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Folder Title: Korea - General - Loan Committee Project File

Folder ID: 1058921

Series: Loan Committee project files

Dates: 07/17/1981 - 05/23/1986

Fonds: Records of the Operations (Loan) Committee

ISAD Reference Code: WB IBRD/IDA LC-06

Digitized: 06/28/2022

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Loan Committee: Korea - General



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1058921

A1990-229 Other #: 76 Box # 213340B

Korea - General - Loan Committee Project File

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May 23, 1986

Ernie:

While David, Moeen, et al, try to formulate a new policy regarding the penalty on prepayments, we have an immediate problem: the Koreans are arriving on Tuesday, May 27, to negotiate the prepayment of the Agricultural Wholesale Marketing Project loan (Number 2111-KO). They are fully conversant both with the provisions of the General Conditions on this issue, which effectively state that the Bank will look favorably on waiving the premium on prepayments, and with the Bank's practice, which is to do so with a minimum of fuss.

This policy, I am told, is to be changed. However, what happens while the Bank is mulling over the change? A position paper still has to be prepared; I have no idea when it will be sent to the Managing Committee, and still less when it will be discussed and what shape the final decisions will take.

In the meantime, we simply cannot put the Koreans on hold. That would amount to telling them on Tuesday that:

- (a) we don't have a policy,
- (b) we don't know when we will have a policy,
- (c) we don't know what the policy will be,
- (d) but whatever it is and whenever it comes, we are going to apply it to them retroactively.

This is neither sensible nor just. We would also seriously damage country relations if we were to ambush the Koreans with such an abrupt reversal of policy without having at any stage signalled to borrowers our intention to jettison established practice. Common sense and equity suggest that we treat the present Korean proposal under our existing practice, which is to waive the penalty. We can then alert them that a revised policy is in the works, and that any future proposals will be subject to new provisions.

K
Khalid


P.S We have not, of course, encouraged any borrower to prepay. However, the East Asian abacus is able rather easily to distinguish between 11.6 percent (and fixed) and 8.0 percent (and falling). If we are to have a new policy, let's have it quickly.

OFFICE MEMORANDUM

DATE: May 23, 1986

TO: Mr. Ernest Stern, SVPOP

THROUGH: Mr. Gautam S. Kaji, Acting RVP, AEN

FROM: Khalid Ikram, Chief, AEAKE 

EXT.: 74045

SUBJECT: **KOREA: Proposal from the Borrower to Prepay the Full Outstanding Balance of Loan 2111-KO**

1. Loan 2111-KO for \$50 million in support of an Agricultural Wholesale Marketing Project was approved in March 1982. The marketing project was completed with significant cost savings and \$19.4 million of the original loan amount has been cancelled. Last week, we received a formal proposal from the borrower, the Republic of Korea, to prepay the full amount disbursed and outstanding (\$34.8 million including a revaluation adjustment of \$7.3 million) because the applicable fixed interest rate of 11.6 percent is high by the prevailing standards of the international financial markets. In proposing prepayment, the borrower makes reference to the provisions of Section 3.04 of the General Conditions Applicable to Loan and Guarantee Agreements, dated January 1, 1985, and Section 2.09 of the Loan Agreement relating to the project (dated April 5, 1982), and requests the Bank to favorably consider a waiver of the prepayment premium.

2. The borrower's proposal to prepay this loan has been a long time in making. The client first raised this prospect with us informally more than six months ago in order to ascertain the Bank's likely response before making a formal proposal. In our informal discussions, the borrower inquired about the Bank's practice regarding the prepayment premium, and we, of course, replied that the established practice was to waive the premium. On the basis of this practice, the client fully expects a waiver to be granted in this case.

3. We have only just heard that the financial complex of the Bank is contemplating a change in policy on the waiver of prepayment premiums. Apparently this is out of concern on equity grounds that our more creditworthy borrowers with access to other sources of finance could refinance their high cost Bank loans while other less well-placed borrowers would be obliged to continue paying 11.6 percent. There is also some concern for the prospective effect of prepayments on the Bank's liquidity and net income. A note from Mr. Qureshi to Mr. Bock, dated May 22, 1986 urges that we should not waive the prepayment penalties to Korea.

4. This whole matter assumes some urgency because a Korean delegation will arrive at the Bank next Tuesday, May 27, to discuss procedural details for the prepayment.

5. On grounds of equity, we believe it is only fair to waive the prepayment premium for Korea in the case of Loan 2111-K0, because the whole process of consultation that preceded the formal request for prepayment was predicated upon prevailing policies and practices which are clearly articulated in the General Conditions, and which point naturally to a waiver. It could be seriously damaging to our country relationship if we were to suddenly treat the Koreans differently, without having first signalled the possibility of a change. Indeed, at the present juncture, no actual alternative has yet been established to the practice that has prevailed hitherto. The changes that are now being contemplated have still to be cast into final form before being considered by Management and, if approved, adopted.

