



<b>1. Project Data:</b>		<b>Date Posted :</b> 03/25/2003	
<b>PROJ ID:</b> P056796		<b>Appraisal</b>	<b>Actual</b>
<b>Project Name:</b> Kr-fin. & Corp. Res. As	<b>Project Costs (US\$M)</b>	54.50	26.04
<b>Country:</b> South Korea	<b>Loan/Credit (US\$M)</b>	54.50	26.04
<b>Sector(s):</b> Board: FSP - Other industry (80%), Central government administration (10%), Capital markets (5%), Law and justice (5%)	<b>Cofinancing (US\$M)</b>		
<b>L/C Number:</b> L4385			
	<b>Board Approval (FY)</b>		99
<b>Partners involved :</b>	<b>Closing Date</b>	06/30/2002	06/30/2002
<b>Prepared by :</b>	<b>Reviewed by :</b>	<b>Group Manager :</b>	<b>Group:</b>
Michael R. Lav	John H. Johnson	Kyle Peters	OEDCR
<b>2. Project Objectives and Components</b>			
<b>a. Objectives</b>			
(1) Reduce the likelihood of systemic failure in the banking and corporate sectors; (2) Improve financial soundness of banks and corporations; and (3) Deepen the broad process of change in government institutions, banks, and corporations toward less government involvement in business, enhanced transparency, more focus on financial results, and more openness to global competition and investment .			
<b>b. Components</b>			
(1) Financial Sector Supervision and Crisis Management (US\$ 5.7 million). Support the development of the Financial Supervisory Commission's strategies, policies, procedures, and capability to adopt and enforce prudential regulation and implement supervisory practices in line with accepted international practices . (2) Securities Market Development (US\$0.5 million). (a) assistance to reform the regulatory framework for self-regulatory organizations (SROs), such as the Korea Stock Exchange and the Korea Securities Deals' Association ) and market participants, rationalize market architecture and assess bond market demand and development issues; and (iii) support greater transparency and professionalism in accounting and auditing through advise on continuing education and ethical standards. (3) Debt Management Improvement(US\$0.3 million). Assist government to address technical issues in the management of sovereign debt. (4) Corporate Restructuring (US\$ 17.8 million). To finance advisory consortia for Korea's largest banks to build capacity and provide support in business /financial diagnostics, restructuring recommendations for distressed chaebol businesses, review restructuring proposals, improve advice to the creditor's arbitration committees, and regular progress reports to the Financial Supervisory Committee . (5) Corporate Legal/Regulatory Reform (US\$ 1.4 million). Support ongoing insolvency reform (in terms of support for reform of Korean insolvency law and training for judges and other insolvency professionals ) and reform of corporate governance (strengthen authority and responsibility of corporate boards and enhance financial disclosure and monitoring by market participants. (6) Competition Policy (US\$ 0.3 million). To transfer knowledge about international best practices from OECD countries to strengthen the ability of the Korea Fair Trade Commission (KFTC) to apply the Fair Trade Act. (7) Project Implementation Support (US\$ 0.2 million).			
<b>c. Comments on Project Cost, Financing and Dates</b>			
The project appraisal report estimates project cost at US\$ 54.50 million, which was reduced to US\$48 million in the Loan Agreement. The project cost US\$26 million financed from the loan. (Note for Reviewer: US\$26 million is the cost given in the text of the ICR, the first table of Annex 2, and the Controller's Web Page. However, the second table of Annex 2 (Project Cost by Procurement Arrangements) shows a total project cost of US\$38.88 million and Bank financing of US\$24.64 million. I sent an email to the ICR author who is also the task manager, but he will not be back in the office to respond until February 10th. This apparent inconsistency should be settled and this note removed before the ICR is finalized.) The project was appraised in June, 1998, approved by the Board on August 6th, 1998, made effective on October 1, 1998, and closed on schedule on June 30th, 2002.			
<b>3. Achievement of Relevant Objectives:</b>			
(1) The FSS organization, staffing, personnel policy and budgeting was improved as consultants' recommendations			

