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KOREA

STAFF APPRAISAL REPORT

ON THE

KOREA DEVELOPMENT FINANCE CORPORATION

October 16, 1978

East Asia and Pacific Projects Department  
Industrial Development and Finance Division

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### CURRENCY EQUIVALENTS

US\$1.00	=	W 485
W 1	=	US\$0.0021
W 1 million	=	US\$2,062
W 1 billion	=	US\$2.06 million

### ABBREVIATIONS

ADB	-	Asian Development Bank
APCO	-	Asia Pacific Capital Corporation Ltd.
BOK	-	Bank of Korea
CNB	-	Citizens National Bank
DEG	-	Deutsche Entwicklungsgesellschaft
EPB	-	Economic Planning Board
ERR	-	Economic Rate of Return
FRR	-	Financial Rate of Return
GNP	-	Gross National Product
IFC	-	International Finance Corporation
IRF	-	Industrial Rationalization Fund
KDB	-	Korea Development Bank
KDFC	-	Korea Development Finance Corporation
KDLC	-	Korea Development Leasing Corporation
KIFC	-	Korea Investment and Finance Corporation
KIST	-	Korea Institute of Science and Technology
K-TAC	-	Korea Technology Advancement Corporation
MIB	-	Medium Industry Bank
NIF	-	National Investment Fund
RCB	-	Regional Commercial Bank
USAID	-	United States Agency for International Development

### FISCAL YEAR

January 1-December 31

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This report was prepared by Messrs. T.N. Dinh, Robert Poldermans and Stewart Wallis following a field appraisal of KDFC in April 1978.

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KOREA

KOREA DEVELOPMENT FINANCE CORPORATION

Basic Data

(as of December 31, 1977 unless otherwise stated)

1. Year of Establishment: 1967 (April)

2. Ownership

	<u>Number of shareholders</u>	<u>Subscribed capital (Won million)</u>	<u>Percent</u>
<b>Domestic Shareholders</b>			
Commercial banks	6	466	9.3
Securities companies	24	395	7.9
Insurance companies	12	518	10.3
Private corporations	69	1,119	22.4
Individuals	266	764	15.3
Subtotal	<u>377</u>	<u>3,262</u>	<u>65.2</u>
<b>Foreign Shareholders</b>			
IFC	1	526	10.5
Others	10	1,212	24.3
Subtotal	<u>11</u>	<u>1,738</u>	<u>34.8</u>
<u>Total</u>	<u>388</u>	<u>5 000</u>	<u>100.0</u>

3. Operations (as of June 30, 1978)/a

	1968-74	1975	1976	1977	Jan-Jun 1978	Total
<u>Approvals</u>						
Domestic currency loans (Won million)	5,914	502	450	1,490	1,160	9,516
Domestic currency convertible debentures (Won million)	1,410	180	610	480	80	2,760
Domestic currency equity investments (won million)	1,899	349	1,029	887	451	4,615
Foreign currency loans (\$'000)	105,290	42,891	61,537	70,010	44,543	324,271
<u>Total/b</u> (Won million)	<u>50,924</u>	<u>21,833</u>	<u>31,934</u>	<u>36,811</u>	<u>23,294</u>	<u>164,796</u>
<u>Commitments</u>						
Domestic currency loans (Won million)	5,914	502	350	1,490	1,110	9,366
Domestic currency convertible debentures (Won million)	1,310	250	440	680	-	2,680
Domestic currency equity investments (won million)	1,169	764	1,334	416	780	4,463
Foreign currency loans (\$'000)	92,579	41,614	68,055	69,031	44,436	315,715
<u>Total/b</u> (Won million)	<u>44,677</u>	<u>21,317</u>	<u>35,131</u>	<u>36,066</u>	<u>23,441</u>	<u>160,632</u>
<u>Disbursements</u>						
Domestic currency loans (Won million)	5,599	402	538	852	990	8,381
Domestic currency convertible debentures (Won million)	1,310	250	440	480	-	2,480
Domestic currency equity investments (won million)	1,169	764	1,062	633	440	4,068
Foreign currency loans (\$'000)	83,489	23,683	64,928	42,706	46,919	261,725
<u>Total/c</u> (Won million)	<u>49,206</u>	<u>12,791</u>	<u>35,589</u>	<u>30,961</u>	<u>40,179</u>	<u>168,726</u>

/a This summary table includes KDFC's own operations as well as projects jointly financed with the RCBs and foreign commercial banks.

/b Exchange rates used were:

US\$1.00 = W 281.9 in 1968	US\$1.00 = W 398.5 in 1973
= W 305.2 in 1969	= W 485.0 in 1974, 1975, 1976 and 1977
= W 317.4 in 1970	
= W 374.1 in 1971	
= W 399.7 in 1972	

/c For any given year, the "won equivalent" disbursement figures are calculated by using the year-end spot exchange rate of the won against each of the various foreign currencies disbursed in that year, and adding the change, denominated in won, of outstanding foreign exchange loans which are due to movements in all exchange rates in that year (see Annex 4, Table 14).



4. Status of Loans (cumulative to June 30, 1978)

	<u>Domestic currency</u> (w million)	<u>Foreign currency</u> (\$ thousand)
Approved	9,516	324,271
Committed	9,366	315,715
Disbursed	8,381	261,725
Outstanding	3,111	212,041

5. Earnings Record

Year ending December 31

	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>
Net profit as % of average equity	15.8	18.6	18.7	20.1
Income from loans as % of average loan portfolio	10.7	11.1	10.8	11.6
Book value as % of par value	203.0	212.0	192.0	218.0
Cash dividend as % of par	10.0	10.0	20.0	20.0
Stock dividend as % of par	10.0	10.0	-	-
Cash dividend payout ratio (%)	32.9	27.1	48.5	48.6
Return on total assets <u>/a</u>	7.0	8.0	7.4	9.0

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/a Net income before tax and interest expenses to total assets.

6. Financial Position (W million)

	end December:	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>end June 1978</u>
Total Assets		44,163	53,034	87,835	109,885	133,130
of which loan and investment portfolio <u>/a</u>		40,143	47,947	77,232	99,205	122,370
Long-Term Debt						
Won subordinated loan		2,025	2,025	2,025	1,991	1,958
Foreign currency loan		35,204	42,579	71,213	92,809	115,106
Total long-term debt		<u>37,229</u>	<u>44,604</u>	<u>73,238</u>	<u>94,800</u>	<u>117,064</u>
Equity		6,077	6,993	9,581	10,886	11,126
Current Ratio <u>/b</u>		1.8	1.7	1.5	1.4	1.3
Long-Term Debt Equity Ratio		6.1	6.4	7.7	8.7	10.5
Reserves & Provisions as % of Portfolio		9.1	9.2	7.2	7.3	6.4
Debt Service Cover Ratio <u>/c</u>		1.4	1.3	1.3	1.3	1.2
Interest Cover Ratio <u>/d</u>		1.6	1.5	1.4	1.4	1.4

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/a Net of allowance for losses but including current portion of portfolio.

/b Including current maturities of loans and debt.

/c Profit after tax and interest charges and noncash charges and loan collections to interest charges and repayments of borrowings.

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

7. KDFC's Interest Rates and Charges (as of June 30, 1978)

(i)	Interest rate on domestic currency loans (%)	20.5-21.0
(ii)	Interest rate on foreign currency loans (%)	
	IBRD	10.2-10.6
	ADB	10.6
	IFC syndicated loan <u>/a</u>	spread of 1.25 over average borrowing cost
	APCO loan	LIBOR + 3%
(iii)	Penalty charges	25% p.a. on overdues
(iv)	Commitment charges	1.5% p.a. on undisbursed amounts

/a Borrowing cost is as follows: A loan: 10.75%  
 B loan: LIBOR + 2%  
 C loan: 9.95%

8. Status of IBRD loans as of June 30, 1978 (in US\$ thousand)

<u>Loan number</u>	<u>Date signed</u>	<u>Date effective</u>	<u>Rate of interest</u>	<u>Onlending rate</u>	<u>Loan <u>/a</u> amount</u>	<u>Committed</u>	<u>Disbursed</u>	<u>Out- <u>/b</u> standing</u>
529-KO	01-01-1968	02-29-1968	6.5-7.0%	10%	4,950	Fully cmtd.	4,950	300
622-KO	06-26-1969	09-09-1969	6.5%	10%	19,726	" "	19,726	3,000
735-KO	05-17-1971	07-29-1971	7.25%	10%	29,125	" "	29,125	15,800
905-KO	06-13-1973	09-10-1973	7.25%	10%	39,608	" "	39,608	30,100
1145-KO	07-23-1975	09-05-1975	8.5%	10.2-10.75%	55,000	55,000	54,200	52,800
1461-KO	06-30-1977	09-15-1977	8.2%	10.2-10.6%	70,000	55,300	22,500	22,500

/a Net of cancellations.

/b Amount outstanding to IBRD.

9. IFC Investment Summary as of June 30, 1978 (in US\$)

<u>Investment no.</u>	<u>Date approved</u>	<u>Amount</u>	<u>No. of shares /a</u>
129-KO	January 30, 1968	702,042	192,500
259-KO	July 24, 1973 (exercise of rights)	356,207	141,165
352-KO	August 19, 1976 (exercise of rights)	291,222	140,660
406-KO	May 26, 1978 (exercise of rights)	1,075,971	520,770
Stock dividend		-	156,705
<u>Total commitments</u>		<u>2,425,442</u>	<u>1,151,800</u>
Less: Amount undisbursed		1,075,971	520,770
Sale of fraction shares on stock dividends		16	-
Sale to DEG		262,377	105,000
Held by IFC as of June 30, 1978		<u>1,087,078</u>	<u>526,030</u>

Return on IFC investment to June 30, 1978

Profit on equity investment:	
Profit on sales of shares	262,623
Cash dividends received	886,863
<u>Total</u>	<u>1,149,486</u>

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/a Par value of KDFC shares changed from W 5,000 to W 1,000 in February 1977.

## 1. THE INDUSTRIAL SECTOR

### Contribution to the Economy

1.01 Since the early 1960's, manufacturing has been the fastest growing sector in the Korean economy. Over the last five years, its growth reached nearly 20% p.a., almost twice as fast as the 11.5% growth of aggregate GNP. The industrial sector, which accounted for 12% of GNP in 1961, reached 30% in 1977. Manufacturing contributed 43% of the increment in GNP over the last decade rising to 52% during the past five years. Manufactured products represented 89% of commodity exports in 1977, compared with 82% in 1965 and 60% in 1960 (and 85% in the first half of 1978). Industry has provided about one third of all jobs created since 1963 and as much as 47% over the period 1971-75; with approximately 2.9 million people employed, the industrial sector accounted for 21% of the total population employed in 1977 (and 23% in the first half of 1978) against 11% in 1966. One notable feature of Korea's rapid industrialization is that it has substantially contributed to the improvement in the country's income distribution which is now among the most equitable in the developing world.

1.02 Manufactured exports have been the principal engine of growth of the Korean economy and the beneficial impact of the orientation towards labor-intensive exports can be seen in the factor proportions and efficiency of factor use in Korean manufacturing. The sector is typified by low capital/output and capital/labor ratios and high rates of growth of productivity. The unlagged incremental capital/output ratio in the manufacturing sector was 1.3 (in 1970 prices) during 1965-76 and there has been no perceptible increase in the ratio during the last five years despite the increased relative importance of steel, petrochemicals, shipbuilding and machinery industries. This reflects not only the pattern of industry with heavy emphasis on labor intensive goods but also low construction costs and high rates of utilization of capacity reflecting in turn good management and organization. After falling between 1960 and 1966, the average cost of job creation in manufacturing industry during the last decade has been stable at about \$5,000 in 1975 prices reflecting both changes in output mix and productivity improvement within existing industries. The high and sharply increasing level of labor productivity has been a fundamental strength of the Korean development process. Real wages costs still appear quite competitive internationally. Manufacturing wage rates in Korea are about one-fifth of those in Japan, lower than in Taiwan, Hong Kong and Singapore and higher than in the Philippines, Malaysia and Thailand. In contrast, productivity levels compare very favorably with the latter countries and are probably not too far behind that of Japan in the traditional industries. The efficient use of capital and the steady improvement in labor productivity have enabled the Korean economy to maintain a GNP growth rate of nearly 11% p.a. during the last decade while investing only about 26% of GNP on average.

1.03 Recent Performance. The Korean economy recovered remarkably well in 1976 and 1977 after the recessionary period of 1974-75. The performance of the manufacturing sector was particularly impressive with a 26% real growth of value added in 1976,<sup>/1</sup> and 12% in 1977. Exports increased by

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<sup>/1</sup> Compared to 13% in 1975.

more than 40% in volume in 1976 and by about 32% in 1977, reaching US\$10.0 billion in that year (and at least US\$11.0 million is estimated for 1978). This growth in exports was led by a strong demand for Korea's traditional export products such as textile yarns, fabrics and clothing which maintained a share of about 35% of total commodity exports. Korea's efforts at reducing the concentration of its exports towards the US and Japan have met with considerable success in recent years; in 1977 the combined share of the US and Japan dropped to 52% (and in early 1978 was only 49%) from a level of 70% in 1974, essentially as a result of the development of new markets in Europe (particularly Germany, France and the United Kingdom) and the Middle East. Commodity exports to the Middle East, earlier negligible, amounted to more than US\$ 1.04 billion in 1977. In 1977, Korea won construction contracts, mostly in the Middle East, worth about US\$3.5 billion (including the cost of materials and equipment supplied from Korea).

Structure of Industry

1.04 The following table shows the changes in the sectoral composition of the manufacturing sector between the years 1971 and 1976.

Table 1.1: VALUE ADDED IN MANUFACTURING /a  
(W billion)

	<u>1971</u>		<u>1976</u>		Growth rate %
	Value Added	%	Value Added	%	
<u>Light Manufactures</u>					
Food, beverages, tobacco	191.0	29.0	301.4	18.1	9.5
Textiles, footwear, leather	150.4	22.8	560.0	33.7	30.1
Wood, furniture, paper printing	48.1	7.3	77.6	4.7	10.0
Rubber, clay, glass, stone products	40.5	6.1	78.0	4.7	14.0
Plastics	9.5	1.4	16.0	1.0	11.0
Subtotal	<u>439.5</u>	<u>66.7</u>	<u>1,033.0</u>	<u>62.1</u>	<u>18.6</u>
<u>Heavy Manufactures</u>					
Chemicals, petroleum and coal	117.4	17.8	213.7	12.9	12.7
Basic metals, metal products	22.3	3.4	70.7	4.3	21.0
Machinery (including electrical)	35.6	5.4	208.9	12.6	42.5
Transport equipment	28.1	4.2	91.7	5.5	26.7
Subtotal	<u>203.4</u>	<u>30.8</u>	<u>585.0</u>	<u>35.2</u>	<u>23.5</u>
Miscellaneous Industries	16.3	2.5	44.4	2.7	22.2
<u>Total</u>	<u>659.2</u>	<u>100.0</u>	<u>1,662.4</u>	<u>100.0</u>	<u>20.3</u>

/a At 1970 constant prices.

Light manufactures have declined from 67% of total manufacturing value added in 1971 to 62% in 1976, while heavy manufactures have risen from about 31% to 35% over the same period. In coming years, the Government intends to encourage more skill-intensive subsectors such as machinery and electronics where Korea enjoys a competitive advantage over other developing countries because of its skilled labor resources. This deepening of the Korean industrial structure represents a major objective of the Fourth Five-Year Plan (1977-1981) and is expected to result in a relative reduction in the share of light industries in manufactured exports and output.

Geographic Distribution

1.05 In 1975, (based on the October 1975 census) approximately 27% of the population of Korea lived in the cities of Seoul and Pusan; the Province of North Gyeongsang where Taegu, the third major industrial city, is located, accounted for another 14% of the population. The following table shows that the regional distribution of industry and industrial employment is also skewed in favor of Seoul and Pusan.

Table 1.2: GEOGRAPHIC DISTRIBUTION OF INDUSTRY  
(Percent)

	1971			1975		
	No. of establishments	No. of workers	Value added	No. of establishments	No. of workers	Value added
Seoul and Pusan	30.3	45.4	45.2	33.4	45.6	36.5
Other Regions	69.7	54.6	54.8	66.6	54.4	63.5
<u>Total</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Source: Report on Mining and Manufacturing Survey, EPB 1975.

There was little change in the geographic dispersal of industrial employment in Korea between 1971 and 1975; Seoul and Pusan remain by far the largest industrial centers. The Government, however, has become increasingly aware of the need to achieve, through a wider geographic dispersal of industries, a better distribution of employment opportunities and a reduction of the congestion and overcrowding in Seoul and Pusan. The Government has been promoting the development of industrial centers outside these two areas principally through the establishment of free trade zones and industrial estates. Major examples of this policy are the iron and steel plants in Pohang, the petrochemical complex in Ulsan, the integrated chemical industry in Yeosu, and the machinery center at Changwon. The Saemaueul Movement, initiated in 1971, also aims at creating industrial employment opportunities in rural areas and at reducing the disparities of income between urban and rural areas.

### Financial Structure of Enterprises

1.06 The interest rate structure and slowdown in economic activity during the period 1970 to mid-1972 had resulted in a deterioration of the financial position and structure of Korean enterprises. Companies had become highly dependent on the high cost, short-term "curb-market" for their financing. To improve their situation, a Presidential Decree of August 1972 froze all loans from the unorganized money market and new measures were adopted which lengthened maturities of certain loans, reduced interest rates to 16.8% p.a. and converted loans from shareholders into equity. These measures as well as the remarkable performance of the Korean economy in 1973 resulted in a considerable improvement of the financial position and performance of Korean enterprises. The aggregate debt/equity ratio of manufacturing enterprises fell from 3.9:1 to 3.1:1 in 1972 and 2.7:1 in 1973. The average interest rate on borrowings of manufacturing enterprises concurrently declined from 13.4% to 8.6%. Profitability improved markedly with net profits increasing from an average of 1% of total assets in 1971 to 7.9% in 1973. However, with the quadrupling of oil prices at end-1973 and sharp increases in the costs of raw materials, enterprises were again subject to considerable financial strains. Capacity utilization declined and costs of production increased substantially. In an effort to sustain economic activity and employment, the Government helped finance the buildup of manufacturing inventories. Enterprises had to resort to increased borrowings and the aggregate debt/equity ratio increased to 3.2 in 1974 and 3.6 in 1976. Profitability decreased with net income declining as a percentage of total assets from 7.9% in 1973 to 5.7%, 3.9% and 4.6% respectively in 1974, 1975 and 1976. There is, however, some evidence that with the upturn in economic activity from the end of 1975 the financial structure and performance of Korean enterprises have improved.

### Trends in Industrial Investment

1.07 Fixed capital formation in the manufacturing sector amounted to W 805 billion in 1977, (equivalent to 20.1% of gross domestic capital formation in that year), which represented a 20% increase over the 1976 level of W 667 billion, which in turn, was 33% over the 1975 level of W 499 billion (all in current prices). In terms of constant 1970 prices, the real increase in fixed capital formation was nearly 12% between 1976 and 1977. During the Fourth Five-Year Plan period the growth rate of GNP is expected to be 9.2% per annum with mining and manufacturing growing at 14.2% p.a. Total gross fixed investment is projected at W 18,000 billion <sup>/1</sup> for the Plan period with manufacturing accounting for 28.3% by the end of the Plan period.

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<sup>/1</sup> At 1975 prices.



## Industrial Policies

1.08 Over the past ten years, industrial incentives in Korea have been highly responsive to particular and changing circumstances, and varied with Government policies and priorities for industrial development. These policies aimed, with variable emphasis, at the promotion of export industries, geographic dispersal of industry, assistance to small and medium industries and, more recently, investment in heavy industries.

1.09 A comprehensive incentive system was established during the first half of the 1960s which generally favored the promotion of exports over import substitution. The main elements of the incentive package included unrestricted access to, and tariff exemptions on, imports of raw materials and capital goods, generous waste allowances in determining duty-free raw material imports; direct and indirect tax reductions; access to subsidized credit for working capital and fixed investment; and rate subsidies on certain inputs. Key import substituting industries received protection from imports through tariffs and quantitative import controls. Estimates of effective subsidy rates show, however, that export activity was generally favored over import substitution. The international competitiveness of Korean industry had substantially improved between 1970 and 1973 partly due to successive devaluations of the won, and the Government consequently decided to reduce export incentives. Preferential rates of corporate income tax were abolished and interest rate subsidies were also reduced. In 1975, tariff exemptions on imported inputs were abolished in favor of a system by which the tariff on imported inputs is paid at the time of importation and rebated at the time of export. Tariff exemptions on imports of machinery and equipment by export industries were abolished in 1974; <sup>/1</sup> payment of custom duties can, however, be stretched over a three-year period.

1.10 While key import substituting industries have been granted many of the preferences given to exporters, production for domestic sale has generally been subject to higher duties, taxes and interest charges compared with rates charged to exporters but has nevertheless benefited from tariffs and restrictions on imports. Over the last few years there has been a modest decline in tariff rates, <sup>/2</sup> and an increase in reliance on import restrictions, as a means of affording protection to domestic producers particularly in the case of capital goods. However in 1977 the Government relaxed some of these restrictions as part of an import liberalization program. <sup>/3</sup> As a counterpart for the protection afforded to domestic producers through import controls, the Government in 1976 established price controls for major commodities. <sup>/4</sup>

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

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

<sup>/3</sup> The number of prohibited items has declined from 77 in 1968 to 66 in 1975 and to 60 in 1977 while items subject to import restrictions increased from 398 to 597 in 1976 but were reduced again to 456 in 1977.

<sup>/4</sup> In March 1976, the Government enacted the Price Stabilization and Fair Trade Law.

## Prospects

1.11 Export orientation has been the dominant feature influencing the structure and rate of expansion of the manufacturing sector. Export growth has been accompanied by a policy of selective import-substitution which has helped the aggregate dependence upon imported intermediate inputs and capital goods remain at roughly the same level over the last decade. Although import substitution has played a significant role in some sectors and over specific time periods, its contribution to the growth of manufacturing output has been very limited. It is estimated that over the period 1960-68 domestic demand contributed some 60% to the growth of manufacturing, while export expansion and import substitution contributed respectively 38% and 2%. The emphasis given to exports of light manufactures has resulted in a rather high degree of dependence upon imports as a source of raw materials and intermediate inputs, as is reflected in the fact that the domestic value added content of Korea's exports is only about 50%. While it is clear that Korea's poor natural resource endowment limits the scope for backward linkages, there is a real need for Korea to undertake a deepening of its industrial structure. Awareness of the desirability of deepening Korea's industrial structure was present in the formulation of both the Second and Third Five-Year Plans and lies behind the decision to build the first integrated steel mill and petrochemical complex. The long-term plan covering the decade up to 1981 which was published by the Economic Planning Board (EPB) in 1973 emphasized the accelerated development of the heavy and chemical industries as a critical element of Korea's future industrialization. The 1973-74 economic setbacks have rendered a reexamination of this long-term development plan necessary and while, in the fourth Five-Year Plan, emphasis remains on developing heavy industry and on increasing the domestic content of exported manufactures, some heavy capital and energy-intensive projects have been deferred or cancelled altogether.

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

1.13 Over the five-year period of the Plan (1977-81) the GNP is expected to grow at a rate of 9.2% p.a. fueled by a 16.5% annual growth in the volume of manufactured exports. The mining and manufacturing sector which in 1977 accounted for 30% of GNP (at current market prices) is expected to increase at 14.3% p.a., a higher rate of growth than that of GNP, which would bring the contribution of the mining and manufacturing sector to 41% of GNP by 1981. It is expected that some 55% of the two million new jobs to be created during the Fourth Five-Year Plan period will be in the mining and manufacturing sector. As in previous years, Korea's economic development would essentially be export-led, the ratio of commodity exports to GNP which reached 27% in 1975 and nearly 32% in 1977, would rise to 42% by 1981. However, compared to their real growth rate of 32% p.a.

over the period of 1967-75, exports are projected to increase at a more modest 16.8% p.a. The Plan is based on the assumption that Korea's exports of textiles, clothing and other light manufactures have a limited growth potential and are subject to encroachment by other developing countries. Korea's comparative advantage will, therefore, increasingly lie in industries which require more skilled labor and greater industrial sophistication such as machinery, electronics and shipbuilding. The real growth of exports of these products would be around 30% p.a. over the 1976-81 period. The share of manufactures is expected to rise from about 85% of total merchandise exports in 1975 to 92% by 1981. In order to sustain the projected GNP growth rate of 9.2% p.a., gross fixed investment would need to rise at 7.8% p.a. In relation to GNP, the projected investment is slightly lower than in the Third Plan period (26.2% of GNP as against 26.9% during the 1972-76 period). The share of manufacturing investment in total gross investment is projected to increase by only 2% from its average share of 24.6% during the Third Five-Year Plan to 26.5% during the Fourth Five-Year Plan. The shift in Korea's export strategy towards more skill-intensive exports is reflected in both the planned structure of industrial output and in projected investment allocations. The share of heavy and chemical industries is expected to rise from 43% of total value added in manufacturing in 1975, to nearly 52% by 1981. Investment in light industries is expected to decrease from 40% of total investment outlays in the manufacturing sector over the Third Plan period to 36% over the next five years; conversely, investment in the heavy and chemical industries such as basic metals and chemicals would be reduced in relative terms from approximately 75% of investment outlays in heavy and chemical industries over the Third Plan period to 61% over the Fourth Five-Year period in favor of investment in machinery and electronics which would increase from 25% to 39%.

1.14 The Plan's estimate of total investment required for the expansion and restructuring of Korea's industrial sector has been set at around \$ 10.5 billion over the 1977-81 period. There are grounds for believing, however that Korea's investment needs for 1977-81 may have been underestimated, while the domestic savings target (which calls for an increase in the proportion of domestic savings to GNP from 16.3% in 1970 to 27.1% in 1981) appears somewhat ambitious. The conjunction of these two possibilities would lead to a continued reliance on substantial inflows of foreign capital. The Korean Government has in recent years undertaken a major effort to mobilize domestic resources. Toward that objective, the Government established in 1973 the National Investment Fund (NIF), which is expected to finance a sizeable portion of the investment needs of Korea's major industries. The NIF was conceived as an important supplement to various programs of domestic savings mobilization, and particularly as a source of funds for long-term investment, primarily for plant and equipment. The NIF derives its funds from a variety of sources including the national savings associations; pension funds; postal savings; deposits in banking institutions (20% of which must be invested in NIF bonds); savings funds; and NIF's bond sales to the public. The Government has also embarked on a comprehensive capital market development plan, including the restructuring of the Korean Securities Financing Corporation and the development of new financial institutions such as merchant banks and the Korea Export Import Bank. Over the period 1977-81,

the Plan expects domestic funds to provide 63% of the aggregate investment in manufacturing and foreign capital to provide the remainder. About three quarters of this foreign investment is expected to be directed to the heavy and chemical sectors.

1.15 The Bank has worked closely with the Government in the formulation and implementation of industrial policies and is in basic agreement with the main thrust and priorities of these policies, including those contained in the Fourth Plan.

## 2. THE FINANCIAL SECTOR

### Institutional Setup

2.01 The financial sector of Korea consists of the Bank of Korea, Deposit Money Banks and nonmonetary financial institutions. The Bank of Korea performs regular central banking functions, including the supervision of commercial banks.

