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LN. 2801-KO

Report No. P-4422-KO

MEMORANDUM AND RECOMMENDATION
OF THE
PRESIDENT OF THE
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
TO THE
EXECUTIVE DIRECTORS
ON A
PROPOSED LOAN
IN AN AMOUNT EQUIVALENT TO \$50 MILLION
TO THE
PUSAN CITY GOVERNMENT
WITH THE GUARANTEE OF THE REPUBLIC OF KOREA
FOR A
PUSAN URBAN MANAGEMENT PROJECT

April 9, 1987

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CURRENCY EQUIVALENTS
(As of March 1, 1987)

Currency unit - Won (W)
W 1.00 - \$0.00116 /1
\$1.00 - W 860 /1
W 1 million - \$1,116

FISCAL YEAR

January 1 to December 31

WEIGHTS AND MEASURES

1 meter (m) - 3.28 feet
1 kilometer (km) - 0.62 miles
1 square meter (sq m) - 10.8 square feet
1 hectare (ha) - 10,000 sq m or 2.471 acres or
3,024 pyongs (py)

ABBREVIATIONS AND ACRONYMS

ICB - International Competitive Bidding
LCB - Local Competitive Bidding
p.a. - per annum
PCG - Pusan City Government
PSIDP - Policy Statement and Institutional
Development Program
TSM - Transportation System Management

/1 In this report "\$" refers to US dollars.

KOREAPUSAN URBAN MANAGEMENT PROJECTLOAN AND PROJECT SUMMARY

Borrower: Pusan City Government (PCG).
Guarantor: Republic of Korea.
Amount: \$50 million equivalent.
Terms: Repayable in 15 years including 3 years of grace,
at the standard variable interest rate.

Financing Plan

	Local	Foreign	Total
IBRD Loan	-	50.0	50.0
Pusan City Government	144.0	-	144.0
Total Financing a]	<u>44.0</u>	<u>50.0</u>	<u>194.0</u>

Economic

Rate of Return: 24%

Staff Appraisal

Report: Report No. 6524-KO

Map: IBRD No. 20210

a] Including duties and taxes estimated at \$2 million equivalent.

MEMORANDUM AND RECOMMENDATION OF THE PRESIDENT
OF THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
TO THE EXECUTIVE DIRECTORS ON A PROPOSED LOAN TO THE
PUSAN CITY GOVERNMENT, REPUBLIC OF KOREA, FOR A
PUSAN URBAN MANAGEMENT PROJECT

1. The following report on a proposed loan to Pusan City Government (PCG) with the Guarantee of the Republic of Korea for \$50 million equivalent is submitted for approval. The proposed loan would be on standard Bank terms and would help finance urban services in Pusan City.

2. Background. With a population of 3.5 million, Pusan is the second largest city in Korea and has 14% of the Country's total urban population. It is an important industrial, commercial and educational center, and has the largest port in Korea. During the last five years, Pusan's investment centered in constructing 110 km of subway lines at a cost of \$3.5 billion. The subway and other large investments, mainly for highways, water supply and pollution treatment, averaged \$400 million p.a. between 1983-86. These investments, however, lacked adequate prioritization, and have not been undertaken in the context of a well-formulated strategy linking long-term plans and programs with available resources. In some projects, the demand, investment phasing and resulting benefits have been inadequately planned. The subway investments forced a long postponement of smaller but higher priority investments, which would allow the completion and full utilization of existing infrastructure. Financial constraints, exacerbated by short-term financing and the revaluation of the loans in yen, have forced PCG to lower its sights. Plans to extend the subway beyond a single main line have been postponed indefinitely and major cuts have also been made in other planned investments. A major cause of these problems has been the city's inappropriate institutional arrangements which hinder urban management. A framework for investment planning and financial management is urgently needed, as well as organizational improvements, which would apply to other cities as well.

3. Project Objectives. The proposed project would focus on improvement of the city's urban management and finances. The project objectives are to: (a) improve the city's organization and coordination; (b) strengthen project selection and investment planning; (c) coordinate and optimize transportation planning and investments, now the city's most critical problem; (d) strengthen the city's financial, planning and managerial systems; and (e) support priority investments and the balanced development of the city.

