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LOAN NUMBER 942 KO

# Loan Agreement

(Seeds Project)

BETWEEN

REPUBLIC OF KOREA

AND

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

DATED NOVEMBER 16, 1973

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## LOAN AGREEMENT

AGREEMENT, dated November 16, 1973, between REPUBLIC OF KOREA (hereinafter called the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called the Bank).

WHEREAS (A) The Borrower has requested the Bank to assist in the financing of the foreign exchange cost of the Project described in Schedule 2 to this Agreement by making the Loan as hereinafter provided;

(B) The Borrower intends to contract with United States Agency for International Development for the provision of an amount of \$5,000,000 (hereinafter called the USAID Loan) to assist in financing Part B(ii) of the Project on the terms and conditions set forth in an agreement (hereinafter called the USAID Loan Agreement) to be entered into between the Borrower and United States Agency for International Development;

WHEREAS the Bank has agreed, on the basis *inter alia* of the foregoing, to make the Loan to the Borrower upon the terms and conditions hereinafter set forth;

NOW THEREFORE the parties hereto hereby agree as follows:

### ARTICLE I

#### General Conditions; Definitions

Section 1.01. The parties to this Agreement accept all the provisions of the General Conditions Applicable to Loan and Guarantee Agreements of the Bank, dated January 31, 1969, with the same force and effect as if they were fully set forth herein, subject, however, to the deletion of Section 5.01 thereof and, in Section 6.02(i) thereof, of the words "or in the Loan Agreement for the purposes of Section 7.01" (said General Conditions Applicable to Loan and Guarantee Agreements of the Bank, as so modified, being hereinafter called the General Conditions).

Section 1.02. Wherever used in this Agreement, unless the context otherwise requires, the several terms defined in the General Conditions have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) The letters "ADC" mean the Agricultural Development Corporation an autonomous government invested corporation established under the laws of the Borrower and which, under such laws, has responsibility for completion of feasibility studies and the design and construction of irrigation and area development projects;

(b) The term "Breeder's Seed" means the parental material that preserves the crop variety characteristics as specified by the breeder;

(c) The term "Certified Seed" is the first generation multiplied from Registered Seed, qualifying as Certified Seed under terms and conditions specified by the Seed Law;

(d) The letters "FLIA" means a farmers' land improvement association established pursuant to the Rural Modernization Promotion Law, 1970 as amended;

(e) The term "Foundation Seed" means the first generation multiplied from Breeder's Seed, and is usually produced under the supervision of the breeder;

(f) The letters "MAF" mean the Ministry of Agriculture and Fisheries of the Borrower and "Minister" means the Minister of Agriculture and Fisheries;

(g) The letters "NACF" means the National Agricultural Cooperative Federation established under the Agricultural Cooperative Law, 1969;

(h) The letters "NAPIO" mean the National Agricultural Products Inspection Office, which, within MAF, is responsible for the inspection and regulation of quality control under the Agricultural Products Inspection Act 1949, as amended, for all agricultural products, including all seeds marketed in the territories of the Borrower or exported;

(i) The letters "NSC" mean the National Seeds Council which, within MAF and under the Seed Law, has advisory responsibility for overall policy direction of the seeds industry;

(j) The letters "ORD" mean the Office of Rural Development established under the Rural Development Law, 1962 as amended, which is responsible *inter alia* for MAF's agricultural research program;

(k) The letters "OSPD" mean the Office of Seed Production and Distribution of the Borrower to be established within MAF under the laws of the Borrower as provided under Section 3.07 of this Agreement;

(l) The term "Registered Seed" is the first generation multiplied from Foundation Seed, qualifying as Registered Seed under terms and conditions specified by the Seed Law; and

(m) The term "Seed Law" means the Seed Law of Staple Crops dated as of January 16, 1962 (Law No. 975 of the Borrower) as amended from time to time and all regulations issued pursuant to the Seed Law.

## ARTICLE II

### The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions in the Loan Agreement set forth or referred to, an amount in various currencies equivalent to seven million dollars (\$7,000,000).

Section 2.02. The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement, as such Schedule shall be amended from time to time, for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project and to be financed under the Loan Agreement; provided, however, that, except as the Bank shall otherwise agree, no withdrawal shall be made on account of expenditures in the territories of any country which is not a member of the Bank (other than Switzerland) or for goods produced in, or services supplied from, such territories.

Section 2.03. Except as the Bank shall otherwise agree, the goods and services (other than services of consultants) required for the Project and to be financed out of the proceeds of the Loan shall be procured on the basis of international competition under procedures consistent with the Guidelines for Procurement under World Bank Loans and IDA Credits, published by the Bank in April 1972, as revised in October 1972, and in accordance with, and subject to, the provisions set forth in Schedule 4 to this Agreement.

Section 2.04. The Closing Date shall be December 31, 1978 or such other date as shall be agreed between the Borrower and the Bank.

