-	-	-	-	-	-	-	-	-
Chunnanam-Do	1	-	690	219	1.1	-	-	-	-	-	-	-	-	-	-
Chunnabuk-Do	1	-	485	182	0.9	-	-	-	-	-	1	-	1,314	637	4.8
Kangwon-Do	-	-	-	-	-	-	-	-	-	-	1	-	90	44	.3
Deep-sea fisheries	15	-	13,667	5,206	25.5	7	-	5,030	2,004	14.4	-	-	-	-	-
Marine transportation services	4	-	6,264	2,440	11.8	4	-	5,270	2,100	15.1	5	200	6,576	3,388	25.3
Total	102	2,491	50,829	20,435	100.0	43	1,693	30,713	13,932	100.0	37	1,770	23,970	13,395	100.0
(e) Maturities (years)															
Up to 5	36	2,491	80	2,521	12.3	9	1,100	-	1,100	7.9	17	1,770	2,026	2,753	20.6
6-7	14	-	2,968	2,817	13.8	8	243	2,715	1,325	9.5	1	-	419	203	1.5
8-9	52	-	24,962	8,213	40.2	15	350	8,208	3,621	26.0	14	-	8,269	4,010	29.9
10-12	15	-	17,819	6,884	33.7	13	-	18,490	7,368	52.9	9	-	13,256	6,429	48.0
over 12	-	-	-	-	-	1	-	1,300	518	3.7	1	-	-	-	-
Total	117	2,491	50,829	20,435	100.0	46	1,693	30,713	13,932	100.0	42	1,770	23,970	13,395	100.0

	1975					1976 3/					Cumulative total				
		Amount					Amount					Amount			
	No. 4/	W	$	E(W)Total 2/	%	No. 4/	W	$	E(W)Total 2/	%	No. 4/	W	$	E(W)Total 2/	%
(a) Type of loans															
Local currency loans	5	502	-	502	23.6	5	450	-	450	1.4	71	6,906	-	6,906	6.8
Foreign currency loans	43	-	42,912	20,812	76.4	67	-	64,697	31,378	98.6	254	-	213,121	93,998	93.2
Total	48	502	42,912	21,314	100.0	72	450	64,697	31,828	100.0	325	6,906	213,121	100,904	100.0
(b) Purpose of Loans															
New projects	16	300	22,861	11,388	53.4	19	150	12,891	6,402	20.0	89	1,320	65,790	30,229	30.0
Expansion	25	80	18,799	9,197	43.2	36	100	44,237	21,555	67.7	158	3,212	133,907	62,401	61.8
Balancing, modernization and replacement	4	-	1,252	607	2.8	5	-	2,202	1,068	3.4	20	796	7,548	3,244	3.2
Working capital	1	100	-	100	.5	-	-	-	-	-	17	1,226	509	2,075	2.1
Other	1	22	-	22	.1	7	200	5,367	2,803	8.9	12	352	5,367	2,955	2.9
Total	47	502	42,912	21,314	100.0	67	450	64,697	31,828	100.0	296	6,906	213,121	100,904	100.0
(c) Size distribution (W million)															
Below 100	4	102	312	253	1.2	7	-	1,112	539	1.7	49	1,129	4,199	2,805	2.8
100-200	15	400	4,480	2,573	12.1	23	90	6,534	3,259	10.2	87	2,057	22,959	11,877	11.8
200-300	8	-	4,051	1,964	9.2	6	260	2,267	1,360	4.3	47	1,330	20,921	9,890	9.8
300-400	4	-	3,008	1,459	6.8	5	-	3,608	1,750	5.5	30	1,440	19,482	9,854	9.8
400-600	4	-	3,112	1,509	7.1	7	-	7,330	3,555	11.2	24	350	24,904	11,223	11.1
600-800	3	-	4,033	1,956	9.2	5	100	7,056	3,522	11.0	20	500	25,970	11,875	11.8
800-1,000	4	-	7,166	3,476	16.3	5	-	7,750	3,759	11.8	22	100	40,337	17,282	17.1
Above 1,000	5	-	16,750	8,124	38.1	9	-	29,040	14,084	44.3	17	-	54,349	26,098	25.8
Total	47	502	42,912	21,314	100.0	67	450	64,697	31,828	100.0	296	6,906	213,121	100,904	100.0
(d) Geographical distribution															
Seoul Area	1	-	4,869	2,361	11.1	9	-	8,367	4,058	12.7	91	2,505	45,516	21,556	21.4
Busan area	5	-	5,421	2,629	12.3	7	-	2,275	1,103	3.5	21	550	13,430	6,540	6.5
Kyunggi-Do	10	180	14,202	7,068	33.2	22	450	15,609	8,021	25.3	70	2,283	45,086	23,103	22.9
Kyungsangbuk-Do	6	150	3,852	2,018	9.5	17	-	10,704	5,192	16.3	41	870	23,727	11,297	11.2
Kyungsangnam-Do	5	-	5,476	2,656	12.5	2	-	4,355	2,112	6.6	10	-	12,728	5,710	5.7
Chungchungnam-Do	-	-	-	-	-	1	-	367	178	.6	3	126	844	450	.4
Chungchungbuk-Do	1	-	363	176	.8	-	-	-	-	-	3	200	655	458	.4
Chunnanam-Do	2	150	1,845	1,045	4.8	2	-	3,770	1,828	5.7	5	150	6,305	3,092	3.2
Chunnabuk-Do	1	22	-	22	.1	-	-	-	-	-	3	22	1,799	841	.8
Kangwon-Do	-	-	-	-	-	-	-	-	-	-	1	-	90	44	-
Deep-sea fisheries	3	-	5,218	2,531	11.9	-	-	-	-	-	25	-	23,915	9,741	9.6
Marine transportation services	3	-	1,666	808	3.8	7	-	19,250	9,336	29.3	23	200	39,026	18,072	17.9
Total	47	502	42,912	21,314	100.0	67	450	64,697	31,828	100.0	296	6,906	213,121	100,904	100.0
(e) Maturities (years)															
Up to 5	4	202	318	356	1.7	5	450	-	450	1.4	71	6,013	2,424	7,180	7.1
6-7	5	300	1,666	1,108	5.2	3	-	797	387	1.2	31	543	13,565	5,840	5.8
8-9	20	-	14,971	7,261	34.1	27	-	36,943	17,917	56.3	129	350	93,353	41,022	40.7
10-12	18	-	25,557	12,395	58.1	37	-	26,957	13,074	41.1	92	-	102,079	46,150	45.7
over 12	1	-	400	194	.9	-	-	-	-	-	3	-	1,700	712	.7
Total	48	502	42,912	21,314	100.0	72	450	64,697	31,828	100.0	325	6,906	213,121	100,904	100.0

1/ Exchange rate applied: US$1.00 = W281.90 for 1968
= W305.20 for 1969
= W317.40 for 1970
= W374.10 for 1971
US$1.00 = W399.70 for 1972
= W398.50 for 1973
= W485.00 for 1974, 1975 and 1976

2/ E(W): W equivalent (in million won)

3/ Excluding loans to KDFC employees in an amount of W295 million.

4/ Except in (a) and (e), a foreign and a local currency loan made simultaneously for a particular project are counted as one single loan.

AEP Projects Department
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ANNEX 13
Table 3

KOREA

KOREA DEVELOPMENT FINANCE CORPORATION

Sectoral Distribution of Loans Approved, 1968-1976 1/

(₩ million; US$ thousand)

INDUSTRIES	1968–1972					1973					1974					1975					1976					Cumulative total				
		Amount					Amount					Amount					Amount					Amount					Amount			
	No.	₩	$	E(₩) Total	%	No.	₩	$	E(₩) Total	%	No.	₩	$	E(₩) Total	%	No	₩	$	E(₩) Total	%	No.	₩	$	E(₩) Total	%	No.	₩	$	E(₩) Total	%
I. MANUFACTURING INDUSTRIES																														
a. Consumer Goods Industries																														
Food, beverage and tobacco	9	85	4,549	1,597	7.8	6	200	3,636	1,649	11.8	3	-	2,807	1,361	10.2	4	-	1,756	852	4.0	1	-	855	415	1.3	23	285	13,603	5,874	5.8
Textile, wearing apparel and leather	22	660	8,165	3,283	16.1	9	-	10,867	4,331	31.2	5	750	2,203	1,819	13.6	11	80	11,441	5,629	26.4	25	260	16,026	8,033	25.2	72	1,750	48,702	23,095	22.9
Printing and publishing	-	-	-	-	-	-	-	-	-	-	1	-	282	136	1.0	-	-	-	-	-	-	-	-	-	-	1	-	282	136	.1
Subtotal	31	745	12,714	4,880	23.9	15	200	14,503	5,980	43.0	9	750	5,292	3,316	24.8	15	80	13,197	6,481	30.4	26	260	16,881	8,448	26.5	96	2,035	62,587	29,105	28.8
b. Intermediate Goods Industries																														
Wood and wood products	1	-	419	128	0.6	1	-	481	192	1.4	1	80	-	80	.6	-	-	-	-	-	-	-	-	-	-	3	80	900	400	.4
Paper and paper products	-	-	-	-	-	-	-	-	-	-	2	-	2,044	991	7.4	-	-	-	-	-	-	-	-	-	-	2	-	2,044	991	1.0
Chemicals, rubber and plastics	11	286	3,834	1,573	7.7	3	750	470	937	6.7	5	310	1,965	1,263	9.4	2	-	1,010	490	2.3	6	-	6,399	3,103	9.7	27	1,346	13,678	7,366	7.3
Petroleum and coal	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	-	1,500	728	2.3	1	-	1,500	728	0.7
Non-metalic mineral products	9	150	3,007	1,155	5.7	2	100	633	352	2.5	6	150	4,587	2,375	17.7	6	100	2,695	1,407	6.6	4	-	1,216	590	1.9	27	500	12,138	5,879	5.8
Subtotal	21	436	7,260	2,856	14.0	6	850	1,584	1,481	10.6	14	540	8,596	4,709	35.1	8	100	3,705	1,897	8.9	11	-	9,115	4,421	13.9	60	1,926	30,260	15,364	15.2
c. Capital Goods Industries																														
Basic metals	3	200	3,761	1,559	7.6	1	-	2,082	830	6.0	2	250	502	493	3.7	3	-	2,645	1,282	6.0	1	-	4,000	1,940	6.1	10	450	12,990	6,104	6.0
Metal products	9	300	3,058	1,376	6.7	5	466	572	694	5.0	1	-	1,177	571	4.3	3	-	1,300	630	3.0	7	50	5,047	2,498	7.8	25	816	11,154	5,769	5.7
Machinery (except electrical)	4	180	1,156	538	2.6	-	-	-	-	-	-	-	-	-	-	2	-	2,088	1,013	4.8	5	140	4,114	2,134	6.7	11	320	7,358	3,685	3.7
Electrical machinery, apparatus, appliances and supplies	9	180	1,808	770	3.8	1	147	-	147	1.0	4	20	1,496	746	5.5	1	-	3,350	1,625	7.6	2	-	503	244	.8	17	347	7,157	3,532	3.5
Transport Equipment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2	-	7,450	3,613	17.0	-	-	-	-	-	2	-	7,450	3,613	3.6
Subtotal	25	860	9,783	4,243	20.7	7	613	2,654	1,671	12.0	7	270	3,175	1,810	13.5	11	-	16,833	8,163	38.3	15	190	13,664	6,816	21.4	65	1,933	46,109	22,703	22.5
d. Miscellaneous Mfg. Industries 2/	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	22	-	22	.1	2	-	420	204	.7	3	22	420	226	2.3
Total Mfg. Industries	77	2,041	29,757	11,979	58.6	28	1,663	18,741	9,132	65.6	30	1,560	17,063	9,835	73.4	35	202	33,735	16,563	77.7	54	450	40,080	19,889	62.5	224	5,916	139,376	67,398	66.8
II. NON-MANUFACTURING INDUSTRIES																														
Agriculture, forestry and fisheries	15	200	11,667	4,769	23.4	8	-	5,153	2,053	14.8	-	-	-	-	-	5	300	1,746	1,147	5.4	1	-	367	178	.6	29	500	18,933	8,147	8.1
Mining and quarrying	4	250	819	513	2.5	-	-	-	-	-	-	-	-	-	-	1	-	1,326	643	3.0	-	-	-	-	-	5	250	2,145	1,156	1.0
Electricity and Waterworks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Construction	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transportation (including storage and warehousing)																														
Banking and insurance	5	-	8,263	3,075	15.0	4	-	5,270	2,100	15.1	6	200	6,907	3,550	26.5	4	-	5,536	2,685	12.6	7	-	19,250	9,336	29.3	26	200	45,226	20,746	20.6
Hotel and tourism	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5	-	5,000	2,425	7.6	5	-	5,000	2,425	2.4
Other	-	-	-	-	-	1	-	1,300	518	3.7	-	-	-	-	-	1	-	400	194	.9	-	-	-	-	-	2	-	1,700	712	.7
	1	-	323	99	0.5	2	30	249	129	.9	1	10	-	10	.1	1	-	169	82	.4	-	-	-	-	-	5	40	741	320	.3
Total Non-Mfg Industries	25	450	21,072	8,456	41.4	15	30	11,972	4,800	34.4	7	210	6,907	3,560	26.6	12	300	9,177	4,751	22.3	13	-	24,617	11,939	37.5	72	990	73,745	33,506	33.2
GRAND TOTAL	109	2,491	50,829	20,435	100	43	1,693	30,713	13,395	100.0	37	1,770	23,970	13,395	100.0	47	502	42,912	21,314	100.0	67	450	64,697	31,828	100.0	296	6,906	213,121	100,904	100.0