4. Project Description. The proposed project would support the implementation of a comprehensive program of institutional and policy development for PCG, included in the Policy Statement and Institutional Development Program (PSIDP) adopted by PCG (para. 7). The project would finance about one third of the investments included in the city's Investment Plan, with emphasis on small, complementary works which complete the benefits of existing infrastructure. The project comprise about 330 subprojects each over W 0.4 billion and

many smaller investments including the expansion and improvement of: (a) priority roads (expansion, rehabilitation, paving); (b) a comprehensive program of low-cost transportation improvements under the Transportation System Management (TSM); (c) drainage, flood protection and sewerage works; (d) embankment and steep slope protection; and (e) city services (markets, landfill, equipment, community facilities). Most of these works are in low-income areas. Road improvements are particularly important by providing access to many urban services.

5. The proposed loan of US\$50 million equivalent would finance 26% of the total project cost of US\$194 million equivalent, less duties and taxes (US\$ 2 million). A breakdown of the cost and financing plan are shown in Schedule A. Amounts and methods of procurement and of disbursements, and the disbursement schedule are shown in Schedule B. A timetable of key project processing events and the status of Bank Group operations in Korea are given in Schedules C and D, respectively. A map (IBRD No. 20210) is also attached. The Staff Appraisal Report, No. 6524-KO, is being distributed separately.

6. Rationale for Bank Involvement. The urban management project now proposed for Pusan City capitalizes on the experience gained under previous Bank-assisted projects in urban transport, water and sewerage, and land development, and brings to bear the lessons learned under those projects in a comprehensive way, both for city institutions and policies, as well as for the overall management of the city. Bank support would facilitate the introduction of improvements to centralize dispersed transportation activities, optimize urban transportation, prioritize urban investments, and ensure sound long-term planning. With its past involvement with urban development in Korea and wide experience elsewhere, the Bank is well placed to help Pusan to achieve these objectives. It is hoped that the improvements fostered under the project would serve as models for other cities in Korea.

7. Agreed Actions. PCG has defined its policies and programs to strengthen its urban management, organization and finances in a PSIDP approved by the city in March 1987. Agreement was reached at negotiations that the any changes on the PSIDP would be discussed with the Bank, and that PCG would annually review with the Bank the progress achieved in implementing its Institutional Development Program. PCG confirmed at negotiations that under its PSIDP it would: (a) establish by December 31, 1987, a new Bureau of Transportation and Tourism, (which would include the recently created Traffic Planning Division), to consolidate planning of all transportation systems and investments; (b) establish a TSM unit by December 31, 1987 to implement small but important improvements to optimize existing transport facilities; (c) establish by December 31, 1987 an Investment Management Unit to critically review and evaluate large investments and improve the guidelines for prioritizing small projects; (d) establish by December 31, 1987 a long-term planning and management information system, including performance monitoring of PCG's General Account and Special Accounts; (e) review yearly with the Bank the city's Investment Plan and Long-Term Financial Plan, to set

priorities and maintain a satisfactory financial position; (f) expand existing in-house training programs to provide training in transportation management, urban planning, computer applications, budgeting and financial planning; (g) complete and review with the Bank before December 31, 1987 studies for a Pusan Fund Management Special Account, to foster cost recovery, integrated financial management and better use of the city's cash resources and (h) establish joint management of water and sewerage services by December 31, 1988 to improve the efficiency, coordination and financing of these services.

8. Justification. By strengthening the organization, planning, policies and management of PCG, and implementing a priority investment program, the proposed project would improve the standard of living of the population, and strengthen the finances and provide a reliable base for the development of Pusan City. These improvements would be a model for other cities in Korea, expanding the project benefits. The improved coordination of transportation through the introduction of transport system management techniques and organizational improvements would have high payoffs both in economic terms and by the reduction of accidents and saving of lives through improved road safety. The project has already resulted in the definition of a priority Investment Plan, postponement of lower-priority, large investments and emphasis on small works needed to achieve the full benefits of existing infrastructure or to allow the provision of other urban services. Since most investments would be constructed in lower-income neighborhoods, it is estimated that at least 20% of the project cost would benefit persons from the poverty group (which totals about 16% of Pusan's population). The project would also improve the health and environmental living conditions of the population through the provision of improved services of sanitation, drainage, water supply, solid waste, roads, transportation, and the promotion of balanced development of the overall city. PCG's Investment Plan has been evaluated to produce high economic and social returns. The economic return of investments in social services are difficult to quantify, particularly for small subprojects. The Economic Rate of Return for subprojects representing two thirds of project investments average 24%.

9. Risks. There are no serious risks to the project. The risk of some delay in central government approval of the institutional and policy reforms is minimized by PCG's commitment to the proposed institutional programs and its intention to implement these measures in less than one year.