Section 2.05. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one per cent ( $3/4$  of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.06. The Borrower shall pay interest at the rate of seven and one-fourth of one per cent (7-1/4%) per annum on the principal amount of the Loan withdrawn and outstanding from time to time.

Section 2.07. Interest and other charges shall be payable semi-annually on May 1 and November 1 in each year.

Section 2.08. The Borrower shall repay the principal of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

Section 2.09. If and when the Bank shall from time to time request, the Borrower shall execute and deliver Bonds representing the principal amount of the Loan as provided in Article VIII of the General Conditions.

Section 2.10. The Minister of Finance of the Borrower and such other person or persons as he shall appoint in writing are designated as authorized representatives of the Borrower for the purposes of Section 8.10 of the General Conditions.

### ARTICLE III

#### Execution of the Project

Section 3.01. The Borrower shall carry out the Project or cause the Project to be carried out through OSPD, MAF and ADC with due diligence and efficiency and in conformity with sound administrative, agricultural and financial practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the purpose.

Section 3.02. In order to assist the Borrower in (i) the preparation of bidding documents for the Project (ii) the detailed engineering and supervision of the construction of the Project, and (iii) the execution of Parts A(iv), C(ii) and D of the Project, the Borrower shall employ qualified and experienced consultants acceptable to the Bank upon terms and conditions satisfactory to the Bank.

Section 3.03. In carrying out civil works included in Parts A(i), A(iii) and C(i) of the Project, the Borrower shall employ or cause to be employed contractors acceptable to the Bank upon terms and conditions satisfactory to the Bank.

Section 3.04. (a) The Borrower undertakes to insure, or make adequate provision for the insurance of, the imported goods to be financed out of the proceeds of the Loan against hazards incident to the acquisition, transportation

and delivery thereof to the place of use or installation, and for such insurance any indemnity shall be payable in a currency freely usable by the Borrower to replace or repair such goods.

(b) Except as the Bank shall otherwise agree, the Borrower shall cause all goods and services financed out of the proceeds of the Loan to be used exclusively for the Project.

Section 3.05. (a) The Borrower shall furnish to the Bank, promptly upon their preparation, the plans, specifications, reports, contract documents and work schedules, procurement schedules and training programs for the Project, and any material modifications thereof or additions thereto, in such detail as the Bank shall reasonably request.

(b) The Borrower: (i) shall maintain records adequate to record the progress of the Project (including the cost thereof) and to identify the goods and services financed out of the proceeds of the Loan, and to disclose the use thereof in the Project; (ii) shall enable the Bank's accredited representatives to examine the Project, the goods financed out of the proceeds of the Loan and any relevant records and documents; and (iii) shall furnish to the Bank all such information as the Bank shall reasonably request concerning the Project, the expenditure of the proceeds of the Loan and the goods and services financed out of such proceeds.

Section 3.06. The Borrower shall take or cause to be taken all such action as shall be necessary to acquire as and when needed all such land and rights in respect of land as shall be required for the construction and operation of the facilities included in the Project and shall furnish to the Bank, promptly after such acquisition, evidence satisfactory to the Bank that such land and rights in respect of land are available for purposes related to the Project.

Section 3.07. (a) The Borrower shall, by no later than 75 days from the Effective Date, submit to the Bank for review a draft for the amendment of the Seed Law and draft regulations to be issued pursuant thereto (together with a draft staffing plan for OSPD) as shall be required for the establishment and operation of OSPD upon the terms and conditions set out in Schedule 5 hereto, with a view to the enactment of such amendment and the issue of such regulations, in each case as agreed by the Bank, by not later than 12 months from the Effective Date.

(b) Notwithstanding the provisions of paragraph 1 of Schedule 1 hereto, no withdrawals shall be made in respect of expenditures under Category I(a) or (b), Category II or Category III(a) or (b) of the table set forth in paragraph 1

of such Schedule until OSPD shall have been established in accordance with sub-section (a) hereof and otherwise in a manner satisfactory to the Bank.

#### ARTICLE IV

##### Other Covenants

Section 4.01. (a) It is the mutual intention of the Borrower and the Bank that no other external debt shall enjoy any priority over the Loan or the Bonds by way of a lien on governmental assets.

(b) To that end the Borrower (i) represents that at the date of this Agreement no lien exists on any governmental assets as security for any external debt, and (ii) undertakes that, except as the Bank shall otherwise agree, if any such lien shall be created, it will *ipso facto* equally and ratably, and at no cost to the Bank or the holders of the Bonds, secure the payment of the principal of, and interest and other charges on, the Loan and the Bonds and in the creation of any such lien express provision will be made to that effect. The Borrower shall promptly inform the Bank of the creation of any such lien.