6. In the particular case of Loan 2111-K0, therefore, we propose that the borrower be granted a waiver of the prepayment premium. At the same time, we would advise the client that the Bank is reviewing its policies concerning the prepayment of loans and a waiver may not necessarily apply in future cases. Do you agree?

International Bank for Reconstruction and Development

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R86-27

FROM: The President

WBG ARCHIVES

February 10, 1986

KOREA - Proposed Amendment to the
Population Project (Loan 1774-KO)*

1. This project, for which a loan of \$30 million was approved in December 1979, is the Bank's only operation thus far in the population and health sector of Korea. Its objective is to assist Korea in its efforts to reduce the rate of growth of population and, at the same time, to reduce maternal and infant mortality. The configuration of project components was based on the premise that family planning services can be delivered most effectively in conjunction with maternal and child health services. It is also based on well-documented experience which shows that lower rates of infant mortality lead to lower rates of fertility because parents can be better assured that their children will survive to adulthood.

2. The project was completed by the end of 1985 at a cost in US dollars substantially below the appraisal estimate. This memorandum proposes that the undisbursed balance of loan funds be used to complement the original project by financing secondary-level maternal, child health and family planning (MCH/FP) facilities that would enhance the utilization of primary facilities constructed under the original project by establishing an effective referral system. A further consequence of the proposed amendment would be to improve MCH/FP staff performance by better technical supervision and training which, at the present stage of Korea's development, is essential if maternal and child health care needs are to be addressed adequately in the coming years.

Part I - Background

3. The project, as appraised in April/May 1979, encompassed five principal components. First, with the objective of strengthening and expanding the nationwide system of health care and family planning, 90 maternal, child health and family planning centers were to be constructed, equipped and furnished. Three quarters of these centers were to have day care facilities attached to them. In addition, 11 family planning clinics were to be established to serve low-income urban families and a further 13 new mobile

Distribution

*Questions on this document
should be referred to
Mr. Frank Earwaker (ext. 74252)

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family planning units were to be provided. In order that all these facilities would be utilized to their greater advantage, unipurpose field workers were to be trained more effectively as multipurpose workers who would be able to identify high-risk pregnancies that need special prenatal and delivery care.

4. A second project component was aimed at strengthening and expanding the training of health and family planning field workers by constructing, furnishing and equipping additional training facilities at the Korea Institute for Family Planning, and by financing vehicles and other incremental costs associated with an expanded training program.

5. Third, information, education and communication (IEC) activities in health and family planning were to be strengthened and expanded by constructing, furnishing and equipping new facilities for IEC at the Planned Parenthood Federation of Korea and by providing health centers, hospitals, mobile clinics and family planning clinics with IEC equipment. The project was also to finance the incremental cost of staff and materials for the expanded IEC activities.

6. Fourth, evaluation and research were to be strengthened by financing the evaluation of midwifery training and MCH/FP activities. A reporting system was to be established at the MCH/FP centers to supply the basic information for evaluation and research.

7. Fifth, the project implementation capacity of the Ministry of Health and Social Affairs (MOHSA) was to be strengthened by providing the staff, vehicles and equipment necessary to plan, execute and supervise project activities.

8. Project start-up was delayed initially by insufficient counterpart funding at a time when Korea was experiencing particularly severe fiscal constraints, but this problem was satisfactorily overcome and the project was completed substantially as appraised by the end of 1985; a delay of 18 months from the original target date. Implementation performance from 1982-1985 has been good and all major loan covenants are in compliance. In the course of project implementation three changes were agreed in the project configuration but they were relatively minor and did not compromise the achievement of project objectives. First, the training component was implemented by the National Institute of Health (NIH) rather than by the Korean Institute of Family Planning as originally envisaged. This turned out to be advantageous in that the NIH was able to decentralize training to existing regional facilities thereby addressing the training needs of the project very effectively at a much lower cost than had been anticipated. Second, the construction and operation of day-care facilities was taken over and implemented by the Semaui movement--a Government sponsored rural self-help organization. Third, as new demographic data became available during project implementation, the project design was simplified because it became evident that many areas could be served satisfactorily by MCH/FP centers with a smaller number of beds than anticipated at appraisal.

9. About 70 of the primary MCH/FP centers constructed under the project are now operational and the remaining 20 will be commissioned early in 1986. It is too early to be able to evaluate fully the effectiveness of the MCH/FP services that are being delivered but the initial results are encouraging, particularly with respect to child immunization and family planning. Local governments are still in the process of adjusting their budgets to accommodate the operating costs of the centers and there is some way to go before the centers can provide a 24-hour service seven days a week--which is needed if they are to offer fully effective obstetric services. In those cases where centers have already established close to 24-hour service with good medical staff, it is clear that they are achieving the longer-term objective of creating a widespread demand for institutionalized delivery.