2.02 Deposit Money Banks include commercial banks and specialized banks. Commercial banks receive most of their funds through deposits from the public. They can make all kinds of loans but have traditionally concentrated on short-term lending although term financing through roll-over of short-term loans is common. There are 5 nationwide commercial banks, 10 banks with localized operations and 21 branches of foreign banks which together had 693 branches/offices around the country at end-1976 (all these fall into the category of "commercial banks"). Four of the five nationwide commercial banks are fully controlled by the Government which, under Korean law, automatically receives majority rights if its holding in a nationwide bank is 10% or more. The fifth bank is controlled by the semi-official Korean Traders Association. All commercial banks are subject to control and supervision by the Bank of Korea while specialized banks are directly controlled by the Ministry of Finance. The specialized banks were all established under a Special Banking Act and are subject to only a few specific Articles of the Bank of Korea Act and General Banking Act. Specialized banks are government-controlled and/or owned. As their name implies, they were founded for particular purposes or sectors (such as small-scale industry financing or agricultural financing) and government funds constitute a substantial part of their financial resources in addition to resources raised otherwise, the bulk of which consists of deposits raised from the public, hence their categorization as Deposit Money Banks. Specialized banks include the Korea Exchange Bank, which was established in 1967 mainly to relieve the Bank of Korea of commercial foreign exchange business, the Medium Industry Bank which extends financial and technical assistance to small and medium-scale industries, and

which has so far received two Bank loans totalling US\$85 million,<sup>/1</sup> the Citizens National Bank (mainly for mobilizing small savings and financing household loans and small enterprises), the Korea Housing Bank, the National Agricultural Cooperative Federation (NACF) and the National Fisheries Cooperative.

2.03 Besides the above-mentioned banking institutions which, with the BOK as supervising agency, constitute the "Monetary System," there are several nonbanking financial institutions, namely: (a) development finance institutions; (b) savings institutions; (c) life insurance companies; (d) investment companies; and (e) Merchant Banks. The development finance institutions comprise the Korea Development Bank (KDB) which so far has received three Bank loans totalling US\$252.5 million, the Korea Development Finance Corporation (KDFC) to which Bank Group assistance, including IFC, amounts to US\$240 million to date, the Land Bank and the Export-Import Bank. Savings institutions comprise some 1,200 authorized credit unions (at end-1976) and 211 mutual savings and finance companies. Five life insurance companies operate in Korea, in addition to the Postal Life Insurance and the Educational Insurance Company. Investment companies include the Korea Securities Finance Corporation which is the principal organization for securities financing in Korea, ten short-term finance companies <sup>/2</sup> and the Korea Investment Trust Corporation which is specialized in the establishment of investment trust funds. In addition, three leasing companies have been established over the last few years as joint ventures between Korean and foreign investors. The Merchant Banks are the latest arrivals on the Korean financial scene. Five such banks have so far been established; the Korean Merchant Banking Corporation (KMBC); the Korea-Kuwait Banking Corporation; the Saehan Merchant Banking Corporation; the Korea-French Banking Corporation and the Asian Banking Corporation. As of December 31, 1977 these merchant banks had total assets of W 56.8 billion (US\$117 million) and issuance of their own commercial papers accounted for 70% of their funds raised while discounting of commercial papers accounted for 75% of their operations.

2.04 As of December 31, 1977, total loans outstanding to the manufacturing sector by all banking institutions in Korea including KDB amounted to W 3,115 billion or US\$6.4 billion equivalent. (By May 31, 1978, this had grown to W 3,548 billion or US\$7.3 billion equivalent.) About 73% of December 31, 1977 total of W 3,115 billion was for operating funds, mainly supplied by commercial banks. The largest supplier of equipment loans (i.e. term loans) is KDB which, as of December 31, 1977 had an outstanding portfolio in the manufacturing sector of W 452 billion (US\$932 million), about 53% of the outstanding medium and long-term credit by banking institutions to the manufacturing sector as of that date.

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<sup>/1</sup> Please refer to report No. 1797-NO dated November 30, 1977: Staff Appraisal Report on the Medium Industry Bank.

<sup>/2</sup> Including the Korea Investment Finance Corporation (KIFC).

Capital Market

2.05 The Korean Stock Market was moribund for many years but showed signs of life in 1972. Before then the yields on stocks were considered unattractive as both savings accounts of commercial banks and the "curb market" gave higher returns. The market was also thin because closely held companies were reluctant to go public. With the mid-1972 economic boom and the adoption of new financial measures by the Government (para. 1.06), the public showed growing interest in the stock market. The curb market was severely checked as a result of the August 1972 measures and with decreasing interest rates offered by commercial banks, yields on stocks became attractive. In addition, the overall investment climate became more favorable after August 1972, and the campaign for more stock listings and for companies to go public was intensified. The result was a large increase in stock exchange activity in the second half of 1972 and in 1973. In 1974, however, the growth of trading activities on the exchange slowed down considerably due to the gloomy business outlook; new stock listings, however, continued to rise reaching almost W 500 million at the end of 1974. The following table summarizes the stock exchange activity over the last six years (figures are shown as of the end of each period):

Table 2.2: STOCK ACTIVITY 1971-1977

	No. of listed companies	No. of shareholders (in '000)	Capital of listed stock (W billion)	Market value of listed stock (W billion)
1971	50	81.9	141.4	108.7
1972	66	103.3	174.3	246.0
1973	104	200.0	251.6	426.2
1974	128	199.9	381.3	532.8
1975	189	290.7	643.4	916.0
1976	274	568.1	1,153.3	1,436.1
1977	323	395.3	1,492.4	2,350.8

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

2.06 At end-1976, the general stock price index stood at 415.3, an increase of 8% only during the year, compared with a 44% gain a year earlier. On the other hand, the issuing market was very active during 1976 as a result of the Government's efforts to promote the "going public" of privately-held companies. The number of listed companies increased by 85 to 274 in the year and a total of W 263 billion was mobilized through the capital market, a 69.5% gain over the previous year. During the year, the number of shareholders increased substantially. Over the years, the ownership structure has broadened, though as at December 31, 1976, about 63% of all shareholders still held less than 100 shares each and accounted for only 0.84% of all shares

outstanding. The importance of the Government as a shareholder of listed companies also decreased; while the Government (including public bodies) held about 39% of the total number of listed stocks in 1970, its holdings had declined to 16% by December 31, 1976. The proportion held by banking institutions also declined from 15% to 8% during the same period.

2.07 During 1977, the capital market exhibited a highly active performance in response to the Government's vigorous efforts to promote the going public of privately held companies. The supply of capital through the stock market to business firms during the year totalled W 363 billion, which exceeded the year's target of W 320 billion. Of this, W 44 billion was through public offering of equity shares, W 142 billion through share capital increases of listed companies, and the remaining W 177 debentures. The volume of transactions in the secondary stock market expanded by 119% during 1977, recording the trade volume of W 1,375 billion (1,271 million shares) and the number of listed companies on the Korea Stock Exchange increased by 49 to 323. The stock price index rose by 21.3% to 504.1 at end 1977, largely led by the substantial gain in prices of stocks of those companies engaged in construction services, automobile manufacturing and cement industries.

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

#### Interest Rates and Monetary Policy

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

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

strains and the Government hoped to succeed in bringing inflation under control. During the year 1976, wholesale prices are estimated to have increased only by 12.1% on an annual basis.

2.10 On August 2, 1976, the Government made an extensive upward adjustment in and revision of the interest rate structure in order to contain excessive loan demand and to better allocate funds. Prior to this date, Korean commercial banks had already resorted to various practices which resulted in increased collateral requirements and higher effective lending rates for their less creditworthy borrowers. Such practices included the collection of interest in advance, the establishment of compensating balances on time deposits or even the opening of installment savings accounts which are used both as collateral and sinking funds. The August 1976 measures acted to ratify and further rationalize this system of differentiating between borrowers on the basis of the risks involved. It led to a system whereby (a) the interest rates on working capital loans vary according to the credit standing of the borrower and (b) interest rates on equipment loans vary according to the loan maturity. The Korean financial authorities established a list of criteria for enterprises to qualify as a prime borrower which has helped reduce the need for subjective judgments on the creditworthiness of borrowers. This introduction of a prime rate system for working capital loans and of differential rates according to loan maturities for equipment loans constitutes an important step towards improving the overall allocation of funds to industry.

2.11 Effective July 1, 1977, the Government replaced the previous excise business and consumption taxes by the value added tax (VAT) system, all goods and services being assessed at a flat rate of 10%. There was some apprehension amongst the general public that the new taxation system might result in an increased tax burden on industrial enterprises and consequently in sharp rises in the cost of living. While the Government did not subscribe to this thinking it decided to introduce various anti-inflation measures to moderate the possible adverse impact of the new tax system. These measures included: (a) a lowering of bank lending rates by 1% on July 1 and a further 1% on October 1; time deposit rates were also lowered by 1.8% as from October 1, 1977; (b) the Government realigned and announced the prices of 851 major commodity items, pegged the maximum permissible price levels of major daily necessities and froze public utility rates until further notice; (c) easing of import restrictions as discussed in para. 1.10; and (d) measures to restrict growth of money supply including issuance of treasury bills and repayment of some Government borrowings from the Bank of Korea. During 1978, the Government continued with its active interest rate policy and in June raised the general level of the structure of interest rates, chiefly as a countercyclical measure, deposit rates being raised to 18.5% and onlending rates to 19% or higher.

2.12 The rate of increase of wholesale prices in 1977 was 10.1% and the growth of domestic money supply 40.7%. The targets set for 1977 as a whole were a 10% limit to wholesale price increases and about a 25% limit to domestic money supply growth. The money supply in the foreign sector more than doubled in 1977 and in the last quarter of 1977 the Government introduced various measures to curb its growth. Foreign banks were instructed in early December to freeze their won loans at their October 1977 level; reserve requirements for foreign currency deposits have also been established and enforced. Further measures have also been taken to curb money supply growth in the domestic sector; however, price controls were partially eased in two stages on August 1, 1977 and December 1, 1977. Interest rates as of June 30, 1978 are shown in Annex 4, T-1.



### 3. THE KOREA DEVELOPMENT FINANCE CORPORATION

#### A. KDFC'S ROLE IN THE ECONOMY

##### KDFC in Perspective

3.01 KDFC was established in 1967 with the active assistance of the Bank Group. Its operations, although having grown rapidly, remain small relative to the economy as a whole. As of end-1977 its outstanding loan portfolio of W 100.6 billion (US\$207 million) represented about 1.6% of the total outstanding loans - both short- and long-term - extended by all banking institutions in Korea./1 In the particular field of term finance, however, KDFC's lending is considerably more important, accounting for about 8% of all medium- and long-term equipment loans outstanding to the manufacturing sector as of December 31, 1977. KDFC's cumulative disbursements to the manufacturing sector amounted to W 82 million (US\$170 million) over the period 1971-77, representing about 2.7% of the total fixed investment in that sector (see Annex 4, Table 2)./2 Considering that KDFC financed an average of 38% of total project costs over those seven years, KDFC-supported projects have in aggregate accounted for about 7.0% of total manufacturing fixed investment. Over the three years 1975-77, KDFC's cumulative disbursements for nonmanufacturing activities represented 1.3% of total non-manufacturing fixed investment. Therefore, with KDFC financing an average of 59% of total project costs in this sector between 1975 and 1977, KDFC-supported projects have in aggregate accounted for about 2.2% of total non-manufacturing fixed investment. Apart from its financing activities, KDFC makes valuable qualitative contributions to the industrial sector through its high operational standards (para. 3.37), its efficiency as a resource allocator, and its extensive promotional activities.

##### KDFC's Role Within the Financial Sector

3.02 KDFC's Articles of Incorporation stipulate that the purpose of its establishment is to provide medium- and long-term financial assistance to the private sector, particularly the foreign exchange requirements of manufacturing and processing industries./3 While there is some degree of overlap

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/1 By comparison, KDB accounted for 16% of all outstanding loans.

/2 Subsector figures indicate that KDFC's disbursements as a proportion of fixed investment during 1971-77, were as high as 11.6% for metal products industries, 4.5% for textiles, and 4.2% for the machinery and equipment industries.

/3 Some nonmanufacturing activities are also included, such as transport, tourism, services, commerce, fisheries and large-scale commercially-oriented agriculture. However, trade, real estate and small-scale agriculture are excluded. The scope of KDFC's activities is further elaborated in Annex 2.

between the activities and clientele of KDFC and those of the other industrial finance institutions operating in Korea, there is nevertheless a distinction in lending emphasis, each institution fulfilling somewhat different functions and aiming at different sectors of the economy. The Korea Development Bank (KDB) is the main source of industrial finance in Korea for both the public and private sectors,<sup>/1</sup> and it is largely used by the Government as the executing agency of its industrial policies. Consequently, KDB finances, inter alia, large Government non-manufacturing activities such as power and transportation projects.<sup>/2</sup> The Medium Industry Bank (MIB) confines its financing to small and medium industry,<sup>/3</sup> particularly the modern medium-sized firms, while the Citizens National Bank (CNB) caters mainly to the unorganized sector of small-scale enterprise, providing consumer loans and small domestic currency loans to firms of an individual, household, or cottage type.<sup>/4</sup> There is no overlap between the activities of CNB and KDFC. Although KDB and KDFC are similar in some respects, KDB, unlike KDFC, provides the large majority of its loans for financing domestic currency requirements. Furthermore, both KDB and MIB, again unlike KDFC, allocate a much higher proportion of their total lending operations to working capital financing, a reflection of the fact that they are allowed to accept domestic currency deposits, which KDFC is not.<sup>/5</sup> In conclusion, the scope of KDFC's operations is clearly different from that of MIB, and somewhat more restricted than that of KDB.

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<sup>/1</sup> KDB's loan portfolio outstanding as of December 31, 1977, was W 1,008 billion (US\$2 billion), of which 10.4% was foreign currency lending, 89% for equipment financing and 46% for the private sector. By comparison, KDFC's loan portfolio outstanding as of the same date was W 101 billion (US\$207 million), of which 92% was foreign currency lending, 96% equipment financing and 100% for the private sector.

<sup>/2</sup> The non-manufacturing sectors accounted for 55% of KDB's outstanding portfolio at end-1977.

<sup>/3</sup> Defined by the Small Industry Basic Act (amended in 1977) to include manufacturing enterprises with up to 300 regular employees or total assets of up to W 500 million (US\$1 million). MIB's loan portfolio outstanding as of end-1977 was W 305.4 billion (US\$630 million).

<sup>/4</sup> CNB provides only domestic currency financing, up to a maximum of five years for enterprises employing up to 100 persons. The maximum loan size is W 30 million (US\$62,000).

<sup>/5</sup> In addition, KDB is empowered under the General Banking Act to mobilize domestic currency resources by issuing bonds (Industrial Finance Debentures) for relending purposes, which KDFC, established under the Commercial Code, is not.

3.03 Because of its large domestic currency financing and its extensive involvement in the non-manufacturing sectors, KDB remains by far the largest source of term finance for industry, the value of its 1977 loan approvals being 9.8 times larger than KDFC's. However, in the particular field of foreign exchange financing, KDFC's importance comes close to, and indeed may exceed, that of KDB. /1

#### Economic Impact of KDFC's Lending

3.04 Annex 4, Tables 3 and 4, summarize the partial economic indicators of the 344 subprojects financed by KDFC between the start of its operations in 1968 and end-1977. The aggregate investment cost of these projects is estimated at about W 360 billion (US\$740 million), of which KDFC financed W 135 billion, or 38%. /2

3.05 Scale of Output and Value-added of KDFC Projects. In 1976, KDFC financed 65 projects with a total project cost of W 93 billion (US\$193 million) which were expected to generate incremental annual sales of W 162 billion (US\$333 million) and incremental annual value-added of W 52 billion (US\$108 million). In 1977, it financed 62 projects with a total project cost of W 89 billion (US\$183 million) which were expected to generate incremental annual sales of W 127 billion (US\$261 million) and incremental annual value-added of W 49 billion (US\$101 million). On an incremental basis, aggregate value added per employee in the projects financed by KDFC increased between 1976 and 1977 to a level of W 9.34 million per employee. This was associated with a 4% decline in the capital:labor ratio (approximated by fixed assets per employee) between these two years, which is a favorable development as on certain restrictive assumptions such an increase in value added per employee would be expected to be associated with an increase in the capital:labor ratio. Similarly, on an incremental basis the aggregate value added:fixed assets ratio marginally increased between 1976 and 1977, i.e. the aggregate incremental capital output ratio decreased. The disaggregated data of Annex 4, Table 4 shows that the projects financed under KDFC's scheme of cooperation with the Regional Commercial Banks (RCBs, see para. 3.28) performed particularly well, as while total project costs decreased by 17% to W 4.8 billion between 1976 and 1977, incremental annual value added increased by 34% which was associated with increases of 180% in value added per employee /3 and 60% in the value added:fixed assets ratio.

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/1 KDB's cumulative foreign currency loan commitments from 1975 to 1977 were US\$199 million equivalent, compared with KDFC's US\$179 million.

/2 On an approval basis.

/3 Which was associated with only a 76% increase in fixed assets per employee, therefore implying a relatively greater contribution from labor inputs to final output.

Via KDFC's subloan to KDLC in 1976 (para. 3.19), 28 leasing subprojects were financed in 1976 and 1977 generating a further W 37 billion (US\$75 million) in incremental annual sales and W 10 billion (US\$21 million) in incremental annual value-added.

3.06 Employment Creation. At end-1977, KDFC's 223 clients employed about 240,000 people, or 2.2% of the total employed labor force in Korea. More significantly, KDFC's manufacturing clients employed nearly 7% of the 3 million people employed in the manufacturing sector in 1977. Between 1968 and end-1977, it is estimated that KDFC-supported projects created about 32,000 jobs.<sup>/1</sup> For all KDFC's projects, the average fixed investment cost per incremental job (excluding permanent working capital costs) was US\$21,500 in 1975; US\$25,400 in 1976; and US\$24,500 in 1977. There are, however, three significantly different lending activities included in this overall average, which, when examined separately, indicate that the labor intensity of projects selected for financing in fact varied substantially. In 1976, KDFC started lending to smaller projects through its scheme of cooperation with the RCBs (para. 3.28), and these projects showed a fixed investment cost per incremental job of US\$7,200 in 1976 and US\$12,800 in 1977. In addition, KDFC's subloan of US\$5 million to KDLC in 1976 indirectly supported 28 leasing subprojects at an average fixed investment cost per incremental job of US\$10,600. Consequently, the "KDFC-proper" (exclusive of both KDFC-RCB projects and KDLC projects) fixed investment costs per incremental job were US\$31,200 in 1976 and US\$26,200 in 1977.<sup>/2</sup> On the whole, the KDFC-financed projects do not appear unduly capital intensive considering that, firstly, KDFC was set up to operate primarily in the medium to large-scale sectors of industry and, secondly, KDFC has, in line with Government policy, recently financed a number of shipping, chemicals, and metals projects which are relatively capital intensive. However, KDFC acknowledges the importance of,

<sup>/1</sup> This excludes an estimated 1,800 jobs created in 1976 and 1977 by KDLC's leasing subprojects, assisted by KDFC's US\$5 million subloan to KDLC.

<sup>/2</sup> Despite definition and data problems, tentative estimates of "fixed asset and permanent working capital" costs were made and the addition of estimated permanent working capital costs increased the costs per job created as follows:

	1976			1977		
	KDFC proper	KDLC	RCB	KDFC proper	KDLC	RCB
Total fixed assets and permanent working capital;						
(i) W million	78,604	11,229	5,592	76,311	-	4,615
(ii) per incremental job (W'000)	18,229	6,245	4,000	16,615	-	6,950
(iii) per incremental job (US\$)	37,585	12,880	8,250	34,260	-	14,330

and explicitly analyzes, the employment impact of its projects, and it has initiated the RCB scheme (para. 3.28) in order to reach smaller (more labor-intensive) borrowers. But even for these KDFC-RCB projects the fixed investment cost per job created is increasing, which is partly due to the growing overall scarcity of labor (especially of skilled labor) which has led some investors to sponsor projects which were more labor-saving and more capital-intensive than they would otherwise have chosen to undertake. Regarding income distribution, KDFC has allocated its financial assistance to projects for which labor's share of value added has been increasing /1 in recent years, reaching about 30% in 1977.

3.07 Size and Diversity of Operations KDFC's loans have increasingly been for amounts above W 1 billion (US\$2 million); between 1968 and end-1977, a cumulative total of about 35% was above this amount. However, 214 of the total 356 loans made by KDFC from 1968 to end-1977 were for amounts below W 300 million (US\$600,000). Furthermore, in spite of a strong 'one-bank' tradition amongst Korean borrowers and bankers alike, only 77 (or 34%) of KDFC's clients received repeat loans over this period (Annex 4, Table 18), reflecting KDFC's continued efforts to broaden its clientele, diversify into new priority sectors and extend its financial assistance into new areas via initiatives such as the RCB scheme, a strengthened Project Promotion Department, and, for the future, a branch in the Busan area (see Annex 3).

3.08 Contribution to Exports. On the whole, KDFC's portfolio reflects an emphasis on export-oriented projects, with estimated annual export sales of US\$ 650 million representing 44% of incremental annual sales) resulting from all KDFC-financed projects between 1968 and end-1977. Over the last 5 years, heavily export-oriented projects (those exporting over 50% of their output) accounted for 46% of KDFC's loan approvals by amount (Annex 4, Table 5). However, in 1977 this proportion declined slightly to 40% and export sales as a proportion of the incremental annual sales generated by KDFC's projects also declined, to 20%. These reductions are mainly attributable to KDFC's recently increased support of priority projects in metals, construction, chemicals, paper and marine transport /2 industries, which are relatively more domestic market oriented. Furthermore, the level of imports associated with KDFC's recent projects (both for fixed assets and raw materials) declined between 1976 and 1977 but by a smaller amount than the above-mentioned decline in exports. Therefore, the main result of this recent sectoral re-orientation has been a short-run decline in the net annual balance of payments effect of KDFC-financed projects which was down to US\$40 million in 1977 (from US\$160 million in 1976).

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/1 The average monthly earnings of incremental jobs arising from KDFC-financed projects was (all in '000); W 150 in 1976 and W 220 in 1977, compared with sectoral averages of W 50 and W 70 respectively for those years.

/2 Invisible export earnings are not included.

3.09 Sectoral Distribution. It is noted in para. 3.43 that the sectoral distribution of KDFC's projects is broadly in line with current Government priorities. KDFC's allocations have recently increased to metals, chemicals, transport equipment and construction industries. While KDFC acknowledges the importance of the domestic machinery and electronics industries for employment creation and import substitution, (as stressed by the Government in the FFYP), its efforts to increase its assistance to these sectors have so far been only moderately successful. This is mainly because machinery projects generally required large financing amounts and consequently were beyond KDFC's financing capacity, while most electronics projects have been established as joint ventures with foreign investors, thus typically leaving limited scope for KDFC's involvement.

3.10 KDFC's financing share of total project costs was above the 38% average in metal and nonmetallic mineral products, paper industries, fisheries and transportation services, while it was well below average in chemicals and construction /1 (Annex 4, Table 6).

3.11 Regional Distribution. The geographical distribution of KDFC's projects (para. 3.46) is broadly in line with the slow evolution of industrial dispersal throughout Korea as a whole. KDFC is contributing to the decentralization of investment from over-crowded industrial centers by actively supporting the Government's emphasis on developing planned industrial zones (e.g. Changwon's machinery center, chemicals at Yeosu, electronics in Kumi, petrochemicals and shipbuilding in Ulsan and iron and steel at Pohang), as well as by continuing with the RCB scheme, designed to assist small and medium scale enterprises in the less developed areas of the country.

3.12 Economic Rate of Return Analysis. Since June 1973, KDFC has generally carried out an economic analysis of projects which required more than US\$1 million in foreign currency financing. Annex 4, Table 7 summarizes the ERRs for all the 73 KDFC-financed projects for which these indicators have hitherto been calculated. All but three of these projects had ERRs in excess of 15%, the three exceptions being transport equipment projects. The ERRs were as high as 60-80% for eight projects, three of which were for textiles. The average ERR was 32.3%. In addition, all but one of the projects had FRRs above 15%, the one exception being a steel manufacturing and rolling project which offset its low FRR with an ERR of 47%, attributable to its import substitution impact. Seven projects had FRRs above 40% with an average FRR for the whole sample of 27.2%. KDFC has clearly allocated its funds to projects which are both financially and economically viable. Furthermore, in the case of more than half (38) of these projects the FRR was in varying degrees lower than the ERR, which suggests that these projects contributed more in economic benefits to Korea as a whole than accrued as appropriable financial benefits to the projects themselves, thereby again illustrating the generally high degree of export-orientation of KDFC's projects.

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/1 Which is to be expected on grounds of high project costs.

### Influence on Project Design and Technical Assistance

3.13 KDFC continues to encourage project sponsors to approach it at an early stage of project formulation so as to enable it to make substantive contributions to project design. There have to date been numerous instances where KDFC has been successful in directly or indirectly introducing early modifications in project design which were subsequently implemented by the projects' sponsors. In several cases KDFC's recommendations have aimed at increasing the equity base and generally strengthening the financial structure of the borrower, which, besides improving the client's debt-servicing capacity, also represented a useful contribution to domestic resource mobilization. Acting more broadly as a development institution, KDFC has gone beyond financial matters per se and provided advice and consultancy services relating to:

- (a) technical design, choice of technology and selection of machinery; which has included such matters as domestic or foreign procurement, second-hand or new machinery etc;
- (b) market analysis and production plans; where KDFC has, in particular, frequently advised on production capacity and product-mix; and
- (c) corporate organization and legal structure; for which KDFC has often recommended the establishment of subsidiaries to implement projects.

3.14 KDFC is also sustaining its efforts to introduce new technologies via its projects so as to expand the range and improve the quality of products made in Korea, and, at the same time, promote the growth of forward and backward linkages in the industrial structure. In 1977, KDFC financed seven such projects which introduced technologies (and products) altogether new in Korea. More than 20 man-years of training abroad was involved (especially in Japan which supplied six of the new technologies), and in reverse, nearly 14 man-years of technical assistance in Korea was associated with the seven projects (Annex 4, Table 8).

### Resource Mobilization

3.15 KDFC's resource position is analyzed in para. 3.59. As of December 31, 1977, KDFC had W 27.4 billion available for approval, of which 91% (or US\$51 million) were foreign exchange funds and 9% (or W 2.4 billion) were domestic currency resources. In early 1978 the rate of approvals was extremely rapid, and as of June 30, 1978, KDFC had only W 7.1 billion remaining available for approval, of which 57% (or US\$8.5 million) were foreign exchange funds and 43% (or W 3.0 billion) were domestic currency resources.

3.16 Between 1968 and 1977, KDFC had mobilized a cumulative total of US\$331.2 million /1 in foreign currency resources. The breakdown was as follows (further details in Annex 4, Table 26):

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/1 Net of cancellations.