1/ Exchange rate applied: US$1.00 = ₩281.90 for 1968
= ₩305.20 for 1969
= ₩317.40 for 1970
= ₩374.10 for 1971

: US$1.00 = ₩399.70 for 1972
= ₩398.50 for 1973
= ₩485.00 for 1974, 1975 and 1976

2/ Includes optical instruments, stationeries and wrist watch cases.

AEP Projects Department
April 20, 1977

KOREA

KOREA DEVELOPMENT FINANCE CORPORATION

Characteristics of Equity Investments and Convertible Debentures Approved, 1968-1976
(in W million)

	1968-1972			1973			1974			1975			1976			Cumulative Total		
	No.	Amount	%	No.	Amount	%	No.	Amount	%	No.	Amount	%	No.	Amount	%	No.	Amount	%
(a) Size Distribution (in W million)																		
Below 100	2	118	6	3	62	27	12	460	36	7	243	46	8	323	20	32	1,206	22
100-200	6	660	36	1	169	73	2	251	20	2	286	54	1	100	6	12	1,466	27
200-300	3	738	41	-	-	-	-	-	-	-	-	-	3	731	44	6	1,469	27
Over 300	1	300	17	-	-	-	1	551	44	-	-	-	1	485	30	3	1,336	24
Total	12	1,816	100	4	231	100	15	1,262	100	9	529	100	13	1,639	100	53	5,477	100
(b) Geographical Distribution																		
Seoul area	6	694	37	1	12	5	4	784	61	2	63	12	3	631	39	16	2,184	40
Busan area	2	340	19	1	169	73	1	74	6	-	-	-	-	-	-	4	583	11
Kyunggi-Do	2	412	23	2	50	22	6	197	16	4	326	62	4	270	16	18	1,255	23
Kyungsangbuk-Do	-	-	-	-	-	-	1	50	4	2	90	17	1	50	3	4	190	3
Kyungsangnam-Do	-	-	-	-	-	-	1	33	3	-	-	-	3	570	35	4	603	11
Chungchungnam-Do	-	-	-	-	-	-	1	60	5	-	-	-	-	-	-	1	60	1
Chungchungbuk-Do	1	250	14	-	-	-	-	-	-	-	-	-	-	-	-	1	250	5
Chunnanam-Do	1	120	7	-	-	-	-	-	-	1	50	9	2	118	7	4	288	5
Chunnabuk-Do	-	-	-	-	-	-	1	64	5	-	-	-	-	-	-	1	64	1
Total	12	1,816	100	4	231	100	15	1,262	100	9	529	100	13	1,639	100	53	5,477	100
(c) Sectoral Distribution																		
I. MANUFACTURING INDUSTRIES																		
a. Consumer Goods Industries																		
Food, beverage and tobacco	1	100	6	-	-	-	-	-	-	-	-	-	-	-	-	1	100	2
Textile, wearing apparel and leather	2	268	14	2	50	22	3	33	3	1	10	2	3	70	4	11	431	8
Printing and publishing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Subtotal	3	368	20	2	50	22	3	33	3	1	10	2	3	70	4	12	531	10
b. Intermediate Goods Industries																		
Wood and wood products	-	-	-	-	-	-	1	50	4	-	-	-	-	-	-	1	50	-
Paper and paper products	1	250	14	-	-	-	1	64	5	-	-	-	1	58	4	3	372	7
Chemicals, rubber and plastics	3	380	21	1	12	5	3	160	13	1	23	4	-	-	-	8	575	11
Petroleum and coal	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Non-metallic mineral products	2	400	22	-	-	-	2	133	10	2	70	13	3	360	22	9	963	18
Subtotal	6	1,030	57	1	12	5	7	407	32	3	93	17	4	418	26	21	1,960	36
c. Capital Goods Industries																		
Basic metals	-	-	-	-	-	-	1	50	4	1	40	8	1	485	30	3	575	11
Metal products	-	-	-	-	-	-	2	70	5	-	-	-	1	100	6	5	170	6
Machinery (except electrical)	2	130	7	-	-	-	-	-	-	-	-	-	-	-	-	-	130	-
Electrical machinery, apparatus, appliances and supplies	-	-	-	-	-	-	-	-	-	1	150	28	-	-	-	1	150	2
Transport Equipment	-	-	-	-	-	-	-	-	-	1	136	26	1	200	12	2	336	6
Subtotal	2	130	7	-	-	-	3	120	9	3	326	62	3	785	48	11	1,361	25
Total Mfg. Industries	11	1,528	84	3	62	27	13	560	44	7	429	81	10	1,273	78	44	3,852	71
II. NON-MANUFACTURING INDUSTRIES																		
Agriculture, forestry and fisheries	-	-	-	-	-	-	-	-	-	2	100	19	2	85	5	4	185	3
Mining and quarrying	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Electricity and water works	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Construction	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transportation (including storage and warehousing)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Banking and insurance	1	288	16	-	-	-	2	702	56	-	-	-	1	281	17	4	1,271	23
Hotel and tourism	-	-	-	1	169	73	-	-	-	-	-	-	-	-	-	1	169	3
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Non-Mfg. Industries	1	288	16	1	169	73	2	702		2	100	19	3	366	22	9	1,625	29
GRAND TOTAL	12	1,816	100	4	231	100	15	1,262	100	9	529	100	13	1,639	100	53	5,477	100

AEP Projects Department
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KOREA

KOREA DEVELOPMENT FINANCE CORPORATION

Sectoral Distribution of Loans and Investments Outstanding as of December 31, 1976

	Loans: Foreign Currency No. of Clients	Loans: Foreign Currency Amount	Loans: Won Currency No. of Clients	Loans: Won Currency Amount	Investments: Equity Investments No. of Clients	Investments: Equity Investments Amount	Investments: Convertible Debentures No. of Clients	Investments: Convertible Debentures Amount	Investments: Bonds No. of Clients	Investments: Bonds Amount	Total No. of Clients	Total Amount
I. MANUFACTURING INDUSTRIES												
a. Consumer Goods Industries												
Food, beverage and tobacco	11	5,000	2	98	1	100	-	-	-	-	11	5,198
Textile, wearing apparel and leather	38	15,620	8	738	4	152	-	-	-	-	41	16,510
Printing and publishing	1	83	-	-	-	-	-	-	-	-	1	83
Subtotal	50	20,703	10	836	5	252	-	-	-	-	53	21,791
b. Intermediate Goods Industries												
Wood and wood products	2	403	1	61	-	-	1	44	-	-	2	508
Paper and paper products	2	931	-	-	1	372	-	-	-	-	2	1,303
Chemicals, rubber and plastics	10	4,434	5	601	3	534	-	-	-	-	11	5,569
Petroleum and coal												
Non-metallic mineral products	11	4,788	3	200	3	253	2	130	1	250	11	5,621
Subtotal	25	10,556	9	862	7	1,159	3	174	1	250	26	13,001
c. Capital Goods Industries												
Basic metals	4	2,474	2	195	2	333	-	-	-	-	5	3,001
Metal products	16	2,042	5	439	1	10	1	54	-	-	16	2,545
Machinery (except electrical)	1	3,738	-	-	-	-	1	15	-	-	1	3,753
Electrical machinery, apparatus appliances and supplies	5	2,425	2	12		-	1	150	-	-	5	2,588
Transport Equipment	2	300	-	-	1	136	-	-	1	100	2	536
Subtotal	28	10,979	9	646	4	479	3	219	1	100	29	12,423
d. Miscellaneous Mfg. Industries												
Total Mfg. Industries	103	42,238	28	2,344	16	1,890	6	393	2	350	108	47,215
II. NON-MANUFACTURING INDUSTRIES												
Agriculture, foresty and fisheries	20	7,071	3	344	2	125	1	60	-	-	22	7,601
Mining and quarrying	1	767	-	-	-	-	-	-	-	-	1	767
Electricity and water works												
Construction												
Transporation (including storage and warehousing)	17	18,843	1	115	-	-	-	-	-	-	17	18,958
Banking and insurance	1	1,296	-	-	2	1,149	-	-	-	-	2	2,445
Hotel and tourism	1	309	-	-	1	169	-	-	-	-	1	477
Other	4	629	1	35	-	-	-	-	-	-	3	664
Total Non-Mfg. Industries	44	28,915	5	494	5	1,443	1	60	-	-	46	30,912
GRAND TOTAL	147	71,153	33	2,838	21	3,333	7	453	2	350	154	78,127 1/

1/ Including stock dividends of ₩ 9 million received in 1973, and excluding loans to KDFC's employees (₩ 235 million outstanding as of December 31, 1976).