were adopted. Agreed actions to bring prudential regulations and supervisory practices into line with international best practices have been implemented. Consultant reviews of proposals and strategies for distressed banks facilitated FSC/FSS efforts at stabilization and resolution. (2) Securities Market Development benefited from consultant studies on securities market architecture, self-regulation, and regulation. (3) Debt Management Improvement was facilitated through expertise provided by the project to develop the Sovereign Asset Liability Management System (SALMS) that now enable the MOFE Treasury Bureau to manage and assess government debt to minimize costs and risks. (4) Corporate Restructuring. Consultants provided immediate assistance to lead bank corporate workout units and longer term assistance on methodologies and through on-site training and seminars. (5) Corporate Legal/Regulatory Reform. Assistance included overseas study and seminars. (6) Competition Policy. Information sharing on OECD best practice, training, and overseas internships have supported the KFTC's campaign to eliminate most cross-debt guarantees and improper related party transactions.

#### 4. Significant Outcomes/Impacts:

Undercapitalized banks were subject to corrective actions (downsizing, merger, or recapitalization. Median corporate debt/equity was reduced below 200% by end-1999, although one-quarter of Korea's companies remain over-leveraged. Workout agreements for 15 chaebol affiliates were negotiated by mid-1999, and a workout of Daewoo affiliates basically agreed by end 1999. Steady progress was made on financial regulation and supervision, development of self-regulatory organizations, and some insolvency reforms. A business law amendment covering minority shareholder protection and enhanced corporate boards was enacted in July, 2001.

#### 5. Significant Shortcomings (including non-compliance with safeguard policies):

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
<b>Outcome:</b>	Satisfactory	Satisfactory	
<b>Institutional Dev.:</b>	High	High	The wide scope of reforms supported by this project and the impact they are having across the economy warrant an IDI rating of "high".
<b>Sustainability:</b>	Highly Likely	Highly Likely	This rating is based on the merit of the reforms and Korea's close links to international markets which make obvious the risks that would emerge if the reforms supported by this project were reversed.
<b>Bank Performance:</b>	Satisfactory	Satisfactory	
<b>Borrower Perf.:</b>	Satisfactory	Satisfactory	
<b>Quality of ICR:</b>		Satisfactory	

NOTE: ICR rating values flagged with '\*' don't comply with OP/BP 13.55, but are listed for completeness.

#### 7. Lessons of Broad Applicability:

1. As noted in the ICR, procurement rules and procedures should be compatible with the urgency of a systemic corporate/financial sector crisis and the technical sophistication needed in a country at Korea's level of development. For this project, the acceleration of procurement procedures and waivers to consultant fee ceilings, under the Bank's procurement rules, took extraordinary effort by the Bank and Implementing Agency staff at a time when the focus on technical issues of corporate/financial sector crisis abatement should have had the highest priority. Complex procurement rules that delay urgently needed financial advisors may degrade the effectiveness and value of similar projects in the future if this issue is not addressed. 2. In a well-structured TA project implemented in a crisis, it is important to allow for full funding based on best estimates, even if subsequent cost savings emerge. The costs of underfunding such a project could have been extremely high. 3. It is crucial to define potential conflicts of interest for potential consultants right at the start of a project and ensure that consultants involved in the project avoid any real or perceived conflicts.

8. Assessment Recommended?  Yes  No

#### 9. Comments on Quality of ICR:

The ICR covers the many aspects of this wide-ranging project in a coherent manner. However, the ICR could have presented more recent data on outcomes for workouts completed in 1999. The significant corporate sector losses referred to in lesson 8 of the ICR are not adequately discussed/evaluated in the text. The reforms in auditing/accounting and other processes noted in the ICR and the precedent for avoiding government bailouts which had been endemic in the past, suggest that the corporate restructuring process in Korea is probably much improved, but the ICR does not provide enough evidence to fully evaluate this. The Borrower's contribution to the ICR is complete and impressive, and clearly states the high value added of this project to Korea's reform program.