10. Recommendation. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Bank and recommend that the Executive Directors approve the proposed loan.

Barber B. Conable
President

Washington, D.C.
March 4, 1987

KOREA

PUSAN URBAN MANAGEMENT PROJECT

Estimated Project Cost and Financing Plan
(US\$ million)

	Local	Foreign	Total
<u>Estimated Cost</u> a)			
Roads and Highways	92.5	32.4	124.9
Drainage, Sewerage and Flood Control	10.6	4.4	15.0
Embankment and Slope Protection	10.2	3.1	13.3
Community Facilities	10.6	2.7	13.3
Transportation System Management	4.8	2.2	7.0
Transit Centers	3.2	1.2	4.4
TSM Technical Assistance	0.8	0.1	0.9
<u>Total Base Costs</u>	<u>132.7</u>	<u>46.1</u>	<u>178.8</u>
Physical Contingencies	6.6	2.3	8.9
Price Contingencies	4.7	1.6	6.3
<u>Total Project Costs</u>	<u>144.0</u>	<u>50.0</u>	<u>194.0</u>
<u>Financing Plan</u>			
PCG's Internal Cash Generation	144.0	-	144.0
IBRD	-	50.0	50.0
<u>Total Financing</u>	<u>144.0</u>	<u>50.0</u>	<u>194.0</u>

a] Including duties and taxes estimated at \$2 million equivalent. Interest during construction is not included, since it is not capitalized by PCG.

Schedule B

KOREA

PUSAN URBAN MANAGEMENT PROJECT

Procurement Method and Bank Disbursement a]
(US\$ Million)

<u>Project Element</u>	---- Procurement Method ----			Total Cost
	ICB	LCB	Other	
Civil Works	27 (14)	58 (31)	10 (4)	95 (49)
Materials, Equip. & Tech.Assist.		1 (1)b]	15 (-)	16 (1)
Land Acquisition and Taxes		-	83 (-)	83 (-)
<u>Total</u>	27 (14)	59 (32)	108 (4)	194 (50)

a) Costs are inclusive of contingencies, duties and taxes, but exclude financing costs. Figures in parentheses indicate expected disbursements from the proposed Bank loan.

b) Includes Bank financing of \$1 million for TSM equipment.

Disbursements (US\$ million):

<u>Category</u>	<u>Amount</u>	<u>% to be financed</u>
Civil Works	49.0	70% of expenditures
Materials & Equipment	1.0	100% of expenditures

Estimated IBRD Disbursements:

	<u>Bank Fiscal Year</u>			
	FY88	FY89	FY90	FY91
Annual	13	16	18	3
Cumulative	13	29	47	50

KOREA

PUSAN URBAN MANAGEMENT PROJECT

Timetable for Key Project Processing Events

(a) Time taken to prepare the project:	Six months.
(b) Prepared by:	Pusan City with IBRD assistance
(c) First IBRD mission:	April 1986
(d) Appraisal mission departure	November 1986
(e) Negotiations	February 9-13, 1987
(f) Planned date of effectiveness:	June 1987
(g) List of relevant PCR and PPARs:	None

KOREATHE STATUS OF BANK GROUP OPERATIONS IN THE REPUBLIC OF KOREA /aA. Statement of Bank Loans and IDA Credits (as of September 31, 1986)