	Actual loan amount (US\$ '000)	%
A. Official sources:		
(i) World Bank (6 loans)	218,409	65.9
(ii) ADB (2 loans)	70,000	21.2
(iii) USAID	2,892	0.9
Subtotal	<u>291,301</u>	<u>(88.0)</u>
B. Commercial sources:		
(i) Caterpillar loan	79	-
(ii) IFC syndicated loan	17,800	5.4
(iii) DEG loan	2,000	0.6
(iv) APCO loan	20,000	6.0
Subtotal	<u>39,879</u>	<u>(12.0)</u>
<u>Total</u>	<u>331,180</u>	<u>100.0</u>

Apart from the relatively small USAID and Caterpillar loans, KDFC relied exclusively on the Bank for foreign currency borrowings until the first ADB loan was signed in September 1974. KDFC's efforts to expand its resources with foreign commercial borrowings suffered from a twofold constraint particularly during 1974/75; namely the shortage of medium- and long-term funds in the international capital markets and also Korea's limited ability to borrow in those markets because of its temporary balance of payments difficulties. Hence, KDFC was not able to raise its first commercial loan until 1976, when nearly US\$20 million was raised by IFC/DEG /1 on KDFC's behalf. In 1977 a further US\$20 million foreign commercial loan was raised via APCO. /2 KDFC's performance in mobilizing foreign commercial funds is satisfactory, taking into account the difficulties inherent in this type of resource mobilization, and the fact that KDFC has had only ten years of operation. KDFC plans to raise foreign commercial borrowings in increasing amounts (para. 3.66), but these will continue to be limited because of the

/1 The IFC syndicated loan amounted to US\$17.8 million, of which US\$8.9 million was on IFC's own account, and a further US\$8.9 million from eight international banks and institutions. The DEG loan of US\$2 million was made in parallel with the IFC loan.

/2 Asia Pacific Capital Corporation Ltd, a company associated with the First National City Bank (FNCB) of New York. Eight international banks participated in this syndicated loan.



difficulties inherent in obtaining them in sufficient amounts at reasonable cost, and also because of KDFC's need to match the maturities of its borrowings and its loans, which is only partially possible with commercial borrowings as they are generally available for a period of 6 to 8 years, while 46% of KDFC's loans are for terms exceeding 10 years (Annex 4, Table 17). Foreign commercial borrowings will make up a gradually increasing proportion of KDFC's overall resources, but they cannot obviate KDFC's need for funds from official sources such as the Bank in the foreseeable future. Finally, it should be noted that KDFC has helped mobilize a further US\$90 million in foreign currency resources via its joint financing operations (para. 3.23).

3.17 KDFC does not have access to domestic currency deposits, nor to the various Government subsidized funds (such as the NIF), nor is it able to issue bonds for relending purposes. Consequently KDFC's domestic currency financing has been limited. KDFC's domestic currency resources have, however, been built up from W 3.35 billion <sup>/1</sup> at its establishment to W 15.4 billion as of end-June 1978, of which W 11.1 billion was equity. KDFC is in the process of doubling its share capital (para. 3.33) by a further W 5 billion, which represents a substantial effort at domestic currency resource mobilization. KDFC has broadened its equity base mainly to enlarge its capacity for raising additional foreign currency loans rather than increasing its domestic currency operations. Finally, at the project level, KDFC has played a useful role in mobilizing domestic savings by requiring its borrowers to increase their equity contributions (para. 3.13).

#### Promotional Activities

3.18 As a private development finance institution, KDFC has endeavored to contribute to the realization of the Government's economic plans and policies. Its financial operations have deliberately encouraged, inter alia: (a) the promotion of export and import substitution industries; (b) the diversification of sectoral and geographical distribution of industries; (c) the creation of additional employment opportunities, where appropriate; (d) the diversification of clientele through the financing of new ventures and broadening of share ownership; (e) the provision of managerial and technical/project-design assistance to clients; and (f) the mobilization of domestic and foreign currency resources. KDFC's performance in achieving these objectives via its financial operations has been discussed in paras. 3.04 to 3.12. As a development institution, KDFC has gone beyond the provision of financial assistance and increasingly undertaken broader promotional activities. KDFC's Development Strategy Statements for 1976-77 and 1977-78 have outlined its specific promotional objectives and the institutions and mechanisms through which they were to be pursued. These objectives - which on the whole focus on the same elements as outlined in a-f above - can be consolidated as follows:

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<sup>/1</sup> Consisting of W 1.35 billion paid-in share capital and a W 2 billion Government loan.

- (i) development of the Korean financial system;
- (ii) intensification of efforts to mobilize foreign currency resources;
- (iii) development of industrial linkages; and
- (iv) diversification of KDFC's portfolio.

KDFC's record in implementing these developmental objectives via its promotional activities has been remarkable. These activities are discussed below.

3.19 Korea Development Leasing Corporation (KDLC). As a contribution to the development of the Korean financial system [(i) in para. 3.18], and as a supplement to its own development banking activities, KDFC promoted and jointly established KDLC with the Orient Leasing Co. Ltd. (OLC) of Japan in February 1975. KDLC has an authorized share capital of W 3 billion of which W 1.8 billion (US\$3.7 million) was paid-in; domestic shareholders hold 51% of its shares, foreign shareholders 49%; KDFC is the largest shareholder with a share of 30.8%, OLC holds 29.0% and IFC 10.0%.

3.20 KDLC writes financial leases for a wide range of industrial, agricultural, transport, construction, educational and medical equipment (as well as for the real estate necessary to operate such equipment) and issues guarantees on international leasing contracts. Its operations since its establishment have grown rapidly. As of end-March 1978 KDLC had written 186 lease contracts amounting to W 25 billion (US\$52 million). This heavy demand for leasing is partly the result of tax and tariff advantages granted by the Government to lessee and lessor alike. But, more significantly, the heavy demand for leasing is mainly attributable to the fact that many small- and medium-sized firms lack an adequate equity base (high debt:equity ratios) and the required collateral to obtain medium- and long-term finance, and thus are unable to purchase equipment outright. In contrast, lease financing is unrelated to the lessee's capital base as the ownership of the financed equipment remains with the lessor, and therefore the lease instrument has enabled small- and medium-sized enterprises to overcome this borrowing constraint and obtain what in effect amounts to an unsecured loan. Indeed, in 1977 the major portion of KDLC's business was with these companies, 67% of KDLC's leases and 52% of its lease amounts being contracted with small and medium-sized firms. The rapid growth of leasing, besides alleviating this borrowing constraint, has also contributed to the development of the domestic capital goods industry [(iii) in para. 3.18] by increasingly leasing equipment procured in Korea; KDLC increased its domestically procured equipment from 16% of total equipment purchased in 1976 to 24% in 1977.

3.21 On the whole it is evident that the lease instrument is especially well suited to some of the present needs of Korean industry, and KDLC's performance in the context of this rapidly growing market has been satisfactory (it attained a leasing market share of 49.2% in early 1978). Its main constraint has been, not lack of demand, but shortage of funds, and therefore

in 1976 KDFC requested, and the Bank approved, a US\$5 million subloan to KDLC out of the fifth Bank loan (No. 1145-KO) to KDFC. This subloan has now been fully allocated by KDLC to 28 leasing projects over the period 1976-78; of which 31% were for textiles and 26% for the food and beverage sector; and which in aggregate created 1,800 jobs at a fixed investment cost per incremental job of US\$10,600./<sup>1</sup> KDLC has also secured further foreign currency resources including an IFC-syndicated loan of US\$15 million.

3.22 Korea Investment and Finance Corporation (KIFC). Under the sponsorship of KDFC and IFC, KIFC was established in 1971 for the purpose of dealing in all kinds of short-term credit instruments, underwriting and distribution of corporate securities. Its establishment represented the first step in displacing the unorganized "curb market." KIFC was the first institution to operate under the Short-Term Financing Business Law of 1972, and subsequently 10 other short-term financing companies were established in 1973, 1974 and 1977. The short-term financial needs of Korean industry are considerable, the level of demand has therefore been high and the growth of operations rapid, the 11 companies having a combined portfolio of discounted notes outstanding of W 613 billion (US\$1.3 billion) as of end-1977, of which KIFC accounted for W 58 billion. KIFC's performance has been satisfactory, net income after tax amounting to W 2.8 billion in 1977, representing 94% of average equity.

3.23 Joint Financing and Resource Mobilization. Apart from indirectly mobilizing domestic currency resources by requiring its borrowers to increase their equity contributions (para. 3.13), KDFC has arranged joint financing for 20 projects between 1968 and end June 1978 with the dual objective of mobilizing foreign currency resources [para. 3.18(ii)] as well as enabling KDFC to participate in the financing of projects too large for it to finance alone. KDFC's own foreign currency financing of these 20 projects amounted to US\$34 million while the other financiers contributed US\$90 million (Annex 4, Table 9). Nearly half of these joint financing schemes involved new industrial ventures. IFC participated in the financing of 3 of the 20 projects. The level of joint financing activity increased markedly in 1977 during which 8 of the 20 projects were financed, involving US\$15 million in KDFC financing and US\$19 million from other sources. In addition KDFC assisted Korean enterprises to borrow directly from foreign financiers in 1977; the Sam Yang Tire Manufacturing Company Ltd. borrowed US\$3.7 million from Trident International Finance Ltd (Hong Kong) via KDFC's intermediation.

3.24 While the level of KDFC's joint financing activity of recent years represents a substantive contribution to foreign resource mobilization, the Government's recent restrictions on the borrowing of foreign currency by corporations from abroad will most probably reduce this level in the immediate future. Therefore KDFC intends to increase its joint financing with domestic banks and foreign banks operating in Korea, and also to actively support the recent Government emphasis on the promotion of joint industrial ventures. In

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<sup>1</sup> For a more complete analysis of KDLC's subprojects financed via KDFC's 1976 subloan, see Annex 4, Table 4.

this connection, KDFC entered into a Cooperation Agreement with the Belgian Corporation for International Investment (SBI) in April 1978, designed to promote joint ventures and long-term financing of manufacturing and agro-industrial projects.

3.25 Development of Industrial Linkages [para. 3.18 (iii)]. KDFC's promotional efforts in this field basically involve two activities: the Korea Technology Advancement Corporation (K-TAC), and KDFC's assistance to the machinery industries, particularly the encouragement of subcontracting arrangements within that sector.

3.26 K-TAC was established in 1974 under the joint sponsorship of KDFC and the Korea Institute of Science and Technology (KIST), with the objective of promoting the commercial exploitation of the patents and technical processes developed by KIST. In 1976, K-TAC promoted two new projects for bronze powder and cordierite saggar production, both with KDFC's assistance in the form of loans and equity participation. Progress has been satisfactory, the latter project is already profitable in its first operating year, and the former project will be spun off as a separate legal entity within 1978, as planned. More recently, KIST has developed a new manufacturing technique for Vivatax, a raw material for a fungicide, which K-TAC intends to establish as a project at an estimated cost of US\$2.5 million. It is presently being appraised by KDFC. More generally, the scale of future K-TAC activities will be increased as it intends to become involved in the promotion of direct transfers of advanced foreign technologies into Korean industry by, inter alia, establishing new joint-enterprises and seeking KDFC's financial assistance, in addition to its present promotion of KIST's technical inventions and modifications.

3.27 In line with recent Government policies, KDFC has given high priority to the machinery industry, especially to the small- and medium-sized producers as most of the large scale machinery projects are beyond KDFC's financial and technical reach. In 1977, 4 machinery projects and 18 machinery-related capital goods projects were approved, involving respectively US\$3 million and a total of US\$22 million in foreign currency financing. In some cases, KDFC has also been assisting the domestic machinery sector indirectly by financing the foreign currency component of domestically procured capital goods; <sup>/1</sup> about US\$9 million of Bank Loan No. 1461-K0 was utilized in this manner in 1977, as well as a further US\$6 million from the second ADB loan. Through its financial support of this sector, KDFC has increasingly noticed instances where the successful development of large-scale machinery projects is hindered by, inter alia, insufficient subcontracting arrangements. In the future KDFC therefore intends to stress the promotion of subcontracting, particularly examining the possibility of manufacturing components and parts for its machinery and automobile clients on a subcontracting basis, thereby stimulating small and medium scale activity and strengthening industrial linkages.

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<sup>/1</sup> A percentage of 60% representing the estimated foreign exchange component of domestically manufactured capital goods is eligible for financing under the (sixth) IBRD Loan No. 1461-K0.

3.28 KDFC-RCB Assistance to Small Industries in Less Developed Areas.

In order to diversify its portfolio [para. 3.18(iv)] in terms of geographical distribution and a broader clientele, KDFC signed cooperation agreements with four /1 of the ten Regional Commercial Banks (RCBs) between August 1975 and December 1976. The basic objective of this scheme is to channel foreign currency funds (provided by KDFC) to projects identified and appraised by the RCBs along guidelines (which are detailed and appropriate) issued to them by KDFC. The RCBs finance the domestic currency requirements and assume responsibility for the supervision of projects. KDFC has specified US\$500,000 as the normal ceiling on foreign currency loans to any single enterprise under this scheme.

3.29 In 1976 an amount of US\$5 million was allocated by KDFC from the fifth Bank loan to finance 18 KDFC-RCB projects. In 1977 an amount of US\$4 million from the second ADB loan went to 12 KDFC-RCB projects. A further US\$7 million out of the sixth Bank loan is expected to be fully committed to KDFC-RCB projects by end-1978. Partial economic indicators for these projects are summarized in Annex 4, Table 4; 40% of the 1977 loans (by amount) went to borrowers with total assets of W 500 million (US\$1 million) or less; 83% to borrowers with less than 200 employees; 70% to new projects; and 24% to the metal products sector, 27% to textiles and 23% to the dairy products sector (Annex 4, Table 10).

3.30 Via this scheme, the RCBs can participate in different projects (i.e. those requiring foreign currency financing) and simultaneously broaden their clientele, and their staff have received training in appraisal techniques at KDFC (eight officers, two from each RCB, attended a course at KDFC in 1977). For KDFC, this scheme has had an immediate impact on the geographical and clientele diversification of its portfolio, without the need to first set up a branch network. It has also increased its interaction with other financial institutions [para. 3.18(i)], and most importantly, it has provided a channel through which it can extend foreign currency financing to small scale borrowers in less developed areas. However, it is not entirely without problems, for instance, the Chunbuk Bank, being located in a principally rural area has not yet been able to identify a suitable project for financing under this scheme./2

3.31 KDFC has also pursued the diversification of its portfolio by continuing to support projects in the agro-industrial sector; in 1977 total loans of US\$2.1 million were approved for 5 dairy projects, and a W 200 million convertible debenture subscription was approved for the Dong Yang Farm Company (for viticulture and hops).

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/1 The four Regional Commercial Banks were: Bank of Busan, Daegu Bank, Chunbuk Bank and Kwangju Bank.

/2 The Chunbuk Regional Study (see Annex 3) is specifically charged with identifying suitable projects in this region; it should be completed in mid-1978.

## Development Strategy

3.32 Having made substantial progress in achieving the development objectives outlined in its previous Development Strategy, KDFC has adopted a new Development Strategy Statement for 1978/79 (Annex 3) which covers five main areas: (a) a study to be carried out in close consultation with the Bank Group to identify the various options for future diversification and expansion of KDFC's functions and operations, in the context of the rapidly changing and growing Korean economy (paras. 3.67 to 3.69); (b) project promotion and resource allocation; specifically continuing to finance small scale and/or labor intensive projects via the RCB scheme, placing increased emphasis on subcontracting arrangements especially in machinery and related industries, and intensifying efforts to establish jointly with DEG an engineering and consulting firm (as a separate legal entity) to undertake feasibility studies and provide advisory services for both public and private enterprises; (c) resource mobilization; KDFC will endeavor to raise US\$250 million foreign commercial funds between 1978-82 so as to gradually reduce its dependence on official sources, and will mobilize domestic currency resources via its planned W 5 billion share capital increase; (d) research activities focussing on the Chunbuk Area Study; and (e) KDFC will strengthen and adapt its organization by increasing the staff of its Project Promotion Department and consider establishing a branch in the Busan area in the near future. The precise form, magnitude and speed of implementing these various development activities will be closely linked with the ultimate conclusions of the Special Study on KDFC's future role.

### B. INSTITUTIONAL ASPECTS

#### Functions and Legal Status, Ownership, Organization and Staff

3.33 Functions and Legal Status, Ownership and Share Capital. KDFC is a privately owned corporation established under the Korean Commercial Code. Its main objective is to assist the development of private productive enterprises, thereby supporting the development of the Korean economy. Apart from IFC (holding 10.5%), no single shareholder owns more than 4% of the share capital. KDFC's ownership is therefore reasonably broad based.<sup>/1</sup> The 11 foreign shareholders (including IFC) accounted for about 35% of KDFC's paid-in share capital as of December 31, 1977. Apart from IFC and the German Development Corporation (DEG) which is a semi-public institution, the foreign shareholders are commercial banks mostly from the US and Japan (Annex 4, Table 11). KDFC's present authorized capital is W 10 billion. KDFC's initial paid-in share capital of W 1.35 billion in 1968 had increased to W 5 billion by end-1977 through stock dividends and two rights issues in 1973 and 1976. The Board of Directors decided in February 1978 that KDFC will increase its share capital by a further W 5 billion (to a total of W 10 billion) in 1978, in order to strengthen its equity base and correspondingly its borrowing capacity (further details in Annex 4, Table 12).

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<sup>/1</sup> Particularly among the 377 domestic shareholders, of whom only 8 hold more than 1.75% of KDFC's shares.

3.34 Management and Organization. KDFC has a 13-member Board. The Korean directors are all leading members of the financial and business community. Five directors, including IFC's representative (Mr. N. Nishihara) represent the foreign shareholders. Mr. C.S. Hong, a prominent industrialist and former Chairman of FKI, /1 who has been the Chairman of the Board since KDFC's establishment in 1967, resigned the Chairmanship in May 1978, while continuing to serve as a Director. He was succeeded as Chairman by Mr. C.H. Kim (previously the President of KDFC). Mr. B.E. Kim (former President of the Korea Exchange Bank) was elected as President. KDFC's high managerial standards are expected to be maintained. Between Board meetings, authority to conduct KDFC's operations and approve loans and investments under US\$5 million is delegated to an Executive Committee consisting of four board members (with the Chairman and President as ex officio members). KDFC's President has been given authority to approve loans and investments up to US\$500,000 under KDFC's scheme of cooperation with the RCBs. KDFC remains one of the best managed DFCs with which the Bank Group is associated, and it has considerable depth at the management level. The Board and Executive Committee are listed in Annex 1.

3.35 Staff. A breakdown of KDFC's staff, which numbered a total of 135 at end-March 1978, is provided in Annex 4, Table 13. The quality of KDFC's professional staff, both in terms of academic and professional background, remains excellent at all levels. This is reflected in the consistently high standard of KDFC's operations. KDFC has endeavoured to maintain its salaries at roughly comparable levels with equivalent positions in private industry and at slightly higher levels than other financial institutions in Korea. Nevertheless, staff turnover accelerated markedly in recent years, with nine professionals leaving in 1976, another nine in 1977 and a further six leaving by end-March 1978. /2 The main reason for these high rates of turnover seems to be the attraction of more rapid promotion prospects in fast-expanding industry (particularly attracting KDFC's junior officers), rather than comparative salary levels per se. KDFC is not the type of institution which could or should match such rates of personnel promotion, but in an effort to meet the competition from industry, KDFC has recently expanded its fringe benefits package, which now includes staff housing loans /3, family medical insurance and subsidized recreational opportunities. In addition, staff training abroad is being considerably expanded, and it is expected that eight professionals will receive overseas training /4 in 1978. As a result of

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/1 Federation of Korean Industries.

/2 Excluding for all three years the professional staff made available to KDLC and KIFC.

/3 This represents a very strong incentive given the rapid inflation in house prices and difficulty of obtaining sufficient financing from the Korea Housing Bank.

/4 Two staff members are going to the Industrial Bank of Japan for one month, other training arrangements remain to be finalized.

these added incentives, future staff turnover is expected to subside. So far, staff turnover has had no noticeable adverse effect on the quality of KDFC's operations, which is due to KDFC's basic staff strength, and also because the turnover has not involved KDFC's key staff. Moreover, KDFC has had no difficulty in recruiting new staff /1 of a similarly high quality. KDFC intends to recruit 13 additional professionals in 1978. KDFC's recruitment plan to 1982, detailed in Annex 4, Table 13 is adequate. Besides intensified foreign training, KDFC is also stepping up domestic and in-house training, especially focusing on project appraisal techniques, finance, management, law, taxation and accounting. These courses have also occasionally involved the RCB's staff.

### Operational Policies

3.36 The Statement of Investment and Operational Policies (Annex 2), adopted in 1967 and subsequently amended on seven occasions, sets out the guidelines for KDFC's operations. There have been no substantive changes since the previous Bank appraisal. The Statement outlines the usual financial prudence limits. Paragraph 10 specifies that KDFC's maximum financial exposure (including loans, share capital and guarantees or any combination thereof) in any single enterprise will not normally exceed 25% of KDFC's paid-in capital, free reserves and the subordinated Government loan. As of December 31, 1977 KDFC's normal exposure limit defined in this manner stood at W 2.72 billion, and this limit had been exceeded in only four cases up to that date. In three cases the excess was small (ranging from W 5.8 million to W 119.8 million) and in only one instance was the excess large (W 1.16 billion). The increase in KDFC's paid-in share capital currently underway will eliminate these few instances of excess exposure altogether. In addition to the general Statement of Investment and Operational Policies, KDFC has outlined its more specific development objectives for the immediate future in the Development Strategy covering 1978/79 (Annex 3).

### Project Appraisal and Supervision

3.37 Project Appraisal. The procedures, quality and ex-post accuracy (para. 3.38) of KDFC's appraisal work continue to be of a very high standard. KDFC's appraisal methods and reports are frequently used as models and training materials by other Korean institutions as well as some overseas DFCs. Technical, marketing, management, financial and economic matters are usually analyzed thoroughly. KDFC's economic analysis is sufficiently sophisticated, and since June 1973 ERRs have been routinely calculated for projects seeking foreign exchange financing in excess of US\$1 million, irrespective of the source of financing. The coverage of KDFC's project appraisal is being further expanded and refined by explicitly focusing on energy matters, such as total requirements, possible alternative energy sources, and energy-saving techniques and designs. In addition, the possible

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/1 A recent selection in 1977 showed a ratio of three applicants per available position.



adverse ecological implications, if any, of a proposed project are evaluated in accordance with the Pollution Prevention Act of 1971, and the Environment Conservation Act of 1977. Of particular relevance to its appraisal techniques and standards are the continuing close links which KDFC maintains with the Korean Institute of Science and Technology. Furthermore, the proposed establishment of the Engineering Consulting Firm (Annex 3) will provide KDFC with another source of expertise, particularly in the appraisal of technical aspects in the preinvestment phase. It is therefore expected that the high standards of KDFC's appraisal will not only be maintained but actually be further improved.

3.38 Supervision. The Operations Department, numbering 21 professionals, is responsible for project follow-up activities.<sup>/1</sup> KDFC's supervision procedures are systematic and thorough. The subborrowers' reporting requirements are comprehensive and are used by the Operations Department as a basis for an annual follow-up report on each project which analyses, inter alia, sales, market shares, price trends and financial performance, particularly liquidity and earnings. In addition, actual project costs <sup>/2</sup> and benefits are collected and used to calculate ex-post FRRs and ERRs, which are compared to the ex-ante appraisal estimates. A small sample of such comparisons was as follows:

	FRR		ERR	
	Projected	Actual	Projected	Actual
1. Ihn Sung Fisheries	-	-	24.0	20.2
2. Dongsue Shipping	23.9	17.4	23.9	17.4
3. Dong Yang Tinplate	50.0	33.5	53.0	39.7
4. Korea Ferrite	30.5	30.4	29.8	29.8
5. Tao Young Shipping	-	-	22.0	21.9
6. Ilshin Spinning	44.2	50.3	44.4	50.5
7. Young Poong Mining	33.4	42.1	71.3	60.4
8. Kimpo Ceramics	22.3	24.0	27.6	25.5
9. Chonju Paper	15.8	16.5	23.7	22.1

A high degree of predictive accuracy is indicated by these figures, reflecting the high standard of appraisal work. This predictive accuracy is even more remarkable when it is considered that the ex-ante estimates were made in a period of sharply fluctuating prices and trade flows.

<sup>/1</sup> KDFC intends to reorganize its departmental structure and functional responsibilities in the second half of 1978 (Annex 5).

<sup>/2</sup> A study of a sample of 19 recent subproject for which implementation was completed in 1976 and 1977 showed 12 cases of cost underrun ranging from 0.1% to 10%, with an average of 4.5% , and 7 cases of cost overrun ranging from 0.1% to 19%, averaging 7.3%.

## Procurement and Disbursement

3.39 KDFC's procurement and disbursement procedures are designed to ensure an efficient and appropriate use of funds. KDFC normally requires a reasonable degree of competition, involving a comparison of at least three quotations from potential suppliers. In 1977, the equipment requirements under 26 loans, involving about US\$26 million in KDFC financing, were procured in this manner. Occasionally KDFC insists on international competitive bidding, and in 1977 two loans involving US\$5.4 million used this method of procurement. More frequently, and particularly for expansion projects, the specifications and technology of existing equipment effectively compels the procurement of new equipment from the same supplier. In 1977 such contractual procurement was made for 38 loans involving nearly US\$39 million. In all cases of project procurement the merits of the various alternative methods and offers are evaluated jointly by the subborrower and the Operations Department. The final procurement contract is subject to KDFC's approval and disbursements are subsequently authorized against submission of satisfactory documents and progress reports on project implementation. KDFC closely monitors the procurement process and also collects extensive data on the actual expenditure of its loans.

## C. OPERATIONS

### Overall Lending Operations

3.40 The scope of KDFC's operations, particularly its clearly distinct role vis a vis the functions of other development finance institutions operating in Korea, has been outlined in para. 3.02. KDFC's financing operations fall into two broad categories: (a) medium- and long-term capital (equipment) loans in foreign and domestic currency; and (b) domestic currency investments in equity shares and convertible debentures. KDFC's guarantee operations are negligible. KDFC's operations, up to June 1978, are summarized in Annex 4, Table 14. Cumulative commitments from KDFC's inception to June 30, 1978 stood at W 160.6 billion (US\$331 million) of which foreign currency lending accounted for 89.7%, domestic currency lending 5.8%, equity investments 2.8% and convertible debentures 1.7%. Cumulative disbursements from 1968 to June 30, 1978 stood at W 168.7 billion<sup>/1</sup> and the total amount outstanding as of June 30, 1978 amounted to W 123.9 billion. Equity and debenture investments are discussed in para. 3.48.

3.41 Foreign Currency Lending Operations. Cumulative foreign currency loan approvals over the 1968-June 30, 1978 period amounted to US\$324.3 million representing 348 loans. Again on an approval basis, KDFC's foreign currency lending in 1977 was US\$70.0 million, an increase of 14% over the 1976 level of US\$61.5 million, which itself was 43% greater than the 1975 total of US\$42.9 million. This year-to-year comparison is slightly distorted by the unusually rapid growth in the 1976 foreign currency loan approvals which was partly the result of the availability of the US\$20 million IFC-syndicated commercial loan. This particular instance in 1976 underlines the more

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<sup>/1</sup> For the method of calculating "won equivalent" disbursements, see Annex 4, Table 14, footnote f.

general point that the year-to-year growth pattern has been irregular throughout because the level of approvals has typically been a direct function of resource availability. The delayed effectiveness of the ADB loan in 1974 and the joint availability of the first ADB loan and fifth Bank loan for part of 1975 are therefore clearly reflected in the sharp fluctuations of KDFC's approval figures for those years. Similarly, the simultaneous effectiveness in late 1977 of the sixth Bank loan of US\$70 million and the APCO /1 syndicated commercial loan of US\$20 million can be expected to increase the growth rate of foreign currency loan approvals for 1978. (The half year figures to June 30, 1978 confirm this expectation, with approvals of US\$44.5 million so far).