AEP Projects Department
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KOREA

KOREA DEVELOPMENT FINANCE CORPORATION

Table of Repeat Loans 1968-1976

	Number of Clients	Number of Projects	Number of Loans	Cumulative loan Approvals (₩ million equivalent) 1/	Percent
Total Approvals of which	184	283	296	100,904	100.0
First loan to clients	184	184	184	41,539	41.2
Repeat loans to clients of which					
2nd loan	43	37	43	31,318	31.0
3rd loan	9	14	18	7,343	7.3
4th loan	9	26	27	12,455	12.3
5th loan	3	11	12	5,534	5.5
6th loan	-	-	-	-	-
More than 6th loan	2	11	12	2,715	2.7
Subtotal of Repeat Loans	66	99	112	59,365	58.8

1/ Exchange rate applied: US$1.00 = ₩281.90 for 1968
= ₩305.20 for 1969
= ₩317.40 for 1970
= ₩374.10 for 1971
US$1.00 = ₩399.70 for 1972
= ₩398.50 for 1973
= ₩485.00 for 1974, 1975 and 1976

ANNEX 13
Table 6

AEP Projects Department
April 20, 1977

KOREA

KOREA DEVELOPMENT FINANCE CORPORATION

Subprojects Approved or under Consideration for Financing under IBRD Loan 1145-KO as of February 10, 1977
(in US$ thousand)

Name of Company	Type of Industry	Type of Project 1/	Project Cost Local (\$)	Project Cost Foreign (\$)	KDFC Financing Total (\$)	KDFC Financing IBRD 2/ (\$)	Rate of Return (%) Financial	Rate of Return (%) Economic	Incremental Export Sales (\$)	Incremental Job Creation	Total Cost Per Job (\$)	Foreign Ownership %
A. Approved by IBRD												
1. Asia Cement Mfg. Co., Ltd.	Non-metallic	R	146	363	363	363	-	-	-	10	53	-
2. Dae Ha Textile Company 3/	Textile	E	107	330	330	330	-	-	-	20	22	-
3. Korea Iron & Steel Co., Ltd.	Metal	R	786	1,293	1,293	1,293	31.0	-	-	25	88	-
4. Kia Ind'l Co., Ltd.	Metal	E	2,272	3,950	4,230	3,950	32.6	2.8	-	80	78	-
5. Sam Sung Elec. Co., Ltd.	Metal	N	2,098	3,350	3,659	3,350	19.2	32.7	-	181	31	-
6. Dai Han Glass Ind. Co., Ltd.	Non-metallic	E	954	1,015	1,097	1,015	-	-	-	30	64	-
7. Hyundai International Ind.	Metal	N	1,497	1,742	1,742	1,742	17.9	36.8	-	200	15	-
8. Korea Ferrite Co., Ltd.	Non-metallic	N	586	810	810	810	30.5	29.8	1,365	70	20	-
9. Tong Yang Polyester Co., Ltd.	Textile	E	588	1,112	1,112	1,112	94.3	66.7	6,535	48	39	50.0
10. Hae Un Dae Development Co., Ltd.	Others	N	5,600	3,860	2,127	1,700	16.0	16.0	-	490	19	43.7
11. Yusung Woolen Textile Co.,Ltd.	Textile	E	500	313	313	313	-	-	2,649	160	5	-
12. Taechang Enterprise Co., Ltd.	Textile	N	2,586	3,800	3,800	3,800	16.5	22.1	4,843	530	12	-
13. Hanil Highway Bus Line	Marine transportation	N	725	2,150	2,150	2,150	15.0	n.a.	-	33	87	-
14. Kangwon Ind'l Co., Ltd.	Basic metal	N	1,001	590	1,090	1,090	-	-	-	10	159	-
15. Chonbang Co.,Ltd.	Textile	E	835	1,845	1,845	1,845	20.0	28.5	3,504	77	35	-
16. Korea Development Leasing Corporation	Others	O	-	5,000	5,000	5,000	-	-	-	-	-	-
17. Korea Chemical Carriers,Ltd.	Marine transportation	E	338	3,550	2,500	2,500	20.3	21.5	8,175	24	162	-
18. Chun Ri Shipping Co., Ltd.	" "	E	140	2,450	2,000	2,000	21.6	22.2	1,748	25	104	-
19. Korea Technology Advancement Co.	Metal	N	309	122	225	122	-	-	-	25	17	-
20. Dong Il Textile Co., Ltd.	Textile	E	431	625	625	625	-	-	18,969	34	31	-
21. Hankuk Glass Ind'l Co., Ltd.	Non-metallic	R	32	411	411	411	-	-	530	30	15	-
22. Cheil Sugar Co., Ltd.	Food	E	2,683	855	855	855	-	-	2,204	50	71	-
23. Sam Ryoung Trading Co., Ltd.	Textile	N	504	785	785	785	28.0	34.0	1,595	126	10	-
24. Cheil Wool Textile Co., Ltd.	Textile	R	1,012	1,055	1,055	596	-	-	n.a.	85	24	-
25. Keum Sung Textile Dyeing & Printing Ind. Co., Ltd. 3/	Textile	R	38	110	110	110	-	-	n.a.	58	3	-
26. Han Jin Textile Company 3/	Textile	N	285	243	243	243	-	-	783	76	7	-
27. Dae Sung Underwear Mfg. Co. 3/	Textile	R	125	322	322	322	-	-	n.a.	30	15	-
28. Y. H. Shipping Co., Ltd.	Marine transportation	E	122	1,970	1,750	1,750	18.0	18.5	960	25	84	-
29. Dong Woo Precision Machine Mfg. Co., Ltd.	Metal	N	575	788	788	788	-	-	625	70	19	-
30. Dae Myung Ind'l Co. 3/	Chemical	N	377	237	237	237	-	-	276	142	4	-
31. Daeil Textile Ind'l Co., Ltd. 4/	Textile	E	113	200	193	193	-	-	443	21	15	-
32. Goo Guek Textile Co., Ltd. 3/	Textile	N	414	525	525	525	-	-	350	92	10	-
33. Dae Sung Rope Mfg. Co., Ltd. 4/	Textile	E	245	354	354	354	-	-	192	25	24	-
34. Silla Textile Co., Ltd. 3/	Textile	N	308	240	240	240	-	-	226	75	7	-
35. Dae Sung Electric Ind. Co., Ltd.	Metal	E	265	212	212	212	-	-	2,366	66	7	50.0
36. Seshin Commercial Co., Ltd. 4/	Metal	R	167	330	330	330	-	-	408	240	2	-
37. Bo Kook Moolsan Co., Ltd. 3/	Textile	N	324	189	189	189	-	-	3,364	72	7	-
38. San Hwa Steel and Wire Rope Co., Ltd. 4/	Metal	E	216	340	340	340	-	-	1,254	42	13	-
39. Kwang Jin Electronic Ind. Co., Ltd.	Metal	E	1,522	498	291	291	-	-	1,232	368	5	20.0
40. Seshin Precision Ind.Co., Ltd. 4/	Metal	N	495	120	120	120	-	-	694	115	5	-
41. Korea Container Ind'l Co., Ltd.	Metal	N	596	320	320	320	-	-	2,268	146	6	-
42. San Han Chemical Machinery Mfg. Co., Ltd.	Metal	E	275	140	223	140	-	-	1,600	82	5	-
43. Andrew Trading Corporation 4/	Chemical	E	67	222	222	222	-	-	176	81	4	-
44. Chae-Il Grinding Wheels, Mfg. Corporation 4/	Non-metallic	E	125	150	150	150	-	-	-	31	9	-
45. Song Won Ind'l Corporation 4/	Chemical	E	1,364	200	200	200	-	-	3,923	38	41	-
46. Nam Yang Dairy Products Co., Ltd.	Agriculture	O	47	367	497	367	-	-	-	32	13	-
47. Nam Hai Ceramics Co., Ltd.	Non-metallic	N	1,546	355	355	355	-	15.0	-	140	14	-
48. E-Hwa Textile Company 3/	Textile	E	376	486	486	486	-	-	1,578	120	7	-
49. Korea Hapsum Co., Ltd.	Textile	E	3,048	5,037	2,000	2,000	28.3	47.3	6,994	70	116	-
50. Joong Ang Shipping Co., Ltd.	Marine transportation	E	161	2,680	2,300	2,300	18.4	19.6	-	25	113	-
51. Han Jin Textile Company 3/	Textile	E	84	150	150	150	-	-	251	35	7	-
52. Goo Guek Textile Co., Ltd.	Textile	E	113	252	252	252	-	-	97	35	10	-
53. Seung Nam Gan Mfg. Company	Metal	E	437	395	395	395	-	-	n.a.	70	12	-
54. Hyap Dong Weaving Corporation 3/	Textile	N	1,461	300	300	300	-	-	1,455	185	10	-
55. Korea Ferrite Corporation	Non-metallic	N	402	790	893	790	-	-	2,263	64	19	-
56. Kimpo Ceramics Co., Ltd.	Non-metallic	R	130	274	274	274	-	-	-	-	-	-
Subtotal			41,553	60,172	54,672	52,702	-	-	-	5,034	20.2	-
B. Under Processing												
57. Shin Sung Ind'l Co., Ltd.	Textile	N	825	980	980	980	-	-	-	-	-	-
58. Dong Myung Ind'l Co., Ltd.	Chemical	E	3,390	750	750	750	-	-	-	-	-	-
59. Keum Kang Shoe Mfg. Co., Ltd.	Textile	E	969	350	701	350	-	-	-	-	-	-
Grand Total			46,737	62,252	57,103	54,782						

1/ E. Existing Project
N. New Project
R. Replacement
O. Other
2/ Net of cancellations from and additions to the originally approved amounts.
3/ Projects financed under the scheme of cooperation with the Daegu Bank.
4/ Projects financed under the scheme of cooperation with the Pusan Bank.

AEP Projects Department
April 20, 1977

KOREA
KOREA DEVELOPMENT FINANCE CORPORATION
Financial Position and Performance

Financial Position

1. Assets. KDFC's audited balance sheets for the years 1973 through 1976 appear in table 1. The following table summarizes the composition, structure and growth of KDFC's assets over the last 4 years:

Assets Structure
(W Million)

As of December 31	1973 Amount	1973 %	1974 Amount	1974 %	1975 Amount	1975 %	1976 Amount	1976 %
Current Assets 1/	4,120	15	3,552	8	4,743	9	9,463	11
Portfolio:								
Domestic currency loans	2,453	9	3,692	8	3,407	6	3,073	3
Foreign currency loans	18,700	70	35,049	79	42,571	81	71,154	81
Debentures & equity investments	1,582	6	2,030	5	2,799	5	4,136	5
Sub-Total	22,735	85	40,771	92	48,777	92	78,363	89
Less: Provisions	(466)	(2)	(628)	(1)	(830)	(2)	(1,131)	(1)
Fixed and other assets 2/	443	2	468	1	344	1	1,140	1
Total Assets	26,832	100	44,163	100	53,034	100	87,835	100
Year-to-Year Growth	29%		65%		20%		66%	

As indicated above, KDFC's total assets grew by two thirds in 1976 to ₩87.8 billion (U.S. $181 million equivalent). Such growth was unprecedented considering that the 65% increase during the year 1974 was partly on account of the 20% Won devaluation of December 1974. 3/ The rapid increase in KDFC's

1/ Excluding the current portion of loans.
2/ Including time deposits restricted for employees' severance pay for the years 1973 and 1974.
3/ Excluding the effects of the devaluation actual growth can be estimated at about 50% during the year 1974.

assets during the year 1976 was primarily due to the growth of its portfolio and particularly of foreign currency loans. While their share in total assets remained at the 1975 level of 81%, outstanding foreign currency loans grew from ₩42.6 billion to ₩71.2 billion at end-1976. This impressive 67% increase was caused by the much higher level of disbursements of foreign currency loans in 1976 1/ which, in turn, was made possible by the shorter time period required for disbursements of subloans funded by the U.S. $20 million commercial borrowings syndicated by IFC. The share of domestic currency loans decreased as a percentage of total assets from 6% to 3% at end-1976 because of the higher level of collections in comparison to disbursements. The share of the equity investment portfolio remained at 5%.