Loan or Credit Number	Calendar Year	Borrower	Purpose	Amount (\$ million) (less cancellations)			
				Bank	TW	IDA	Undisbursed
Sixty-one loans and eight credits fully disbursed				3,791.99	40.00	115.58	
1676	1979	Republic of Korea	Electronics Technology	23.96			2.47
1774	1979	Republic of Korea	Population I	30.00			13.08
2072	1982	Republic of Korea	Water Supply	84.00			3.48
2112	1982	KTDC	Technology Development	49.08			2.52
2215	1982	Republic of Korea	Machinery Industry	57.40			24.30
2216	1982	Republic of Korea	Nat. Urban Land and Housing	100.00			20.20
2228	1982	Republic of Korea	Provincial and County Roads	125.00			31.60
2267	1983	Republic of Korea	Coal and Cement Distribution	54.45			23.56
2309	1983	Republic of Korea	Industrial Finance	255.00			44.36
2350	1983	Republic of Korea	Second Water Supply	65.00			22.78
2388	1984	Republic of Korea	Jeonju Regional Development	57.91			47.97
2392	1984	Republic of Korea	Highway Sector	230.00			123.97
2427	1984	Republic of Korea	Education Sector	100.00			84.85
2473	1984	KTDC	Second Technology Development	50.00			28.82
2491	1985	Republic of Korea	Water Supply	95.00			73.00
2514	1985	SMG	Urban Transportation	53.00			49.00
2515	1985	SMI PC	Small/Medium Industry	21.00			21.00/b
2549	1985	Republic of Korea	Fourth Agricultural Credit	25.00			9.83
2571	1985	Republic of Korea	Second Industrial Finance	222.00			195.47
2600	1985	Republic of Korea	Seoul-Busan Corridor	35.59			29.57
2615	1985	Republic of Korea	Fourth Water Supply	38.00			36.50
2671	1986	KEPCO	Second Power	230.00			219.93
2704	1986	KLDC	Urban Land Development	150.00			150.00
2726	1986	Republic of Korea	Pusan Port	141.00			141.00
Total				<u>6,084.38</u>	<u>40.00</u>	<u>115.58</u>	<u>1,399.26</u>
of which has been repaid				<u>1,278.11</u>	<u>6.10</u>	<u>9.57</u>	
Total now outstanding				<u>4,806.27</u>	<u>33.90</u>	<u>106.01</u>	
Less: Amount sold				34.73			
Total now held by Bank and IDA (prior to exchange adjustment)				<u>4,771.54</u>	<u>33.90</u>	<u>106.01</u>	
<u>Total Undisbursed</u>				<u>1,399.26</u>	-	-	<u>1,399.26</u>

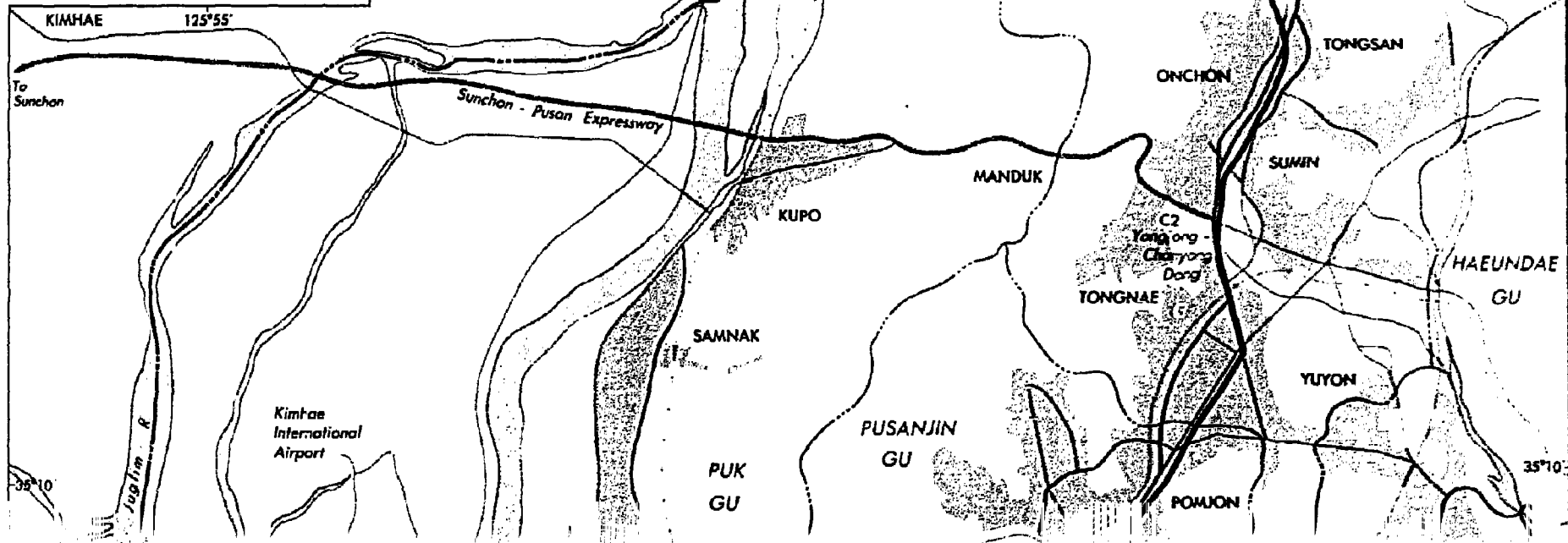
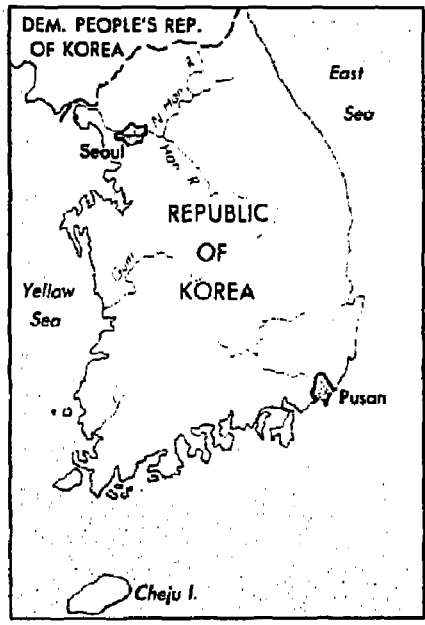
/a The status of the projects listed in Part A are described in a separate report on all Bank/IDA-financed projects in execution, which is updated twice yearly and circulated to the Executive Directors on April 30 and October 31.