10. In terms of US dollars, project cost turned out much lower than the appraisal estimate--\$38 million equivalent as against \$93 million. Only \$13 million (or 43 percent) of the original \$30 million loan amount will be disbursed. One cause of this cost shortfall was the simplification of project design and implementation arrangements mentioned above. Another contributing factor was a major devaluation of the national currency (the won) from 485 to the US dollar at the time of appraisal to 890 today. A third reason for the cost shortfall was the lower-than-expected construction costs that resulted from keen competition between construction companies at a time of general recession in Korea.

Part II - Proposed Amendment to the Project

11. The Government has proposed that the undisbursed balance of loan funds be used to complement the original project by financing the construction, equipment and furnishing of seven or eight higher level medical facilities that would serve as regional referral centers for the more complicated obstetric, pediatric and family planning cases that cannot readily be handled by the MCH/FP centers already built with project funds. The proposal ties in well, therefore, with the project objectives and would enhance the operational effectiveness of the primary clinics already constructed by providing higher-level support.

12. A Bank mission, visited Korea in August 1985 to appraise the Government proposals and the results of that appraisal are available in the project file. Draft proposed amendments to the loan agreement are also available in the project file.

13. The seven or eight secondary-level MCH/FP facilities proposed for financing under Loan 1774-KO would be the first phase of a broader Government-sponsored program in which the entire nation would be served from 13 such comprehensive secondary-level facilities attached to already established hospitals strategically located in regional centers throughout the country. Under the project, these regional facilities would be expanded by constructing furnishing and equipping additional capacity sufficient to provide each with 23-120 more hospital beds, thereby increasing their individual capacities to between 100-300 MCH beds which is sufficient for them to provide referral services not only to the primary MCH/FP centers but also to small provincial

hospitals, clinics and individual physicians who also furnish primary-level MCH/FP care. The role and responsibilities of the regional centers would be as follows:

- (a) To provide a range of specialized care for problem MCH/FP cases and to provide good quality obstetric and pediatric care in their designated regions.
- (b) To provide in-service training for primary-level medical personnel in their designated regions.
- (c) To arrange for specialist clinical staff to visit public MCH/FP centers on a regular basis.
- (d) To provide internship opportunities for medical and nursing trainees.
- (e) To act as a center of information for MCH/FP operations, including the establishment of pregnancy registration and a computerized data base for MCH/FP activities.
- (f) To undertake research and evaluation with respect to problems of MCH/FP care in perinatal morbidity and mortality and in obstetric care.

14. Since the secondary-level MCH/FP program is still in a formative stage, the Government plans that one of the participating hospitals would assume a lead role in the overall system of MCH/FP care. This lead hospital (a national MCH/FP center established in 1984 with assistance from Japan) would provide a base for operational and clinical research. It would define, develop and disseminate materials on standard MCH/FP procedures including training packages for the staff of participating hospitals. It would also develop an appropriate management information system and undertake much of the preparatory work needed for further development of the MCH/FP program, including advice to the Government on necessary changes that may be required in the legal framework for such purposes as compulsory pregnancy registration. In effect, the lead hospital would constitute the logical apex of a pyramidal MCH/FP care structure and it would become a natural focal point for consultation by the Ministry of Health and the Economic Planning Board on matters of MCH/FP sub-sector planning.

15. Over 85 percent of hospitals in Korea are operated by the private sector, many of them non-profit institutions. It is to private non-profit hospitals that the secondary-level MCH centers would be attached. In order to finance the construction of these higher-level MCH/FP facilities, Bank funds would be lent to participating hospitals on the same terms and conditions as the remaining balance of the Bank loan and the hospitals would bear the foreign exchange risk of sub-loans. Participating hospitals have been

selected on the basis of explicit criteria that have been agreed with the Government and that include demonstrated high standards of medical care, good management and a sound financial position. In the course of appraising the proposed project amendments, Bank staff have examined the financial situation of six participating hospitals including the lead-center. Projections indicate that in all cases the hospitals and/or the foundations from which they draw financial support will be able to service the sub-loans satisfactorily without prejudice to their medium-term cash flow position. An important factor that ensures the hospitals of reasonable cost recovery from their secondary-level MCH/FP facilities is that bed occupancy is expected to be high, at well over 80 percent. Government's plans to expand the coverage of medical insurance in the coming years will also enhance the financial security of these hospitals.

16. The Government is in the process of assembling data on one or two other hospitals that will be proposed for Bank finance along with the six already reviewed by Bank staff. These one or two additional hospitals will be selected in accordance with the criteria agreed with Government. Agreement has been reached that the review of all hospitals eligible for finance from Bank loan funds would be completed and financing loan agreements signed with all participating hospitals no later than April 30, 1986.