3.42 Domestic Currency Lending Operations. As KDB and MIB are statutorily authorized - unlike KDFC - to accept domestic currency deposits and issue domestic currency bonds for resource mobilization purposes, KDFC considers that these institutions are better equipped to handle domestic currency lending. In contrast, KDFC concentrates on foreign currency lending and considers its (limited) domestic currency financing as an ancillary service to its borrowers of foreign currency. Hence KDFC's domestic currency loans accounted for only 5.8% of its total financial assistance from 1968 to June 30, 1978. Over this period, cumulative domestic currency loan approvals amounted to W 9.5 billion (US\$19.6 million) involving 96 loans.

#### Characteristics of KDFC's Lending Operations

3.43 Sectoral Distribution. Annex 4, Tables 15-16 summarize the sectoral distribution of KDFC's loan approvals for the period 1968 to 1977. Only one sector exceeds 20% of KDFC's total loan portfolio (metal products, machinery and equipment, with 21.9%), reflecting KDFC's policy to achieve and maintain a diversified sectoral distribution of its portfolio. The three largest recipients of KDFC loans were metal products, machinery and equipment (21.9%), textiles, wearing apparel and leather (18.3%) and marine transportation services (17.8%). In 1977, textiles financing declined abruptly compared with 1976 (from 26% to 5%), while the share of metal products more than doubled between 1976 and 1977 (from 16% to 36%).

3.44 Annex 4, Table 16 presents the sectoral distribution of KDFC's approvals at several levels of disaggregation. On a cumulative basis the manufacturing sector accounted for 66% of KDFC's approved loans up to end-1977, nonmanufacturing accounting for the remaining 34%. Within manufacturing, the three industry groups had the following shares of KDFC loan approvals on a cumulative basis to end-1977: capital goods industries 26.4%, consumer goods industries 22.7% and intermediate goods industries 16.6%. This distribution is essentially the result of events in 1977, when loan approvals to consumer goods industries (notably textiles) declined to one-fifth of the 1976 level, while the share of both other industry groups in KDFC's loan portfolio continued to grow rapidly. On a cumulative basis, chemicals and metal products are the two largest subgroups of heavy industries in KDFC's manufacturing sector portfolio. Within nonmanufacturing, transportation (mainly marine shipping) is the largest subgroup, accounting for 19.5% of KDFC's total financing.

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/1 Asia Pacific Capital Corporation, Ltd, affiliated to FNCB of New York.

3.45 Size Distribution. Annex 4, Table 17 (Section C) summarizes the size distribution of KDFC's lending from 1968 to end-1977. On a value basis, the shift towards lending to projects requiring large amounts of financial assistance continued in 1977, when about 75% of KDFC's lending was allocated to projects of more than W 500 million (US\$1 million), reflecting the growing size of investment projects in Korea. However, based on the number of loans, more than 50% of KDFC's loans in 1977 were for W 300 million (US\$0.6 million) or less, a situation basically unchanged from 1976 and not significantly different from the entire ten years of operations between 1968 and 1977.<sup>/1</sup> This shows that KDFC, in accordance with the Government (and its own) development strategy, is continuing its efforts to at least partially cater for the needs of small- and medium-scale firms as an addition to its main business focus of lending to relatively large industrial enterprises. The average size of KDFC's lending <sup>/1</sup> (excluding the KDFC-RCB loans) was US\$1.14 million per project in 1976 which increased to US\$1.38 million per project in 1977. Under KDFC's scheme of cooperation with the RCBs, 18 loans were made in 1976 at an average of US\$280,000 per project, and another 12 loans averaging US\$320,000 per project in 1977. It is apparent, therefore, that the average magnitude of all KDFC loans per project (US\$0.8 million in 1974, US\$1.0 million in 1975, US\$0.9 million in 1976, US\$1.1 million in 1977) obscures the diversity of KDFC's lending operations and more especially the allocation of loans to small- and medium-scale enterprises through its hitherto limited, but qualitatively useful, cooperation effort with the RCBs. <sup>/2</sup>

3.46 Geographical Distribution (Annex 4, Table 17, Section D). Excluding the fishing and marine transport industries, the share of the Seoul area in KDFC's financing declined from 26% in 1968-72 to 20% in 1968-77. Conversely, the Kyung-Gi province surrounding Seoul has increased from 11% to 22%. The Busan area has maintained a fairly constant level of about 7% throughout, while its surrounding area, South Kyung-Sang Province, marginally increased its share from about 4% to 6%. The North Kyung-Sang Province, which includes Taegu, the third major industrial region in Korea, and an important textile area, has maintained its share of about 10%. The geographical distribution of KDFC's projects conforms with the general objective of wider industrial dispersal throughout Korea as a whole.

3.47 Repeat Loans. Annex 4, Table 18 summarizes KDFC's repeat loan operations since its inception, and indicates that KDFC has been reasonably successful in diversifying its clientele. As of end-1977, subborrowers receiving more than one loan accounted for 34% (by number) of KDFC's 223 clients, while the equivalent end-1976 figure was 37%. Repeat loans (by amount) represented about 55% of cumulative loan approvals since KDFC's inception, which again, is an improvement on the end-1976 level of 59%.

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<sup>/1</sup> Excluding US\$5 million subloan made in 1976 to KDLC, which was on-lent to a total of 28 projects at an average lease amount of W 87 million (US\$180,000). KDFC's lending to KDLC is also a worthwhile and effective method of meeting the needs of small- and medium-scale enterprises.

<sup>/2</sup> As these calculations are made in current prices, it could be argued that by number of loans, KDFC has actually increased the proportion of small loans (W 300 million or less) over time (if expressed in constant prices).

About 24% (by amount) of KDFC's repeat loans have been allocated to textiles, 18% to marine transportation and a further 16% to metal products, machinery and equipment.

#### Investment Operations

3.48 A summary of KDFC's investment operations is presented in Annex 4, Table 19. Between 1968 and end-1977 convertible debentures and equity participations accounted for only 4.6% of KDFC's total financial assistance, and 18% and 27% respectively of KDFC's total domestic currency approvals (W 15.2 billion), the remaining 55% being domestic currency loans. KDFC is giving increasing priority to these investment activities because it considers them to provide potentially substantial, even disproportionate, assistance to the establishment and successful development of enterprises. In accordance with this objective, KDFC had by end-1977, selected 26 companies for equity investments, /1 17 of which were not listed, 3 were operating at a loss in their initial start-up phase, and 5 were in the preoperating stage. Generally KDFC makes its equity investments (like its domestic currency loans) as a supplement to foreign currency loans, and at end-1977 the 26 companies in its investment portfolio had received loans totaling W 17.8 billion (US\$37 million) from KDFC.

#### Utilization of Bank Loan No. 1461-KO

3.49 As of June 30, 1978, KDFC had committed US\$61.9 million of the proceeds of the sixth Bank loan (US\$70 million) for 38 subprojects. These Bank resources constituted about 92% of KDFC's total financial assistance (US\$67.6 million) to these sub-projects, which itself financed about 31% of the US\$220.6 million total project costs (of which 52% was foreign exchange). KDFC's subloans ranged in size from US\$92,000 to US\$7.6 million (for petrochemicals) with an average of US\$1.3 million. /2 By amount, the chemical/ petrochemical and paper industries accounted for about 36% of KDFC's approvals, but by project, fisheries (including deep-sea fisheries) and metal projects were the most numerous. Twenty-one of the subloans were for expansion purposes, nine were new projects and six were repeat projects (nearly all fisheries). Financial rates of return are satisfactory, ranging from 15% to 44%, with an average of about 25%, while the ERRs range from 15% to 68%, averaging nearly 30%. Further details are summarized in Annex 4, Table 21.

3.50 Preliminary estimates indicate that 2,884 incremental jobs will be generated by these subprojects at a fixed investment cost per job ranging

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/1 KDFC outstanding equity investment portfolio in these 26 companies at end-1977 was W 4.2 billion.

/2 Excluding three subprojects (petrochemical, chemical and paper) which are unusually capital intensive and therefore misleadingly distort the average subloan size.

from US\$3,000 to US\$234,000 (marine transportation), with an average of US\$30,300 /1 (see para. 3.06 for a comparison with all KDFC's projects). On the whole, this level of average fixed cost per incremental job reflects the fact that KDFC was set up primarily to operate in the medium- to large-scale sectors of industry and that in recent years it has, in line with Government policy, financed a number of projects in priority sectors which are generally capital intensive (e.g. chemicals, marine transportation and metals). In addition, this average fails to reveal the successful efforts that KDFC has been making to meet the financial needs of some smaller, typically more labor intensive, enterprises via its RCB scheme and leasing projects through KDLC.

#### D. FINANCIAL POSITION, PERFORMANCE AND RESOURCES

##### Financial Position

3.51 Assets. Balance sheets for the years 1974 to 1977 are summarized in Annex 4, Table 22. As of December 31, 1977, KDFC's total assets stood at W 109.9 billion (US\$227 million) following a reasonably steady /2 annual growth of 35% since 1974 (and reaching W 133.1 billion by June 30, 1978). Current assets amounted to W 20.2 billion (or 18% of total assets) having increased at the same annual rate as total assets (and stood at W 22.4 billion on June 30, 1978). The 1977 growth in total assets was almost entirely due to the rapid increase in the foreign currency loan portfolio from W 71.2 billion (US\$147 million) in 1976 to W 93.0 billion (US\$ 192 million) in 1977. Consequently KDFC's foreign currency loan portfolio /3 accounted for 85% of total assets in 1977 compared with 81% in 1976 (and had increased to nearly 87% in the first half of 1978).

3.52 Liabilities and Equity. Of KDFC's total assets at December 31, 1977, 77.0% were financed by long-term liabilities, 13.1% by current liabilities (84.5% by total foreign currency borrowings), and 9.9% by equity. The growth in KDFC's foreign currency loan portfolio in 1977 was 30%, almost entirely financed by foreign currency borrowings in that year. In 1977, total foreign currency borrowings accounted for 98% of KDFC's total long-term debt, a marginal increase compared with 1976. KDFC has made satisfactory progress in diversifying its foreign currency resources; its outstanding borrowings from the Bank have decreased as a proportion of its total foreign currency debt from 97% in 1974 to 63% in 1977 (and to 58% at June 30, 1978). KDFC's domestic currency borrowing consisted of a Government subordinated loan of W 2,025 million, which KDFC started repaying in 1977.

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/1 Again excluding the three large capital intensive subprojects which, if included, would raise the average fixed investment cost per incremental job to US\$43,500.

/2 The growth in total assets in 1976 was disproportionately large following a bunching of approvals and disbursements during 1975 and 1976.

/3 Including the portion of loans due within one year.

3.53 KDFC's net worth stood at W 10.9 billion at end-1977, an increase of 14% over the 1976 level. Paid in share capital amounted to W 5 billion /1 and reserves and retained earnings accounted for the remainder, W 5,886 million (representing 54%). By June 30, 1978, KDFC's net worth had increased to W 11.1 billion.

3.54. Liquidity and Debt:Equity Ratio. KDFC's current ratio showed a marginal decrease from 1.5 in 1976 to 1.4 in 1977 (and to 1.2 at June 30, 1978), still leaving KDFC with a comfortable liquidity position. The long-term debt: equity ratio increased from 7.7:1 in 1976 to 8.7:1 in 1977 because the growth rate of KDFC's disbursements and foreign currency indebtedness (30% p.a.) exceeded the growth rate of its net worth (14% p.a.). However, this 8.7:1 ratio is still well within the contractual limit of 10:1 /2 and, in addition, the future ratio will be significantly reduced following the completion of the planned W 5 billion share issue in late 1978. KDFC's debt service coverage remained at 1.3, the same level as in 1975 and 1976, and is satisfactory.

#### Financial Performance

3.55 Earnings. Income and cash flow statements, and indicators of financial performance are summarized in Annex 4, Tables 23-24. Gross income for 1977 amounted to W 11.4 billion (US\$23 million), with net income reaching W 2.06 billion (US\$4.24 million) in 1977. Net income has grown at an average annual rate of 31% between 1974 and 1977. Net return on net worth was 20.1% in 1977 compared with 18.7% in 1976 and 15.8% in 1974. The level and growth of KDFC's net income continues to be satisfactory. KDFC has also continued to maintain stringent expenditure controls and has achieved a further relative reduction in administrative expenses, which represented only 1.1% of average total assets in 1977 /3 (compared with 1.6% in 1974). This is illustrative of KDFC's sustained operational and managerial efficiency. Tables 23-24 also present June 30, 1978 figures which, while half year figures should be interpreted with caution, provisionally indicate that KDFC's 1978 performance will show satisfactory growth.

3.56 Share Prices and Dividends. In February 1977, the shareholders approved an amendment to KDFC's Articles of Incorporation which increased the number of authorized shares of common stock from 1 million to 10 million and split each outstanding share of common stock 5 for 1. The new par value of KDFC's shares is therefore W 1,000 per share, and at December 31, 1977 the book value of these shares amounted to 218% of par value. Only 7.1% of the average number of KDFC's outstanding shares were traded in 1977, and the quoted price of KDFC shares has fallen from W 2,140 /4 in early 1974 to W 1,110 in January 1978.

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/1 An increase of a further W 5 billion in share capital is in process.

/2 Agreed during the negotiations for the Sixth Bank loan in 1977. The long-term debt:equity ratio increased to 10.5:1 by mid-1978 which was strictly temporary and will fall to approximately 7.5:1 after the completion of the W 5 billion rights issue of late 1978.

/3 This level compares favorably with the administrative expenses of deposit money banks in Korea, particularly, of course, those with an extensive branch network.

/4 Based on the new par value of W 1,000 per share.

3.57 From 1968 to 1975, KDFC declared a dividend of 10% in cash and 10% in stock (with the exception of 1973, when a 15% cash dividend was declared). Since the November 1976 rights issue, KDFC has declared a 20% cash dividend annually. The payout ratio remained at a moderate 48.6% in 1977, virtually unchanged from 1976.

#### Quality of Portfolio

3.58 Annex 4, Table 25 summarizes KDFC's collection performance and arrears situation over the last four years. KDFC's portfolio remains of exceptionally good quality, and KDFC's performance in collecting loans is outstanding. KDFC experienced its first arrears problems in 1972 with six loans in arrears for more than three months at the end of that year. The financial measures enacted by the Government in August 1972 coupled with KDFC's intensified collection efforts had by end-1973 reduced the number of loans in arrears to only two. No loan was in arrears for over three months at end-1975, end-1976 and end-1977. Collection ratios on principal and interest over the last four years ranged from 98.0% to 100%, reflecting a nearly perfect performance. Since its establishment in 1968, KDFC has had to foreclose mortgages /1 on two loan accounts in 1974 and 1975, incurring a loss of W 88 million which was written off. No loan reschedulings were made by KDFC in 1976 and 1977. /2 On the whole, therefore, it is very clear that the quality of KDFC's portfolio and the success of its collection efforts have been, and continue to be (as indicated by mid-1978 figures), excellent. However, with W 42 billion (representing 43%) of KDFC's outstanding loan portfolio in 1977 still in the grace period, and with the increasing number of clients and loans, some arrears are likely to re-emerge in the future. KDFC has made provisions for doubtful accounts in 1977 of 1.4% /3 of the incremental loan portfolio. Cumulative provisions for losses amounted to W 1.5 billion as of end-1977, /4 which

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/1 In line with a practice followed by Korean commercial banks, the great bulk (80%) of KDFC's loans (as of end 1977) were secured by payment guarantees from commercial banks, and only 20% by mortgages on "real" properties. KDFC requires bank guarantees if: (a) the applicant's assets have already been pledged to other banks; (b) the applicant has a short history and appears financially weak; and (c) when KDFC finances vessels for marine transportation or deep-sea fishing.

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

/3 Based on estimated aggregate portfolio risk. Provision expenses under 2% of the incremental portfolio benefit from tax exemption.

/4 Insofar as these provisions have historically not been required they represent "hidden" earnings and if regarded as such would substantially increase KDFC's net income.



together with free reserves accounted for 7.3% of the total portfolio; a level which is more than adequate. The exceptional soundness of KDFC's portfolio is attributable more to the quality of its appraisal and follow-up work, to its ability to identify and remedy problem projects at an early stage, and more importantly, to the recent strength of the Korean economy, than it is to any overly conservative lending policy on KDFC's part.

### Resources and Terms and Conditions of Lending

3.59 Resources. KDFC's resource position as of June 30, 1978 <sup>/1</sup> is shown in Annex 4, Table 26. As of that date, KDFC had mobilized total resources of W 176.0 billion (US\$363 million) of which 8.7% were domestic and the remaining 91.3% foreign currency resources. At the same date, total domestic currency resources amounted to W 15.4 billion of which W 5 billion (about 32%) was share capital; reserves and noncash charges accounted for 40% and 15% respectively; and the Government subordinated loan accounted for the remaining 13%.<sup>/2</sup> As of June 30, 1978, KDFC's domestic currency resources available for commitment amounted to W 3.45 billion. KDFC had mobilized total foreign currency resources of US\$331 million as of June 30, 1978, of which 66% was from the Bank, 21% from ADB, 12% from commercial sources (a 1976 IFC-syndicated loan of US\$17.8 million with a simultaneous US\$2.0 million loan from DEG, and in 1977 an APCO-syndicated loan of US\$20.0 million) and a further 1% from USAID. KDFC intends to increase its foreign commercial borrowings in the immediate future starting with a planned US\$30 million in 1978 (see Annex 3). In the first six months of 1978 the rate of disbursement and commitment of foreign currency lending has been high so that as of June 30, 1978, a balance of only US\$16 million was available for commitment and only US\$8 million was available for approval. On current trends, therefore, KDFC's foreign currency resource position is increasingly tight and the proposed US\$30 million commercial loan will be required by the second half of 1978 and will need to be supplemented by additional foreign currency borrowings by end-1978.

3.60 Terms and Conditions of Lending. The terms attached to KDFC's own borrowings, and its relending rates are summarized in Annex 4, Table 27. Although the Government does not formally regulate the level of interest rates charged by KDFC, these are expected to be in line with those of other financial and banking institutions in Korea. On the domestic currency side, KDFC's on-lending rate for medium and long-term loans now stands at 21%, while 20% is charged for priority projects. This represents slightly higher rates than the domestic currency interest rates of other financial institutions in Korea (Annex 4, Table 1). On the foreign currency side, KDFC's standard on-lending rate is 10.6% at present, with slight differential rate variations being applied depending on the credit standing of the borrower and KDFC's evaluation of the project's contribution to the economy. Despite an average rate of inflation of 11% (wholesale prices) over the last three years, the on-lending rate of 10.2-10.6% p.a. can be considered positive in real terms because the subborrower

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<sup>/1</sup> For comparative purposes, the December 31, 1977 figures are also shown.

<sup>/2</sup> KDFC is not at present authorized to accept domestic currency deposits, nor to issue bonds for resource mobilization and relending purposes.

bears the full foreign exchange risk./<sup>1</sup> This on-lending rate is also in line with those charged by KDB on comparable foreign currency loans. On the subloans financed from the proceeds of its foreign commercial loans, KDFC charges a floating rate with a spread of 1.25 percentage points above its average borrowing rate. With its increasing foreign currency borrowings from commercial sources, KDFC's interest spread has been reduced to an aggregate level of 3.0 in 1977 from 3.9 in 1974. For all its foreign currency loans, KDFC passes on the foreign exchange risk to the subborrowers.

### Audit

3.61 KDFC's accounts have been audited in accordance with international accounting standards by the Samil Accounting Corporation, a member firm of the Coopers and Lybrand Group. Their reports meet the Bank Group's requirements. KDFC's accounts have always been certified without qualification.

## E. PROSPECTS AND RESOURCE REQUIREMENTS

### Business Prospects

3.62 The outlook for the Korean economy in general and the manufacturing sector in particular remains favorable;/<sup>2</sup> GNP is expected to increase by 9.2% annually, with a growth rate of 14.2% p.a. in the manufacturing sector. The growth of the economy will continue to be mainly export-led; exports of goods and services are projected to increase 16.8% annually with manufactured exports providing 94% of incremental exports over the period 1977-81. An annual increase in gross fixed investment of 7.8% is required to sustain this rate of GNP growth, and manufacturing investment is projected to account for 26.7% of total investment expenditures during the Fourth Plan period (an increase from the manufacturing sector's 24.6% share during 1972-76). Structural changes within the manufacturing sector will continue with further increases in the investment share of the heavy and chemical industries, for which KDFC has already expanded its financial assistance (para. 3.43).

3.63 In this macro-economic context, and within the limits of its assumed domestic and foreign currency resource availability, KDFC has projected over the period 1978-82 total commitments of W 342.2 billion (US\$705 million) and total disbursements of W 328.4 billion (US\$677 million). KDFC's commitments are expected to increase at an average rate of 20.3% per annum and its disbursements are expected to increase at an average annual rate of about 22%. Assuming an average rate of inflation of about 9% per annum for this period, the real growth rate of KDFC's disbursements would be about 13% per annum.

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/1 This cost has been substantial, and consists of the depreciation of the Won against the U.S. dollar (from W 269 = US\$ at end-1967 to W 485 = US\$1 since 1974 to 1978), and the depreciation of the Won vis a vis the strong currencies disbursed under the Bank loans (which account for the larger part of the more recent Bank loans). Both these items are quantified by the "won equivalent" total disbursement figures of Annex 4, Table 14, Section F (see footnote f) with particularly the depreciation of the Won against the strong currencies increasing the indebtedness, in Won, of the subborrowers to KDFC.

/2 Fourth Five-Year Plan 1977-81.

As the annual real growth rate of gross fixed manufacturing investment for the Fourth Plan period is projected to be 8%, the share of KDFC's disbursements in total gross fixed capital formation will therefore be roughly maintained (or marginally increase) at about 3% (see Annex 4, Table 2). KDFC's projected approvals, commitments and disbursements for the period 1978-82 are presented in Annex 4, Table 28. The achievement of this target increase in business volume depends primarily on KDFC's capacity to raise additional borrowings, which in turn will depend on KDFC's capacity to continue to raise additional equity capital.

#### Financial Forecasts

3.64 KDFC's financial performance and structure are expected to remain quite satisfactory over the next five years (Annex 4, Tables 29-31), with net income increasing from W 2.1 billion in 1977 to W 6.8 billion in 1982. However, net income is expected to marginally decline as a percentage of average equity owing to equity expansion and a slight reduction in the interest spread resulting from increased commercial borrowings. KDFC's debt service coverage is expected to remain satisfactory (at about 1.2 to 1.3) as is the interest cover ratio (at 1.4). KDFC envisages continuing with its usual policy of declaring a 20% dividend consisting of 10% cash and 10% stock, although in 1978 and 1981 a 20% cash dividend will be declared as KDFC expects to increase its paid-in share capital by W 5 billion and W 5.9 billion respectively in those years.

#### Won Resource Position and Requirements

3.65 KDFC's resource projections are shown in Annex 4, Table 32. Cumulative domestic currency commitments for the period 1978-82 are expected to reach W 41.2 billion thereby increasing as a proportion of KDFC's total commitments from 7% in 1977 to 14% in 1982 (largely because of the increasing availability of domestic machinery and equipment). In order to meet this expected level of commitments KDFC plans to increase its paid-in share capital by W 5 billion in 1978 and W 5.9 billion in 1981; and KDFC proposes to issue bonds for W 1 billion in 1980 and W 2 billion in 1982. Cash generated by operations, net Won loan collections and disposal of equity investments are expected to provide the remaining domestic currency resource requirements. KDFC is at present examining various additional methods of mobilizing Won resources, particularly in connection with the study on its future role (paras. 3.67-3.68).

#### Foreign Currency Resource Requirements

3.66 Annex 4, Table 32 shows that KDFC's total cumulative foreign currency commitments are projected at US\$620 million between 1978-82. As of end-1977 KDFC's uncommitted foreign currency resources stood at US\$59.9 million (consisting of US\$48 million from IBRD, US\$7.0 million from ADB, and US\$4.9 million from the second commercial loan) which had declined to US\$16.5 million by end-June 1978 and is expected to be fully committed early in the second half of 1978.<sup>/1</sup> Over the five-year period 1978-82, KDFC

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<sup>/1</sup> KDFC's third foreign commercial loan of US\$30 million, in process, is expected to cover KDFC's foreign currency resource requirements until around end-1978.

envisages mobilizing US\$610 million in foreign currency borrowings of which US\$360 million (including the proposed US\$100 million Bank loan), representing 59% of the total, will be from official sources, and US\$250 million or 41% of the total from commercial sources. This target level of foreign commercial resource mobilization (broken down as follows: US\$30 million in 1978, US\$40 million in 1979, US\$50 million in 1980, US\$60 million in 1981, US\$70 million in 1982) should be considered satisfactory. Indeed it appears ambitious but should be attainable given KDFC's financial and institutional strength, provided that the situation in the international capital markets does not deteriorate. No other DFC presently borrowing from the Bank has managed to rely on foreign private resources to an extent approximately equal to that being envisaged by KDFC.

#### F. KDFC'S FUTURE DIRECTIONS

3.67 In 1977, KDFC completed its first decade of operations, during which its overall performance had been, by any standard, highly successful. Nevertheless, KDFC's management at that time began to think hard about KDFC's future directions. The general economic environment in which KDFC operates has changed beyond recognition since KDFC's inception in 1967. The industrial sector has expanded and matured. The financial sector of which KDFC is a part has become more complex and more competitive. The extraordinary growth of exports, which has fueled economic growth, has transformed Korea's economic and financial relationships with the rest of the world. Changed internal and external circumstances have created challenges for KDFC and, at the same time, new opportunities for expanding its activities and diversifying its services.

3.68 Accordingly, KDFC commenced in 1977 a re-examination of its role as a financial institution in Korea's rapidly developing industrial society. This includes, among others, a review of the legal framework within which KDFC operates, with a view to proposing such changes as may be appropriate; of KDFC's corporate objectives, policies and operations, with a view to the expansion and diversification of KDFC's activities; of its internal organization and staffing in order to enable KDFC to handle efficiently more and different types of activity; and of the means of mobilizing domestic financial resources. Some of these matters will call for action in due course from the Government, which has already shown its interest in, and support of, KDFC's purpose in undertaking these studies. KDFC's studies will bear fruit, not suddenly and quickly, but gradually. Views are still being formulated and evolving, and various parties will need to be consulted before definitive decisions are taken. It is likely, however, that the studies will result, broadly speaking, in the gradual transformation of KDFC from an institution concentrated largely on relending borrowed foreign exchange into a more diversified, multi-purpose financial institution capable of providing clients with a full spectrum of financial and advisory services, of promoting enterprises as well as financing them and of acting flexibly to meet the changing requirements of the economy.

3.69 The Bank and IFC are collaborating with KDFC in this on-going consideration of KDFC's future. At KDFC's request, the Bank is making available the services of a consultant (Mr. William Diamond) to advise KDFC on that matter.

#### 4. THE PROPOSED BANK LOAN

##### Recommendations and Justification

4.01 KDFC's performance continues to be highly satisfactory from both the developmental and institutional points of view. The Bank Group's association with KDFC since the latter's inception in 1967 has been productive and mutually beneficial. With its high operating standards in all stages of the loan cycle, KDFC has been a remarkably efficient intermediary for allocating funds to Korea's key industrial sector, and has also provided an effective mechanism for allocating Bank funds to projects smaller than those the Bank could finance directly. Through KDFC as an intermediary, Bank Group resources (totaling US\$238.2 million as of June 30, 1978, on a commitment basis and including the IFC-syndicated loan of 1976) have been efficiently allocated to 248 projects which are economically and financially viable in the manufacturing, agro-industrial, transportation and construction sectors of the Korean economy. KDFC has also achieved considerable success with its innovative and varied promotional activities (paras. 3.19-3.31). It is expected that over the period of commitment of the proposed loan KDFC will achieve further progress from both the institutional and developmental points of view.