2. Current assets (excluding the current portion of loans) almost doubled to ₩9.5 million and accounted for 11% of total assets as against 9% only in 1975. Payment of the November 1976 share capital subscription was partially responsible for this increase as well as some ₩2.5 billion foreign currency deposits held by KDFC from the proceeds of the IFC loan on behalf of several borrowers.2/ Fixed and other assets increased rapidly in absolute terms from ₩0.3 billion to ₩1.1 billion owing to expenditures on the construction of KDFC's new office building which is expected to be completed around April 1977. The accumulated allowance for portfolio losses stood at ₩1.1 billion at end December 1976 which represents approximately 1.4% of the portfolio outstanding at that date and is more than adequate in view of the quality of KDFC's portfolio.

3. Liabilities. The composition and growth of KDFC's liabilities is shown hereunder:

Liabilities Structure
(₩ Million)

As of December 31	1973		1974		1975		1976	
	Amount	%	Amount	%	Amount	%	Amount	%
Current liabilities 3/	531	3	731	2	1,272	3	4,772	6
Borrowings:								
Domestic currency	2,025	9	2,025	5	2,025	4	2,025	3
Foreign currency	18,711	88	35,204	93	42,579	93	71,213	91
Sub-Total	20,736	97	37,229	98	44,604	97	73,238	94
Other liabilities 4/	76	-	126	-	166	-	243	-
Total liabilities	21,343	100	38,086	100	46,042	100	78,253	100
Year-to-Year Growth	27%		78%		21%		70%	

1/ 2.7 times 1975 disbursements.

2/ For all practical purposes, the IFC loan had been fully disbursed at end-1976 and the ₩2.5 billion current asset is offset by the inclusion of the same amount in current liabilities.

3/ Excluding current portion of term debt.

4/ Employees' severance liability.

In keeping with the 67% increase in foreign currency loans outstanding, KDFC's foreign currency borrowings grew by 67%. Domestic currency borrowings consist of a Government subordinated loan which KDFC will start repaying in 1977. As indicated in the preceeding paragraph the growth of current liabilities is somewhat artificial and excluding the ₩2.5 billion the level of current liabilities remained at 3% of total liabilities.

4. Outstanding loans from IBRD have decreased in relation to total foreign currency borrowings over the last 4 years from 94% in 1973 to 82% in 1975 when the first ADB loan was contracted and 68% at end-1976 with the $20 million commercial loan coming on stream.

5. Net worth. KDFC's net worth stood at ₩9.6 billion as of December 31, 1976. Reserves and retained earnings accounted for 48% and had increased by about ₩0.9 billion from their 1975 year-end level. Paid-in share capital increased from ₩3.3 billion at end-1975 to ₩5 billion by end-1976. The ₩1.7 billion increase consisted of ₩0.33 billion stock dividends declared from the 1975 net income and a ₩1.37 billion additional rights issue for cash.

6. Capital structure. The financial ratios appearing in Table 1 show that KDFC's capital structure has gradually become more debt-oriented with the long-term debt/equity ratio increasing from 3.8:1 in 1973 to its 1976 level of 7.7:1 (as against an agreed limit of 8.5:1). This simply indicates that the growth of KDFC's operations and consequently of its borrowings has outpaced the growth of its net worth. KDFC's capital structure, however, can still be considered sound given the institution's managerial and staff capabilities and the quality of its portfolio. KDFC's current ratio (including current portions of term loans and term debt) has sizeably declined from a high of 2.4 in 1973 to 1.5 in 1976, but KDFC's liquidity position is still adequate at that level.

Financial Performance

7. Income. KDFC's audited income statements for the years 1973 through 1976 are shown in Table 2. The composition of gross income and expenses for the last four years is summarized below:

Summarized Income Statements
(₩ Million)

Year Ended December 31	1973 Amount	1973 %	1974 Amount	1974 %	1975 Amount	1975 %	1976 Amount	1976 %
Income								
Income from loans	2,398	84	3,244	84	4,732	87	6,591	86
Dividend Income	116	4	188	5	266	5	394	5
Other Income	348	12	411	11	472	8	655	9
Total Gross Income	2,862	100	3,843	100	5,470	100	7,640	100
Expenses								
Interest and other financial expenses	1,390	73	1,986	73	3,026	77	4,558	80
Operating expenses	415	22	562	20	681	17	848	15
Provision for loans 1/	103	5	201	7	251	6	301	5
Total Expenses	1,908	100	2,749	100	3,958	100	5,707	100
Net income before taxes	954		1,094		1,512		1,933	
Provision for tax	215		182		296		385	
Net Income	739		912		1,216		1,548	
Year-to-Year Increase	7%		23%		33%		27%	

1/ Including write-offs of ₩39 million in 1974 and ₩49 million in 1975.

Over the last 4-year period the growth rate of KDFC's gross income has averaged 36% p.a., slightly less than the average growth of 45% p.a. of the overall portfolio.1/ During the same period net income increased at an average 25% p.a. Net income for the year 1976 amounted to ₩1.5 billion, a 27% increase over the previous year. The composition of gross income has not changed significantly since 1973 and income from loans accounted for approximately 85% of total gross income over the last four years.

8. Expenses. KDFC has continued, to the extent possible, to keep a tight control over its expenses. There has been a commendable reduction in the level of operating expenses in relation to total assets, as reflected in the improvement in the ratio of administrative expenses noted in the following paragraph. The 42% p.a. average growth of KDFC's expenses over the last four years has been primarily due to the increase in financial charges (close to 49% p.a. on average). Financial expenses have consequently increased in relation to total expenses from 73% in 1973 to 80% in 1976. Provisions for portfolio losses in an amount of ₩301 million were made at a rate of 1.4% of the incremental loan portfolio. These provisions were set aside (to benefit from tax exemption) regardless of the actual level of new arrears, which are practically inexistent (see paragraph 11 below) and to that extent represent hidden earnings.

9. Performance indicators. Ratios of financial performance are shown in Table 2. In spite of a declining trend in a few ratios KDFC's overall financial performance remains entirely satisfactory. The relative decline in gross income has been marginal; interest income from loan portfolio which represents 85% of gross income has slightly declined from 11.4% in 1973 to 11.2% in 1976 (averaged on a monthly outstanding basis). The decline in net income from 3.1% of average total assets in 1973 to 2.2% in 1976 is therefore essentially due to the increasing burden of financial expenses. Financial charges have increased during the 1973-1976 period from 5.8% to 6.5% of average total assets and have caused a decline in KDFC's interest spread. On the whole, however, net earnings are still satisfactory and high enough to allow adequately for both dividends and increases in retained earnings. Net profit has increased in relation to average equity from 15.7% in 1973 to 18.7% in 1976. Indicative of the efficiency with which KDFC is managed is the reduction in administrative expenses from 1.8% of average assets in 1973 to 1.2% in 1976. The debt service cover has declined from a high of 1.7 in 1973 to 1.3 in 1976 which is still adequate.

10. With the exception of 1973 when a 15% cash dividend was declared, KDFC's dividend policy since 1968 has been to declare a dividend of 10% in cash and 10% in stock. Following the November 1976 increase in its share capital KDFC declared a 20% cash dividend which is comparable to the current level of cash dividends distributed by other private financial institutions in Korea. In order to further build up its equity through retained earnings,

1/ Which is grossly inflated by the large disbursements of late 1976.

KDFC envisages returning to its 10% cash/10% stock policy in the coming years if this proves acceptable to its shareholders. The pay-out ratio averaged 39% over the last four years and reached 48.5% in 1976. The book value of KDFC's shares amounted to 192% of par value (₩5,000 per share) at December 31, 1976. Trading in KDFC shares has been moderate so far 1/ and the depressed state of the Korean Stock Exchange, especially for stocks of financial institutions, has brought the quoted price of KDFC share down from ₩10,700 in January 1974 to ₩6,000 in January 1977.

Quality of Portfolio

11. Table 4 attached to this annex summarizes KDFC's collection performance and arrears situation over the last four years. By any standard KDFC's performance in collecting loans has been outstanding over the period 1973-1976 and actually since KDFC's establishment in 1968. KDFC experienced its first arrears problems in 1972 with six loans in arrears for over three months at the end of that year. The financial measures enacted by Government in August 1972 coupled with KDFC's intensified collection efforts had by end-1973 reduced the number of loans in arrears to only two. At year-end 1975 and 1976 no loan was in arrears for a period exceeding three months. Table 4 shows that over the last four years, collection ratios have ranged from 98.2% to 99.4%. 2/ With some 59% of KDFC's outstanding loan portfolio still in grace period the re-emergence of some arrears should be expected in the future. Nevertheless the overall quality of KDFC's portfolio is expected to remain excellent.

12. Only some 27% of KDFC's outstanding loan portfolio is secured by a mortgage on the borrower's fixed assets. All other loans are secured by payment guarantees issued by local banks. Rather than reflecting a deliberately conservative lending policy on KDFC's part, the preponderance of payment guarantees is a consequence of the lending practice of Korean commercial banks. Instead of sharing mortgages on a pari passu basis, Korean banks usually insist on holding a mortgage on all assets of a company and to issue payment guarantees to other lenders. This is also a way for these banks to keep control over the total liabilities of their client firms and to reduce competition from new lenders since all new secured borrowings are subject to their agreement. KDFC applies its high appraisal standards, and thorough supervision work, to all projects financed by it, regardless of the type of collateral involved (i.e., whether secured by fixed assets, or by a bank guarantee).

1/ 4.5% of the average number of shares outstanding were traded in 1976.

2/ No loan reschedulings were made by KDFC in 1976. In 1975 the repayment schedules of 3 loans totalling approximately ₩1 million (U.S. $2,000) were extended by a year.

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KOREA DEVELOPMENT FINANCE CORPORATION

Audited Balance Sheets 1973-1976
(in W million)

As of December 31	1973	1974	1975	1976
ASSETS				
Current Assets				
Cash in bank and demand deposits	31	35	21	2,492 2/
Time deposits maturing within one year	1,840	743	606	1,038
Accrued interest	603	1,064	1,317	2,407
Other current assets 1/	1,646	1,710	2,799	3,526
Current portion of loans and debentures	3,529	4,638	6,175	8,563
Total current assets	7,649	8,190	10,918	18,026
Time deposits restricted for employees' severance pay	75	125	-	-
Portfolio				
Domestic currency loans	2,453	3,692	3,407	3,073
Foreign currency loans:				
IBRD loans	17,639	33,933	35,257	48,768
ADB loans	-	-	6,391	11,956
AID loans	1,033	1,090	906	703
Caterpillar loans	28	26	17	9
IFC loan	-	-	-	8,648
DEG loan	-	-	-	1,070
Subtotal	18,700	35,049	42,571	71,154
Debentures	296	253	405	803
Equity investment	1,286	1,777	2,394	3,333
Total portfolio	22,735	40,771	48,777	78,363
less: Allowance for losses	466	628	830	1,131
Current portion	3,529	4,638	6,175	8,563
Net portfolio	18,740	35,505	41,772	68,669
Other Assets				
Fixed assets (net)	368	343	344	1,140
Total Assets	26,832	44,163	53,034	87,835
LIABILITIES				
Current Liabilities				
Accrued interest and commitment fees	315	558	829	1,698
Deferred income	86	70	148	219
Accrued expenses	130	103	294	2,856 2/
Current maturity of term debt	2,641	3,929	5,004	7,010
Total current liabilities	3,172	4,660	6,275	11,783
Employees' severance liability	76	126	166	243
Borrowings				
Domestic currency borrowings	2,025	2,025	2,025	2,025
Foreign currency borrowings				
IBRD loans	17,646	33,998	35,076	48,527
ADB loans	-	-	6,391	11,956
AID loans	1,038	1,179	1,090	995
Caterpillar loan	27	27	22	17
IFC loan	-	-	-	8,648
DEG loan	-	-	-	1,070
Subtotal	18,711	35,204	42,579	71,213
Total long term debt	20,736	37,229	44,604	73,238
less: Current portion of term debt	2,641	3,929	5,004	7,010
Net long term debt	18,095	33,300	39,600	66,228
STOCKHOLDERS EQUITY				
Share capital	3,000	3,000	3,300	5,000
Legal reserve	450	600	700	1,070
Retained Earnings:				
Voluntarily appropriated	1,200	1,500	1,700	1,900
Unappropriated	839	977	1,293	1,611
Total stockholders equity	5,489	6,077	6,993	9,581
Total liabilities and equity	26,832	44,163	53,034	87,835
Contingent Liabilities (guarantees)	-	-	424	424
Ratios				
Current ratio 3/	2.4	1.8	1.7	1.5
Debt/equity ratio 4/	3.8	6.1	6.4	7.7
Reserves and provisions as % of portfolio 5/	13.0%	9.1%	9.2%	7.2%