17. The incorporation of private hospitals within the proposed amended project would enable the existing public MCH/FP care system to be linked with the private sector institutions that supply the greater part of health care services in Korea. The Government's program of MCH/FP care and family planning would be significantly strengthened by such a linkage because it would be brought into the mainstream of health care. Bank staff have carefully reviewed the Government's proposals for effectively establishing this linkage, particularly with respect to ensuring that sufficient counterpart funds will be available to finance the cost of consultation services and supervisory visits to the primary MCH/FP centers by staff from the secondary-level hospital MCH/FP centers. The Government would also reimburse participating hospitals for the cost of treating low-income patients through already-established medicaid schemes. This will permit continued compliance with the original project objective of making MCH/FP services available to women from low-income households. Agreement has been reached with the Government that the project coordinating committee that was established in 1981 will be reconstituted to include representatives of the participating hospitals, and assurances have been received that the committee will receive adequate staff and financial support.

18. A revised project description is given in Annex 1 to this memorandum. The proposed project amendment includes the cost of constructing, furnishing and equipping some seven or eight secondary-level MCH/FP facilities; strengthening the role of a lead hospital to fulfill the role of a tertiary-level center through the provisions of accommodation, furniture and equipment, including computer equipment and personnel; the development of linkages between public and private sector health facilities including in-service training, technical assistance from primary MCH/FP centers, management

information systems and research and development. Revised cost and financing tables for this project are attached as Annexes 2 and 3 respectively to this memorandum. Total project cost for the amended project is estimated at \$73.9 million including local taxes and duties. The foreign exchange cost is estimated at \$33.37 million of which \$30 million would be financed from the proceeds of the Bank loan. Procurement would follow the normal procedures acceptable to the Bank that were established under the original project.

19. In order to allow time for completion of the amended project, the closing date would be extended by two years to December 31, 1987.

Part III - Recommendations

20. In the absence of objections (which should be notified to the Vice President and Secretary or to the Deputy Secretary) by the close of business on February 21, 1986, I propose to amend Loan Agreement No. 1774-KO by an exchange of letters between the Bank and the Borrower, the Republic of Korea, to reflect the changes mentioned above.

A.W. Clausen

Attachments

ANNEXES

- Annex 1 - Revised Project Description
- Annex 2 - Revised Project Cost
- Annex 3 - Revised Financing Plan

Revised Project Description

Health and Family Planning Delivery System

1. Construction and furnishing of 90 primary maternal and child health-family planning centers and provision of day care facilities.
2. Construction and furnishing of 11 family planning cum maternal and child health clinics to replace premises rented by the Planned Parenthood Federation of Korea (PPFK).
3. Construction of about seven comprehensive secondary-level maternal and child health referral centers.
4. Provision of 13 mobile family planning units.
5. Provision of 90 ambulances.

Training Health and Family Planning Staff

1. Converting and training about 4,000 fieldworkers into multipurpose health and family planning workers, training about 4,000 new multipurpose workers and training all such workers in midwifery.
2. Training, supervision and technical guidance to medical staff of primary maternal and child health-family planning centers.
3. Training industrial social workers, provincial family planning supervisors, instructors, civic organization representatives, and other workers in family planning.
4. Training personnel abroad and locally in communication techniques and in the use and maintenance of communication equipment.
5. Provision of facilities and equipment for the production of family planning and midwifery teaching materials.
6. Provision of equipment and motor cycles to support fieldworker program.

Health and Family Planning Information, Education
and Communication Activities

1. Provision for:
 - (a) video tape players for 90 MCH/FP Centers, about 56 general hospitals and 11 PPFK clinics;

- (b) cassette recorders and film and slide projectors for about 202 health centers;
- (c) equipment and materials for about 13 mobile family planning units; and
- (d) video production equipment for PPFK.

2. Provision of:

- (a) an Information, Education and Communications Coordinator at MOHSA;
- (b) a production manager, two producers, a cameraman, an editor and audio-visual technician for PPFK; and
- (c) a research officer and an assistant for PPFK.

3. Construction and furnishing of additional office and production space at PPFK.

4. Provision of educational materials, directly or by subcontracting, for MOHSA, PPFK and for secondary-level maternal and child health referral centers.

Implementation Capacity

- 1. Increasing the staff and equipment of MOHSA.
- 2. Establishment of Coordinating Committee with secretariat and facilities.

Evaluation and Research

- 1. Establishment of a reporting system on primary maternal and child health-family planning centers.
- 2. Studies and clinical research for development of maternal, child health and family planning programs.
- 3. Project evaluation.

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The Project is expected to be completed by December 31, 1987.