4.02 A Bank loan of US\$100 million is recommended which is expected to finance about 44% of KDFC's estimated foreign currency commitments over a two-year period from January 1, 1979. As KDFC has financed an average of 38% of total project costs (Annex 4, Table 3) between 1968-77, the Bank loan is expected to assist in the financing of projects with an estimated total cost of about US\$260 million. In the past, KDFC's subprojects have yielded substantial economic benefits; ERRs on a large sample of KDFC-financed projects ranged from 11% to 76% (para. 3.12) with an average of 32.3%. In addition, 46% of KDFC's financing between 1973-77 was allocated to projects exporting more than half of their total incremental sales (Annex 4, Table 5). The subprojects to be financed by KDFC under the proposed Bank loan are expected to yield similar economic benefits. It is also expected that KDFC will make a subloan of up to US\$10 million to KDLC (para. 3.19) which will be of particular assistance to small- and medium-scale enterprises. Similarly, as with the two previous Bank loans a proportion of up to 10% of the proposed loan is expected to be utilized by KDFC for financing small-scale enterprises in less developed areas under the scheme of cooperation with the RCBs (para. 3.28). Taking into account these varied lending activities (i.e., including lending through KDLC and the RCBs), the proposed loan will finance projects creating about 10,000 jobs./1

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/1 Based on projections of the fixed investment costs per incremental job indicated in Annex 4, Table 4.

## Main Features of the Loan

4.03 Component for Financing Medium-Sized Labor-Intensive Projects. While its main business is the provision of finance to relatively large enterprises, KDFC has in recent years made a deliberate effort to provide financial assistance to small- and medium-scale (often labor-intensive) enterprises through its scheme of cooperation with the RCBs (para. 3.28) and its subloan to KDLC (para. 3.19), as well as, less significantly, through its own operations. This is consistent with the Government's current emphasis on assisting small-scale enterprises (in terms of total assets) and the Bank's objective of contributing to the financing of relatively labor-intensive investment projects (as measured by the capital:labor ratio). In order to further these objectives it is recommended that a component of US\$20 million (or 20% of the proposed loan amount) be earmarked for financing specifically: (a) enterprises with fixed assets not exceeding US\$750,000; or (b) projects generating employment at a fixed investment cost per job not greater than US\$12,500. The proposed US\$750,000 fixed assets ceiling is well within the W 500 million (US\$1 million) limit under Korea's official definition of small and medium industries. The proposed US\$12,500 capital:labor limit is much higher than the Bank's UPP threshold for Korea of US\$5,120 (1976 prices) but is nevertheless considered appropriate because of the increasingly scarce availability of certain categories of labor (especially skilled) in Korea, and also because KDFC's commitments under the proposed loan will take place in 1979/80 so that an inflation factor must be taken into account. Based on an analysis of the available data on recent subprojects, KDFC is expected, with a reasonable but not excessive effort on its part, to be able to fully utilize the special component as described above.

4.04 Financing of KDLC. Under the fifth Bank loan (No. 1145-KO) of US\$55 million to KDFC, a subloan of US\$5 million was made by KDFC to KDLC the bulk of which was utilized to finance leasing projects for small- and medium-sized enterprises (para. 3.21). As these leasing subprojects have generated substantial economic benefits (especially in terms of employment), it is recommended that KDFC be authorized to make a further subloan of an amount up to US\$10 million to KDLC under the proposed Bank loan in the form of a subproject loan. (This subproject will exceed the proposed free limit referred to in para. 4.07 and therefore will require the Bank's review prior to approval).

4.05 Financing of Foreign Exchange Component of Domestic Equipment. Apart from direct imports, it is recommended that KDFC be authorized to use the proceeds of the proposed loan to finance the foreign exchange component of domestically manufactured or procured capital goods, estimated at 60%. About US\$9 million (or 13%) of the sixth Bank loan (No. 1461-KO) was utilized for this purpose in 1977, and this proportion is expected to increase slightly under the proposed loan, thereby further enhancing KDFC's current efforts to intensify its assistance to the Korean machinery industry (para. 3.27).

4.06 Relending Rate. KDFC expects to onlend the proceeds of the proposed Bank loan at an average interest rate of 9.5% p.a. (assuming a Bank lending rate of 7.35%). This rate will give KDFC a spread of 2.15% (average)

which would be more than adequate to cover the cost incurred by KDFC in processing foreign currency loans. This rate is also in line with those charged by other development finance institutions in Korea (e.g., KDB, MIB). In practice, KDFC will apply differential rates of interest according to their judgment of the subproject's contribution to the economy, credit standing of the borrower, and KDFC's own developmental objectives. KDFC intends to charge these differential rates of interest as follows; loans for small and labor-intensive enterprises at BIR /1 plus 1.75% p.a.; loans secured by a bank payment guarantee and the KDFC-RCB loans at BIR plus 2% p.a.; loans secured by collateral at BIR plus 2.25% p.a.; and loans for procurement of locally manufactured equipment at BIR plus 2.5% p.a. The spread will, therefore, range from 1.75 to 2.5 percentage points. Provided that the rate of inflation is maintained within 7% p.a. as projected in the Fourth Plan, KDFC's onlending rates would represent positive real rates of interest. However, should the inflation rate exceed Fourth Plan projections /2 then adjustments in the won/foreign currency (dollar) rates could be expected to take place (as occurred in the past; see para. 3.60) which, considering that subborrowers bear the full foreign exchange risk, would increase the effective cost of borrowing and maintain the interest rate at a positive level. Over the period 1960-76, when inflation averaged 15% p.a., the depreciation of the won vis-a-vis the dollar averaged 7% p.a.

4.07 Free Limit. In view of KDFC's high appraisal standards and the proven ability of its management and staff, it is recommended that the free limit be increased from US\$2.5 million (under the previous Bank loan No. 1461-KO) to US\$4.0 million. It is estimated that under this proposed free limit about four to six projects accounting for about 25% of the total loan amount would still require Bank review prior to approval. As with the previous Bank loans there would be no aggregate free limit, and no ceiling on the size of individual subloans is necessary as KDFC's Operational Policy Statement specifies that KDFC's total financial assistance to any single enterprise will not normally exceed 25% (or US\$5.6 million at end-1977) of KDFC's net worth (para. 3.36).

4.08 Debt:Equity Limit. It is recommended that the contractual limit on KDFC's long-term debt, set at ten times its net worth under the previous Bank loan agreement, be maintained. According to KDFC's projections, which take into account prospective share capital increase including the one for W 5 billion to be implemented in 1978, this limit will be sufficient to accommodate KDFC's proposed additional borrowings over the next five years.

4.09 Amortization Schedule. As is usual with Bank loans to DFCs the proposed loan would have a flexible amortization schedule which would substantially reflect the aggregate of the repayment schedules of the individual subloans made by KDFC. The loan is expected to be fully repaid within 17 years including a grace period of 3 years. The estimated disbursement schedule is presented in Annex 4, Table 33.

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/1 Borrowing interest rate.

/2 Latest estimates do indicate an increase in the expected rate of inflation (up to about 9% p.a.).

Agreements and Understandings Reached at Negotiations

4.10 During loan negotiations, agreement was reached on:

- (a) a component of US\$20 million under the proposed loan for financing enterprises with fixed assets not exceeding US\$750,000 or projects that would create additional employment at a fixed investment cost per job not exceeding US\$12,500 (para. 4.03);
- (b) the maintenance of the long-term debt:equity limit at 10:1 (para. 4.08);
- (c) the financing of 60% of the cost of domestically procured capital goods representing the estimated foreign exchange component of such goods (para. 4.05); and
- (d) a free limit of US\$4.0 million on subprojects (para. 4.07).

4.11 In addition, the following matters were reviewed, and understandings reached with KDFC (as recorded in the agreed minutes):

- (a) KDFC's objectives outlined in its statement of Development Strategy (para. 3.32); and
- (b) KDFC's onlending (by way of subloans) of an amount up to US\$10 million of the proposed loan to KDLC (para. 4.04).



KOREA

KOREA DEVELOPMENT FINANCE CORPORATION

Board of Directors

(Elected at the Shareholders' Meeting Held on February 24, 1978  
and Further Meeting of May 9, 1978)

DIRECTORS

Representing Korean Shareholders

*Chin Hyung Kim	Chairman, KDFC
*Bong Eun Kim	President, KDFC
*Chai Sun Hong	Former Chairman, KDFC
Tai Sup Choi	Chairman, Hankuk Glass Industry Co., Ltd.
Yong Joo Kim	Chairman, Chongbang Co., Ltd.
Sung Taek Suh	President, Seangyong Cement Industrial Co., Ltd.
*Soo Kon Pae	President, The Commercial Bank of Korea, Ltd.
Chi Bok Kim	President, Dainan Fire & Marine Insurance Co., Ltd.

Representing Foreign Shareholders

Naokado Nishihara	Special Representative in the Far East, International Finance Corporation
*Taichi Morikawa	General Manager, Seoul Office, The Bank of Tokyo
Christopher S. Malone	Assistant Vice President & Representative, United California Bank, Korea Representative Office
James R. Medley	Manager, Seoul Branch, The Chartered Bank
H. Leigh Durland	Vice President & General Manager, Tokyo Branch Office Irving Trust Company

AUDITORS

Bong Jai Kim	Chairman, National Federation of Medium Industry Cooperatives
Byung Hi Chang	Chairman, Young Poong Trading Co., Ltd.

\* Also Executive Committee Members.

KOREA

KOREA DEVELOPMENT FINANCE CORPORATION

Statement of Investment and Operational Policies

(Approved at the Board of Directors' Meeting on April 25, 1967. Amended at the Board of Directors' Meetings on February 29, 1968; February 26, 1973; February 26, 1974; December 17, 1974; June 19, 1975; July 23, 1976; and June 1, 1977./1)

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

I. The Scope of Investment Activities

- (1) KDFC will invest only in productive enterprises. While its primary activity will be manufacturing and processing industry, it may invest also in other types of enterprises, including transport, tourism, and large-scale commercially-oriented agriculture. However, trade, real estate and small-scale agriculture will be excluded.
- (2) KDFC will finance only private enterprises which are properly organized and managed. KDFC will not invest in undertakings which are Government-owned and operated, but a Government holding of not more than 15% of the voting stock of a private enterprise shall not make such enterprise ineligible for financial assistance from KDFC. KDFC will finance both new enterprises and existing ones for expansion or improvement.
- (3) In its operations, KDFC will give due regard to the Government's general economic plans and policies. The following categories of industries will receive high priority, in accordance with the government's economic policies and objectives:
  - (a) export industries;
  - (b) import-substitute industries;
  - (c) industries producing raw materials and other intermediate goods necessary for production of export commodities and import-substitutes.
  - (d) indigenous local industries which have special advantage in comparative costs and potential marketability in foreign markets; and

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/1 KDFC intends to revise (in consultation with the Bank) the Statement of Investment and Operational Policies to accommodate the conclusions and recommendations of the Special Study on its future role (paras. 3.67-3.69).

- (e) participation or assistance in the turnover of the government-owned industries to private ownership.
- (4) KDFC will assist private enterprises in the following ways:
- (a) medium- and long-term loans;
  - (b) equity participation (through underwriting, conversion rights, direct participation in share capital or otherwise);
  - (c) guarantee of payment for machinery and equipment imported or otherwise;
  - (d) guarantee and underwriting of corporate securities;
  - (e) technical and managerial consultant services; and
  - (f) any other appropriate manner.
- (5) KDFC will seek through its operation to broaden the ownership of private securities in Korea.
- (6) KDFC's financial assistance will be primarily for expenditures for fixed assets. KDFC will, however, consider requests for permanent working capital in conjunction with its financial assistance for such capital expenditures.
- (7) KDFC will study periodically the trend of overall industrial development and investment opportunities in the private sector in cooperation with research institutes for promotion of new enterprises or expansion of the existing ones.

## II. Basis for Investment Decisions

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

## III. Diversification of Portfolio

- (9) KDFC will diversify its portfolio in order to maintain a reasonable level of risk.
- (10) KDFC will not provide financial assistance of less than the won equivalent of US\$50,000. The maximum financial commitment in whatever form, including loan, share capital or guarantee or any combination thereof, that KDFC may make to any single enterprise will not normally exceed 25% of the total of KDFC's paid-in capital, free reserves and Government loan of 1968.

- (11) KDFC will not commit to any single enterprise in form of share capital more than 10% of KDFC's paid-in capital and free reserves. The aggregate equity investment of KDFC at any time will not exceed the total of its paid-in share capital and free reserves.
- (12) In undertaking large-sized projects, KDFC will seek cooperation with other financial institutions, both domestic and foreign.

IV. Turn-Over of Portfolio

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

V. Relationship with Enterprises Financed

- (14) KDFC will not take a controlling interest in any enterprise in which it has invested, or any other interest which would give it primary responsibility for management, except that in the case of jeopardy, it may take such action as may be necessary to protect its interest. To this end it will not take up more than 25% of the share capital of an enterprise, except as the result of an underwriting commitment undertaken in the expectation that the investment would in fact be within the limit cited.
- (15) In accordance with normal banking practice, KDFC will require its borrowers to provide and to maintain adequate security, to keep records and accounts in accordance with sound accounting practices, and to furnish whatever information on their operations and accounts KDFC deems desirable. KDFC will take the right to inspect the enterprises it finances as well as their operations and accounts.
- (16) Business secrets and other information furnished by applicants or clients will be treated as confidential.

VI. Financial Guidelines

- (17) KDFC will lend and invest its resources in such a way as to maintain the value of its capital. KDFC will pass to its clients any foreign exchange risk it assumes or find other suitable means to cover it.
- (18) KDFC will not incur any debt in excess of ten times the aggregate of its paid-in capital and free reserves.

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

VII. Profits and Their Distribution

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

VIII. Staff

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

IX. Revision of Policies

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

KOREADEVELOPMENT FINANCE CORPORATIONOutline of Development Strategy for 1978/79Background

1. In April 1976 KDFC, in consultation with the World Bank, adopted a Development Strategy Statement for 1977/78 outlining several specific developmental objectives and activities apart from its normal financing operations. On the whole, these objectives continue to be successfully implemented by KDFC (see also Chapter 3, Section A), including, inter alia:

- (a) continuation and expansion of KDFC's program of cooperation with the Regional Commercial Banks for financing small scale enterprises especially in less developed areas;
- (b) continuation of assistance to the Korea Technology Advancement Corporation (K-TAC) for the purpose of commercially exploiting Korean technological inventions and adaptations;
- (c) intensification of KDFC's efforts to improve project design via its technical assistance services; and
- (d) further progress on the establishment of an engineering and consulting firm in collaboration with DEG (as a separate legal entity, not a department of KDFC).

New Objectives

2. KDFC intends to consolidate its previous achievements, including those noted above, as well as to further enhance its development impact during 1978/79 by focusing on the objectives outlined below.

- (a) Special Study on KDFC's Future Role. KDFC intends to complete a special study presently being undertaken in close consultation with the World Bank, which aims to examine in detail the various possible options open to KDFC regarding its future role as a development finance institution. In particular, the possibilities of diversifying its financial services, of expanding its operational activities in parallel with the changing needs of the rapidly growing Korean economy, and of securing a stable basis for the mobilization of adequate domestic currency resources will be examined.
- (b) Project Promotion - Resource Allocation. (i) KDFC will endeavor to assist some small scale enterprises (in terms of fixed assets) and labor-intensive projects (in terms of capital:labor ratio) via its

own operations as well as continuing to do so in collaboration with the RCBs and via subloans to KDLC; (ii) KDFC will emphasize the active promotion of subcontracting arrangements, thereby enhancing the linkage effects between small and large scale enterprises, especially in the machinery and related industries; (iii) KDFC will intensify its efforts to establish an engineering and consulting firm on a joint venture basis with foreign institutions (principally DEG) to provide a variety of engineering and consulting services to Korean enterprises.

- (c) Resource Mobilization. (i) KDFC will attempt to raise additional private funds, both foreign and domestic, in order to gradually reduce its dependence on its traditional, official sources of funds (mainly IBRD and ADB); (ii) KDFC will intensify its efforts to mobilize foreign commercial funds through the international capital markets, thereby reducing its dependence on its traditional sources of funds. Over the period 1978-82 KDFC will endeavor to raise a total of US\$250 million from foreign commercial sources, specifically US\$30 million in 1978, US\$40 million in 1979, US\$50 million in 1980, US\$60 million in 1981 and US\$70 million in 1982; (iii) KDFC will also attempt to raise domestic currency resources through further share capital increases (the next share issue of W 5 billion is scheduled for completion in late 1978), and will examine the possibility of issuing bonds for resource mobilization purposes in the context of the study presently being undertaken on KDFC's future role.
- (d) Organization. (i) KDFC will reinforce and expand the Project Promotion Department to enhance its effectiveness in contributing to the future expansion of operations and promotional activities; (ii) KDFC will consider in depth the merits of setting up a regional office in the Busan area, particularly to assist in the diversification of the regional distribution of KDFC's portfolio, and extend financial support to more small scale enterprises.
- (e) Training and Research. (i) KDFC will increase the participation of its staff in relevant training courses provided by domestic and foreign institutions; (ii) KDFC will continue with its research activities, and expects the final report on the Chumbuk province, a study undertaken jointly with the Asian Research Center of the Korea University, to be completed in June 1978. The study should, inter alia, identify suitable projects for that hitherto less developed area.

KOREA

KOREA DEVELOPMENT FINANCE CORPORATION

Rates of Interest in Korea as of June 30, 1978  
(percent per annum)

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A. Commercial Banks

Deposit Rates

a. Time deposits	
Over 3 months	15.0
Over 6 months	17.1
Over 1 year	18.6
b. Installment savings	
Over 1 year	13.2
Over 2 years	14.2
Over 3 years	15.2
c. Wage Earners' Savings Scheme /a	
Over 2 years	22.8(14.2)
Over 3 years	23.0(15.2)
Over 5 years	27.0(17.2)

Lending Rates

a. Operating funds	
Ordinary loans	
Prime enterprises	18.5
Other enterprises	19.0
Commercial Notes	
Prime enterprises	18.5
Other enterprises	19.0
Overdraft	
Prime enterprises	20.5
Other enterprises	21.0
b. Term loans	
Less than 3 years	18.5
3 to 8 years	19.5
Above 8 years	20.5
c. Export finance	9.0
d. National Investment Fund	16.0

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



	Up to 3 years	3 to 8 years	Over 8 years
<b>B. <u>Korea Development Bank</u></b>			
<u>Capital Loans /a</u>			
Government Funds	13.5	13.5	13.5
Machine Industry Promotion Funds	15.0	16.0	17.0
Special Equipment Funds	15.0	16.0	17.0
Internal Funds (priority industries)	15.0	16.0	17.0
Internal Funds (nonpriority industries)	18.5	19.5	20.5
Foreign Commercial Funds /b	12.0	12.0	12.0
<u>Working Capital Loans /a</u>			
Government Funds	14.0	14.0	14.0
Machine Industry Promotion Funds	15.0	15.0	15.0
Special Equipment Funds	15.0	15.0	15.0
Internal Funds (prime clients)	18.5	18.5	18.5
Internal Funds (other clients)	19.0	19.0	19.0
Foreign Commercial Funds /b	12.0	12.0	12.0
<u>National Investment Fund /a /c</u>	15.0	16.0	-
<u>Tourism Development Fund /a /c</u>	19.0	19.0	19.0
<u>Industrial Rationalization Fund /a</u>			
Direct Loans	15.0	16.0	-
Through banking institutions	13.5	14.5	-
<u>Government Special Fund Loans /a /d</u>	6-11.5	6-11.5	6-11.5
<u>Foreign Currency Loans</u>			
Foreign Commercial Funds /e	9.0	9.0	9.0
USAID (3rd loan)	10.0	10.0	10.0
KfW (4th loan)	9.0	9.0	9.0
ADB (5th loan)	9.65	9.65	9.65
IBRD (2nd loan)	9.5	9.5	9.5
<u>Penalty rate on overdue loans</u>	25.0	25.0	25.0

/a In domestic currency.

/b Exchange risk passed on to borrowers.

/c Capital and working capital loans.

/d For power development, shipbuilding, coal mining, public utilities, maritime transportation, railways and roads.

/e Export Industries only.

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C. Medium Industry Bank

Internal Fund Loans

Small- and medium-industry loans (prime enterprises)	18.5
Small- and medium-industry loans (other enterprises)	19.0

Government Funds

Equipment loans	13.5
Cooperatives	13.0
Working capital loans	14.0

Foreign Loan Funds

USAID and OECF, Japan	8.0
Exim Bank Japan	8.25
KfW	9.0
ADB	10.9
IBRD	9.9

D. Korea Development Finance Corporation

Medium- and Long-Term Domestic Currency Loans

Projects with payment guarantee by financial institutions	20.5
Others	21.5

Foreign Currency Loans

IBRD	10.2 to 10.6
ADB	10.6
IFC syndicated loan	1.25% spread over average borrowing cost
APCO loan	Libor + 3%

## KOREA

## KOREA DEVELOPMENT FINANCE CORPORATION

## Share of KDFC's Disbursements in Manufacturing Sector Fixed Investment 1971-77

Industry branch /a	Gross fixed capital formation (W bln: current prices) 1971-77	KDFC disbursements /b (W bln: current prices) 1971-77	Share of KDFC disbursements %
<u>Manufacturing</u>		<u>Loans</u>	
<u>Food, Beverages &amp; Tobacco</u>	<u>275.4</u>	<u>6.8</u>	<u>2.47</u>
Food	171.2	1.6	0.93
Beverages & tobacco	104.2	5.2	4.99
<u>Textiles, Apparel &amp; Leather</u>	<u>585.8</u>	<u>26.6</u>	<u>4.54</u>
<u>Wood and Wood Products</u>	<u>51.6</u>	<u>0.8</u>	<u>1.55</u>
<u>Paper and Printing</u>	<u>90.6</u>	<u>1.5</u>	<u>1.65</u>
<u>Chemicals, Petroleum, Coal &amp; Rubber</u>	<u>587.8</u>	<u>9.4</u>	<u>1.60</u>
Chemicals	343.8	6.1	1.77
Petroleum & coal	184.9	0.9	0.48
Rubber	59.1	2.4	4.06
<u>Nonmetallic Minerals</u>	<u>165.5</u>	<u>7.4</u>	<u>4.47</u>
<u>Basic Metals</u>	<u>592.3</u>	<u>5.6</u>	<u>0.95</u>
<u>Metal Products, Machinery &amp; Equipments</u>	<u>661.9</u>	<u>19.1</u>	<u>2.89</u>
Metal products	54.3	6.3	11.60
Machinery & equipment	99.4	4.2	4.23
Electrical & electronic machinery & equipment	180.7	4.3	2.38
Transport equipment	327.5	4.3	1.31
<u>Other Manufacturing</u>	<u>67.5</u>	<u>0.1</u>	<u>0.15</u>
		<u>Equity Investments and Convertible Debentures /c</u>	
		5.0	
<u>Total Manufacturing</u>	<u>3,078.4</u>	<u>82.3</u>	<u>2.67</u>
<u>Nonmanufacturing</u>			
Fisheries	n.a.	2.8	n.a.
Transportation services	n.a.	17.0	n.a.
Others	n.a.	4.8	n.a.
<u>Total Nonmanufacturing</u>	<u>n.a.</u>	<u>24.6</u>	<u>n.a.</u>
<u>Total</u>	<u>n.a.</u>	<u>106.9</u>	<u>n.a.</u>

/a Korean standard industrial classification.

/b Varying exchange rates applied according to year in which disbursements were made.

/c Breakdown by industry branch not available.

## KOREA

## KOREA DEVELOPMENT FINANCE CORPORATION

## Economic Impact of KDFC-Financed Projects /a

## Partial Economic Indicators of Projects

	1968-72	1973-74	1975	1976	1977	1968-77
No. of projects /b	100	72	45	65	62	344
Total project costs (E Won million) /c	43,767	81,781	51,396	93,397	88,797	359,138
Amount of KDFC financing (E Won million) /c	20,435	27,180	21,304	30,295	35,445	134,659
Share of KDFC financing (%)	46.7	33.2	41.5	32.4	39.9	37.5
Incremental annual sales (Won million) /d	98,390	220,596	110,138	161,566	126,670	717,360
Incremental annual value added (Won million) /d	27,549	61,767	38,489	52,306	49,098	229,209
Increase in fixed assets (Won million)	36,936	59,782	46,066	70,227	62,499	275,510
Additional employment (number) /d	9,016	7,104	4,419	5,710	5,257	31,506
Additional annual payroll (Won million) /d	6,293	5,854	6,589	10,448	14,021	43,205
Incremental annual gross exports (\$'000) /d	125,525	232,475	52,439	189,838	52,230	652,507
Net annual balance of payments effect (net foreign exchange earnings and savings) (\$'000) /d	78,185	150,815	60,465	158,406	40,058	487,929
<b>Memorandum Items</b>						
Sales per additional employee (Won '000)	10,913	31,052	24,924	28,295	24,095	22,769
Value added per additional employee (Won '000)	3,056	8,695	8,710	9,160	9,340	7,275
Fixed assets per additional employee (Won '000)	4,097	8,415	10,425	12,299	11,889	8,745
Fixed assets per additional employee (US\$) /e	12,208	19,049	21,495	25,359	24,513	18,031
Annual payroll per additional employee (Won '000)	698	824	1,491	1,830	2,667	1,371
Ratio of sales to fixed assets	2.66	3.69	2.39	2.30	2.03	2.60
Ratio of value added to fixed assets	0.75	1.03	0.84	0.74	0.79	0.83
Ratio of value added to sales	0.28	0.28	0.35	0.32	0.39	0.32
Export share of sales (%) /e	42.8	46.6	23.1	57.0	20.0	44.1
Payroll share of value added (%)	22.8	9.5	17.1	20.0	28.6	18.8

/a Based on projections made in project appraisal reports; loans to KDFC's Employees Fraternity Association in 1973, 1974 and 1976, and equity investment and debenture financing are excluded. This table covers all KDFC and RCB projects, KDLC is treated as one subproject. These are disaggregated in Table 4.

/b Net of projects subsequently withdrawn.

/c Won equivalent at varying exchange rates.

/d The magnitude of all these items is based on estimates of full capacity operations.

/e Applying average exchange rates for 1968-72 and 1973-74; for other years US\$1.00 = W 485.0.