(c) The foregoing representation and undertaking shall not apply to: (i) any lien created on property, at the time of purchase thereof, solely as security for payment of the purchase price of such property; and (ii) any lien arising in the ordinary course of banking transactions and securing a debt maturing not more than one year after its date.

(d) As used in this Section, the term "governmental assets" means assets of the Borrower or of any of its political subdivisions or of any agency of the Borrower or of any such political subdivision, including the Bank of Korea or any institution performing the functions of a central bank for the Borrower.

Section 4.02. (a) The Borrower shall maintain or cause to be maintained records adequate to reflect in accordance with consistently maintained sound accounting practices the operations, resources and expenditures, in respect of the Project, of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) Without limitation to the generality of the foregoing the Borrower (i) shall maintain or cause each of its departments or agencies responsible for carrying out any part of the Project to maintain separate accounts and records for any such part of the Project, which accounts and records shall reflect, in accordance with consistently maintained appropriate practices and in accordance



with auditing principles consistently applied acceptable to the Bank, the operations and financial conditions of the Borrower or its departments and agencies, as appropriate, in respect of the execution of any such part of the Project; and (ii) shall cause OSPD to maintain records adequate to reflect in accordance with consistently maintained sound commercial accounting practices the operations and financial condition of OSPD.

(c) The Borrower shall cause OSPD to: (i) have its accounts and financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by the Board of Audit and Inspection of the Borrower or by such other independent auditors as shall be acceptable to the Bank; (ii) furnish to the Bank as soon as available, but in any case not later than four months after the end of each such year, (A) certified copies of its financial statements for such year as so audited and (B) the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and (iii) furnish to the Bank such other information concerning the accounts and financial statements of OSPD and the audit thereof as the Bank shall from time to time reasonably request.

Section 4.03. The Borrower shall cause OSPD to take out and maintain with responsible insurers, or to make other provision satisfactory to the Bank for, insurance against such risks and in such amounts as shall be consistent with appropriate practice.

Section 4.04. Not later than 18 months after the Effective Date, the Borrower shall, on terms and conditions satisfactory to the Bank:

(a) formulate and submit to the Bank for approval programs (i) for the expansion of the objectives, functions, organization and membership of NSC and (ii) for the establishment by NAPIO of appropriate quality standards applicable to all seeds offered for sale in the territories of the Borrower, for the regulation and enforcement by NAPIO of such standards and for the vesting in NAPIO of all powers and authorities required for such purpose;

(b) upon approval of such programs by the Bank, take such action as shall be required for the implementation of such programs by way of amendment to the Seed Law, the issue of regulations pursuant thereto or otherwise howsoever.

Section 4.05. (a) The Borrower shall cause OSPD to carry out its responsibilities for the production, processing, packaging and distribution of Certified Seed as provided in Schedule 5 hereto with due diligence and efficiency

and in conformity with sound administrative, agricultural and financial practices and shall provide promptly, as needed, the funds, facilities, services and other resources required for the purposes.

(b) Without limitation to the provisions of subsection (a) hereof, the Borrower, save as the Bank shall otherwise agree, shall as from the date of the establishment of OSPD:

- (i) on or prior to the commencement of each fiscal year provide to OSPD (1) such funds as shall be required by OSPD to meet its estimated capital and operating expenditures (including contingencies) for such year, excluding seed inventory and distribution costs and including interest on borrowings, taxes and depreciation, and (2) such amount as shall be required to bring the amount standing to the credit of the Revolving Fund up to the level applicable to such year referred to in paragraph 4(b) of Schedule 5 hereto;
- (ii) cause NAPIO to inspect the Registered Seed provided to OSPD and the Certified Seed distributed by OSPD in accordance with the Seed Law;
- (iii) facilitate the making of appropriate arrangements between ORD and the Provincial Governments of the Borrower for the provision of Registered Seed to OSPD;
- (iv) facilitate the production by the Provincial Governments of the Borrower of Registered Seed, including in the case of the Daegwanryeong seed potato farm of the Gang Weon-do Provincial Government the transfer of the management of such farm to OSPD, and the promotion by such Provincial Governments of the use by farmers of Certified Seed to be distributed by OSPD;
- (v) cause the program of Registered Seed multiplication carried out at the date of this Agreement by village seed growers to be discontinued.

## ARTICLE V

### Consultation, Information and Inspection

Section 5.01. The Borrower and the Bank shall cooperate fully to assure that the purposes of the Loan will be accomplished. To that end, the Borrower and the Bank shall from time to time, at the request of either party:

(a) exchange views through their representatives with regard to the performance of their respective obligations under the Loan Agreement, the administration, operations and financial condition, resources and expenditures of OSPD and, in respect of the Project, of the other departments or agencies of the Borrower responsible for carrying out any part of the Project, and other matters relating to the purposes of the Loan; and

(b) furnish to the other all such information as it shall reasonably request with regard to the general status of the Loan. On the part of the Borrower, such information shall include information with respect to financial and economic conditions in the territories of the Borrower, including its balance of payments, and the external debt of the Borrower, of any of its political subdivisions and of any agency of the Borrower or of any such political subdivision.