Annex 2

Revised Project Cost 1/
(million US dollars)

	<u>Local</u>	<u>Foreign</u>	<u>Total</u>
Primary MCH centers and family planning clinics			
Land	2.50	-	2.50
Civil works	17.02	11.34	28.36
Furniture & equipment	1.61	4.36	5.97
Consultant services	1.06	-	1.06
Secondary level MCH centers:			
Land	1.07	-	1.07
Civil works	12.07	7.95	20.02
Furniture & equipment	2.98	9.01	11.99
Consultant services	0.67	-	0.67
Training	0.70	0.16	0.86
Studies, system development and support for primary centers	0.85	0.55	1.40
<u>Total Project Cost</u>	<u>40.53</u>	<u>33.37</u>	<u>73.90</u>

1/ Including taxes and duties estimated at US\$4.60 million.

Annex 3

Revised Financing Plan
(million US dollars)

	<u>Local</u>	<u>Foreign</u>	<u>Total</u>
IBRD	-	30.00	30.00
Government	23.25	2.90	26.15
Private Hospitals	17.28	0.47	17.75
<u>Total</u>	<u>40.53</u>	<u>33.37</u>	<u>73.90</u>

OFFICE MEMORANDUM

TO: Mr. Attila Karaosmanoglu, AENVP

June 4, 1985

FROM: Ernest Stern, SVPOP *ES*SUBJECT: KOREA - Proposed Change of Scope for Population Project

The circumstances do not seem to leave me very much choice but to agree with your proposal. To do otherwise would be to embarrass the Bank and to overturn the results of an apparently extended discussion between the Bank staff and the Korean counterparts.

While it is a cardinal principle of mine to support commitments (implicit/explicit) made by staff, that principle is, of course, conditioned on staff undertaking discussions in the context of established and well-known guidelines. It has been three years since we identified for the Koreans the probability of substantial savings, and during that time we seem to have given no indication of the Bank's policy that savings in projects be cancelled unless they can be utilized within the framework of the project description as originally agreed. Since mid-1982, when we first identified the probability of such savings, there must have been many supervision missions. Each one must have provided additional information confirming that there would be a large cost savings. The fact that it took the government all this time to identify how they might use these savings simply demonstrates the fact that we failed, throughout this period, to inform them adequately of our standard policy on cost savings. Clearly, it is due to a failure on the part of our staff that the government concluded that such savings would be available. The result is a commitment which we must now honor---even though it is inconsistent with Bank policy and will be difficult to justify.

I would like to be sure that staff information is improved so that they can behave differently in future cases when savings on loans and credits may be identified. I would also ask that you assure specifically that staff who have been involved in these discussions since 1982 are contacted personally by their Director. The way for a borrower to avoid excessive commitment charges in similar circumstances is to have the borrower agree to cancel amounts which are clearly not necessary on a regular basis.

Under the circumstances, we should proceed as your propose. Additional components must be fully appraised and all information we would normally require for an initial loan approval must be available.

Mr. Stern

on tape

Korea: Population Project

Approval of this use of savings would involve a departure from normal policy. But I believe there is a strong case for agreeing on an exceptional basis. I would presume that a comprehensive appraisal (rather than a "mini" one, para 7) and documentation would be necessary.

RC

5/30/85

May 29, 1985

Mr. E. Stern

Re: Korea: Population Project
(Loan 1774-KO)

Ernie:

When the proposal contained in the attached memorandum was first put forward, we viewed it with misgivings. Gautam checked it out carefully with the Government when he visited Korea in March and found that the Ministry of Finance had gone a long way in committing itself to the use of project savings, believing that the Bank would support its proposals. It would appear that if we respond negatively at this point the Ministry of Finance would lose face and (in view of the sizeable commitment fees that have accumulated on the undisbursed balance of the Population loan) may also lose leverage in the Government vis à vis the Bank program. We are anxious to avoid that prospect at this juncture because we need their leverage to firm-up our program.



Attila Karaosmanoglu

OFFICE MEMORANDUM

DATE May 29, 1985

TO Mr. Ernest Stern, SVPOP

FROM Gautam S. Kaji, Director, AEA 
(Through Mr. Attila Karaosmanoglu, AENVP) 

EXTENSION 72103

SUBJECT **KOREA: Proposed Change of Scope for Population Project (Loan 1774-K0)**

1. The objective of this project, for which a loan of US\$30 million was approved in December 1979, is to support the Government's long-term strategy for reducing the rate of population growth. It places particular emphasis on strengthening the family planning information and delivery systems, reducing infant and maternal mortality and also infant and child morbidity. These objectives were pursued by financing the construction, furnishing and equipment of 91 maternal and child health centers, 11 family planning clinics and several mobile family planning units, as well as by providing finance for training, research and the production of information materials.