1/ Including marketable securities
2/ Including foreign currency deposits with Korea Exchange Bank for later disbursement in an amount of W 2,475 million
3/ Taking current maturities of loans and debt into account
4/ Including contingent liabilities under term debt
5/ Total portfolio including guarantees

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KOREA DEVELOPMENT FINANCE CORPORATION

Audited Income Statements 1973-1976

(In ₩ million)

Year ended December 31	1973	1974	1975	1976
Income				
Interest income and commitment fees on loans	2,398	3,244	4,732	6,591
Dividend income	116	188	266	394
Income on commercial paper	107	209	268	447
Interest on deposits	241	202	204	208
Total Income	2,862	3,843	5,470	7,640
Expenses				
Interest and charges on borrowings:				
Domestic currency borrowings	81	81	81	81
Foreign currency borrowings	1,218	1,812	2,841	4,190
Commitment charges	91	93	104	287
Sub total	1,390	1,986	3,026	4,558
Salaries and other personnel expenses 1/	194	268	346	472
Administrative and general expenses	209	268	305	356
Provision for losses	103	162	202	301
Write offs	-	39	49	-
Other expenses	12	26	30	20
Total Expenses	1,908	2,749	3,958	5,707
Net earnings before tax	954	1,094	1,512	1,933
Provision for corporate income tax	215	182	296	385
Net income	739	912	1,216	1,548
Retained earnings carried forward	100	65	77	63
Total	839	977	1,293	1,611
Appropriation 2/				
Cash dividend	324	300	330	751
Stock dividend	-	300	330	-
Legal reserve	150	100	370	700
General reserve	300	200	200	100
Unappropriated	65	77	63	60
	839	977	1,293	1,611
Percentage of Average Total Assets				
1. Gross income	12.0	10.8	11.2	10.9
2. Financial expenses	5.8	5.6	6.2	6.5
3. Gross spread (1 - 2)	6.2	5.2	5.0	4.4
4. Administrative expenses	1.8	1.6	1.4	1.2
5. Provisions	0.4	0.6	0.5	0.4
6. Income tax	0.9	0.5	0.6	0.6
7. Net income	3.1	2.5	2.5	2.2
Net Profit as % of				
Average equity	15.7	15.8	18.6	18.7
Share capital	24.6	30.4	36.9	31.0
Other Ratios				
Income from loans as % of average loan portfolio	12.6	10.7	11.1	10.8
Cost of term-debt as % of average term-debt	7.5	6.8	7.4	7.7
Interest spread	5.1	3.9	3.7	3.1
Cash dividend as % of par	15	10	10	20
Stock dividend as % of par	-	10	10	-
Payout ratio	43.7%	32.9%	27.1%	48.5%
Book value as % of par	183	203	212	192
Earnings per share (average outstanding)	₩1,540	₩1,520	₩1,930	₩1,865
Interest cover ratio 3/	1.7	1.6	1.5	1.4
Debt service cover ratio 4/	1.7	1.4	1.3	1.3
Return on total assets (%) 5/	8.7	7.0	8.6	7.4

1/ Including allowance for employees' severance pay.
2/ Appropriation is subject to approval at the shareholders' general meeting held in the first quarter of following year.
3/ Net earnings before interest,tax and depreciation to interest charges.
4/ Profit after tax + interest charges + non cash charges + loan collections to interest charges + repayments of borrowings.
5/ Net income before tax + interest expenses to total assets.

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KOREA DEVELOPMENT FINANCE CORPORATION

Summarized Cash Flow Statements 1973-1976
(in W million)

SOURCES	1973	1974	1975	1976
Operations:				
Net income	739	912	1,216	1,548
Non cash charges	147	264	302	388
Sub-total	886	1,176	1,518	1,936
Issuance of shares for cash	1,020	-	-	1,370
Drawdown on foreign currency borrowings	5,535	19,134	11,304	33,637
Collections:				
Domestic currency loans	509	431	687	1,167
Foreign currency loans	1,722	2,945	3,853	4,966
Convertible bonds and debentures	129	153	98	42
Sub-total	2,360	3,529	4,638	6,175
Disposition of equity investments	-	-	148	122
Disposition of fixed assets	34	40	36	87
Increase in payables	236	200	540	3,502
Total Sources	10,071	24,079	18,184	46,829
USES				
Increase in fixed assets	8	28	49	891
Disbursements				
Domestic currency loans	1,563	1,670	402	833
Foreign currency loans	5,919	19,294	11,375	33,549
Bonds and debentures	-	110	250	440
Sub-total	7,482	21,074	12,027	34,822
Disbursement of equity investments	70	491	764	1,062
Repayment of borrowings				
Domestic currency borrowings	-	-	-	-
Foreign currency borrowings	1,313	2,641	3,929	5,004
Sub-total	1,313	2,641	3,929	5,004
Employees' severance pay	11	-	-	-
Payment of dividends	180	324	300	330
Increase in receivables	1,049	(572)	1,205	2,249
Increase in deposits for employees' severance pay	29	50	(125)	-
Increase (decrease) in cash	(71)	4	(14)	2,471
Write offs	-	39	49	-
Total Uses	10,071	24,079	18,184	46,829

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KOREA DEVELOPMENT FINANCE CORPORATION

Collection Performance 1973-1976 1/

A. Collection Ratio (in W thousand)

	Due Amount During the Year													
	Overdues		Maturing during the Year		Total Due			Actual Collection			Collection Ratio		
	Principal	Interest	Principal	Interest	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
1973	195,097	239,434	2,189,406	1,886,524	2,384,503	2,125,958	4,510,461	2,359,983	2,113,263	4,473,246	99.0%	99.4%	99.2%
1974	24,520	12,695	2,576,517	2,301,783	3,601,037	2,314,478	5,915,515	3,529,268	2,279,549	5,808,817	98.0%	98.5%	98.2%
1975	71,769	34,929	4,566,288	3,536,612	4,638,057	3,571,541	8,209,598	4,638,057	3,547,648	8,185,705	100.0%	99.3%	99.7%
1976	-	23,895	6,212,033	4,385,308	6,212,033	4,409,203	10,621,236	6,174,762	4,386,673	10,561,435	99.4%	99.5%	99.4%

B. Status of Portfolio (in W million)

Year ending December 31,	1973		1974		1975		1976	
	Amount	%	Amount	%	Amount	%	Amount	%
Principal Outstanding	21,449	100.0	38,994	100.0	46,383	100.0	75,029	100.0
Of which:								
In grace period	11,796	55.0	22,468	57.6	24,923	53.7	44,073	58.7
Repaying regularly	9,491	44.2	15,612	40.1	21,053	45.4	47,220	62.9
In arrears	162	0.8	914	2.3	407	0.9	382	0.5
(over 3 months)	(162)	(0.8)	(591)	(1.5)	(-)	(-)	(-)	(-)

C. Arrears (in W million)

Year ending December 31,	1973		1974		1975		1976	
	Total	Over 3 months	Total	Over 3 months	Total	Over 3 months	Total	Over 3 months
Number of loans in arrears	2	2	3	2	1	0	1	0
Amounts in arrears	37.2	28.4	106.7	96.0	23.9	-	59.8	-
Of which: Principal	24.5	20.0	71.8	71.8	-	-	37.3	-
Interest	12.7	8.4	34.9	24.2	23.9	-	22.5	-

1/ Loan and debenture portfolio.

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KOREA DEVELOPMENT FINANCE CORPORATION

Projected Operations and Financial Performance, 1977-81

Industrial Investment Prospects

1. The rate of growth of GNP over the Third Five-Year Plan period (1972-76) averaged 11% p.a. The growth of the manufacturing sector, however, was almost twice as fast during that period reaching an estimated 19.9% p.a. Mining and manufacturing accounted for 36% of the 1976 GNP. Exports, and in particular exports of manufactured goods, have been the engine of growth of the Korean economy. Commodity exports increased at an average rate of nearly 40% p.a. 1/ between 1965 and 1975 and rose in proportion to GNP from 8.5% to 30.2%. Manufactured exports, which accounted for 65% of all commodity exports in 1960, had risen to about 90% by 1976. The growth of the manufacturing sector spurred by buoyant exports has been sustained by a high level of industrial investment. Fixed investment in manufacturing 1/ increased at an annual rate of 34% over the Third Five-Year Plan period and as a share of total investment it averaged 21.3% over the same period, a modest increase over its level of 19.7% for the period 1967-71.

2. The Fourth Five-Year Plan proposes to continue the strategy of export-led growth. GNP is expected to increase at 9.2% p.a. with a growth rate of 14.2% p.a. in the manufacturing sector. Exports of goods and services are projected to grow at 16.8% p.a. with manufactured exports providing 94% of incremental exports over the period 1976-81. To sustain the GNP growth rate of 9.2% p.a. gross fixed investment is expected to rise at 7.8% p.a. Gross investment would slightly decrease in relation to GNP to 26.2% from an average of 26.9% during the Third Plan period. Manufacturing investment is projected to account for 26.7% of total investment outlays during the Fourth Plan, an increase of 2 percentage points over its 24.6% share in the 1972-76 period.

3. The structural changes within manufacturing investment which have begun to take place over the last few years will be further accentuated during the 1977-81 period, with a larger share of funds going to heavy and chemical industries (64% as against 60% during the Third Plan period). The share of light industries is expected to come down to 36% of total investment outlays as against 40% in the previous five-year period. Within the heavy and chemical sectors, the share of basic metals, shipbuilding and chemicals will be reduced from 44.8% to 36.9%. A significant shift in investment priorities within the manufacturing sector is therefore contemplated in the Fourth Five-Year Plan with major increases planned in the share of machinery (7.7%), electronics (2.7%) and, to a lesser extent, non-ferrous metals (1.5%).

1/ At current prices.