Section 5.02. (a) The Borrower shall furnish or cause to be furnished to the Bank all such information as the Bank shall reasonably request concerning the administration, operations and financial condition, resources and expenditures of OSPD and, in respect of the Project, of the other departments or agencies of the Borrower responsible for carrying out any part of the Project.

(b) The Borrower and the Bank shall promptly inform each other of any condition which interferes with, or threatens to interfere with, the accomplishment of the purposes of the Loan, the maintenance of the service thereof or the performance by either of them of its obligations under the Loan Agreement.

Section 5.03. The Borrower shall afford all reasonable opportunity for accredited representatives of the Bank to visit any part of the territories of the Borrower for purposes related to the Loan.

## ARTICLE VI

### Taxes and Restrictions

Section 6.01. The principal of, and interest and other charges on, the Loan and the Bonds shall be paid without deduction for, and free from, any taxes imposed under the laws of the Borrower or laws in effect in its territories; provided, however, that the foregoing shall not apply to taxation of payments under any Bond to a holder thereof other than the Bank when such Bond is beneficially owned by an individual or corporate resident of the Borrower.

Section 6.02. The Loan Agreement and the Bonds shall be free from any taxes on or in connection with the execution, issue, delivery or registration thereof imposed under the laws of the Borrower or laws in effect in its territories and

the Borrower shall bear the cost of any such taxes, if any, imposed under the laws of the country or countries in whose currency the Loan and the Bonds are payable or laws in effect in the territories of such country or countries.

Section 6.03. The payment of the principal of, and interest and other charges on, the Loan and the Bonds shall be free from all restrictions, regulations, controls and moratoria of any nature imposed under the laws of the Borrower or laws in effect in its territories.

## ARTICLE VII

### Remedies of the Bank

Section 7.01. If any event specified in Section 7.01 of the General Conditions or in Section 7.03 of this Agreement shall occur and shall continue for the period, if any, therein set forth, then at any subsequent time during the continuance thereof, the Bank, at its option, may by notice to the Borrower declare the principal of the Loan and of all the Bonds then outstanding to be due and payable immediately together with the interest and other charges thereon, and upon any such declaration such principal, interest and charges shall become due and payable immediately, anything to the contrary in the Loan Agreement or in the Bonds notwithstanding.

Section 7.02. For the purposes of Section 6.02 of the General Conditions, the following additional events are specified:

(a) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of OSPD or for the suspension of its operations.

(b) The Seed Law or the regulations issued pursuant thereto as referred to in Section 3.07 hereof shall have been amended, suspended, abrogated, repealed or waived in such a way as materially and adversely to affect the ability of the Borrower to carry out the covenants, agreements and obligations set forth herein.

(c) The principal outstanding under the USAID Loan Agreement shall have been declared, or become due and payable in advance of the original maturity date thereof, and the Borrower shall have failed to make alternative arrangements satisfactory to the Bank for the financing of Part B(ii) of the Project.

(d) Any event shall have occurred which shall have resulted in suspension of the right of the Borrower to withdraw any amounts under the USAID Loan,

and the Borrower shall have failed to make alternative arrangements as mentioned in sub-section (c) hereof.

Section 7.03. For the purposes of Section 7.01 of the General Conditions, the following additional events are specified:

(a) the event specified in paragraph (d) of Section 7.02 of this Agreement shall occur and shall continue for a period of 60 days after notice thereof shall have been given by the Bank to the Borrower.

(b) any event specified in paragraphs (a), (b) and (c) of Section 7.02 of this Agreement shall occur.

## **ARTICLE VIII**

### **Effective Date; Termination**

Section 8.01. The following event is specified as an additional condition to the effectiveness of the Loan Agreement within the meaning of Section 11.01(c) of the General Conditions, namely that: the conditions precedent to the first disbursement of the USAID Loan Agreement shall have been fulfilled, subject only to the effectiveness of this Agreement.

Section 8.02. The following is specified as an additional matter, within the meaning of Section 11.02(c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank, namely that: the USAID Loan Agreement has been duly authorized or ratified by and executed and delivered on behalf of the Borrower, and constitutes a valid and binding obligation of the Borrower in accordance with its terms.

Section 8.03. The date February 15, 1974, is hereby specified for the purposes of Section 11.04 of the General Conditions.

## **ARTICLE IX**

### **Representative of the Borrower; Addresses**

Section 9.01. The Minister, Economic Planning Board of the Borrower is designated as representative of the Borrower for the purposes of Section 10.03 of the General Conditions.