2. Project start-up was delayed initially by insufficient counterpart funding, but this problem was satisfactorily overcome and the project as appraised is now expected to be completed by late 1985; a delay of 18 months from the original appraisal target. Implementation performance from 1982-84 has been good and all major covenants are in compliance. From the present perspective, it appears that the project will be completed at less than one half of the appraised project cost in dollar terms and it is estimated that some US\$17 million of the loan will be undisbursed at the time of project completion. These savings are attributable mainly to an unanticipated and substantial devaluation of the won, lower-than-expected construction costs due to keen competition between construction companies in a period of recession and a simplification of project design as new data became available during project execution.

3. The Government has recently proposed that the balance of undisbursed funds be used to expand and complement the original project by financing the construction, equipping and furnishing of a number of higher level medical facilities that would serve as regional referral centers for the more complicated maternity, pediatric and family planning cases that cannot readily be handled by the primary clinics built with project funds. At the same time, the referral centers would make widely available the high quality of infant and pediatric care that is essential if couples are to be persuaded to limit their families to one or two children. The regional centers would also help train family planning workers and other staff needed by the primary clinics and provide specialist advice to the staff of those clinics. The centers would be attached to existing hospitals and, since publicly-financed hospitals play a relatively minor role at the secondary level, Bank funds would be lent to selected private hospitals for this purpose.

4. We believe that an expansion of the project scope along the lines proposed by the Government makes good sense in principle and ties in well with the original project objectives. Furthermore, an expansion of the project would provide us with an operational framework within which we could continue

our policy dialogue on matters of health and population planning and plan our sector work more effectively in preparation for a sector loan that we have in mind towards the latter part of the current five-year program. Indeed, since there are no other project prospects in sight at the present time, we may not have a sufficient continued presence in the sector to be able to develop a sector loan effectively, unless we can continue our operational involvement by way of expanding the present project scope.

5. The proposal for using the undisbursed balance of loan 1774-KO has come to the Bank after lengthy internal discussions on the Korean side. As long ago as mid-1982, the Bank informed the Korea authorities that significant project savings appeared likely. After two and a half years of consultations between the Economic Planning Board, the Ministry of Finance and the Ministry of Health to sort out issues of sector organization, a Government proposal on the use of savings was finalized early this year. In the course of this process, strong support has been built-up in Korea for the proposal, including an endorsement from the Council of Economic Ministers. Furthermore, with the passage of time, the borrower now perceives a de facto commitment on the part of the Bank to support a sound proposal and it would cause embarrassment if the Bank were to back-away at this stage.

6. The Ministry of Health has explained to us that, in the circumstances prevailing in Korea today, where all new foreign borrowing has become the subject of close and critical scrutiny, it would not be possible (in view of the large savings from the ongoing project) to seek from the National Assembly authorization for a new Bank loan such that the regional referral centers could be financed as a free-standing project. Consequently, we propose that the Bank agree to expand the project scope of loan 1774-KO. We also propose that no change be made in the original terms of the loan because a long time has elapsed since the Bank first advised the borrower that project savings were likely to materialize and no mention has been made thus far about a possible revision of loan terms in the event of a change in project description. To introduce that prospect at the present juncture may be interpreted negatively by the borrower, already acutely conscious of the sizeable commitment charges that have accrued on the undisbursed balance of the loan.

7. We envisage that a detailed memorandum would be submitted to the Executive Directors seeking their approval of the proposed change in project scope on a no-objection basis. Before such a memorandum can be drafted, more work would need to be done by both the Koreans and ourselves to flesh out the proposal in detail and to make sure that it complies with our usual appraisal criteria. A mini-appraisal would probably be required. All of this would entail an investment in staff time from both the Bank and the Government, although the manpower required is likely to be much less than for a free-standing project. Prior to requesting from the Government more detailed preparatory work, we are, by this memorandum, seeking your concurrence in principle that the undisbursed loan funds be used in this way.

Cleared w/& cc: Ms. I. Husain, Mr. Sinclair (PHND2)

Messrs. Ikram (AEAKO), North (PHNDR), Newport (LEG)

cc: AEAKO Staff; Regional Information Center

FEarwaker:jb

Mr. Hussain

Again, I wonder why the Region
is asking.

Financing of up to 35% of total
cost, even if that includes some
local cost, is quite standard.

This is the spirit of Belti-
more in reverse.

E. Goff 5/10

~~E. G.~~

— Pl see my mem.