INVESTMENT PLAN FOR MANUFACTURING
(Amounts in billion Won at 1975 prices)

	1972-76		1977-81 (FFYP)	
	Amount	%	Amount	%
Heavy and chemical	1,963	60.4	3,273	64.3
Iron and steel	493	17.6	677	13.3
Non-ferrous metals	23	0.8	116	2.3
Machinery	278	9.9	896	17.6
Electronics	137	4.9	386	7.6
Shipbuilding	127	4.5	85	1.7
Chemicals	635	22.7	1,114	21.9
(Oil refining)	(73)	(2.6)	(161)	(3.2)
(Petrochemicals)	(154)	(5.5)	(472)	(9.3)
(Other)	(408)	(14.6)	(481)	(9.5)
Light industry	1,112	39.6	1,815	35.7
Textiles	646	23.0	1,058	20.8
Other	466	16.6	757	14.9
Total	2,805	100.0	5,088	100.0

Source: FFYP

KDFC's Share of Industrial Investment

4. Annex 2 shows that KDFC's disbursements over the period 1971-76 accounted for approximately 3% of the gross fixed capital formulation in the manufacturing sector. 1/ KDFC's share of manufacturing investment financing has actually varied over the last five years from a low of 2% in 1973 to a high of nearly 6% in 1976. 2/ Such variations are a consequence of unforeseen delays, experienced by KDFC in raising additional resources, which can adversely affect the level of commitments and subsequently of disbursements.

5. Based on its assessment of resources, particularly in foreign currency, likely to be available to it, KDFC has projected over the five-year period 1977-81 total commitments of W 256.3 billion (US$528 million) and total disbursements of W 243.8 billion (US$503 million). As against a yearly real growth of about 8% in manufacturing investment assumed in the Fourth Plan period, KDFC's disbursements are projected to increase at just under 15% p.a.

1/ In current prices.

2/ Reasons for this high level of disbursements in 1976 are outlined in para 6 hereunder.

Assuming a rate of inflation of about 7% per annum, the real growth in KDFC's projected disbursements would work out at 8% p.a., which would keep pace with the projected real growth of manufacturing investment over the Fourth Five-Year Plan period. KDFC should therefore be in a position to just maintain the share of its financing at about 3% of fixed investment, the same as in the last five-year period.

KDFC's Business Forecasts

6. KDFC's operational forecasts for the years 1977 through 1981 appear in Table 1 attached to this Annex. Projected commitments are summarized below:

Projected Commitments,[/a] 1977-81

	Domestic Currency (W million)	Foreign Currency (US$'000)	Total (US$'000 equivalent)
1976 (Actual)	2,419	68,055	73,042
1977	2,825	66,295	72,120
1978	5,085	80,700	91,185
1979	6,330	88,000	101,052
1980	8,490	103,000	120,505
1981	10,940	121,000	143,557
Total 1977-81	33,670	458,995	528,419

/a Loans and investments.

KDFC's foreign currency commitments have jumped in 1976 by 64% over their 1975 level. This was partly the result of the "bunching" in 1976 of a relatively high level of uncommitted approvals at end-1975 (approximately US$14 million 1/) with commitments of loans approved during the year for another US$54 million. The magnitude of this latter amount was attributable to KDFC's successful efforts to expeditiously process loan applications financed from the proceeds of the US$19.8 million commercial loan syndicated by IFC 2/ (which has been

1/ By comparison uncommitted approvals at end-1976 amounted to US$10.9 million only.

2/ Unlike lines of credit from IBRD/ADB, this commercial loan was credited in full within a very short period following loan signing. It was therefore important for KDFC to itself disburse it quickly to sub-borrowers so as to derive an income.

fully committed and disbursed in the last two quarters of 1976). It would not be reasonable to keep KDFC's staff under such pressure to expedite loan appraisals and processing, and a more moderate increase in the level of approvals in 1977 therefore seems justified. Total approvals which had increased by 51% in 1976 will grow by a moderate 9.5% in 1977 while commitments will marginally decline by 1%. On the whole the projected level of operations for 1977 appears reasonable.

7. As a consequence of the lower level of commitments, the 1977 disbursements are expectd to fall to US$58.7 million from their level of US$69.5 million in 1976. KDFC's disbursements in relation to gross fixed capital formation will therefore be lower in that year than the 6% achieved in 1976. Using 1976 as a base year the nominal growth in KDFC's disbursements over the period 1977-81 will be approximately 15% p.a. which, assuming an inflation rate of 7%, would represent a real growth of approximately 8%. Using 1977 as a base year, however, the nominal growth rate over the four-year period 1978-81 will near 25% p.a. As mentioned above, a 15% annual growth in KDFC's disbursements would, in real terms, maintain the share of KDFC's financing of total fixed industrial investment at the 3% average reached over the last five-year period. The achievement of this target volume of business would depend primarily on KDFC's capacity to raise additional borrowings, and because of the debt/equity constraints (para 16 below) the level of such borrowings will itself depend on KDFC's capacity to expand its equity base.

8. A salient feature of KDFC's projections is the assumption that its domestic currency financing will gradually increase in relation to KDFC's total approvals from 7% in 1976 to 12% by 1978 and 15.5% by 1981, in view of the steadily increasing availability of domestic machinery and equipment in Korea. KDFC is aware of the need to raise more resources in domestic currency to achieve the above objective and two bond issues have been planned for 1979 and 1980.

Resource Requirements

9. Domestic Currency Resources. Total cumulative domestic currency commitments for the years 1977 through 1981 are estimated to reach W 33.7 billion. At end-1976 domestic currency resources available for commitment amounted to W 3.3 billion. The table below shows that, in order to achieve the forecast level of domestic currency commitments, KDFC will have to issue share capital for cash in 1978 and 1981 in amounts of W 3 billion and W 4 billion respectively. In addition, KDFC is tentatively contemplating two bond issues of W 1 billion and W 2 billion in 1979 and 1980. Given the rates of 19% to 20% at which such bonds are currently being issued with two-to-three year maturities, compared with KDFC's own lending rate of 18-20%, it would be undesirable for KDFC to consider at present the issuance of domestic currency bonds. MOF, however, has already taken 1/ and is considering further measures

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1/ In March 1976.

which would reorganize the bond market and allow issuance of new types of corporate debentures with longer maturities and yields partially indexed on commercial banks time deposit rates. Assuming that, as a result of an overall review of the interest rate structure, KDFC is in a position to raise domestic resources on the bond market and to relend such resources with a reasonable spread, KDFC could respond to the Government's wish to see an increase of its domestic currency financing.

Domestic Currency Resource Position and Requirements
(W million)

	1977	1978	1979	1980	1981
Uncommitted Won Resources (Opening balance)	3,341	2,938	4,302	2,259	657
Cash generated from operations /a	896	2,538	2,458	3,359	4,265
Share issuance for cash	-	3,000	-	-	4,000
Bond issues	-	-	1,000	2,000	-
Net Won loan collections /b	1,376	761	629	1,329	2,625
Disposition of equity investments	150	150	200	200	250
Subtotal	5,763	9,387	8,589	9,147	11,797
New commitments	2,825	5,085	6,330	8,490	10,940
Uncommitted Won Resources (Closing balance)	2,938	4,302	2,259	657	857

/a Includes net profit after dividend payment, net disposition of fixed assets and non-cash charges including provisions for losses.

/b Won loan collections net of repayments of domestic currency borrowings.

10. Foreign Currency Resources. KDFC's total foreign currency commitments for the period 1977-81 are projected at approximately US$459 million. Uncommitted foreign currency resources amounted to US$39.3 million as of end-December 1976, consisting of US$7.1 million from IBRD and US$32.2 million from ADB. This uncommitted balance is expected to be fully utilized by the middle of 1977. As indicated earlier, the commercial loan syndicated by IFC had been fully committed and disbursed by end-December 1976.

11. In order to meet the forecast level of commitments of US$459 million over the next five years, KDFC will need to borrow a total of US$480 million including the proposed IBRD loan of US$70 million, which KDFC expects to fully commit by mid-1979. KDFC intends to intensify its efforts at mobilizing foreign commercial funds in the years to come, so as to gradually reduce its reliance on borrowings from official sources such as IBRD and ADB. As indicated in the following table KDFC is tentatively aiming at raising US$125 million, or 26% of the 1977-81 borrowing program from commercial sources.

Foreign Currency Resource Position and Requirements
(US$ thousand)

	1977	1978	1979	1980	1981
Uncommitted resources (Opening balance)	39,324	43,029	42,329	49,329	51,329
Proposed IBRD loan	70,000	-	-	-	-
Second commercial loan	-	30,000	-	-	-
Other official loans (IBRD, ADB, et al)	-	50,000	65,000	65,000	75,000
Other commercial sources	-	-	30,000	40,000	55,000
Subtotal	109,324	123,029	137,329	154,329	181,329
Commitments	66,295	80,700	88,000	103,000	121,000
Uncommitted resources (Closing balance)	43,029	42,329	49,329	51,329	60,329

Up to mid-1967, KDFC had relied exclusively on official lenders for its foreign exchange resources. These, totalling US$221.8 million 1/ consisted of five IBRD loans for US$148.8 million, two loans from ADB for US$70 million and a $3 million loan from USAID. In May 1976, however, KDFC obtained its first foreign commercial loan, syndicated by IFC, for an amount of approximately US$20 million. Diversification of its foreign currency resources is an important objective for KDFC and its new development strategy proposes to gradually reduce the proportion of official funding to about two-thirds of its resources by 1981. Whether KDFC will be able to achieve its target volume of foreign commercial borrowings, however, will depend on factors

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1/ Net of cancellations.

outside KDFC's control, such as the situation of the international capital markets and Korea's overall capacity for borrowing in these markets.

12. Specifically, KDFC has initiated discussions with a view to raising a second commercial loan of up to US$30 million from its foreign shareholders including IFC which may materialize by the end of 1977.

Projected Financial Position and Performance

13. Projected balance sheets through 1981 appear in Table 2. Based on its forecast volume of business KDFC's loan and investment portfolio will increase at a rate of approximately 25% p.a. from W 78.4 billion at end-1976 to W 247.3 billion by end-1981. The share of KDFC's portfolio in total assets will increase from 89% in 1976 to 95% as of December 31, 1981. KDFC's total assets will consequently increase at just under 25% p.a. and rise from W 87.8 billion at end 1976 to W 259.7 at end 1981. Provisions for possible portfolio losses will be set up at 1.3% of the outstanding portfolio plus receivables at the end of each fiscal year. Accumulated reserves and provisions will marginally decline as a percentage of KDFC total portfolio 1/ from 7.2% in 1976 to 6.7% in 1981, which will be more than adequate in the light of the excellent condition of the portfolio.

14. On the liability side, KDFC's term debt will grow at a rate of about 25% p.a., in keeping with portfolio growth, from W 73.2 billion as of December 31, 1976 to W 225.8 billion by end 1981. The growth of KDFC's equity will be slightly below that of liabilities with 23.5% p.a., bringing total equity to W 27.5 billion in 1981 from the 1976 level of W 9.6 billion. KDFC's debt/equity ratio will consequently rise from 7.7:1 in 1976 to 8.2:1 in 1981. However, the growth of KDFC's equity will not be uniform since two large share capital increases of respectively W 3 billion and W 4 billion are planned in 1978 and 1981 which will substantially lower the debt/equity ratio from its level of the preceding years. The ratio will reach 8.5:1 in 1977 and 9.3:1 in 1980. Over the five-year projection period, 60% of equity growth will be attributable to retained earnings and stock dividends.