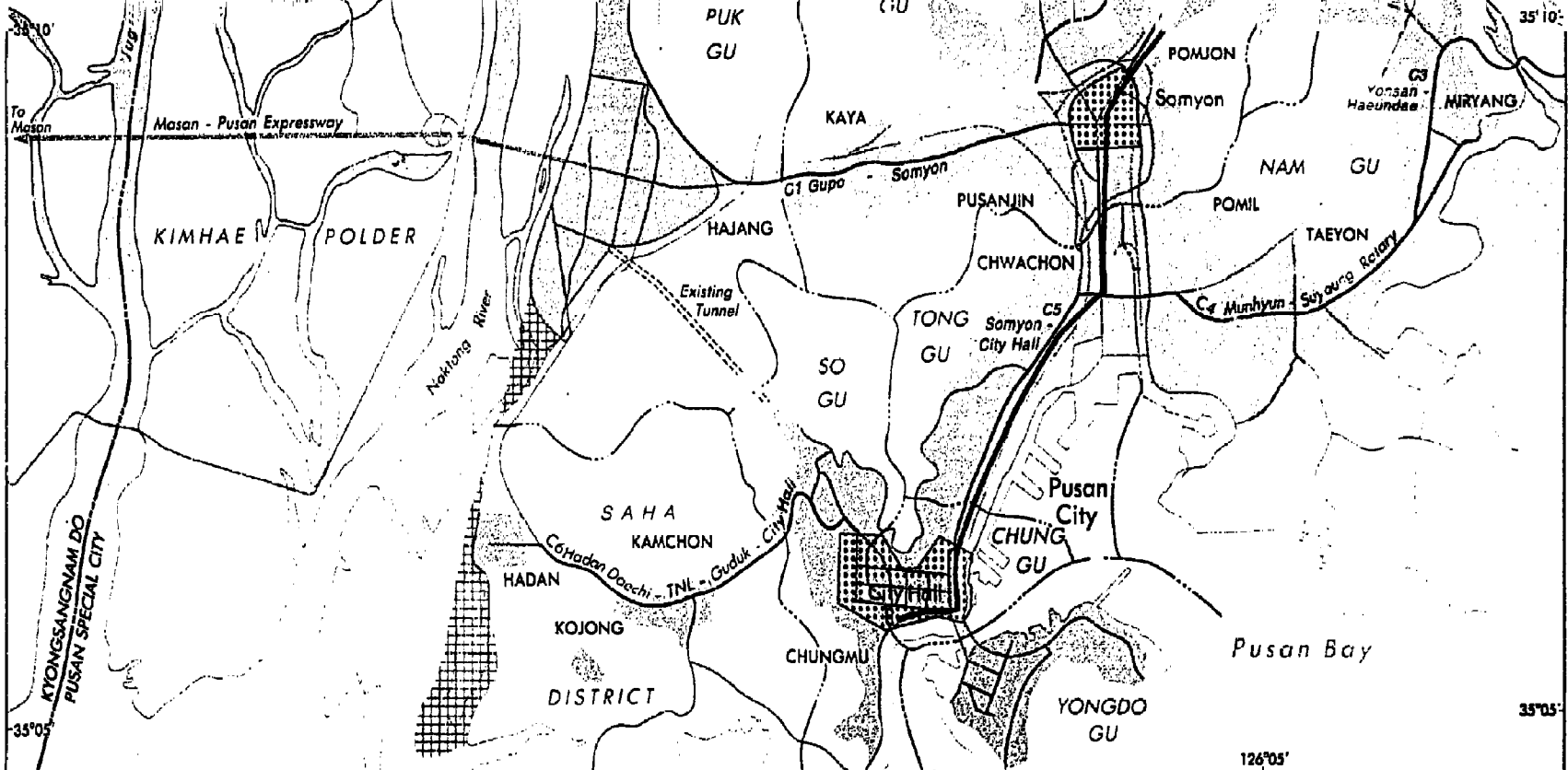
/b Signed on October 29, 1986.