OFFICE MEMORANDUM

DATE May 8, 1985

TO Mr. Ernest Stern (SVPOP) *SSK*
(Through Mr. S.S. Kirmani, Acting AENVP)

FROM Gautam S. Kaji, Director, AEA *GSK*

EXTENSION 72103

SUBJECT KOREA - Cost Sharing

1. In the last CPP prepared in 1982, we had recommended Bank financing of full foreign exchange costs of projects up to a maximum of 50% of total project cost. Virtually all our projects at that time had reasonable foreign exchange components (around 40%), so that the cost sharing was quite adequate. Consistent with changing priorities in Korea, our lending program has shifted to include projects in urban development, water supply, and transport, where the foreign exchange components tend to be low. We will be proposing in the forthcoming CPP that, while continuing to observe the general cost sharing principle stated in the last CPP, Bank financing in selected projects which qualify under OMS 1.22, should be approved for up to 35% of total project cost when it is deemed necessary to make a reasonably significant Bank contribution to the cost of a project and thereby maintain a minimum Bank presence.

2. We expect to appraise at least one project over the next three to four months where this issue would arise. It would help if we could have your advance approval, in principle, for this revised proposal for cost sharing. Of course, the Project Brief and the Issues Paper for each such project will provide detailed justification, as necessary, on project grounds.

KIkram:ct

Mr. Kirmani

*I do not understand
the need for this memo.
As long as you observe
the requirements of OMS
1.22 you do not
need my authorization*



Record Removal Notice

File Title Korea - General - Loan Committee Project File		Barcode No. 1058921		
Document Date August 24, 1984	Document Type Board Paper			
Correspondents / Participants				
Subject / Title Korea: Korea Fund Inc. Special Interim Report				
Exception(s)				
Additional Comments Declassification review of this record may be initiated upon request.		<p>The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.</p> <table border="1"><tr><td>Withdrawn by Ann May</td><td>Date June 02, 2022</td></tr></table>	Withdrawn by Ann May	Date June 02, 2022
Withdrawn by Ann May	Date June 02, 2022			

OFFICE MEMORANDUM

DATE May 8, 1984

TO Files

FROM Gerald F. Flood, Chief, AEADE

EXTENSION x74045

SUBJECT Meeting with Mr. Kim Mahn Je on April 30, 1984

Mr. Stern met with Mr. Kim Mahn Je, Korean Minister of Finance on April 30, 1984. Also in attendance for the Korean Government were Mr. Park You Kwang, Alternative ED, Mr. Nam Hong Woo, Economic Minister Embassy of Korea, Mr. Lee Yong Song, Director-General, International Finance Bureau, MOF, Mr. Kwon Seung Woo, Director, International Organization Division, International Finance Bureau, MOF and Mr. Kim, Young-Bin, Financial Attache, Embassy of Korea. Messrs. Karaosmanoglu and Flood also attended.

Mr. Stern asked about the status of the financial sector reform. Mr. Kim described recent events in the sector. He said that official interest rates had been reduced by 4% in 1982, a move that had been the subject of much controversy ever since. Fortunately domestic prices have stabilized since then, with the current rate of increase about 2% p.a. as opposed to the long term historical rate of 15%. The current official interest rates nevertheless put the commercial banks at a competitive disadvantage vis-a-vis other financial institutions. In the non-bank area, where interest rates were more realistic, financial savings were growing rapidly. The Government wished to move in the direction of merging bank and non-bank rates, in line with its overall policy to make the economy more responsive to market forces. It was considering increasing the maximum bank lending rate from 10.5% to 11%.

Mr. Stern said that aligning bank and non-bank rates was an important transitional step but asked why removal of interest rate controls was such a sensitive issue. The existing system of administered rates was quite hard on the commercial banks, the most important segment of the financial sector. Mr. Kim said that the Government had made substantial progress in overcoming the inflationary psychology. Curb market rates were down to around 16-17%. Non-bank 3-year debentures were now at 13% and short-term corporate paper (not guaranteed by banks) was down to 12 1/2%, with some at 11.8%. On his return to Korea he intended to introduce 90-day certificates of deposit which banks could issue at maximum rates of 11%, thus bringing them quite close to non-bank rates.

Mr. Stern said that the Korean economy was doing very well and that the Bank had great admiration for the Government's management of it. We thus relied on the Government for the tactics in moving to liberalize rates. While moving to equalize bank and non-bank rates was a positive step, the issue was not so much this as it was building in scope for banks to set their own rates based on market forces. The key was the institutionalization of the decision-making process in the

banks. Mr. Kim said that the Government's long term objective was to move to universal banking and to eliminate market segmentation. Mr. Stern asked when merger of the markets would be accomplished. Mr. Kim replied that this would be done as soon as they could and he believed they were making progress. Korea was a major industrial power with an antiquated banking system, which did not make sense. Mr. Stern urged Mr. Kim to move ahead with the liberalization process.

Mr. Stern thanked Mr. Kim for Korea's increased contribution to IDA. He also thanked him for agreeing to release the local currency portion of the capital subscription. The Bank was trying to encourage countries to do this and appreciated Korea's taking the lead.