15. As stated in paragraph 11 above, KDFC will need to borrow foreign exchange funds in increasing amounts in the next five years to maintain its target volume of operations. KDFC's borrowing capacity, however, is dependent on the size of its equity by means of a debt/equity limit. In view of the quality of KDFC's management and staff and of its portfolio the Bank has agreed to progressively increase the contractual limit from 3:1 at the time of KDFC's establishment in 1968 to 8.5:1 in 1976. At end-1976 KDFC's debt/equity ratio stood at 7.7:1, well within the agreed limit. It is expected, however, that KDFC will come quite close to reaching 8.5:1 by the end of 1977, and projections show that, based on the forecast business volume and contemplated borrowings, ratios of 8.8:1 and 9.3:1 would be reached in 1979 and 1980 in spite of the planned additions to equity through retained earnings, stock dividends and new share issues for cash.

1/ Including guarantees.

16. KDFC realizes the importance of continuing to increase its equity as a means of sustaining the expansion of its operations, but it feels that the W 3 billion and W 4 billion share capital increases planned for 1978 and 1981 must currently be considered as the maximum acceptable by the market after the W 1.37 billion increase of November 1976. The dividend policy envisaged by KDFC over the next five years (see para 20 hereunder) is quite conservative and given the projected net income levels, higher retained earnings and stock dividends would be unacceptable to the shareholders. As for higher net profits, these would only be achieved by increasing KDFC's interest spread. KDFC's interest spread over the last 4 years has actually shown a declining trend because of the relatively stable level of interest rates charged to borrowers 1/ while the cost of its borrowings (e.g., from IBRD and ADB) has been growing. The possibility for KDFC to charge higher interest rates is limited in practice in view of the need for KDFC to maintain its competitive position vis-a-vis the Korea Development Bank and Government's reluctance to agree to even nominal increases.

17. In view of the foregoing a further relaxation of the debt/equity limit is necessary if KDFC is to achieve its operational program and maintain its share of the financing of manufacturing investment. Moreover KDFC has forecast withdrawals from the second commercial loan starting in 1978, should this loan materialize earlier than expected, the 8.5:1 limit is likely to be exceeded by end-1977 given the quick disbursement pattern of such borrowings. It is therefore recommended that the contractual debt/equity limit of 8.5:1 be raised to 10:1. This proposed relaxation in KDFC's debt limitation is justified on the basis of KDFC's excellent operational performance, the strength of its management and staff, and the high quality of its loan portfolio which at present is free of all arrears. Projections show that the new limit of 10:1 would accommodate forecast borrowings through 1981 and probably beyond.

18. Projected income statements for the years 1977 through 1981 appear in Table 3. Profits after tax will increase from an expected W 2.1 billion in 1977 to W 4.4 billion in 1981 at an approximate rate of 20% p.a. Profitability ratios, also appearing in Table 3, show that net income expressed as a percentage of either average equity or average total assets will marginally decline over the projection period from its 1976 levels. This is entirely due to a gradual, albeit marginal, reduction in the interest spread which, as a percentage of average assets, decreases from 4.4% in 1976 to 3.8-3.9% by 1980/81. This narrowing interest margin is not due to a decline in gross income, which on the contrary, is expected to increase slightly as a percentage of average assets from 10.9% in 1976 to 11.6% by 1981; such increase, however, is more than compensated by a rise in financial charges. KDFC indeed expects its interest expenses to increase from their current

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1/ On the foreign currency side, KDFC's lending rates increased from a uniform 10% p.a. in the 1968-76 period to 10.5%-11.0% since 1975. On the domestic currency side, interest rates increased from 15.5% in 1975 to 18%-20% in 1976.

level of 6.5% of average assets to 7.7% by 1980. Expressed as a percentage of average term debt, interest charges will rise from 7.7% in 1976 1/ to 8.8% by 1980.

19. KDFC is not unduly conservative in assuming that the average cost of its borrowings is bound to increase by close to 1% over the next five years. This reflects the projected increasing share in its total resources of commercial borrowings, the cost of which will be substantially higher than that of official funding (e.g., from IBRD and ADB). Although a marginal increase in its average lending rate is projected by KDFC, there is very little KDFC can do to raise it significantly above present levels. During negotiations for the last IFC syndicated loan, the Government indicated that it was not prepared to authorize KDFC to reflect in its lending rate the higher cost of its borrowings. There are no indications that the Government has changed its position in this respect. Hence, the assumption of a decline in the average interest spread. Administrative expenses are projected to remain at their very low 1976 level of 1.2% of average assets throughout the projection period.

20. KDFC's dividend policy will remain substantially the same as in the past years, with cash dividends of 10% and stock dividends of 10% declared out of each year's net income. In the years 1978 and 1981 when it plans to make fresh share issues, KDFC is projecting cash dividends of 20% (with no stock dividend). A 10% cash dividend is quite conservative by Korean standards and KDFC may have to adjust its future policy in order to strike an appropriate balance between the objective of increasing cash returns to shareholders to render future share capital issuances more attractive, and the need outlined above to expand the equity base through retained earnings and stock dividends. With the proposed policy, the pay out ratio would be in the 25% to 30% range in the years when a 10% stock/10% cash dividend is expected and reach 49% in 1978 and 1981 when a 20% cash dividend will be declared.

21. Projected cash flow statements appear in Table 4. The debt service ratio is expected to remain at the satisfactory level of 1.2 to 1.3 throughout the projection period. The interest cover ratio 2/ will marginally decrease from 1.4 through 1978 to 1.3 from 1979 through 1981 which is still adequate.

22. On the whole KDFC's financial performance and structure is expected to remain quite satisfactory over the next five years. Profitability although slightly declining in relation to average total assets and equity will remain adequate. Projected liquidity, reserves and debt service ratios all reflect a very sound financial structure.

1/ This, however, is a slight underestimation because averaging the year end 1976 term borrowings gives too much weight to the late withdrawals on the IFC syndicated loan.

2/ On an accrual basis.

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KOREA

KOREA DEVELOPMENT FINANCE CORPORATION

Projected Operations 1977-1981
(Domestic Currency: ₩ million)
(Foreign Currency: $ thousand)

Approvals	1976[1/] actual	1977 1st half	1977 2nd half	1978 1st half	1978 2nd half	1979	1980	1981
Domestic Currency								
Loans	745	1,000	1,000	1,755	2,095	4,910	6,740	8,300
Convertible debentures and bonds	610	250	250	320	380	810	1,010	1,420
Equity investments	1,029	250	250	320	380	810	1,010	1,420
Subtotal	2,384	1,500	1,500	2,395	2,855	6,530	8,760	11,140
Foreign Currency Loans	64,697	25,000	45,000	36,000	44,000	90,000	105,000	125,000
Total (E ₩)	33,762	13,625	23,325	19,855	24,195	50,180	59,685	71,765
Commitments								
Domestic Currency								
Loans	645	900	1,000	1,655	2,045	4,800	6,530	8,270
Convertibles debentures and bonds	440	200	250	340	360	810	910	1,310
Equity investments	1,334	175	300	225	460	720	1,050	1,360
Subtotal	2,419	1,275	1,550	2,220	2,865	6,330	8,490	10,940
Foreign Currency Loans	68,055	31,295	35,000	38,700	42,000	88,000	103,000	121,000
Total (E ₩)	35,425	16,453	18,525	20,990	23,235	49,010	58,445	69,625
Disbursements								
Domestic Currency								
Loans	833	664	1,000	1,375	1,850	4,775	6,300	7,850
Convertible debentures and bonds	440	166	200	315	320	790	980	1,270
Equity investments	1,062	400	250	255	330	840	930	1,320
Subtotal	2,335	1,230	1,450	1,945	2,500	6,405	8,210	10,440
Foreign Currency Loans	64,928	25,380	27,995	38,300	45,700	84,000	95,000	120,000
Total (E ₩)	35,884	13,539	15,028	20,520	24,665	47,145	54,285	68,640

1/ Including loans to KDFC employees.

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ANNEX 15
Table 1

KOREA

KOREA DEVELOPMENT FINANCE CORPORATION

Projected Balance Sheets, 1977-1981
(in W million)

As of December 31	1976 actual	1977	1978	1979	1980	1981
ASSETS						
Current Assets						
Cash and deposits	7,056	4,130	6,398	5,243	5,696	8,429
Receivables	2,407	3,448	4,409	5,062	5,283	5,917
Current maturities of loans	8,563	10,873	12,847	17,047	24,555	32,141
Total	18,026	18,451	23,654	27,352	35,534	46,487
Portfolio						
Domestic currency loans	3,073	3,327	5,724	9,802	14,706	19,763
Foreign currency loans	71,154	90,040	120,972	149,817	180,492	217,133
Equity investments	3,333	3,833	4,268	5,098	6,138	7,603
Bonds and debentures	803	1,019	1,417	1,762	2,181	2,753
Total portfolio	78,363	98,219	132,381	166,479	203,517	247,252
less: Allowance for losses	1,131	1,320	1,778	2,230	2,714	3,291
Current portion	8,563	10,873	12,847	17,047	24,555	32,141
Net portfolio	68,669	86,026	117,756	147,202	176,248	211,820
Net fixed assets	1,140	1,830	1,712	1,593	1,494	1,400
Total Assets	87,835	106,307	143,122	176,147	213,276	259,707
LIABILITIES AND EQUITY						
Current Liabilities						
Income tax payable	385	653	678	828	1,000	1,202
Other payables	4,388	2,330	3,188	3,700	3,818	4,285
Current maturities of term debt	7,010	9,770	11,264	14,012	20,032	26,516
Total	11,783	12,753	15,130	18,540	24,850	32,003
Employees' severance liability	243	339	454	589	744	919
Borrowings						
Domestic currency borrowings	2,025	1,991	1,924	2,856	4,789	4,721
Foreign currency borrowings	71,213	90,111	121,148	150,692	182,822	221,058
Total	73,238	92,102	123,072	153,548	187,611	225,779
less: Current position	7,010	9,770	11,264	14,012	20,032	26,516
	66,228	82,332	111,808	139,536	167,579	199,263
Equity						
Share capital	5,000	5,000	8,500	8,500	9,350	14,285
Reserves and retained earnings	4,581	5,883	7,230	8,982	10,753	13,237
Total	9,581	10,883	15,730	17,482	20,103	27,522
Total Liabilities and Equity	87,835	106,307	143,122	176,147	213,276	259,707
Contingent liabilities (guarantees)	424	224	224	224	224	224
Ratios						
Current ratio 1/	1.5:1	1.4:1	1.6:1	1.5:1	1.4:1	1.5:1
Debt/equity ratio 2/	7.69:1	8.48:1	7:84:1	8.80:1	9.34:1	8.21:1
Reserves and provisions as % of portfolio 3/	7.2%	7.3%	6.8%	6.7%	6.6%	6.7%

1/ Taking current maturities of loans and debt into account.
2/ Including contingent liabilities in term debt.
3/ Total portfolio including guarantees.