B. Statement of IFC Investments (as of September 30, 1986)

Fiscal Year	Obligor	Types of Business	Amount (\$ million)		
			Loan	Equity	Total
1968	KLB (KDFC)	Development Financing	-	0.7	0.7
1969	Honam Silk Co.	Textiles	1.4	0.3	1.7
1970	Atlas Paper	Pulp and paper	4.5	0.5	5.0/a
1971	Korea Investment Finance Corp.	Capital Market Development	-	0.7	0.7
1974	KLB (KDFC)	Development Financing	-	0.4	0.4
1974	Korea Investment Finance Corp.	Capital Market Development	-	0.3	0.3
1975	Gold Star & Co. Ltd.	Electronic Products	16.0	1.3	17.3
1975	Korea Securities Finance Corp.	Capital Market Development	5.0	0.6	5.6
1975	Tong Yang Nylon Company, Ltd.	Synthetic Fibers	6.9	2.1	9.0
1975	Hae Un Dae Development Company Ltd.	Tourism	2.8	0.7	3.5
1976	Korea Investment Finance Corp.	Capital Market Development	-	0.4	0.4
1976/84/87	Chonju Paper Mfg. Co.	Paper	5.0	1.0	6.0
1976/86	Korea Zinc Co. Ltd.	Zinc	21.0	4.0	25.0
1976	KLB (KDFC)	Development Financing	17.8	-	17.8
1976	Gold Star & Co. Ltd.	Electronic Products	10.0	0.4	10.4
1977	Gold Star & Co. Ltd.	Electronic Products	-	0.2	0.2
1977	KLB (KDFC)	Development Financing	-	0.3	0.3
1977	Korea Securities Finance Corp.	Capital Market	-	0.5	0.5
1977	Korea Development Leasing Corp.	Capital Market	15.0	0.4	15.4
1978	KLB (KDFC)	Development Financing	-	1.1	1.1
1979	Gold Star & Co. Ltd.	Electronic Products	-	1.7	1.7
1979	KIFC	Capital Market	-	0.6	0.6
1979	Korea Development Leasing Corp.		-	0.2	0.2
1979	Gold Star & Co. Ltd.	Electronic Products	-	1.5	1.5
1980/84/85/87	Gold Star & Co. Ltd.	Electronic Products	-	8.1	8.1
1980	Korea Investment Finance Corp.	Capital Market	-	0.6	0.6
1980/82/84	Korea Securities Finance Corp.		-	2.3	2.3
1980	KLB (KDFC)	Development Financing	-	2.2	2.2
1981	Taihan Bulk Terminal Co. Ltd.	Grain Port Terminal	7.0	2.5	9.5
1982/85	KIFC	Capital Market	-	1.1	1.1
1982	K-TAC (Korea Technology Advancement Corp.)	Research & Development	-	0.6	0.6
1983/85	KDIC	Money & Capital Market	-	5.9	5.9
1984	Halla Cement	Cement Const. Material	4.3	3.9	8.2
1985/86	Korea Fund	Money & Capital Market	-	12.8	12.8
1987	Korea Business & Research Information	Money and Capital Market	-	0.1	0.1
Total gross commitment			116.7	60.0	176.7
less cancellations, terminations repayment and sales			106.3	25.9	132.2
Total commitments now held by IFC			10.4	34.1	44.5
TOTAL undisbursed			2.5	4.5	7.0

/a Cancelled at the request of the Company.





REPUBLIC OF KOREA
PUSAN URBAN MANAGEMENT PROJECT

- Proposed TSM Corridors
- Expressways (Toll)
- Main Roads
- Railroads
- Central Business Districts (CBD)
- Built-up Areas
- Gu (County) Boundaries
- Province Boundary
- Subway (Existing in 1987)

0 1 2 3 4 5 KILOMETERS

This map has been prepared by The World Bank's staff exclusively for the convenience of the readers and exclusively for the internal use of The World Bank and the International Finance Corporation. The denominations used and the boundaries shown on this map do not imply, on the part of The World Bank and the International Finance Corporation, any judgment on the legal status of any territory or any endorsement or acceptance of such boundaries.

MARCH 1987

IBRD 20210R