Mr. Kim mentioned the forthcoming IECOK (Consultative Group) meeting and that it was expected to be the last one. Mr. Stern asked if they intended to continue the banker's meeting which had become a feature of IECOK meetings and which gave the Government an opportunity to discuss Korea's economic program in a fuller way and with a longer term focus than normally might occur in informal sessions. Mr. Kim replied that the Government had strong relations with the major banks and would probably handle its future discussions with them in an informal manner.

Mr. Stern asked about current costs of borrowing in the international capital markets. Mr. Kim said that spreads were coming down and mentioned the latest (Korea Exchange Bank) borrowing of \$650 million in the Hong Kong market at 0.75% over LIBOR. He said that a particular priority this year was to reduce Korea's short term debt by \$600 million.

Mr. Stern asked if Korea was prepared to engage in commercial bank co-financing. Mr. Kim said that as long as "red tape" were kept to a minimum, the Government would consider a possible "B" loan financing. The intention was to try it out on the forthcoming financial sector loan. Mr. Stern expressed his appreciation and said that we regarded the "B" loan technique as an important addition to the instruments available. He recognized that the improvement in lending terms obtained by a strong borrower such as Korea might be more marginal than to other countries. The main advantage might be to attract or to retain smaller, regional banks many of whom have been dropping out of the system.

cc: Messrs. E. Stern, Karaosmanoglu, Jaycox, Kaji, Kirmani,
Turnham, Yenal, Linn, Gould, Siraj, Von Pischke,
Division E Staff

GFlood/pme

OFFICE MEMORANDUM

TO: Files

DATE: June 23, 1982

FROM: Gerald F. Flood, Chief, AEADE

SUBJECT: KOREA Cement Distribution Project

As discussed with Mr. Husain, it was agreed that the Decision Memorandum on this project would be deferred until the analysis of KNR's finances and the Project Financing Plan were completed by the September supervision mission for the 7th Railroad Project.

GFF:kco

cc: Messrs. Husain, Jaycox, Kirmani, Blaxall (2), Levy, Zenick,
Alston

OFFICE MEMORANDUM

TO: Mr. Ernest Stern, SVPOP
 THROUGH: Mr. Herman G. van der Tak, OPSVP
 FROM: C. R. Willoughby, Director, TWD
 SUBJECT: KOREA: Coal and Cement Distribution Project
Decision Memorandum

DATE: June 10, 1982

1. We have reviewed the Decision Memorandum, dated June 8, 1982, on the above project. Subject to the implementation of the actions listed in that memorandum including the elimination of any significant uneconomic investments from the Korean Railways' Investment Plan, the project complies with the criteria for railway lending.

cc: Mr. G. F. Flood

LLAlston:md

Note: DM was withdrawn & thus
 not circulated to this
 office.

S.
 7/16

OFFICE MEMORANDUM

TO: Files

DATE: July 17, 1981

FROM: Gerald Flood, Chief, AEADE

SUBJECT: Meeting on Decision Memorandum for Korea SAL I

1. A meeting was held with the Senior Vice President, Operations on Thursday, July 9, 1981 to consider the Decision Memorandum on the above loan. Present at the meeting were: Messrs. Stern, Husain, Jaycox, Kirmani, Haq, Please, Hasan, Flood, Hawkins and Agarwala.

2. Mr. Stern stated that after reviewing the Issues Paper and Decision Memorandum, he wished to question the rationale for a SAL to Korea. He felt that the record showed that the Korean Government was quite capable of pursuing the policies necessary for structural adjustment without the need for Bank assistance. Secondly, Korea had adequate access to funds in the world capital markets.

3. In the discussion the following principal points were made: Korea's access to capital markets was not significantly greater than that of other middle-income countries in the Region. There was also evidence that Korea's access to these markets was influenced by the knowledge that the Bank had been preparing a SAL for Korea. If the loan did not proceed the country's borrowing ability would be affected.

4. The development of policies to adjust the economy to the new economic circumstances had been going on for well over a year and the Bank had taken part in this process ever since the Deputy Prime Minister first requested an SAL during a discussion with Mr. McNamara in February 1980. The context of discussions from that time on was the understanding that a SAL was under active consideration. It was felt that these discussions had already influenced the Government in policy directions that they would not otherwise have followed so quickly. If the Bank were now to withdraw the proposal for a SAL our credibility with the Government would be seriously damaged.

5. After some discussion of the elements of the Government's policy proposals towards industry, it was agreed that the processing of the loan should continue as proposed. However, the documents should contain an adequate account of the policies prepared by the Korean Government to adjust the economy to the new situation with particular reference to the actions planned to bring about structural change in industry.

EKHawkins:ct

cc: Messrs. Stern, Husain, Jaycox, Kirmani, Haq, Please, Hasan, Hawkins
and Agarwala