



1. Project Data :	
OEDID:	L4267
Project ID:	P055992
Project Name:	Economic Reconstruction Loan
Country:	Korea
Sector:	Other Non-sector Specific
L/C Number:	Loan 4267-KO
Partners involved :	
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2. Project Objectives, Financing, Costs and Components :
 The objectives of the ERL were to: (1) provide emergency liquidity to restore confidence in the Korean economy; and (2) develop a framework for medium-term structural reform as a basis for subsequent adjustment lending . This framework consisted of 5 elements: (1) macroeconomic management; (2) financial sector restructuring; (3) corporate governance; (4) competition policy; and (5) labor markets and social safety nets . Primary emphasis was on a shift in incentives in financial policies and corporate governance away from those that precipitated the crisis . The \$3 billion ERL was approved by the Board, became effective and was fully disbursed on December 23, 1997. It was the first phase of the Bank's new \$ 10 billion lending program in Korea. A three-year \$21 billion Stand-by had already been approved by the IMF Board on December 4, 1997. The total IMF-coordinated package of multi- and bilateral support (including the Bank's \$ 10 billion) was about \$57 billion.

3. Achievement of Relevant Objectives :
 The objectives of the ERL were achieved . In the short term, default was avoided . Also, the rollover ratio increased, signaling that confidence was being restored and the probability of future default had declined . Short-term debt restructuring of \$24 billion took place in January 1998. In addition, the Government followed up its commitment to a framework for policy reform through a special session of the National Assembly on February 14, 1998, when appropriate legislation was passed on the bulk of the needed reform measures . These became prior actions for the next phase (SAL I) of the Bank's support.

4. Significant Achievements :
 Avoiding default and restoring confidence in the Korean economy was clearly the most significant achievement of the ERL. The subsequent recovery of the economy has been much stronger than expected : instead of an earlier anticipated further contraction in GDP in 1999, modest growth is expected.

5. Significant Shortcomings :
 There were no significant shortcomings .

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Satisfactory	Satisfactory	
Institutional Dev .:	Not Applicable	Not Rated	The ID impact is not rated. Significant institutional reforms did take place, but only subsequently, in the context of the first structural adjustment loan that followed the ERL.
Sustainability:	Likely	Likely	
Bank Performance:	Satisfactory	Satisfactory	
Borrower Perf .:	Satisfactory	Satisfactory	

Quality of ICR :

Satisfactory

7. Lessons of Broad Applicability :

There are three major lessons:

1. The Bank should maintain access to high level expertise to deal with systemic financial corporate distress . Putting a capable team together in the case of Korea on very short notice was successful but difficult .
2. It is easier to negotiate important policy reforms during periods of crisis, and this opportunity should be taken advantage of, within the time constraints available . As the Korean crisis eased, the resistance to further needed reforms by powerful vested interest groups again intensified .
3. The Bank may want to deliberate further on its role as a development institution versus its role as a provider of emergency liquidity (and giving its seal of approval to a program to help restore confidence) . It is possible to give expert advice while leaving the provision of funds to others .

8. Audit Recommended? Yes No

Why? Joint audit of ERL and subsequent adjustment loans .

9. Comments on Quality of ICR :

This is a very clear, concise and well written ICR, covering all important subject matters .