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KOREA

KOREA DEVELOPMENT FINANCE CORPORATION

Projected Statements of Income 1977-1981
(in W million)

Year ended December 31	1976 actual	1977	1978	1979	1980	1981
Income						
Income from loans	6,591	9,486	12,174	16,269	20,476	25,270
Dividend income	394	607	537	581	748	883
Other income	655	762	879	1,080	1,137	1,276
Total income	7,640	10,855	13,590	17,930	22,361	27,429
Expenses						
Interest and charges on borrowings:						
Domestic currency borrowings	81	81	80	226	574	672
Foreign currency borrowings	4,190	6,558	8,266	11,390	14,174	17,294
Commitment charges	287	164	211	197	232	259
Subtotal	4,558	6,803	8,557	11,813	14,980	18,225
Personnel expenses	472	474	616	801	1,041	1,353
Administrative expenses	376	683	934	1,134	1,385	1,718
Provision for losses	301	189	458	452	484	577
Total expenses	5,707	8,149	10,565	14,200	17,890	21,873
Net earnings before tax	1,933	2,706	3,025	3,730	4,471	5,556
Provision for income tax	385	653	678	828	1,000	1,202
Net income	1,548	2,053	2,347	2,902	3,471	4,354
Reserves and retained earnings brought forward	3,033	3,830	4,883	6,080	7,282	8,883
Total	4,581	5,883	7,230	8,982	10,753	13,237
Appropriation						
Cash dividend	751	500	1,150	850	935	2,124
Stock dividend	-	500	-	850	935	-
Reserves and retained earnings carried forward	3,830	4,883	6,080	7,282	8,883	11,113
Percentage of Average Total Assets						
1. Gross income	10.9	11.2	10.9	11.2	11.5	11.6
2. Financial expenses	6.5	7.0	6.9	7.4	7.7	7.7
3. Gross Spread (1-2)	4.4	4.2	4.0	3.8	3.8	3.9
4. Administrative expenses	1.2	1.2	1.2	1.2	1.2	1.3
5. Provisions	0.4	0.2	0.4	0.3	0.2	0.2
6. Income tax	0.6	0.7	0.5	0.5	0.5	0.5
7. Net income	2.2	2.1	1.9	1.8	1.9	1.9
Net Income as % of						
Average equity	18.7	20.1	17.6	17.5	18.5	18.3
Year end Share capital	31.0	41.1	27.6	34.1	37.1	30.5
Other Ratios						
Income from loans as % of average loan portfolio	10.8	11.2	10.9	11.2	11.4	11.6
Cost of term debt as % of average term debt	7.7	8.2	8.0	8.5	8.8	8.8
Interest spread	3.1	3.0	2.9	2.7	2.6	2.8
Cash dividend as % of par	20	10	20	10	10	-
Stock dividend as % of par	-	10	-	10	10	-
Payout ratio	48.5	24.4	49.0	29.3	26.9	48.8
Book value as % of par	192	218	185	206	215	193
Earnings per share (average outstanding)	W1,865	W2,053	W1,739	W1,707	W1,945	W1,842
Interest cover ratio 1/	1.4	1.4	1.4	1.3	1.3	1.3
Debt service cover ratio 2/	1.3	1.3	1.2	1.2	1.3	1.3

1/ Net earnings before interest, tax and depreciation to interest charges.

2/ Profit after tax + interest charges + non cash charges + loan collections to interest charges + repayments of borrowings.

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KOREA

KOREA DEVELOPMENT FINANCE CORPORATION

Projected Cash Flow Statement 1977-1981
(in W Million)

SOURCES		1976 actual	1977	1978	1979	1980	1981
Operations:							
Net income		1,548	2,053	2,347	2,902	3,471	4,354
Non cash charges		388	389	731	736	774	879
	Subtotal	1,936	2,442	3,078	3,638	4,245	5,233
Issuance of shares for cash		1,370	-	3,000	-	-	4,000
Drawdown on foreign currency borrowings:		33,637	25,874	40,740	40,740	46,075	58,200
Bond issue		-	-	-	1,000	2,000	-
Collections:							
Domestic currency loans		1,167	1,410	828	697	1,396	2,693
Foreign currency loans		4,966	7,003	9,808	11,895	15,400	21,559
Bonds and debentures		42	150	237	255	251	303
	Subtotal	6,175	8,563	10,873	12,847	17,047	24,555
Disposition of equity investment		122	150	150	200	200	250
Disposition of fixed assets		87	95	3	4	6	8
Increase in payables		3,502	(1,790)	883	662	290	669
	Total	46,829	35,334	58,727	59,091	69,863	92,915
USES							
Increase in fixed assets		891	890	43	34	42	41
Disbursements:							
Domestic currency loans		833	1,664	3,225	4,775	6,300	7,750
Foreign currency loans		33,549	25,888	40,740	40,740	46,075	58,200
Bonds and debentures		440	366	635	790	980	1,270
	Subtotal	34,822	27,918	44,600	46,305	53,355	67,220
Equity investments		1,062	650	585	840	930	1,320
Repayment of borrowings:							
Domestic currency		-	34	67	68	67	68
Foreign currency		5,004	6,976	9,703	11,196	13,945	19,964
	Subtotal	5,004	7,010	9,770	11,264	14,012	20,032
Payment of dividends		330	751	500	1,150	850	935
Increase in receivables		1,090	1,041	961	653	221	634
Increase in cash and deposits		3,630	(2,926)	2,268	(1,155)	453	2,733
	Total	46,829	35,334	58,727	59,091	69,863	92,915

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KOREA DEVELOPMENT FINANCE CORPORATION

Statement of Resources as of December 31, 1976

Local Currency resources	(₩ thousand)
Share capital	5,000,000
Reserves and retained earnings 1/	3,830,556
Net stockholders' equity	8,830,556
Government subordinated loan	2,025,000
Add-back: Non-cash charges (depreciation, provisions, etc.)	1,413,321
Total local currency resources	12,268,877
Less: Local currency loans outstanding	3,072,841
Convertible debentures outstanding	803,000
Equity investments	3,333,434
Fixed assets (at cost)	1,178,738
Subtotal	8,388,013
Equals: Available for disbursement	3,880,864
Less: Undisbursed commitments	539,492
Equals: Available for commitment	3,341,372
Less: Uncommitted approvals	310,000
Local currency resources available for approval	3,031,372

Foreign currency resources	(US$)	
IBRD loans	148,800,649	
ADB loans	70,000,000	
IFC loan	17,800,000	
DEG loan	2,000,000	
AID and Caterpillar loans	2,971,000	
Total foreign currency resources	241,571,694	= ₩117,162,272 thousand
Less: Total loans disbursed	172,100,427	
Equals: Resources available for disbursement	69,471,267	
Less: Undisbursed commitments	30,147,189	
Equals: Resources available for commitment	39,324,078	
Less: Uncommitted approvals	10,873,000	
Foreign currency resources available for approval	28,451,078	

Total Resources	(₩ thousand equivalent) 2/
Total resources	129,431,149
Available for disbursement	37,574,428
Available for commitment	22,413,550
Available for approval	16,830,145

1/ After deducting 1976 cash dividend (₩750,705 thousand)
2/ Exchange rate applied: US$1 = ₩485.00

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KOREA

KOREA DEVELOPMENT FINANCE CORPORATION

Estimated Commitments and Disbursements of IBRD $70 million Loan 1/
(in US$ million)

	Commitments		Disbursements	
	Amount	% 2/	Amount	% 2/
1977				
3rd Quarter	2.6	3.7	-	-
4th Quarter	21.7	34.7	15.8	22.6
End-1977	24.3	34.7	15.8	22.6
1978				
1st Quarter	10.3	49.4	15.0	44.0
2nd Quarter	3.4	54.3	3.3	48.7
3rd Quarter	16.1	77.3	13.0	67.3
4th Quarter	10.4	92.1	17.5	92.3
End-1978	40.2	92.1	48.8	92.3
1979				
1st Quarter	4.6	98.7	3.2	96.8
2nd Quarter	0.9	100.0	1.1	98.4
3rd Quarter	-	-	0.8	99.6
4th Quarter	-	-	0.3	100.0
End-1979	5.5	100.0	5.4	100.0

1/ Assuming that the proposed loan becomes effective early in the third quarter of 1977.

2/ Percentages are cumulative.

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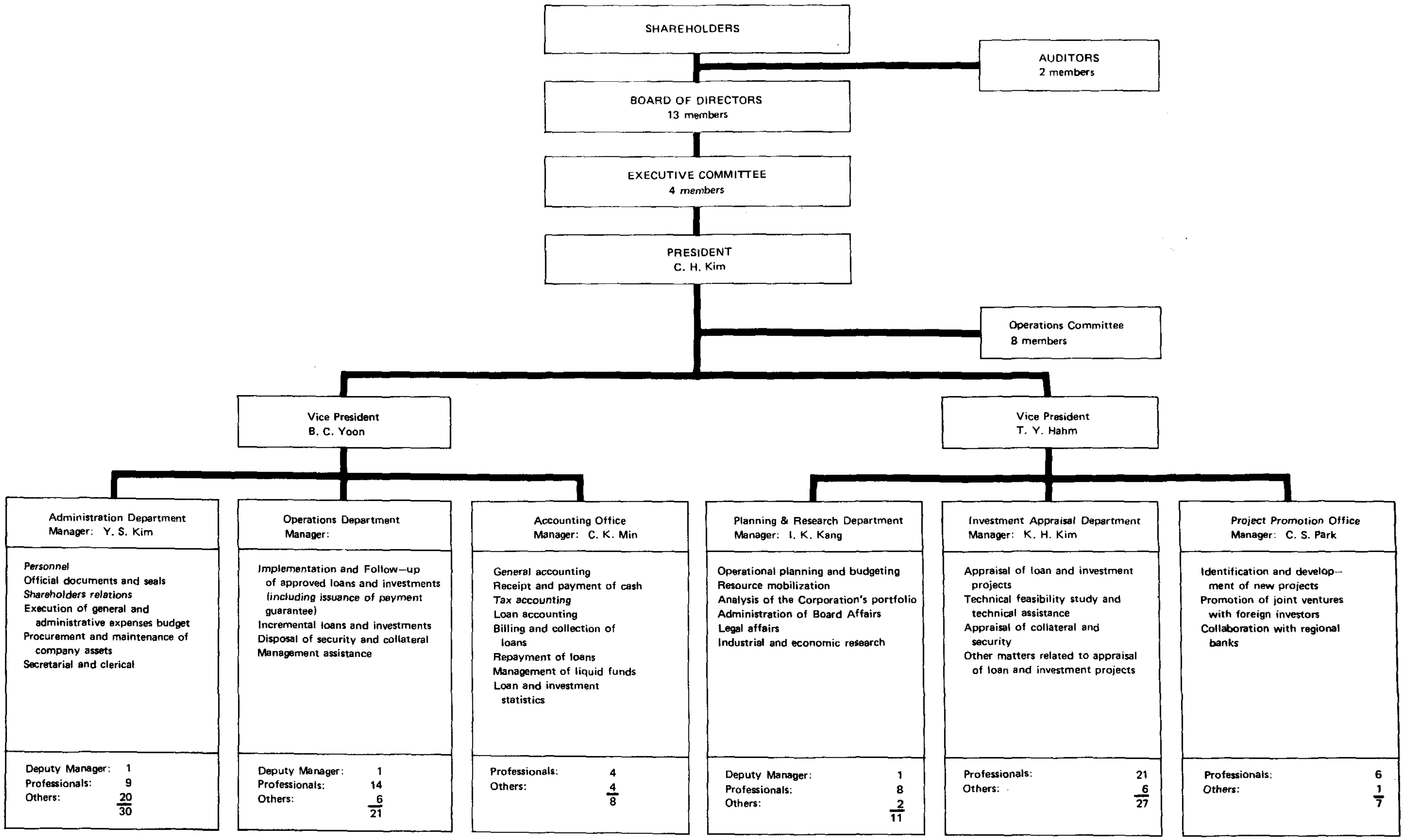
KOREA DEVELOPMENT FINANCE CORPORATION
ORGANIZATION CHART AS OF JANUARY 31, 1977



Managers:	6
Professionals:	65
Others:	39
Total:	110

World Bank–17137