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## KOREA

## KOREA DEVELOPMENT FINANCE CORPORATION

## Economic Impact of KDFC-Financed Projects /a

## Partial Economic Indicators of Projects

	1976			1977		
	KDFC	KDLC	RCB	KDFC	KDLC	RCB
No. of projects /b	46	28	18	50	-	12
Total project costs (Won million) /c	85,248	12,956	5,713	84,043	-	4,754
Amount of KDFC financing (Won million) /c	25,393	2,436	2,466	33,581	-	1,864
Share of KDFC financing (%)	29.8	18.8	43.2	40.0	-	39.2
Total fixed assets and permanent working capital (Won million)	78,604	11,229	5,592	76,311	-	4,615
Incremental annual sales (Won million) /d	148,946	36,601	12,620	108,705	-	17,965
Incremental annual value added (Won million) /d	47,221	10,024	5,085	42,282	-	6,816
Increase in fixed assets (Won million)	65,328	9,286	4,899	58,391	-	4,108
Additional employment;/d	4,312	1,798	1,398	4,593	-	664
Of which: (i) Skilled	1,216	468	200	1,209	-	156
(ii) Unskilled	2,483	1,266	1,105	2,802	-	459
(iii) Administrative	208	15	37	306	-	31
(iv) Engineers	405	49	56	276	-	18
Additional annual payroll (Won million) /d	8,986	4,412	1,462	11,991	-	2,030
Incremental annual gross exports (US\$'000) /d	170,983	23,124	18,855	40,692	-	11,538
Incremental imports (US\$'000) /d						
(i) Fixed assets	83,000	12,049	5,084	65,226	-	3,913
(ii) For raw materials	57,447	12,905	5,091	34,321	-	1,721
Net annual balance of payments effect (net foreign exchange earnings and savings) (US\$'000) /d	143,596	11,718	14,810	31,564	-	8,494
<u>Memorandum Items</u>						
Sales per additional employee (Won '000)	34,542	20,357	9,027	23,668	-	27,056
Value added per additional employee (Won '000)	10,951	5,575	3,637	9,206	-	10,265
Fixed assets per additional employee (Won '000)	15,150	5,165	3,504	12,713	-	6,187
Fixed assets per additional employee (US\$)	31,237	10,649	7,225	26,212	-	12,757
Fixed assets and permanent working capital per additional employee (US\$)	37,586	12,877	8,247	34,257	-	14,331
Annual payroll per additional employee (Won '000)	2,084	2,454	1,046	2,611	-	3,057
Ratio of sales to fixed assets	2.28	3.94	2.58	1.86	-	4.37
Ratio of value added to fixed assets	0.72	1.08	1.04	0.72	-	1.66
Ratio of value added to sales	0.32	0.27	0.40	0.39	-	0.38
Export share of sales (%)	55.7	30.6	72.5	18.2	-	31.1
Payroll share of value added (%)	19.0	44.0	28.8	28.4	-	29.8

/a Based on projections made in project appraisal reports; loans to KDFC's Employees Fraternity Association in 1973, 1974 and 1976 and equity investment and debenture financing are excluded.

/b Net of projects subsequently withdrawn.

/c Won equivalent at US\$1.0 = W 485.0.

/d The magnitude of all these items is based on estimates of full capacity operations.

KOREA

KOREA DEVELOPMENT FINANCE CORPORATION

Degree of Export Orientation of KDFC Projects  
(Approved in 1973-December 31, 1977)

(\$ thousand, W million)

Categories /a	1973 /d			1974 /d			1975 /b			1976 /d			1977			Cumulative total		
	No./c	Loan amount		No./c	Loan amount		No./c	Loan amount		No./c	Loan amount		No./c	Loan amount		No./c	Loan amount	
		\$	W		\$	W		\$	W		\$	W		\$	W		\$	W
No exports (less than 5%)	19	8,593	1,143	16	10,762	1,060	26	25,320	322	16	13,157	150	21	22,998	360	98	80,830	3,035
Some exports (5%-25%)	4	2,467	320	4	2,957	-	4	3,866	-	6	4,623	-	4	9,960	70	22	23,873	390
Export-oriented (25%-50%)	1	-	200	-	-	-	4	3,505	-	6	6,277	40	9	9,240	350	20	19,022	590
Heavily export-oriented (over 50%)	17	19,653	-	11	10,029	700	11	10,200	180	37	37,480	260	28	27,812	710	104	105,174	1,850
<u>Total</u>	<u>41</u>	<u>30,713</u>	<u>1,663</u>	<u>31</u>	<u>23,748</u>	<u>1,760</u>	<u>45</u>	<u>42,891</u>	<u>502</u>	<u>65</u>	<u>61,537</u>	<u>450</u>	<u>62</u>	<u>70,010</u>	<u>1,490</u>	<u>244</u>	<u>228,899</u>	<u>5,865</u>

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

/b The increased proportion of "no export" projects in 1975 was due to the fact that substantial amounts of financing approved during the year were for machinery and related industries and for agricultural projects in accordance with KDFC's recent developmental strategy. (Of the US\$25,320,000 and W 322 million approved for "no export" projects in 1975, US\$16,833,000 were for machinery and related industries, and US\$80,000 and W 300 million were for agricultural projects.)

/c Number of projects.

/d Loans to KDFC Employees' Fraternity Association are excluded.

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## KOREA DEVELOPMENT FINANCE CORPORATION

Proportion of Total Project Costs Financed by KDFC, By Industry  
(Million won equivalent)

Industrial classification	1975			1976			1977			1978 (6 months)		
	Project cost	KDFC financing	%	Project cost	KDFC financing	%	Project cost	KDFC financing	%	Project cost	KDFC financing	%
Agriculture & forestry	1,527	320	21.0	201	172	85.6	2,144	1,069	49.9	-	-	-
Mining & quarrying	1,420	647	45.6	-	-	-	1,488	630	42.3	-	-	-
Manufacturing												
Food	1,804	852	47.2	1,716	385	22.4	-	-	-	3,995	1,843	46.1
Beverage & tobacco	-	-	-	-	-	-	-	-	-	-	-	-
Textile	14,791	5,626	38.0	18,701	7,783	41.6	5,351	1,754	32.8	1,557	758	48.7
Wood & wood products	-	-	-	-	-	-	-	-	-	-	-	-
Paper & printing	-	-	-	-	-	-	3,551	1,655	46.6	14,257	3,540	24.8
Chemical	1,545	489	31.7	2,441	989	40.5	21,400	4,470	20.9	28,527	4,204	14.7
Petroleum & coal	-	-	-	1,741	737	42.3	-	-	-	-	-	-
Rubber	-	-	-	2,149	1,116	51.9	-	-	-	-	-	-
Nonmetallic mineral products	2,711	1,405	51.8	1,270	435	34.3	2,991	2,067	69.1	3,592	1,610	44.8
Basic metals	2,177	1,283	58.9	32,803	1,940	5.9	-	-	-	853	371	43.5
Metal products	1,397	651	46.6	14,688	2,866	19.5	10,823	4,816	44.5	7,511	3,695	49.2
Machinery & equipment	1,861	1,004	53.9	3,488	1,545	44.3	4,011	1,639	40.9	995	437	43.9
Electrical & electronics	2,691	1,787	66.4	1,212	237	19.6	3,249	1,264	38.9	1,269	459	36.2
Transportation equipment	8,732	3,613	41.4	-	-	-	12,625	5,116	40.5	-	-	-
Other mfg. industries	22	22	100.0	804	341	42.4	-	-	-	-	-	-
Subtotal (Mfg.)	<u>37,731</u>	<u>16,732</u>	<u>44.3</u>	<u>81,013</u>	<u>18,374</u>	<u>22.7</u>	<u>64,001</u>	<u>22,781</u>	<u>35.6</u>	<u>62,556</u>	<u>16,917</u>	<u>27.0</u>
Fishery	977	807	82.6	-	-	-	4,524	2,811	62.1	3,510	2,071	59.0
Construction	-	-	-	-	-	-	8,179	2,563	31.3	162	124	76.5
Transportation	5,664	2,532	44.7	9,763	9,392	95.6	8,461	5,591	66.1	7,024	3,153	44.9
Banking	-	-	-	2,420	2,420	100.0	-	-	-	500	500	100.0
Other services	4,077	266	6.5	-	-	-	-	-	-	-	-	-
Total	<u>51,396</u>	<u>21,304</u>	<u>41.5</u>	<u>93,397</u>	<u>30,295</u>	<u>32.4</u>	<u>88,797</u>	<u>35,445</u>	<u>39.9</u>	<u>73,752</u>	<u>22,765</u>	<u>30.9</u>

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KOREA DEVELOPMENT FINANCE CORPORATION

Major Technologies Introduced via KDFC-Financed Projects  
(In 1977)

Applicant	Project products	Techniques employed or developed	Origin of techniques provided	Technician trained in foreign countries and visiting foreign technician (man-month)	
				Trained	Visited
Korea Vilene Co., Ltd.	Nonwoven interlinings	Dry process	Japan Vilene Corp., Japan	30	20
Hankuk Diesel Kiki Co., Ltd.	Fuel injection equipment for diesel engines	High precision machining & assembling techniques	Diesel Kiki Co., Ltd., Japan	48	10
Samsung Electric Parts Co., Ltd.	VHF & UHF tuner DY and FBT for color TV receiver	High precision machining & assembling techniques	Sanyo Electric Co., Ltd., Japan	70	40
Il Shin Tongyangcom, Ltd.	Crystal filter & 40- channel SSB transceiver	High precision machining & assembling techniques	Toyo Communication Co., Ltd., Japan	10	2
Mobil Korea Lube Oil Industrial, Inc.	Petroleum lubricating oil	Continuous blending system	Mobil Petroleum Co., Inc., USA	10	5
Chin Yang Machinery Co., Ltd.	Precision measuring tool	Machining & fabricating	Tsugami, Japan	20	20
Kumho Chemical Co., Ltd.	Rubber chemicals	Chemical reaction	Ouchi-Shinko, Japan	60	36
			<u>Total</u>	<u>248</u>	<u>133</u>

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## KOREA DEVELOPMENT FINANCE CORPORATION

Summary of Joint Financing Operations, 1968-June 30, 1978  
(Won million:US\$ thousand)

Name of client firm /a	Main business	Project product	KDPC financing		Other financing		Financing partner	Total assets before project (W)	Employment before project (persons)	Remarks
			\$	W	\$	W /b				
1. Hankuk Glass Ind'l. Co., Ltd.	Sheet glass	Sheet glass	396	300	1,700 2,124	-	Chase Manhattan Bank - Toyo Menka	3,572	1,181	-
2. Daehan Synthetic Fiber Co., Ltd.	Textile	Polyester	-	300	4,275	-	US Exim Bank	3,377	297	-
3. Sindo-Ricoh Co. *	Copying m/c	Copying m/c	-	60	-	35	Ricoh of Japan	134	89	-
4. KIFC	Financing	Short-term financing	-	288	-	260	IFC 65 Bankers International 65 Goldman, Sachs & Co. 65 Nomura Securities Co. 65 PICA	-	-	New
5. Han Kook Titanium Ind'l. Co., Ltd.	Titanium dioxide	Titanium dioxide	-	350	-	80	Meiji Sangyo Co. of Japan	939	50	-
6. Hae Un Dae Development Co., Ltd.	Hotel service	Hotel service	1,300	169	3,450 1,700 500 300 150	-	IFC - PICA - American Hotel Co. - American Pacific Corp. - Stolte Inc.	-	-	New
7. Korea Vilene Co., Ltd.	Textile	Nonwoven fabrics	633	163	-	75 25	Japan Vilene Co. Freudenberg & Co.	-	-	New
8. Korea Hi-Dap Co., Ltd. *	Wood & wood products	Dap-resin & wood products	481	130	-	104	Fuji Kobunshi	-	-	New
9. Chonju Paper Mfg. Co., Ltd.	Paper	Newsprint	1,282	-	8,458	-	Escher Wyss Co.	7,245	620	-
10. KDLC	Financing	Lease financing	-	551	-	525 75 75	Orient Leasing Co. PICA Baring Sanwa Multinational, Inc	-	-	New
11. Saehan Motors Co., Ltd.	Automobile	Truck cabs & car body shells	3,500	-	2,660	-	FNCB	58,584	3,633	-
12. Korea Zinc Co., Ltd.	Zinc refinery	Zinc ingots	4,000	485	13,000	1,940	IFC	-	-	New
13. Pusan Steel Pipe Ind'l. Co., Ltd.	Steel pipe	Steel pipe	2,000	-	5,950	-	Bank of America	14,098	1,011	-
14. Kwang Jin Electronic Ind'l. Co., Ltd.	Electronic equipment	Telephone carrier	291	-	-	207	Fujitsu Limited	202	154	-
15. Korea Hapsum Co., Ltd.	Textile	Nylon textured yarn	2,000	-	3,037	-	Nissho Iwai	17,680	852	-
16. Han Yang Housing & Construction Co., Ltd.	Construction	Domestic construction works	2,500	-	1,400	-	French Ex-Im Bank	23,042	664	-
17. Samwhan Corporation	Construction	Domestic & overseas construction works	2,450	-	3,475	-	Bank of Tokyo	46,678	5,586	-
18. Kumho Chemical Co., Ltd.	Petrochemical	Phenol, acetone & rubber chemicals	4,880	475	7,933 2,158 1,933	-	Japan Exim Bank - Marubeni Hong Kong - Citibank Seoul	-	-	New
19. Korea Synthetic Rubber Co., Ltd.	Petrochemical	Polybutadiene rubber	7,600	-	26,069	-	Japan Exim Bank	12,758	270	-
20. Kwang Jin Electric Ind'l Co., Ltd.*	Elec. equipment	Telephone carriers	740	100	-	100	Fujitsu Ltd.	2,536	316	-
<u>Total</u>			<u>34,053</u>	<u>3,371</u>	<u>90,272</u>	<u>3,761</u>				

/a With the exception of client firms marked with an \*, all firms listed above also received funds (not indicated) from a local joint financing partner.

/b Represent equity investments.

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KOREA DEVELOPMENT FINANCE CORPORATION

Characteristics of 1977 Loan Approvals Under the RCB Scheme of Cooperation  
(In US\$'000)

	No.	Loan amount	%
<b>A. <u>Characteristics of Loans</u></b>			
<u>Purpose</u>			
New project	8	2,708	70
Expansion	4	1,135	30
<u>Total</u>	<u>12</u>	<u>3,843</u>	<u>100</u>
<u>Size (in US\$'000)</u>			
Below 200	3	391	10
201-300	3	801	21
301-400	1	332	9
401-500	5	2,319	60
<u>Total</u>	<u>12</u>	<u>3,843</u>	<u>100</u>
<u>Sectoral Distribution</u>			
Textiles and wearing apparel	3	1,041	27
Dairy products	3	901	23
Electronic products	2	560	15
Metal products	2	940	24
Plastics	1	260	7
Transportation	1	141	4
<u>Total</u>	<u>12</u>	<u>3,843</u>	<u>100</u>
<b>B. <u>Characteristics of Project Sponsoring Firms /a</u></b>			
<u>Assets Size (in W million)</u>			
Below 200	1	294	13
201- 500	2	592	25
501-1,000	3	1,187	50
1,001-1,500	1	141	6
Above 1,500	1	150	6
<u>Total</u>	<u>8</u>	<u>2,364</u>	<u>100</u>
<u>Sales Volume (in W million)</u>			
Below 200	1	294	12
201- 500	-	-	-
501-1,000	4	1,532	65
Above 1,000	3	538	23
<u>Total</u>	<u>8</u>	<u>2,364</u>	<u>100</u>
<u>Number of Employees</u>			
Below 200	6	1,963	83
201-500	1	141	6
Above 500	1	260	11
<u>Total</u>	<u>8</u>	<u>2,364</u>	<u>100</u>

/a Excluding 4 newly established firms.

KOREA

KOREA DEVELOPMENT FINANCE CORPORATION

List of Shareholders (as of December 31, 1977)

	No. of shareholders	No. of /a shares held	% of total
<u>Domestic Shareholders</u>			
Insurance companies	12	517,975	10.35
Commercial banks	6	465,960	9.31
Securities companies	24	394,403	7.88
Private corporations	69	1,119,310	22.39
Individuals	266	764,322	15.31
Subtotal	<u>377</u>	<u>3,261,970</u>	<u>65.24</u>
<u>Foreign Shareholders</u>			
International Finance Corporation	1	526,030	10.52
Deutsche Gesellschaft fur Wirtschaftliche Zusammenarbeit (Entwicklungsgesellschaft) GmbH .	1	173,420	3.47
The Bank of Tokyo, Ltd.	1	152,040	3.04
The Industrial Bank of Japan	1	152,040	3.04
Bank of America	1	125,755	2.52
Citibank Overseas Investment Corporation	1	125,755	2.52
Deutsche Bank A.G.	1	122,600	2.45
United California Overseas Investment Corporation	1	100,600	2.01
The Chartered Bank	1	98,100	1.96
Irving International Financing Corpo- ration	1	89,820	1.79
Bank of Montreal	1	71,870	1.44
Subtotal	<u>11</u>	<u>1,738,030</u>	<u>34.76</u>
<u>Total</u>	<u>388</u>	<u>5,000,000</u>	<u>100.00</u>

/a As the par value is W 1,000 per share, the number of shares is equivalent to value expressed in W '000s.

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KOREA DEVELOPMENT FINANCE CORPORATION

Third KDFC Share-Capital Increase Plan /a;  
Number of Shares to be Offered to Foreign Shareholders  
(as of February 28, 1978)

	No. of shares held /b	% of total shares	No. of new /c shares offered	Share proceeds in W '000	Share pro- ceeds /d in US\$
<u>Foreign Shareholders</u>					
International Finance Corporation	526,030	10.52	520,770	520,770	1,078,199
Deutsche Gesellschaft fur Wirtschaftliche Zusammenarbeit (Entwicklungsgesellschaft) GmbH	173,420	3.47	171,686	171,686	355,458
The Bank of Tokyo, Ltd.	152,040	3.04	150,520	150,520	311,636
The Industrial Bank of Japan	152,040	3.04	150,520	150,520	311,636
Bank of America NT + SA	125,755	2.52	124,497	124,497	257,758
Citicorp Overseas Investment Corporation	125,755	2.52	124,497	124,497	257,758
Deutsche Bank A.G.	122,600	2.45	121,374	121,374	251,292
United California Overseas Investment Corporation	100,600	2.01	99,594	99,594	206,199
The Chartered Bank	98,100	1.96	97,119	97,119	201,075
Irving International Financing Corporation	89,820	1.79	88,922	88,922	184,104
Bank of Montreal	71,870	1.44	71,151	71,151	147,311
Subtotal	<u>1,738,030</u>	<u>34.76</u>	<u>1,720,650</u>	<u>1,720,650</u>	<u>3,562,426</u>
<u>Domestic Shareholders</u>					
KDFC staff /e	n.a.	n.a.	50,000	50,000	103,519
Subtotal	<u>3,261,970</u>	<u>65.24</u>	<u>3,279,350</u>	<u>3,279,350</u>	<u>6,789,544</u>
<u>Total</u>	<u>5,000,000</u>	<u>100.00</u>	<u>5,000,000</u>	<u>5,000,000</u>	<u>10,351,970</u>

/a Full payment for new issued shares is planned by September 29, 1978, with the share certificates actually issued on November 1, 1978.

/b Par value of W 1,000.

/c Based on an allotment of 0.99 shares for each share presently held; new shares also planned for a par value of W 1,000.

/d Based on the Foreign Exchange Bank's buying rate of US\$1 = W 483.00 as at February 28, 1978. Actual E\$ proceeds will vary with the buying rate applicable at time of payment.

/e Fifty thousand shares are to be preferentially allocated to KDFC employees under the employee stock ownership plan.

## KOREA

## KOREA DEVELOPMENT FINANCE CORPORATION

## A. Staff Position of KDFC

	Actual				Estimated				
	1975	1976	1977	1978 3/31	1978	1979	1980	1981	1982
Executives	3	3	4	4	4	4	4	4	4
Managers	4	6	7	7	7	7	7	7	7
Subtotal	<u>7</u>	<u>9</u>	<u>11</u>	<u>11</u>	<u>11</u>	<u>11</u>	<u>11</u>	<u>11</u>	<u>11</u>
Professional staff									
Economists	3	4	4	4	5	6	6	6	7
Financial analysts	9	9	11	10	13	15	16	18	19
Marketing analysts	8	8	9	10	10	11	12	13	13
Engineers	8	9	10	10	11	11	12	12	13
Financial accountants	3	3	5	5	6	6	7	7	8
Loan officer in charge of follow-up	10	12	13	11	18	20	22	25	27
Others	17	19	20	17	22	24	24	26	28
Subtotal	<u>58</u>	<u>65</u>	<u>72</u>	<u>67</u>	<u>85</u>	<u>93</u>	<u>99</u>	<u>107</u>	<u>115</u>
Nonprofessional staff	22	28	43	44	44	44	44	44	44
Lower staff (drivers, messengers, etc.)	11	11	13	13	13	13	13	13	13
Subtotal	<u>33</u>	<u>39</u>	<u>56</u>	<u>57</u>	<u>57</u>	<u>57</u>	<u>57</u>	<u>57</u>	<u>57</u>
<u>Total</u>	<u>98</u>	<u>113</u>	<u>139</u>	<u>135</u>	<u>153</u>	<u>161</u>	<u>167</u>	<u>175</u>	<u>183</u>

## B. Professional Staff Recruitment Plan, 1978-82

	1978	1979	1980	1981	1982
<u>Appraisal Staff</u>					
Financial analysts	2	2	1	2	1
Economists	1	1	-	-	1
Market analysts	1	1	1	1	-
Engineers	1	-	1	-	1
Subtotal	<u>5</u>	<u>4</u>	<u>3</u>	<u>3</u>	<u>3</u>
<u>Others</u>					
Accountants	1	-	1	-	1
Officers in charge of follow-up	5	2	2	3	2
Officers in charge of general affairs	2	2	-	2	2
Subtotal	<u>8</u>	<u>4</u>	<u>3</u>	<u>5</u>	<u>5</u>
<u>Total</u>	<u>13</u>	<u>8</u>	<u>6</u>	<u>8</u>	<u>8</u>

KOREA

KOREA DEVELOPMENT FINANCE CORPORATION

Summary of Operations, 1968-77 /a  
(As of June 30, 1978)

	1968-72		1973		1974		1975		1976		1977		Total		1978 (6 mo)		Total '68-mid-78	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
<b>A. Domestic Currency Loans (W million) /b</b>																		
Approvals	35	2,491	11	1,663	13	1,760	5	502	5	450	17	1,490	86	8,356	10	1,160	96	9,516
Commitments	34	2,421	12	1,733	13	1,760	5	502	4	350	17	1,490	85	8,256	10	1,110	95	9,366
Disbursements	-	2,366	-	1,563	-	1,670	-	402	-	538	-	852	-	7,391	-	990	-	8,381
Repayments	-	967	-	509	-	431	-	687	-	1,107	-	1,182	-	4,883	-	387	-	5,270
Outstanding at year end	-	1,399	-	2,453	-	3,692	-	3,407	-	2,838	-	2,508	-	-	-	3,111	-	-
<b>B. Domestic Currency Convertible Debentures (W million)</b>																		
Approvals	8	1,200	-	-	3	210	3	180	4	610	5	480	23	2,680	1	80	24	2,760
Commitments	8	1,200	-	-	2	110	2	250	4	440	7	680	23	2,680	-	-	23	2,680
Disbursements	-	1,200	-	-	-	110	-	250	-	440	-	480	-	2,480	-	-	-	2,480
Repayments	-	125	-	129	-	153	-	98	-	42	-	131	-	678	-	106	-	784
Conversion into investment	-	250	3	400	-	-	-	-	-	-	-	219	-	869	1	30	-	899
Outstanding at year end	-	825	-	296	-	253	-	405	-	803	-	933	-	-	-	797	-	-
<b>C. Domestic Currency Equity Investment (W million)</b>																		
Approvals	4	616	4	231	12	1,052	6	349	9	1,029	10	887	45	4,164	7	451	52	4,615
Commitments	4	616	2	62	11	491	7	764	8	1,334	10	616	42	3,683	8	780	50	4,463
Disbursements	-	616	-	62	-	491	-	764	-	1,062	-	633	-	3,628	-	440	-	4,068
Debenture converted	-	250	-	400	-	-	-	-	-	-	-	219	-	869	1	30	-	899
Sales of equity investment	-	50	-	-	-	-	-	148	-	122	-	-	-	320	-	-	-	320
Outstanding at year-end /c	-	816	-	1,278	-	1,769	-	2,385	-	3,325	-	4,177	-	-	-	4,647	-	-
<b>D. Domestic Currency Guarantees</b>																		
Approval	1	30	-	-	-	-	-	-	2	424	-	-	3	454	-	-	3	454
Outstanding	-	-	-	-	-	-	-	-	-	424	-	424	-	-	-	424	-	-
<b>E. Foreign Currency Loans (US\$'000)</b>																		
Approvals	82	50,829	34	30,713	28	23,748	43	42,891	67	61,537	61	70,010	315	279,728	33	44,543	348	324,271
Commitments	76	41,678	36	33,882	24	17,019	41	41,614	55	68,055	63	69,031	295	271,279	32	44,436	327	315,715
Disbursements	-	37,289	-	11,991	-	34,209	-	23,683	-	64,928	-	42,706	-	214,806	-	46,919	-	261,725
Repayments	-	2,629	-	2,807	-	6,965	-	5,988	-	9,876	-	13,114	-	41,379	-	8,305	-	49,684
Outstanding at year end	-	34,660	-	43,844	-	71,088	-	88,783	-	143,835	-	173,427	-	-	-	212,041	-	-
<b>F. Total (W million equivalent) /d</b>																		
Approvals /e	129	22,251	49	14,133	56	14,540	57	21,833	85	31,934	93	36,811	469	141,502	51	23,294	520	164,796
Commitments /e	122	18,765	50	15,297	50	10,615	55	21,317	71	35,131	97	36,066	445	137,191	50	23,441	495	160,632
Disbursements /f	-	20,100	-	7,541	-	21,565	-	12,791	-	35,589	-	30,961	-	128,547	-	40,179	-	168,726
Repayments	-	2,554	-	2,360	-	3,529	-	4,786	-	6,237	-	8,459	-	27,925	-	16,854	-	44,779
Outstanding at year end	-	17,546	-	22,727	-	40,763	-	48,768	-	78,120	-	100,622	-	-	-	123,947	-	-

/a This table includes KDFC's own operations as well as projects jointly financed with the Regional Commercial Banks and foreign commercial banks; the loan to KDLC is treated as one subproject.

/b Excluding loans to KDFC employees.

/c Excluding a stock dividend of W 398 million: W 9 million from Dong A Pharmaceutical Co., Ltd. in 1973  
W 141 million from Chun Ju Paper Mfg. Co., Ltd. in 1975  
W 25 million from Hanyang Food Co., Ltd. in 1975  
W 76 million from Han Kuk Tire Mfg. Co., Ltd. in 1976  
W 33 million from Lucky, Ltd. in 1977  
W 114 million from Han Kuk Tire Mfg. Co., Ltd. in 1977

/d Excluding guarantee operations.

/e Exchange rate applied: US\$1 = W 281.90 for 1968; W 305.20 for 1969; W 317.40 for 1970; W 374.10 for 1971  
W 399.70 for 1972; W 398.50 for 1973; W 485.00 for 1974, 1975, 1976 and 1977.

/f In any given year, the won equivalent disbursement figures are calculated by taking the year-end spot exchange rate of the won against all the various foreign currencies actually disbursed to KDFC's subborrowers in that year, and adding the change in the won value of KDFC's outstanding foreign currency loan portfolio which is due to the exchange rate movements in that year. In a period of dollar (and won) depreciation, the won equivalent disbursement figures are therefore much larger than the won equivalent approvals and commitments, which are calculated via one single dollar-won exchange rate (see /e). The won equivalent disbursements figures use specific exchange rates for each foreign currency disbursed and outstanding and expresses disbursements and the outstanding foreign currency loan portfolio in won equivalents at current rates in any given year thereby providing an indicator of the cost (in won) of the foreign exchange risk to KDFC's subborrowers.