Section 9.02. The following addresses are specified for the purposes of Section 10.01 of the General Conditions:

For the Borrower:

Minister, Economic Planning Board  
Republic of Korea  
Seoul  
Korea

Cable address:

EPB  
Seoul

For the Bank:

International Bank for  
Reconstruction and Development  
1818 H Street, N.W.  
Washington, D.C. 20433  
United States of America

Cable address:

INTBAFRAD  
Washington, D.C.

IN WITNESS WHEREOF, the parties hereto, acting through their representatives thereunto duly authorized, have caused this Agreement to be signed in their respective names and to be delivered in the District of Columbia, United States of America, as of the day and year first above written.

REPUBLIC OF KOREA

By /s/ Dong-ji Kim

*Authorized Representative*

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ I.P.M. Cargill

*Regional Vice President  
Asia*

## SCHEDULE 1

### Withdrawal of the Proceeds of the Loan

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan to each Category and the percentage of eligible expenditures so to be financed in each Category:

<i>Category</i>	<i>Amount of the Loan Allocated (Expressed in Dollar Equivalent)</i>	<i>% of Expenditures to be Financed</i>
<b>I. For OSPD</b>		
(a) Farm machinery vehicles, office equipment and seed plants under Part A(i), (ii) and (iii) of the Project	2,575,000	100% of total expenditures
(b) Civil works for buildings under Part A(iii) of the Project	1,000,000	68% of total expenditures
(c) Consultants' services and training abroad under Part A(iv) of the Project	451,000	100% of foreign expenditures
<b>II. For ORD</b>		
Farm machinery and equipment under Part B(i) of the Project	93,000	100% of foreign expenditures or 100% of local expenditures (ex-factory)
<b>III. For NAPIO</b>		
(a) Farm and laboratory equipment and vehicles under Part C(i) of the Project	129,000	100% of foreign expenditures or 100% of local expenditures (ex-factory)

<i>Category</i>	<i>Amount of the Loan Allocated (Expressed in Dollar Equivalent)</i>	<i>% of Expenditures to be Financed</i>
(b) Civil works for buildings under Part C(i) of the Project	53,000	68% of total expenditures
(c) Consultants' services and training abroad under Part C(ii) of the Project	161,000	100% of foreign expenditures
IV. For MAF and ADC		
Feasibility studies under Part D of the Project	900,000	100% of foreign expenditures
V. Unallocated	1,638,000	
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TOTAL	7,000,000	
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2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures for goods produced in, or services supplied from, the territories, and in the currency, of any country other than the Borrower;

(b) the term "local expenditures" means expenditures in the currency of the Borrower, or for goods produced in, or services supplied from, the territories of the Borrower; and

(c) the term "total expenditures" means the aggregate of foreign and local expenditures.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) expenditures prior to the date of this Agreement, except that withdrawals may be made in respect of Sub-Category I(c), Sub-Category III(c) and



Category IV on account of payments made after September 1, 1973 in an aggregate amount not exceeding the equivalent of \$300,000; or

(b) payments for taxes imposed under the laws of the Borrower or laws in effect in its territories on goods or services, or on the importation, manufacture, procurement or supply thereof. To the extent that the amount represented by the percentage set forth in the third column of the table in paragraph 1 above in respect of any Category or any Sub-Category would exceed the amount payable net of all such taxes, such percentage shall be reduced to ensure that no proceeds of the Loan will be withdrawn on account of payments for such taxes; or

(c) expenditures for handling freight and insurance within the territories of the Borrower under Category I(a) except with respect to seed plants; or

(d) expenditures under Sub-Categories I(a), I(b), III(a) or III(b) or Category II until OSPB shall have been established in accordance with Section 3.07 of the Loan Agreement.

4. Notwithstanding the allocation of an amount of the Loan set forth in the second column of the table in paragraph 1 above:

(a) if the estimate of the expenditures under any Category or any Sub-Category shall decrease, the amount of the Loan then allocated to such Category or to such Sub-Category and no longer required therefor will be reallocated by the Bank by increasing correspondingly the unallocated amount of the Loan;

(b) if the estimate of the expenditures under any Category or any Sub-Category shall increase, the percentage set forth in the third column of the table in paragraph 1 above in respect of such expenditures shall be applied to the amount of such increase, and a corresponding amount will be allocated by the Bank, at the request of the Borrower, to such Category or to such Sub-Category from the unallocated amount of the Loan, subject, however, to the requirements for contingencies, as determined by the Bank, in respect of any other expenditures; and

(c) if the Bank shall have reasonably determined that the procurement of any item in any Category or any Sub-Category is inconsistent with the procedures set forth or referred to in Section 2.03 of this Agreement, no expenditures for such item shall be financed out of the proceeds of the Loan and the Bank may, without in any way restricting or limiting any other right, power or remedy of the Bank under the Loan Agreement, by notice to the Borrower, cancel such amount of the Loan as in the Bank's reasonable opinion, represents the amount

of such expenditures which would otherwise have been eligible for financing out of the proceeds of the Loan.

5. Notwithstanding the percentages set forth in the third column of the table in paragraph 1 above, if the estimate of total expenditures under Sub-Categories I(b) or III(b) shall increase and no proceeds of the Loan are available for reallocation to such Category, the Bank may, by notice to the Borrower, adjust the percentage then applicable to such expenditures in order that further withdrawals under such Sub-Category may continue until all expenditures thereunder shall have been made.

**SCHEDULE 2****Description of the Project**

The Project's purpose is to establish a modern seeds industry in the territories of the Borrower, to strengthen the agencies responsible for crop research and for seed certification and to provide for feasibility studies of future irrigation and area improvement projects. It includes the following Parts:

*Part A:* (to be carried out by OSPD)

- (i) Installation of five field crop seed processing and storage facilities of about 3,500 tons annual capacity each and six potato processing and storage facilities of about 2,000 tons annual capacity each, including provision and putting into operation of conveying, drying, cleaning, treating, packaging and storage equipment;
- (ii) Provision of farm machinery and vehicles;
- (iii) Construction of buildings and provision of office equipment; and
- (iv) Retention of consultants' services to assist in Project implementation and to provide local training of OSPD management and staff, and the provision of fellowships for training abroad of such management and staff.

*Part B:* (to be carried out by MAF)

- (i) Provision of farm machinery and equipment to ORD for Registered Seed production; and
- (ii) Engagement of expatriate technical assistance to be made available to ORD for crop research, and provision to ORD of additional crop research equipment and facilities.

*Part C:* (to be carried out by MAF)

- (i) Improvement of NAPIO's seed inspection and laboratory facilities through construction of buildings and provision and putting into operation of equipment and vehicles; and

- (ii) Retention of consultants' services to assist in Project implementation and to provide local training of NAPIO's management and staff and the provision of fellowships for training abroad of such management and staff.

*Part D:* (to be carried out by ADC and MAF)

An irrigation and area development feasibility study for the Okseo region and an area development feasibility study for the Naeseong Cheon and Hwang Gang watershed areas, to be carried out by ADC and MAF respectively.

The Project is expected to be completed by June 30, 1978.

### SCHEDULE 3

#### Amortization Schedule

<i>Date Payment Due</i>	<i>Payment of Principal (expressed in dollars)*</i>
November 1, 1980	95,000
May 1, 1981	100,000
November 1, 1981	105,000
May 1, 1982	110,000
November 1, 1982	110,000
May 1, 1983	115,000
November 1, 1983	120,000
May 1, 1984	125,000
November 1, 1984	130,000
May 1, 1985	135,000
November 1, 1985	140,000
May 1, 1986	145,000
November 1, 1986	150,000
May 1, 1987	155,000
November 1, 1987	160,000
May 1, 1988	165,000
November 1, 1988	170,000
May 1, 1989	180,000
November 1, 1989	185,000
May 1, 1990	190,000
November 1, 1990	200,000
May 1, 1991	205,000
November 1, 1991	215,000
May 1, 1992	220,000
November 1, 1992	230,000
May 1, 1993	235,000
November 1, 1993	245,000
May 1, 1994	255,000
November 1, 1994	265,000
May 1, 1995	275,000
November 1, 1995	285,000
May 1, 1996	295,000
November 1, 1996	305,000
May 1, 1997	315,000
November 1, 1997	325,000
May 1, 1998	345,000

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\* To the extent that any portion of the Loan is repayable in a currency other than dollars (see General Conditions, Section 4.02), the figures in this column represent dollar equivalents determined as for purposes of withdrawal.

**Premiums on Prepayment and Redemption**

The following percentages are specified as the premiums payable on repayment in advance of maturity of any portion of the principal amount of the Loan pursuant to Section 3.05(b) of the General Conditions or on the redemption of any Bond prior to its maturity pursuant to Section 8.15 of the General Conditions:

<i>Time of Prepayment or Redemption</i>	<i>Premium</i>
Not more than three years before maturity	3/4%
More than three years but not more than six years before maturity	2-1/4%
More than six years but not more than eleven years before maturity	3%
More than eleven years but not more than sixteen years before maturity	4-1/2%
More than sixteen years but not more than twenty-one years before maturity	5-3/4%
More than twenty-one years but not more than twenty-three years before maturity	6-3/4%
More than twenty-three years before maturity	7-1/4%

**SCHEDULE 4****Procurement**

1. With respect to any contract for items included in Sub-Categories I(a), I(b), III(a) and III(b) and in Category II of the table set out in paragraph 1 to Schedule 1 to the Loan Agreement estimated to cost the equivalent of \$50,000 or more:

(a) If bidders are required to prequalify, the Borrower shall, before qualification is invited, inform the Bank in detail of the procedure to be followed and shall introduce such modifications in said procedure as the Bank shall reasonably request. The list of prequalified bidders, together with a statement of their qualifications and of the reasons for the exclusion of any applicant for prequalification, shall be furnished by the Borrower to the Bank for its comments before the applicants are notified and the Borrower shall make such additions to or deletions from the said list as the Bank shall reasonably request.