AEP Projects Department  
October 16, 1978











KOREA  
KOREA DEVELOPMENT FINANCE CORPORATION

Characteristics of Equity Investments and Debenture Subscription Approved, 1968-77 /a  
(in W million)

	1968-72			1973			1974			1975			1976			1977			Cumulative total			
	No.	Amount	%	No.	Amount	%	No.	Amount	%	No.	Amount	%	No.	Amount	%	No.	Amount	%	No.	Amount	%	
<b>A. Size Distribution</b>																						
Below 100	2	118	6.5	3	62	26.8	12	460	36.5	7	243	45.9	8	323	24.5	8	310	19.8	40	1,516	22.2	
100-200	6	660	36.4	1	169	73.2	2	251	19.9	2	286	54.1	1	100	6.9	3	382	24.4	15	1,848	27.0	
200-300	3	738	40.6	-	-	-	-	-	-	-	-	-	2	531	36.9	2	400	25.5	7	1,669	24.4	
Over 300	1	300	16.5	-	-	-	1	551	43.6	-	-	-	1	485	33.7	1	475	30.3	4	1,811	26.4	
<b>Total</b>	<b>12</b>	<b>1,816</b>	<b>100.0</b>	<b>4</b>	<b>231</b>	<b>100.0</b>	<b>15</b>	<b>1,262</b>	<b>100.0</b>	<b>9</b>	<b>529</b>	<b>100.0</b>	<b>12</b>	<b>1,439</b>	<b>100.0</b>	<b>14</b>	<b>1,567</b>	<b>100.0</b>	<b>66</b>	<b>6,844</b>	<b>100.0</b>	
<b>B. Geographical Distribution</b>																						
Seoul area	6	694	38.2	1	12	5.2	4	784	62.1	2	63	11.9	4	681	47.3	2	103	6.6	19	2,337	34.1	
Busan area	2	340	18.7	1	169	73.2	1	74	5.9	-	-	-	-	-	-	-	-	-	4	583	8.5	
Kyunggi-Do	2	412	22.7	2	50	21.6	6	197	15.6	4	326	61.6	2	20	1.4	6	517	33.0	22	1,522	22.2	
Kyungsangbuk-Do	-	-	-	-	-	-	1	50	4.0	2	90	17.0	1	50	3.5	1	200	12.8	5	390	5.7	
Kyungsangnam-Do	-	-	-	-	-	-	1	33	2.6	-	-	-	3	570	39.6	1	30	1.9	5	633	9.3	
Chungchungnam-Do	-	-	-	-	-	-	1	60	4.8	-	-	-	-	-	-	-	-	-	1	60	0.9	
Chungchungbuk-Do	1	250	13.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	250	3.6	
Chungnam-Do	1	120	6.6	-	-	-	-	-	-	1	50	9.5	1	60	4.2	2	599	38.2	5	829	12.1	
Chunnabuk-Do	-	-	-	-	-	-	1	64	5.1	-	-	-	1	58	4.0	1	68	4.3	3	190	2.8	
Marine transportation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	50	3.2	1	50	0.8	
<b>Total</b>	<b>12</b>	<b>1,816</b>	<b>100.0</b>	<b>4</b>	<b>231</b>	<b>100.0</b>	<b>15</b>	<b>1,262</b>	<b>100.0</b>	<b>9</b>	<b>529</b>	<b>100.0</b>	<b>12</b>	<b>1,439</b>	<b>100.0</b>	<b>14</b>	<b>1,567</b>	<b>100.0</b>	<b>65</b>	<b>6,844</b>	<b>100.0</b>	
<b>C. Sectoral Distribution</b>																						
<b>I. Manufacturing Industries</b>																						
<b>A. Consumer Goods Industries</b>																						
Food, beverage & tobacco	1	100	5.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	100	1.5	
Textile, wearing apparel & leather	2	268	14.8	2	50	21.6	3	33	2.6	1	10	1.9	3	70	4.9	3	326	20.8	14	757	11.0	
Printing & publishing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
<b>Subtotal</b>	<b>3</b>	<b>368</b>	<b>20.3</b>	<b>2</b>	<b>50</b>	<b>21.6</b>	<b>3</b>	<b>33</b>	<b>2.6</b>	<b>1</b>	<b>10</b>	<b>1.9</b>	<b>3</b>	<b>70</b>	<b>4.9</b>	<b>3</b>	<b>326</b>	<b>20.8</b>	<b>15</b>	<b>857</b>	<b>12.5</b>	
<b>B. Intermediate Goods Industries</b>																						
Wood & wood products	-	-	-	-	-	-	1	50	4.0	-	-	-	-	-	-	-	-	-	1	50	0.7	
Paper & paper products	1	250	13.8	-	-	-	1	64	5.1	-	-	-	1	58	4.0	-	-	-	3	372	5.5	
Chemicals, rubber & plastics	3	380	20.9	1	12	5.2	3	160	12.7	1	23	4.3	-	-	-	3	649	41.4	11	1,224	17.9	
Petroleum & coal	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Nonmetallic mineral products	2	400	22.0	-	-	-	2	133	10.5	2	70	13.3	2	310	21.6	2	40	2.6	10	953	13.9	
<b>Subtotal</b>	<b>6</b>	<b>1,030</b>	<b>56.7</b>	<b>1</b>	<b>12</b>	<b>5.2</b>	<b>7</b>	<b>407</b>	<b>32.3</b>	<b>3</b>	<b>93</b>	<b>17.6</b>	<b>3</b>	<b>368</b>	<b>25.6</b>	<b>5</b>	<b>689</b>	<b>44.0</b>	<b>25</b>	<b>2,599</b>	<b>38.0</b>	
<b>C. Capital Goods Industries</b>																						
Basic metals	-	-	-	-	-	-	1	50	4.0	1	40	7.6	1	485	33.7	-	-	-	3	575	8.4	
Metal products	-	-	-	-	-	-	2	70	5.5	-	-	-	2	150	10.4	-	-	-	4	220	3.2	
Machinery (excl. elec.)	2	130	7.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2	130	1.9	
Electrical machinery, apparatus, appliances & supplies	-	-	-	-	-	-	-	-	-	1	150	28.3	-	-	-	1	63	4.0	2	213	3.1	
Transport equipment	-	-	-	-	-	-	-	-	-	1	136	25.7	-	-	-	2	236	15.1	3	372	5.4	
<b>Subtotal</b>	<b>2</b>	<b>130</b>	<b>7.1</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3</b>	<b>120</b>	<b>9.5</b>	<b>3</b>	<b>326</b>	<b>61.6</b>	<b>3</b>	<b>635</b>	<b>44.1</b>	<b>3</b>	<b>299</b>	<b>19.1</b>	<b>14</b>	<b>1,510</b>	<b>22.0</b>	
<b>D. Miscellaneous Mfg.</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
<b>Total Mfg. Industries</b>	<b>11</b>	<b>1,528</b>	<b>84.1</b>	<b>3</b>	<b>62</b>	<b>26.8</b>	<b>13</b>	<b>560</b>	<b>44.4</b>	<b>7</b>	<b>429</b>	<b>81.1</b>	<b>9</b>	<b>1,073</b>	<b>74.6</b>	<b>11</b>	<b>1,314</b>	<b>83.9</b>	<b>54</b>	<b>4,966</b>	<b>72.5</b>	
<b>II. Nonmanufacturing Industries</b>																						
Agriculture, forestry & fisheries	-	-	-	-	-	-	-	-	-	2	100	18.9	2	85	5.9	1	200	12.7	5	385	5.7	
Mining & quarrying	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Electricity & waterworks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Construction	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Transportation (incl. storage & warehousing)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	50	3.2	1	59	0.7	
Banking & insurance	1	288	15.9	-	-	-	2	702	55.6	-	-	-	1	231	19.5	1	3	0.2	5	1,274	18.6	
Hotel & tourism	-	-	-	1	169	73.2	-	-	-	-	-	-	-	-	-	-	-	-	1	169	2.5	
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
<b>Total Nonmfg. Industries</b>	<b>1</b>	<b>288</b>	<b>15.9</b>	<b>1</b>	<b>169</b>	<b>73.2</b>	<b>2</b>	<b>702</b>	<b>55.6</b>	<b>2</b>	<b>100</b>	<b>18.9</b>	<b>3</b>	<b>366</b>	<b>25.4</b>	<b>3</b>	<b>253</b>	<b>16.1</b>	<b>12</b>	<b>1,878</b>	<b>27.5</b>	
<b>GRAND TOTAL</b>	<b>12</b>	<b>1,816</b>	<b>100.0</b>	<b>4</b>	<b>231</b>	<b>100.0</b>	<b>15</b>	<b>1,262</b>	<b>100.0</b>	<b>9</b>	<b>529</b>	<b>100.0</b>	<b>12</b>	<b>1,439</b>	<b>100.0</b>	<b>14</b>	<b>1,567</b>	<b>100.0</b>	<b>66</b>	<b>6,844</b>	<b>100.0</b>	

/a Includes convertible debentures.

## KOREA

## KOREA DEVELOPMENT FINANCE CORPORATION

## Sectoral Distribution of Loans and Investments Outstanding as of December 31, 1977

	Loans				Investments				Bonds		Total	
	Foreign currency		Won currency		Equity investment		Convertible debenture		No. of clients	Amount	No. of clients	Amount
	No. of clients	Amount	No. of clients	Amount	No. of clients	Amount	No. of clients	Amount				
<b>I. Manufacturing Industries</b>												
<b>A. Consumer Goods Industries</b>												
Food beverage & tobacco	12	4,174	1	32	1	100	-	-	-	-	14	4,306
Textile wearing apparel & leather	45	20,942	5	459	5	239	-	-	2	250	57	21,890
Printing & publishing	1	111	-	-	-	-	-	-	-	-	1	111
Subtotal	58	25,227	6	491	6	339	-	-	2	250	72	26,307
<b>B. Intermediate Goods Industries</b>												
Wood & wood products	1	192	1	37	1	44	-	-	-	-	3	273
Paper & paper products	2	819	-	-	1	372	-	-	-	-	3	1,191
Chemicals, rubber & plastics												
petroleum & coal	14	5,742	5	350	3	658	1	30	-	-	23	6,780
Nonmetallic mineral products	13	5,335	4	178	3	293	1	88	1	194	22	6,088
Subtotal	30	12,088	10	555	8	1,367	2	118	1	194	51	14,332
<b>C. Capital Goods Industries</b>												
Basic metals	4	4,327	2	132	2	514	-	-	-	-	8	4,973
Metal products	18	6,929	6	408	2	60	-	-	1	36	27	7,433
Machinery, excl. electrical	4	979	2	250	-	-	-	-	-	-	6	1,229
Electrical machinery, apparatus appliances & supplies	7	3,049	2	106	1	213	-	-	-	-	10	3,368
Transport equipment	3	1,781	1	140	1	172	-	-	1	100	6	2,193
Subtotal	36	17,065	13	1,036	6	959	-	-	2	136	57	19,196
<b>D. Miscellaneous Mfg. Industries</b>	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total mfg. industries</b>	124	54,380	29	2,032	20	2,665	2	118	5	580	180	59,835
<b>II. Nonmanufacturing Industries</b>												
Agriculture, forestry & fisheries	19	6,504	3	350	2	150	2	235	-	-	26	7,239
Mining & quarrying	1	827	-	-	-	-	-	-	-	-	1	827
Electricity & water works	-	-	-	-	-	-	-	-	-	-	-	-
Construction	-	-	-	-	-	-	-	-	-	-	-	-
Transportation (incl. storage & warehousing)	18	19,046	1	57	1	50	-	-	-	-	20	19,153
Banking & insurance	1	2,174	-	-	2	1,152	-	-	-	-	3	3,326
Hotel & tourism	1	825	-	-	1	169	-	-	-	-	2	994
Other	4	356	-	-	-	-	-	-	-	-	4	356
<b>Total nonmfg. industries</b>	44	29,732	4	407	6	1,521	2	235	-	-	56	31,895
<b>Grand Total</b>	168	84,112	33	2,499	26	4,186	4	353	5	580	236	91,730 /a

/a Including stock dividends of 9 million received in 1973, and excluding loans to KDPC's employees (W 51 million outstanding as of December 31, 1977). This differs from Tables 14 and 19 due to exchange rate fluctuations, but the sectoral distribution remains basically unaffected.

AEP Projects Department  
September 29, 1978

KOREA  
KOREA DEVELOPMENT FINANCE CORPORATIONSubprojects Approved or Under Consideration for Financing Under Loan 1461-KO, as of June 30, 1978  
(US\$'000)

Name of company	Type of industry	Type of project	Project Cost		KDFC Financing		Rate of return (%)		Incremental export sales (\$)	Incremental job creation (number)	Cost per job (\$)	Foreign ownership (%)
			Local (E\$)	Foreign (\$)	Total (E\$)	IBRD (\$)	Financial	Economic				
<b>A. Approved by IBRD</b>												
Dae Han Paper-Board Co., Ltd.	Paper	E	4,419	3,300	3,712	3,300	20.8	41.4	4,214	120	39	-
Dong Woo Precision Machine Mfg. Co., Ltd.	Metal	E	866	1,410	1,410	1,410	27.9	42.0	-	30	53	-
Sajo Industrial Co., Ltd.	Fisheries	E	1,706	1,437	1,437	1,437	19.3	17.9	1,581	58	46	-
Han Yang Housing & Construction Co., Ltd.	Construction	E	1,438	3,900	2,500	2,500	-	-	-	60	74	-
Dong Won Industrial Co., Ltd.	Deep-sea fisheries	R	968	2,180	2,180	2,180	18.8	16.8	1,577	-	-	-
Hanil Cement Mfg. Co., Ltd.	Nonmetallic	E	650	2,260	2,404	2,260	-	-	-	16	161	-
Gum Sung Chemical Co.	Glass cloth	E	401	185	247	185	-	-	-	64	7	-
Dae Won Sa Co., Ltd.	Metal	N	1,778	850	1,056	850	-	-	-	100	19	-
Korea Iron & Steel Co., Ltd.	Metal	R	6,695	3,500	3,706	370	43.3	35.4	-	35	162	-
O-Yang Fisheries Co., Ltd.	Deep-sea fisheries	R	946	2,178	2,178	2,178	-	18.5	-	-	-	-
Tong Yang Shipping Co., Ltd.	Marine transportation	E	402	3,400	3,400	3,400	22.8	27.4	-	22	155	-
Kum Ho Chemical Co., Ltd.	Chemical	N	15,156	16,904	5,880	4,880	35.0	29.0	-	204	30	-
Shin Sung Engineering Co., Ltd.	Construction	N	860	335	335	335	-	-	-	40	22	-
Yong Nam Carbonic Co., Ltd.	Chemical	N	597	428	490	428	-	-	-	30	27	-
Sam Whan Corporation	Construction	E	4,406	5,925	2,450	2,450	-	-	-	160	54	-
Chin Yang Machinery Co., Ltd.	Metal	N	1,181	1,950	1,950	1,950	44.5	47.2	1,039	260	10	-
Sedae Paper Mfg. Co., Ltd.	Paper	E	19,099	10,000	7,000	7,000	23.8	16.8	-	190	95	-
Dae Ho Industrial Co., Ltd.	Fisheries	R	986	2,255	2,255	2,255	17.0	15.0	1,601	-	-	-
Korea Synthetic Rubber Co., Ltd.	Petrochemical	N	26,329	30,669	7,600	7,600	15.3	29.8	-	170	183	50
ICC Transportation Co.	Transportation	E	216	230	230	230	21.2	68.3	-	-	-	-
Doo San Mfg. Co., Ltd.	Machinery	O	542	400	400	400	-	-	-	90	8	-
Dae Sung Rope Mfg. Co., Ltd.	Rope making	E	193	243	243	243	-	-	1,336	20	16	-
Seongshin Fisheries Co., Ltd.	Fisheries	R	70	188	188	188	-	-	15	-	-	-
Shin Shun Prefab Co., Ltd.	Nonmetallic	N	3,234	1,830	2,450	2,450	29.5	39.4	-	80	45	-
Se Yang Fisheries Co., Ltd.	Deep-sea fisheries	R	493	1,127	1,125	1,127	16.8	15.2	793	-	-	-
Dong Bang Forwarding Co., Ltd.	Others	E	473	500	500	500	-	-	-	107	9	-
Lotte Moolsan Co., Ltd.	Metal	N	234	347	347	347	-	-	-	25	20	84
Koum Chang Trading Co., Ltd.	Fisheries	E	619	1,500	700	700	-	-	700	92	22	-
Dong Myung Metal Co., Ltd.	Basic metal	E	1,097	662	662	662	-	-	-	95	16	-
Nam Yang Dairy Products Co., Ltd.	Agriculture	E	4,437	3,800	3,800	3,800	19.9	25.9	-	210	33	-
Kwang Jin Electronic Ind., Co. Ltd.	Electronic	E	1,669	947	946	740	-	-	-	200	11	-
Ihl Shin Heavy Equipment Co. Ltd.	Construction	E	79	255	255	255	-	-	-	6	56	-
Seshin Precision Co., Ltd.	Metal	N	499	380	442	380	-	-	1,103	210	4	-
Tae Yeon Moolsan Co., Ltd.	Textile	O	97	92	92	92	-	-	-	63	3	-
Dong Yang Precision Machine Tool	Machinery	E	608	500	500	500	-	-	-	20	34	-
Ssang Yong Shipping Co., Ltd.	Marine transportation	E	1,798	6,150	1,000	1,000	18.5	27.1	-	27	234	-
Dai Han Ink & Paint Mfg. Co., Ltd.	Plastics	E	322	487	652	487	-	-	-	30	21	-
Jedong Industries Co., Ltd.	Nonmetallic	E	1,346	996	870	870	-	-	-	50	44	-
Subtotal (38)			106,931	113,700	67,594	61,939			13,959	2,884		
<b>B. Under Processing</b>												
Se Il Sa Co., Ltd.	Plastics	E	110	260	260	260						
Hamil Express Co., Ltd.	Transportation	E	920	3,000	3,000	3,000						
Sam Bu Shipping Co., Ltd.	Marine transportation	E	186	750	750	750						
Kuk Bo Transportation Co., Ltd.	Transportation	E	401	500	500	500						
Taeyang Metal Ind. Co., Ltd.	Metal	E	2,986	1,800	1,800	1,800						
Doo San Ceramics, Co., Ltd.	Nonmetallic	E	1,005	921	500	500						
Subtotal (6)			5,608	7,231	6,810	6,810						
<b>Total</b>			112,539	120,931	74,404	68,749						

KOREA  
KOREA DEVELOPMENT FINANCE CORPORATIONAudited Balance Sheets 1974-1977  
(in W million)

As of December 31	1974	1975	1976	1977	As of June 30, 1978
<b>ASSETS</b>					
<u>Current Assets</u>					
Cash in bank & demand deposits	35	21	2,492/ <sup>b</sup>	139/ <sup>b</sup>	12
Time deposits maturing within one year	743	606	1,038	1,325	1,283
Accrued interest	1,064	1,317	2,407	3,866	4,660
Other current assets <sup>/a</sup>	1,710	2,799	3,526	3,596	3,110
Current portion of loans & debentures	4,638	6,176	8,007	11,327	13,289
<u>Total current assets</u>	<u>8,190</u>	<u>10,918</u>	<u>17,470</u>	<u>20,233</u>	<u>22,354</u>
Time deposits restricted for employees' severance pay	125	-	-	-	-
<u>PORTFOLIO</u>					
Domestic currency loans	3,692	3,407	3,073	2,559	3,636
Foreign currency loans					
IBRD loans	33,933	35,257	48,768	58,899	67,282
ADB loans	-	6,391	11,956	23,630	29,431
AID loans	1,090	906	703	479	384
Caterpillar loans	26	17	9	-	-
IFC loan	-	-	8,648	8,779	8,899
DEG loan	-	-	1,070	1,202	1,215
APCO loan	-	-	-	-	8,182
Subtotal	35,049	42,571	71,154	92,989	115,393
Debentures	253	405	803	933	489
Equity investment	1,777	2,394	3,333	4,186	4,655
<u>Total portfolio <sup>/c</sup></u>	<u>40,771</u>	<u>48,777</u>	<u>78,363</u>	<u>100,667</u>	<u>124,173</u>
less: Allowance for losses	628	830	1,131	1,462	1,803
Current portion	4,638	6,175	8,007	11,327	13,289
Net portfolio	35,505	41,772	69,225	87,878	109,081
Other assets					
Fixed assets (net)	343	344	1,140	1,773	1,695
<u>Total assets</u>	<u>44,163</u>	<u>53,034</u>	<u>87,835</u>	<u>109,884</u>	<u>133,130</u>
<u>LIABILITIES</u>					
<u>Current Liabilities</u>					
Accrued interest and commitment fees	558	829	1,698	2,675	3,354
Deferred income	70	148	219	320	357
Accrued expenses	103	294	2,855 <sup>/b</sup>	917	918
Current maturity of term debt	3,929	5,004	6,806	10,225	12,060
<u>Total current liabilities</u>	<u>4,660</u>	<u>6,275</u>	<u>11,578</u>	<u>14,137</u>	<u>16,689</u>
Employees' severance liability	126	166	244	287	312
<u>Borrowings</u>					
Domestic currency borrowings	2,025	2,025	2,025	1,991	1,958
Foreign currency borrowings					
IBRD loans	33,998	35,076	48,527	58,296	66,525
ADB loans	-	6,391	11,956	23,625	29,431
AID loans	1,179	1,090	995	895	843
Caterpillar loan	27	22	17	11	11
IFC loan	-	-	8,648	8,779	8,899
DEG loan	-	-	1,070	1,202	1,215
APCO loan	-	-	-	-	8,182
Subtotal	35,204	42,579	71,213	92,808	115,106
<u>Total long term debt</u>	<u>37,229</u>	<u>44,604</u>	<u>73,238</u>	<u>94,799</u>	<u>117,064</u>
Less: Current portion of term debt	3,929	5,004	6,806	10,225	12,060
Net long term debt	33,300	39,600	66,432	84,574	105,004
<u>STOCKHOLDERS EQUITY</u>					
Share capital	3,000	3,300	5,000	5,000	5,000
Legal reserve	600	700	1,070	1,770	2,500
Retained Earnings					
Voluntarily appropriated	1,500	1,700	1,900	2,000	2,300
Unappropriated	977	1,293	1,611	2,116	1,326
<u>Total stockholders equity</u>	<u>6,077</u>	<u>6,993</u>	<u>9,581</u>	<u>10,886</u>	<u>11,126</u>
<u>Total liabilities &amp; equity</u>	<u>44,163</u>	<u>53,034</u>	<u>87,835</u>	<u>109,884</u>	<u>133,131</u>
Contingent liabilities (guarantees)	-	424	424	424	424
<u>Ratios</u>					
Current ratio <sup>/d</sup>	1.8	1.7	1.5	1.4	1.3
Debt/equity ratio <sup>/e</sup>	6.1	6.4	7.6	8.7	10.5
Reserves and provisions as % of portfolio <sup>/f</sup>	9.1%	9.2%	7.2%	7.3%	6.4%

<sup>/a</sup> Including marketable securities.<sup>/b</sup> Including foreign currency deposits with Korea Exchange Bank for later disbursement in an amount of W 2,475 million for 1976, and other deposits for 1977.<sup>/c</sup> These figures differ slightly compared with the 'outstanding at year end' figures of Annex 4, table 14 (Section F) because these accounts include a few minor loan adjustments for project cost overruns and underruns.<sup>/d</sup> Taking current maturities of loans and debt into account.<sup>/e</sup> Including contingent liabilities under term debt. The figure of 10.5 for part of 1978 is temporary and will fall to below the 10:1 limit following completion of the W 5 billion share capital issue in October 1978.<sup>/f</sup> Total portfolio including guarantees.

KOREA  
KOREA DEVELOPMENT FINANCE CORPORATION  
Audited Income Statements 1974-1977  
(in W million)

Year ended December 31	1974	1975	1976	1977	As of June 30, 1978
<u>Income</u>					
Interest income and commitment					
fees on loans	3,244	4,732	6,591	9,923	6,420
Dividend income	188	266	394	467	450
Income on commercial paper	209	268	447	602	290
Interest on deposits	202	204	208	387	207
<u>Total</u>	<u>3,843</u>	<u>5,470</u>	<u>7,640</u>	<u>11,379</u>	<u>7,367</u>
<u>Expenses</u>					
Interest and charges on borrowings:					
Domestic currency borrowings	81	81	81	81	44
Foreign currency borrowings	1,812	2,841	4,190	6,868	4,527
Commitment charges	93	104	287	251	137
Subtotal	<u>1,986</u>	<u>3,026</u>	<u>4,558</u>	<u>7,200</u>	<u>4,708</u>
Salaries & other personnel					
expenses <u>/a</u>	268	346	472	631	331
Administrative and general expenses	268	305	356	492	277
Provision for losses	162	202	301	331	341
Write offs	39	49	-	-	-
Other expenses	26	30	20	1	27
<u>Total expenses</u>	<u>2,749</u>	<u>3,958</u>	<u>5,707</u>	<u>8,655</u>	<u>5,684</u>
Net earnings before tax	1,094	1,512	1,933	2,724	1,683
Provision for corporate income tax	182	296	385	668	444
Net income	912	1,216	1,548	2,056	1,239
Retained earnings carried forward	65	77	63	60	87
<u>Total</u>	<u>977</u>	<u>1,293</u>	<u>1,611</u>	<u>2,116</u>	<u>1,326</u>
<u>Appropriation /b</u>					
Cash dividend	300	330	751	1,000	-
Stock dividend	300	330	-	-	-
Legal reserve	100	370	700	730	-
General reserve	200	200	100	300	-
Unappropriated	77	63	60	86	1,326
<u>Total</u>	<u>977</u>	<u>1,293</u>	<u>1,611</u>	<u>2,116</u>	<u>1,326</u>
<u>Percentage of Average Total Assets</u>					
1. Gross income	10.8	11.2	10.9	11.5	6.1
2. Financial expenses	5.6	6.2	6.5	7.3	3.9
3. Gross spread (1-2)	5.2	5.0	4.4	4.2	2.2
4. Administrative expenses	1.6	1.4	1.2	1.1	0.5
5. Provisions	0.6	0.5	0.4	0.3	0.3
6. Income tax	0.5	0.6	0.6	0.7	0.4
7. Net income	2.5	2.5	2.2	2.1	1.0
<u>Net Profit as % of</u>					
Average equity	15.8	18.6	18.7	20.1	11.3
Share capital	30.4	36.9	31.0	41.1	24.8
<u>Other Ratios</u>					
Income from loans as % of average					
loan portfolio	10.7	11.1	10.8	11.6	6.0
Cost of term-debt as % of average					
term debt	6.8	7.4	7.7	8.6	4.4
Interest spread	3.9	3.7	3.1	3.0	1.6
Cash dividend as % of par	10.0	10.0	20.0	20.0	-
Stock dividend as % of par	10.0	10.0	-	-	-
Payout ratio	32.9%	27.1%	48.5%	48.6%	-
Book value as % of par	203.0	212.0	192.0	218.0	223.0
Earnings per share (average	304.0	374.0	412.0	411.0	248.0
outstanding) <u>/c</u> (W)					
Interest cover ratio <u>/d</u>	1.6	1.5	1.4	1.4	1.4
Debt service cover ratio <u>/e</u>	1.4	1.3	1.3	1.3	1.2
Return on total assets (%) <u>/f</u>	7.0	8.6	7.4	9.0	4.7

/a Including allowance for employees' severance pay.

/b Appropriation is subject to approval at the shareholder's general meeting held in the first quarter of following year.

/c Reflects the par split in shares from 1 to 5 in February 1977.

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

/e Profit after tax and interest charges and noncash + loan collections to interest charges + repayments of borrowings.