(b) Before bids are invited, the Borrower shall furnish to the Bank, for its comments, the text of the invitations to bid and the specifications and other bidding documents, together with a description of the advertising procedures to be followed for the bidding, and shall make such modifications in the said documents or procedure as the Bank shall reasonably request. Any further modification to the bidding documents shall require the Bank's concurrence before it is issued to the prospective bidders.

(c) After bids have been received and evaluated, the Borrower shall, before a final decision on the award is made, inform the Bank of the name of the bidder to whom it intends to award the contract and shall furnish to the Bank, in sufficient time for its review, a detailed report, by the consultants referred to in Section 3.02 of this Agreement, on the evaluation and comparison of the bids received, together with the recommendations for award of the said consultants, and the reasons for the intended award. The Bank shall, if it determines that the intended award would be inconsistent with the procedures set forth or referred to in Section 2.03 of this Agreement, promptly inform the Borrower and state the reasons for such determination.

(d) The terms and conditions of the contract shall not, without the Bank's concurrence, materially differ from those on which bids were asked.

(e) Two conformed copies of the contract shall be furnished to the Bank promptly after its execution and prior to the submission to the Bank of the first application for withdrawal of funds from the Loan Account in respect of any such contract.

2. Identical or similar items to be procured shall be grouped together to form economic bid packages for purposes of bidding.

3. For the purpose of evaluation and comparison of bids, customs duties and other import taxes on imported goods, and sales and similar taxes on locally supplied goods, shall be excluded, except to the extent hereinafter provided. Bidders shall be required to state in their bid the c.i.f. (port of entry) price for imported goods, or the ex-factory price for locally manufactured goods. The cost to the Borrower of inland freight and other expenditures incidental to the delivery of goods to the place of their use or installation shall be taken into account in the evaluation of bids in accordance with paragraph 4.7 of the Guidelines for Procurement.

4. For goods included in Sub-Categories I(a) and III(a) and in Category II of the table set forth in paragraph 1 of Schedule 1 to the Loan Agreement, the Borrower may grant a margin of preference to goods manufactured in Korea in accordance with, and subject to, the following provisions:

(a) After evaluation, responsive bids will be classified in one of the following groups:

- (1) *Group A*: bids offering goods manufactured in Korea, if the bidder shall have established to the satisfaction of the Borrower and the Bank that the manufacturing cost of such goods includes a value added in Korea equal to at least 20% of the ex-factory bid price of such goods.
- (2) *Group B*: bids offering goods manufactured in Korea, other than bids classified in Group A.
- (3) *Group C*: bids offering any other goods.

(b) All evaluated bids in each group shall be first compared among themselves, excluding any customs duties and other import taxes on goods to be imported and any sales or similar taxes on goods to be supplied locally, to determine the lowest evaluated bid of each group. The lowest evaluated bids of each group shall then be compared with each other and if, as a result of this comparison, a bid from Group A or Group B is the lowest, it shall be selected for purposes of award.

(c) If, as a result of the comparison under paragraph (b) above, the lowest bid is a bid from Group C, *all* Group C bids shall be further compared with



the lowest bid from Group A, as determined under paragraph (b) above, after adding to the c.i.f. bid price of goods to be imported offered in each Group C bid, for the purpose of this further comparison only, an amount equal to the smaller of (i) the amount of customs duties and other import taxes which a non-exempt importer would have to pay for the importation of goods offered in such Group C bid, or (ii) 15% of the c.i.f. bid price of such goods. If the Group A bid in such further comparison is the lowest, it shall be selected for purposes of award; if not, the lowest bid from Group C, as determined under paragraph (b) above, shall be selected for purposes of award.

5. The bidding documents shall clearly indicate any preference which will be granted, the information required to establish the eligibility of a bid for such preference and the method and stages that will be followed in the evaluation and comparison of bids to give effect to such preference.

6. With respect to any contract for civil works or equipment estimated to cost less than \$50,000 equivalent, the Borrower shall furnish to the Bank, promptly after its execution and prior to the submission to the Bank of the first application for withdrawal of funds from the Loan Account in respect of any such contract, two conformed copies of such contract, together with such information as the Bank shall reasonably request to establish compliance by the Borrower with the procedures set out in paragraphs 7 and 8 of this Schedule. The Bank shall, if it determines that the award of the contract is not consistent with such procedures promptly inform the Borrower, and state the reasons for such determination.

7. For any contract for civil works referred to in paragraph 6 hereof, tender procedures shall be the usual governmental competitive bidding procedures modified as follows:

(a) Contracts will be awarded to the lowest evaluated bidder determined in accordance with procedures similar to those set forth in Section 4.7 of the said Guidelines, after comparison of all responsive bids, without reference to the estimated cost of the contract except in the circumstances referred to under Section 4.09 of said Guidelines.

(b) All bidders shall be required to prequalify.

8. For any contract for equipment referred to in paragraph 6 hereof, tender procedures shall be the usual governmental competitive bidding procedures.

**SCHEDULE 5****Establishment and Operation of the Office of  
Seed Production and Distribution**1. *Status*

OSPD shall be established and operated as a separate unit within the MAF under the direction of a chief executive officer who shall be responsible directly to the Assistant Minister for managing OSPD with due diligence and efficiency and in conformity with sound administrative, agricultural and financial practices.

2. *Composition*

OSPD shall have a chief executive officer, who shall be acceptable to the Bank, together with such other suitably qualified and experienced technical and administrative officers and staff as may be required for the carrying out of its functions as hereinafter described. The chief executive officer and each of the divisional and plant managers of OSPD (as specified in a staffing plan to be approved by the Bank) shall be employed on terms and conditions satisfactory to the Bank.

3. *Functions*

OSPD shall be exclusively responsible for carrying out the program of the Borrower for the production, processing, packaging and distribution of Certified Seed in the territories of the Borrower and accordingly shall, without limitation to the foregoing, be responsible:

- (i) for the carrying out of Part A of the Project and the operation and maintenance of the facilities, machinery and equipment included therein; and
- (ii) for the making of arrangements satisfactory to the Bank (1) for the acquisition from ORD or other suppliers of Registered Seed of varieties approved by NSC and inspected by NAPIO in such quantities as shall be required by OSPD, including in the case of the Daegwanryeong seed potato farm of the Gang Weon-do Provincial Government, the assumption by OSPD of the management thereof; (2) with FLIAs or other appropriate farmers or association of farmers for the multiplication of Registered Seed supplied by OSPD, under the supervision of OSPD and inspection of NAPIO; and (3) for the distribution

by NACF and other appropriate organizations of Certified Seeds, and other commercial seeds, produced and processed by OSPD.

4. *Financial*

(a) Budgetary Provision

- (i) For the purposes of Sections 3.01 and 4.05 of the Loan Agreement, the chief executive officer shall, prior to the commencement of each fiscal year, prepare an estimate of the capital and operating expenditures (including contingencies) of OSPD to be incurred in such year.
- (ii) To enable him to carry out his responsibilities, the expenditure of all amounts appropriate to OSPD in the annual budget of the Borrower (including contingencies) shall be under the control of the chief executive officer who shall be entitled for such purpose, upon prior advice to the Minister, Economic Planning Board, to transfer between categories, sub-categories or groups amounts allocated thereto by such budget.

(b) Revolving Fund

- (i) OSPD shall establish and maintain a Revolving Fund which at the commencement of the fiscal years 1975, 1976, 1977 and 1978 and each subsequent year shall stand respectively in the amounts of no less than Won 120,000,000, 440,000,000, 1,640,000,000 and 2,160,000,000 (or such other amounts as the Borrower and the Bank may agree), which amounts shall be comprised of cash or other liquid assets, including the seed inventory of OSPD as at each such date, valued at cost.
- (ii) OSPD shall draw all monies required to purchase its seed inventory from the Revolving Fund and shall credit thereto the whole of the proceeds of its seed sales less distribution expenses. Save as mentioned in paragraph (iii) hereof no other drawings or payments shall be made to or from the Revolving Fund.
- (iii) In the event that at the commencement of any fiscal year there shall be any surplus in the Revolving Fund over the amount applicable to such date, such surplus shall be available to OSPD for disbursement against operating expenditures incurred by it in such fiscal year or in any subsequent year.

(c) Prices

- (i) OSPD shall initiate and maintain operational research studies for the purpose of (1) evaluating demand for each type and variety of seed to be produced by it in each year; (2) calculating the costs incurred by it in producing such seeds; and (3) assessing seed prices at levels sufficient to recover in full the amount of such production costs. The expression "production costs" shall include expenditures for (A) seed procurement and distribution; (B) operations, maintenance and depreciation on buildings, plant, machinery, equipment and materials used in producing, processing, packaging and distributing seeds; (C) overheads, representing administration, staff and other indirect expenses; (D) interest on borrowings; (E) taxes; and (F) a reasonable return on net capital employed on a long term basis.
- (ii) OSPD shall establish and maintain prices at the levels referred to in the foregoing paragraph, provided that the Borrower shall be entitled, in such cases as it shall consider appropriate in terms of national policy, to require OSPD to establish its seed prices, or any of them, at a level lower than the levels herein before referred to.