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



## KOREA

## KOREA DEVELOPMENT FINANCE CORPORATION

Summarized Cash Flow Statements 1974-1977  
(in W million)

As of December 31	1974	1975	1976	1977	As of June 30, 1978
<u>SOURCES</u>					
Operations					
Net income	912	1,216	1,548	2,056	1,239
Noncash charges	264	302	388	548	484
Subtotal	<u>1,176</u>	<u>1,518</u>	<u>1,936</u>	<u>2,604</u>	<u>1,723</u>
Issuance of shares for cash	-	-	1,370	-	-
Drawdown on foreign currency borrowings	19,134	11,304	33,637	28,689	27,079
Collections					
Domestic currency loans	431	687	1,067	1,489	495
Foreign currency loans	2,945	3,853	5,066	7,037	4,715
Convertible bonds and debentures	153	98	42	131	136
Subtotal	<u>3,529</u>	<u>4,638</u>	<u>6,175</u>	<u>8,657</u>	<u>5,346</u>
Disposition of equity investments	-	148	122	-	-
Disposition of fixed assets	40	36	87	13	21
Increase in payables	200	540	3,502	(861)	689
<u>Total sources</u>	<u>24,079</u>	<u>18,184</u>	<u>46,829</u>	<u>39,102</u>	<u>34,858</u>
<u>USES</u>					
Increase in fixed assets	28	49	891	820	31
Disbursements					
Domestic currency loans	1,670	402	733	975	1,264
Foreign currency loans	19,294	11,375	33,649	28,873	27,119
Bonds and debentures	110	250	440	480	-
Subtotal	<u>21,074</u>	<u>12,027</u>	<u>34,822</u>	<u>30,328</u>	<u>28,383</u>
Disbursement of equity investments	491	764	1,062	633	469
Repayment of borrowings					
Domestic currency borrowings	-	-	-	34	34
Foreign currency borrowings	2,641	3,929	5,004	7,092	4,782
Subtotal	<u>2,641</u>	<u>3,929</u>	<u>5,004</u>	<u>7,126</u>	<u>4,816</u>
Employees' severance pay	-	-	-	-	-
Payment of dividends	324	300	330	751	1,000
Increase in receivables	(572)	1,205	2,249	1,798	160
Increase in deposits for employees' severance pay	50	(125)	-	-	-
Increase (decrease) in cash	4	(14)	2,471	(2,354)	(1)
Write offs	39	49	-	-	-
<u>Total uses</u>	<u>24,079</u>	<u>18,184</u>	<u>46,829</u>	<u>39,102</u>	<u>34,858</u>

## KOREA

## KOREA DEVELOPMENT FINANCE CORPORATION

## Collection Performance 1974-1977 /a

A. Collection Ratio (in W'000)

	Amount due during the year						
	Overdues		Maturing during the yr.		Total due		
	Principal	Interest	Principal	Interest	Principal	Interest	Total
1974	24,520	12,695	3,576,517	2,301,783	3,601,037	2,314,478	5,915,515
1975	71,769	34,929	4,566,288	3,536,612	4,638,057	3,571,541	8,209,598
1976	-	23,895	6,212,031	4,385,307	6,212,031	4,409,202	10,621,233
1977	37,269	22,529	8,556,852	5,891,907	8,594,121	5,914,436	14,508,557
1978 /b	68,436	19,836	5,350,689	5,305,757	5,419,125	5,325,593	10,744,718

	Actual collection			Collection rate		
	Principal	Interest	Total	Principal	Interest	Total
1974	3,529,268	2,279,549	5,808,817	98.0%	98.5%	98.2%
1975	4,638,057	3,547,648	8,185,705	100.0%	99.3%	99.7%
1976	6,174,762	4,386,673	10,561,435	99.4%	99.5%	99.4%
1977	8,525,685	5,894,600	14,429,275	99.2%	99.7%	99.4%
1978 /b	5,346,133	5,296,031	10,642,164	98.7%	99.4%	99.0%

B. Status of Portfolio (in W million)

Year ending December 31,	1974		1975		1976		1977		End June/78	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Principal outstanding	38,954	100.0	46,383	100.0	75,029	100.0	96,481	100.0	119,518	100.0
Of which:										
In grace period	22,468	57.6	24,923	53.7	44,073	58.7	41,819	43.3	65,808	55.1
Repaying regularly	15,612	40.1	21,053	45.4	47,220	62.9	54,278	56.3	53,344	44.6
In arrears	914	2.3	407	0.9	382	0.5	384	0.4	366	0.3
(Over 3 months)	(591)	(1.5)	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)

C. Arrears (in W million)

Year ending December 31,	1974		1975		1976		1977		End June/78	
	Total	Over 3 mo	Total	Over 3 mo	Total	Over 3 mo	Total	Over 3 mo	Total	Over 3 mo
Number of loans in arrears	3	2	1	0	1	0	1	0	3	0
Amounts in arrears	106.7	96.0	23.9	-	59.8	-	88.2	-	106.5	-
Of which										
Principal	71.8	71.8	-	-	37.3	-	68.4	-	73.0	-
Interest	34.9	24.2	23.9	-	22.5	-	19.8	-	33.5	-

/a Loan and debenture portfolio.

/b January-June 30, 1978.

AEP Projects Department  
October 16, 1978

KOREA

KOREA DEVELOPMENT FINANCE CORPORATION

Statement of Resources

	As of June 30, 1978	As of December 31, 1977
<u>Local currency resources</u>	(W thousand)	(W thousand)
Share capital	5,000,000	5,000,000
Reserves and retained earnings	6,126,168	4,886,285/a
Net stockholders' equity	11,126,168	9,886,285
Government subordinated loan	1,957,500	1,991,250
Add-back: Noncash charges (depreciation, provisions, etc.)	2,329,402	1,879,187
<u>Total local currency resources</u>	<u>15,413,070</u>	<u>13,756,722</u>
Less: Local currency loans outstanding	3,327,653	2,559,027
Bonds and debentures outstanding	797,000	933,000
Equity investments	4,655,322	4,186,047
Fixed assets (at cost)	1,908,979	1,903,000
Subtotal	<u>10,688,954</u>	<u>9,581,074</u>
Equals: Available for disbursement	4,724,116	4,175,648
Less: Undisbursed commitments	1,275,000	1,159,109
Equals: Available for commitment	3,449,116	3,016,539
Less: Uncommitted approvals	412,457	581,508
Local currency resources available for approval	<u>3,036,659</u>	<u>2,435,031</u>
<u>Foreign currency resources /b</u>	(US\$)	(US\$)
IBRD loans	218,409,355	218,409,355
ADB loans	70,000,000	70,000,000
IFC loan	17,800,000	17,800,000
DEG loan	2,000,000	2,000,000
AID and Caterpillar loans	2,971,025	2,971,025
APCO loan	20,000,000	20,000,000
<u>Total foreign currency resources</u>	<u>331,180,380</u>	<u>331,180,380</u>
	(= W 160.6 billion)	(= W 160.6 billion)
Less: Total loans disbursed	261,724,551	214,806,118
Equals: Resources available for disbursement	69,455,829	116,374,262
Less: Undisbursed commitments	52,951,189	56,472,925
Equals: Resources available for commitment	16,504,640	59,901,337
Less: Uncommitted approvals	8,054,000	8,450,000
Foreign currency resources available for approval	<u>8,450,640</u>	<u>51,451,337</u>
<u>Total resources</u>	(W thousand equivalent) /c	(W thousand equivalent) /c
Total resources	176,035,554	174,379,206
Available for disbursement	38,410,193	60,617,165
Available for commitment	11,453,866	32,068,687
Available for approval	7,135,219	27,388,929

/a After deducting 1977 cash dividend (W 1 billion).

/b Net of cancellations.

/c Exchange rate applied: US\$1 = W 485.00

KOREA

KOREA DEVELOPMENT FINANCE CORPORATION

Terms and Conditions of Long-Term Borrowings as of June 30, 1978

Source of funds	Loan amount		Outstanding /a		Date of loan agreement	Repayment schedule	Borrowing rate (%)	Onlending rate (%)	Maximum duration for subborrower (years)	Limit on subloan	Free limit (\$'000)	Procurement tied or not
	Original	Actual	Won in million	US\$ in thousand								
I. <u>Foreign currency</u> -- (US\$'000) --												
USAID	5,000	2,892	894	1,843	1968.1.1	1972-84	6.0	10	15	n.a.	100	tied
IBRD												
1st loan	5,000	4,950	39	81	1968.1.1	1970-80	6.5-7.0	10	15	n.a.	100	not
2nd loan	20,000	19,726	708	1,460	1969.6.26	1971-80	6.5	10	15	n.a.	300	"
3rd loan	30,000	29,125	7,423	15,306	1971.5.17	1973-86	7.25	10	15	n.a.	500	"
4th loan	40,000	39,608	14,532	29,963	1973.6.13	1975-87	7.25	10	15	n.a.	750	"
5th loan	55,000	55,000	24,797	51,127	1975.7.23	1977-88	8.5	10.75-10.2	15	n.a.	2,000	"
6th loan	70,000	70,000	8,869	18,287	1977.6.30	1980-94	8.2	10.6-10.2	15	n.a.	2,500	"
ADB												
1st loan	30,000	30,000	12,878	26,553	1974.9.2	1977-89	7.5-8.75	10	15	n.a.	750	not
2nd loan	40,000	40,000	12,807	26,407	1976.8.12	1980-91	9.2	11.1-10.2	15	n.a.	1,500	"
Commercial												
Caterpillar loan	5,000	79	11	23	1969.3.15	1973-79	7.0	10	5	n.a.	-	"
IFC loan	17,800	17,800	8,633	17,800	1976.5.25	1978-84	A: 10.75 B: Libor + 2% C: 9.95	Borrowing rate + 1.25%	7	n.a.	-	"
DEG loan	2,000	2,000	970	2,000	1976.5.26	1978-86	10.25%	Borrowing rate + 1.25%	10	n.a.	-	"
APCO loan	20,000	20,000	8,182	16,870	1977.9.13	1980-84	Libor + 1.75%	Borrowing rate + 1.25%	7	n.a.	-	"
II. <u>Domestic Currency</u> -- (W million) --												
Govt loan	2,025	2,025	1,958	4,037	1967.1.19.	1977-2006	4%	-	-	-	-	-

/a Exchange rate applied US\$1.00 = W 485.00.

AFP Projects Department  
September 29, 1978

## KOREA

## KOREA DEVELOPMENT FINANCE CORPORATION

Forecast of Approvals, Commitments and Disbursements, 1978-82  
(W million, \$'000)

	1977	1978		1979		1980	1981	1982
	Actual	1st half	2nd half	1st half	2nd half			
<u>Approvals</u>								
Domestic currency:								
Loans	1,490	1,300	2,550	2,700	2,400	5,300	8,400	10,000
Equity investments	887	270	430	415	285	850	1,000	1,250
Convertible debentures & bonds	480	210	490	415	285	850	1,000	1,250
Subtotal	<u>2,857</u>	<u>1,780</u>	<u>3,470</u>	<u>3,530</u>	<u>2,970</u>	<u>7,000</u>	<u>10,400</u>	<u>12,500</u>
Foreign currency loans	70,010	45,452	44,548	46,000	59,000	125,000	145,000	165,000
Total (E\$)	<u>75,901</u>	<u>49,122</u>	<u>51,703</u>	<u>53,278</u>	<u>65,124</u>	<u>139,433</u>	<u>166,443</u>	<u>190,773</u>
<u>Commitments</u>								
Domestic currency:								
Loans	1,490	1,050	2,400	2,750	2,450	5,200	8,000	10,100
Equity investments	416	702	390	440	305	815	980	1,250
Convertible debentures & bonds	680	140	470	440	305	815	980	1,250
Subtotal	<u>2,586</u>	<u>1,892</u>	<u>3,260</u>	<u>3,630</u>	<u>3,060</u>	<u>6,830</u>	<u>9,960</u>	<u>12,600</u>
Foreign currency loans	69,031	43,982	45,920	39,548	61,000	124,000	144,000	162,000
Total (E\$)	<u>74,363</u>	<u>47,883</u>	<u>52,642</u>	<u>47,033</u>	<u>67,309</u>	<u>138,082</u>	<u>164,536</u>	<u>187,979</u>
<u>Disbursements</u>								
Domestic currency:								
Loans	852	720	2,835	2,850	2,550	5,000	7,200	10,300
Equity investments	633	300	686	490	345	765	920	1,250
Convertible debentures & bonds	480	-	430	470	345	765	920	1,250
Subtotal	<u>1,965</u>	<u>1,020</u>	<u>3,951</u>	<u>3,810</u>	<u>3,240</u>	<u>6,530</u>	<u>9,040</u>	<u>12,800</u>
Foreign currency loans	42,706	49,158	58,297	38,920	39,548	114,000	133,000	161,000
Total (E\$)	<u>46,758</u>	<u>51,261</u>	<u>66,443</u>	<u>46,776</u>	<u>46,228</u>	<u>127,464</u>	<u>151,639</u>	<u>187,392</u>

AEP Projects Department  
September 29, 1978

## KOREA

## KOREA DEVELOPMENT FINANCE CORPORATION

Projected Balance Sheets  
(as of December 31)

	Actual 1977	1978	1979	1980	1981	1982
	----- (W million) -----					
<b>ASSETS</b>						
<u>Current assets</u>						
Time deposits	1,348	2,888	2,110	2,056	3,579	3,222
Short-term investments	3,421	5,776	4,221	4,113	7,157	6,445
Accrued interest receivables & others	4,137	4,184	4,907	5,836	6,927	8,543
Subtotal	<u>8,906</u>	<u>12,848</u>	<u>11,238</u>	<u>12,005</u>	<u>17,663</u>	<u>18,210</u>
<u>Loans &amp; Investments</u>						
Domestic currency loans	2,559	5,244	9,957	13,837	18,674	25,084
Foreign currency loans	92,989	134,322	160,432	200,105	241,068	288,517
Equity investments	4,186	5,052	5,667	6,447	7,534	8,916
Convertible debentures & bonds (Provision for losses)	933 (1,462)	1,073 (2,098)	1,631 (2,556)	2,019 (3,195)	2,334 (3,872)	2,927 (4,676)
Subtotal	<u>99,205</u>	<u>143,593</u>	<u>175,131</u>	<u>219,213</u>	<u>265,738</u>	<u>320,768</u>
Net fixed assets	1,774	1,649	1,527	1,428	1,336	1,257
<u>Total Assets</u>	<u>109,885</u>	<u>158,090</u>	<u>187,896</u>	<u>232,646</u>	<u>284,737</u>	<u>340,235</u>
<b>LIABILITIES &amp; EQUITY</b>						
<u>Current liabilities</u>						
Corporation income tax payable	499	287	547	689	616	923
Accrued interest payable	2,675	3,296	4,096	4,657	5,520	6,938
Other current liabilities	738	500	700	800	1,000	1,200
Subtotal	<u>3,912</u>	<u>4,083</u>	<u>5,343</u>	<u>6,146</u>	<u>7,136</u>	<u>9,061</u>
<u>Borrowings</u>						
Domestic currency borrowings	1,992	1,925	1,857	2,790	2,722	4,655
Foreign currency borrowings	92,808	134,456	160,728	200,460	241,538	288,879
Subtotal	<u>94,800</u>	<u>136,381</u>	<u>162,585</u>	<u>203,250</u>	<u>244,260</u>	<u>293,534</u>
Employee's severance liability	287	359	431	503	575	657
<u>Equity</u>						
Share capital	5,000	10,000	10,000	11,000	18,000	18,000
Reserves & unappropriated surplus	5,886	7,267	9,537	11,747	14,766	18,983
Subtotal	<u>10,886</u>	<u>17,267</u>	<u>19,537</u>	<u>22,747</u>	<u>32,766</u>	<u>36,983</u>
<u>Total Liabilities &amp; Equity</u>	<u>109,885</u>	<u>158,090</u>	<u>187,896</u>	<u>232,646</u>	<u>284,737</u>	<u>340,235</u>
Contingent liabilities (guarantees)	424	424	424	424	424	424
<b>RATIOS</b>						
Current ratio /a	1.4:1	1.7:1	1.4:1	1.4:1	1.4:1	-
Debt/equity ratio /b	8.75:1	7.92:1	8.34:1	8.95:1	7.47:1	7.95:1
Reserves & provisions as of % of total portfolio	7.3	6.4	6.8	6.7	6.9	7.3

/a Taking current maturities of loans and debt into account.

/b Including contingent liabilities in term debt.

## KORFA

## KOREA DEVELOPMENT FINANCE CORPORATION

Projected Statement of Income 1978-1982  
(For the years ending December 31)

	Actual 1977	1978	1979	1980	1981	1982
	(unit: million won)					
<b>Income</b>						
Interest & commitment						
Income from loans	9,923	12,825	17,686	21,969	26,884	32,374
Dividend income	467	715	773	889	1,185	1,340
Other income	989	1,105	1,299	1,241	1,340	2,018
<b>Total Income</b>	<b>11,379</b>	<b>14,645</b>	<b>19,758</b>	<b>24,099</b>	<b>29,409</b>	<b>35,732</b>
<b>Expenses</b>						
Interest and charges on borrowings:						
Domestic currency borrowings	90	80	76	74	272	268
Foreign currency borrowings	6,859	8,994	12,416	15,195	18,557	22,034
Commitment charges	251	434	557	543	593	607
Subtotal	<u>7,200</u>	<u>9,508</u>	<u>13,049</u>	<u>15,812</u>	<u>19,422</u>	<u>22,909</u>
Personnel expenses	474	638	835	1,086	1,411	1,834
Administrative expenses	650	861	1,038	1,234	1,505	1,840
Provision for losses	331	636	458	639	677	804
<b>Total Expenses</b>	<b>8,655</b>	<b>11,643</b>	<b>15,380</b>	<b>18,771</b>	<b>23,015</b>	<b>27,387</b>
Net earnings before tax	2,724	3,002	4,378	5,328	6,394	8,345
Provision for income tax	668	621	858	1,118	1,175	1,511
<b>Net Income</b>	<b>2,056</b>	<b>2,381</b>	<b>3,520</b>	<b>4,210</b>	<b>5,219</b>	<b>6,834</b>
Reserves and retained earnings brought forward	3,830	4,886	6,017	7,537	9,547	12,149
<b>Total</b>	<b>5,886</b>	<b>7,267</b>	<b>9,537</b>	<b>11,747</b>	<b>14,766</b>	<b>18,983</b>
<b>Appropriation</b>						
Cash dividend	1,000	1,250	1,000	1,100	2,617	1,800
Stock dividend	-	-	1,000	1,100	-	1,800
Reserves and retained earnings carried forward	4,886	6,017	7,537	9,547	12,149	15,383
<b>Percentage of Average Total Assets</b>						
1. Gross income	11.5	10.9	11.4	11.5	11.4	11.4
2. Financial expenses	7.3	7.1	7.5	7.5	7.5	7.3
3. Gross spread (1-2)	4.2	3.8	3.9	4.0	3.9	4.1
4. Administrative expenses	1.1	1.1	1.1	1.1	1.1	1.2
5. Provisions	0.3	0.5	0.3	0.3	0.3	0.3
6. Income tax	0.7	0.5	0.5	0.5	0.5	0.5
7. Net income	2.1	1.8	2.0	2.0	2.0	2.2
<b>Net Income as % of</b>						
Average equity	20.1	16.9	19.1	19.9	18.8	19.6
Year end share capital	41.1	23.8	35.2	38.3	29.0	38.0
<b>Other Ratios</b>						
Income from loans as % of average loan portfolio	11.7	10.9	11.4	11.4	11.4	11.3
Cost of term debt as % of average term debt	8.6	8.2	8.7	8.6	8.7	8.5
Interest spread	3.1	2.7	2.7	2.8	2.7	2.8
Cash dividend as % of par	20.0	20.0	10.0	10.0	20.0	10.0
Stock dividend as % of par	-	-	10.0	10.0	-	10.0
Payout ratio	48.6	52.5	28.4	26.1	50.1	26.3
Book value as % of par	217.7	172.6	195.4	206.8	182.0	205.5
Earnings per share (average outstanding)	W 411	W 238	W 352	W 383	W 290	W 380
Interest cover ratio /a	1.4	1.3	1.4	1.4	1.4	1.4
Debt service cover ratio /b	1.3	1.2	1.2	1.2	1.2	1.3
Return on total assets /c (%)	9.0	7.9	9.3	9.1	9.1	9.2

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

/b Profit after tax + interest charges + noncash charges + loan collections to interest charges + repayments of borrowings.

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

KOREA

KOREA DEVELOPMENT FINANCE CORPORATION

Projected Cash Flow Statements  
(For the years ending December 31)

	Actual					
	1977	1978	1979	1980	1981	1982
	----- (W million) -----					
<b>SOURCES</b>						
<u>Operations:</u>						
Net income	2,056	2,381	3,520	4,210	5,219	6,834
Add back noncash charges (depreciation, provisions, etc.)	548	951	783	970	1,015	1,151
Subtotal	<u>2,604</u>	<u>3,332</u>	<u>4,303</u>	<u>5,180</u>	<u>6,234</u>	<u>7,985</u>
Increase in share capital	-	5,000	-	-	5,900	-
Drawdown on foreign currency borrowings	28,689	52,115	38,057	55,290	64,505	78,085
Issuance of bond	-	-	-	1,000	-	2,000
<u>Collections:</u>						
Domestic currency loans	1,489	870	687	1,120	2,363	3,890
Foreign currency loans	7,037	10,782	13,095	16,657	25,106	32,333
Convertible debentures & bonds	350	290	277	377	605	657
Subtotal	<u>8,876</u>	<u>11,942</u>	<u>14,059</u>	<u>18,154</u>	<u>28,074</u>	<u>36,880</u>
Disposition of equity investments	-	150	200	200	250	250
Disposition of fixed assets (net)	13	1	4	3	7	7
<u>Total Sources</u>	<u>40,182</u>	<u>72,540</u>	<u>56,623</u>	<u>79,827</u>	<u>104,970</u>	<u>125,207</u>
<u>USES</u>						
Increase in fixed assets	757	39	35	43	41	43
<u>Disbursement of loans:</u>						
Domestic currency loans	975	3,555	5,400	5,000	7,200	10,300
Foreign currency loans	28,872	52,115	39,205	56,330	66,069	79,782
Convertible debentures & bonds	480	430	835	765	920	1,250
Equity investment	853	1,016	815	980	1,337	1,632
Subtotal	<u>31,180</u>	<u>57,116</u>	<u>46,255</u>	<u>63,075</u>	<u>75,526</u>	<u>92,964</u>
<u>Repayments:</u>						
Domestic currency borrowings	34	67	68	67	68	67
Foreign currency borrowings	7,093	10,467	11,785	15,558	23,427	30,744
Subtotal	<u>7,127</u>	<u>10,534</u>	<u>11,853</u>	<u>15,625</u>	<u>23,495</u>	<u>30,811</u>
Payment of employees' severance	63	80	100	120	140	150
Increase (decrease) in receivables	(822)	47	723	929	1,091	1,616
Increase (decrease) in payables	861	(171)	(1,260)	(803)	(990)	(1,925)
Payment of dividend	751	1,000	1,250	1,000	1,100	2,617
Increase (decrease) in deposits & short-term investments	265	3,895	(2,333)	(162)	4,567	(1,069)
<u>Total Uses</u>	<u>40,182</u>	<u>72,540</u>	<u>56,623</u>	<u>79,827</u>	<u>104,970</u>	<u>125,207</u>



KOREA

KOREA DEVELOPMENT FINANCE CORPORATION

Resource Position and Requirements

	1978	1979	1980	1981	1982
<b>A. Domestic Currency (W million)</b>					
Uncommitted Won Resources (opening balance)	3,016	6,440	3,903	3,886	8,117
Cash generated from operations /a	2,333	3,057	4,183	5,141	5,375
Share issue for cash	5,000	-	-	5,900	-
Bond issue	-	-	1,000	-	2,000
Net won loan & debenture collections /b	1,093	896	1,430	2,900	4,480
Disposal of equity investments	150	200	200	250	250
Subtotal	<u>11,592</u>	<u>10,593</u>	<u>10,716</u>	<u>18,077</u>	<u>20,222</u>
New commitments	5,152	6,690	6,830	9,960	12,600
Uncommitted won resources (closing balance)	6,440	3,903	3,886	8,117	7,662
<b>B. Foreign Currency (US\$'000) /c</b>					
Uncommitted resources (opening balance)	59,901	99,999	89,451	95,451	71,451
Proposed IBRD loan /d	100,000	-	-	-	-
Other official loans /d	-	50,000	80,000	60,000	70,000
Commercial loans /e	30,000	40,000	50,000	60,000	70,000
Subtotal	<u>189,901</u>	<u>189,999</u>	<u>219,451</u>	<u>215,451</u>	<u>211,451</u>
New commitments	89,902	100,548	124,000	144,000	162,000
Uncommitted resources	99,999	89,451	95,451	71,451	49,451

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

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

/c Total foreign currency borrowings 1978-82 amounts to US\$610 million.

/d Total official borrowing 1978-82 amounts to US\$360 million (including proposed US\$100 million World Bank loan), representing 59% of total foreign currency borrowings over the period.

/e Total commercial borrowings 1978-82 amount to US\$250 million representing 41% of total foreign currency borrowings over the period.

KOREA DEVELOPMENT FINANCE CORPORATION

Estimated Commitments and Disbursements of IBRD US\$100 million Loan /a  
(In US\$ million)

CY	Commitments		Disbursements	
	Amount	% /b	Amount	% /b
1979				
1st quarter	5.5	5.5	-	-
2nd quarter	16.5	22.0	-	-
3rd quarter	16.8	38.8	5.5	5.5
4th quarter	17.6	56.4	16.5	22.0
End-1979	<u>56.4</u>	<u>56.4</u>	<u>22.0</u>	<u>22.0</u>
1980				
1st quarter	17.3	73.7	16.8	38.8
2nd quarter	16.5	90.2	17.6	56.4
3rd quarter	9.8	100.0	17.3	73.7
4th quarter	-	-	16.5	90.2
End-1980	<u>43.6</u>	<u>100.0</u>	<u>68.2</u>	<u>90.2</u>
1981				
1st quarter	-	-	9.8	100.0
2nd quarter	-	-	-	-
3rd quarter	-	-	-	-
4th quarter	-	-	-	-
End-1981	-	-	<u>9.8</u>	<u>100.0</u>

/a Assuming that the proposed loan becomes effective early in the first quarter of CY 1979.

/b Percentages are cumulative.

KOREA

KOREA DEVELOPMENT FINANCE CORPORATION

A. General Reports and Studies on the Sector or Subsector

The relevant sector reports are kept in the KDB Project file. Please see report entitled Staff Appraisal Report on the Korea Development Bank, May 1, 1978, Annex 5.

B. General Reports and Studies Relating to the Project.

- B-1 Korea Development Finance Corporation. Annual Reports 1974-77.
- B-2 Korea Development Finance Corporation. Audited Financial Statements 1974-77.
- B-3 Korea Development Finance Corporation. Monthly and Quarterly Progress Reports, 1975-78.
- B-4 Korea Development Finance Corporation. April 1978.
- B-5 Korea Investment and Finance Corporation. Annual Reports 1974-77.
- B-6 Korea Development Leasing Corporation. Law on the Promotion of Leasing Industry and Monthly Operating Report.

C. Selected Working Papers.

- C-1 Analysis of Foreign Exchange Component of Domestically Manufactured Machinery.
- C-2 Data on Procurement by Country of Origin.
- C-3 Proposed changes in KDFC's Organizational Structure.
- C-4 Proposed changes in KDFC's Articles of Incorporation and Operational Functions.



**KOREA**  
**KOREA DEVELOPMENT FINANCE CORPORATION**  
**Organization Chart**  
**(As of June 30, 1978)**

