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DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20523

43p

CAPITAL ASSISTANCE PAPER

Proposal and Recommendations
For the Review of the
Development Loan Committee

KOREA - RICE LOAN

489-H-087

AID-DLC/P-1066

UNCLASSIFIED

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20523

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AID-DLC/P-1066

February 6, 1973

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Korea - Rice Loan

Attached for your review are the recommendations for authorization of a loan in an amount not to exceed \$25,000,000 to the Republic of Korea to assist in financing the foreign exchange costs of commodities, consisting of approximately 95,000 metric tons of rice, and services related thereto, to Korea.

This loan proposal is scheduled for consideration by the Development Loan Staff Committee at a meeting on Friday, February 9, 1973.

Rachel R. Agee
Secretary
Development Loan Committee

Attachments:

Summary and Recommendations
Project Analysis
ANNEXES A and B

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KOREA: RICE LOAN

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AID-DLC/P-1066
February 6, 1973

SUMMARY AND RECOMMENDATION

1. Borrower: The Government of the Republic of Korea (ROK)
2. Amount: Not to exceed \$25 million.
3. Description of Activity to be Financed: Proceeds of the Loan will be used to finance the procurement of approximately 95,000 metric tons of U.S. rice and related services (eligible costs of ocean transportation and marine insurance). It is anticipated that the rice will be procured and shipped during CY 1973 and that the loan will be fully disbursed by the end of CY 1973.
4. Purpose: The purpose of this loan is two-fold: (a) support for Korea's Third Five Year Plan, and (b) assistance in meeting a chronic deficiency in food grain (rice) requirements.
5. Estimated Cost of Activity:

95,000 MT Brown Rice	\$22.8 million
Ocean Transportation	1.4 million
Contingencies	<u>.8 million</u>
Total Cost	\$25.0 million
6. Other Sources of Financing: Both the U.S. EXIM Bank and the IBRD have indicated that they are not interested in financing this activity.
7. Statutory Criteria: All statutory criteria have been met (See Annex A.)
8. Mission Views: The Mission supports this activity and recommends approval of the loan.
9. Issues: There are no issues presented by the proposed loan.
10. Recommendation: That a loan to the ROKG for an amount not to exceed \$25 million be authorized in accordance with the terms and conditions stated in the draft loan authorization (Annex B).

Loan Committee

Loan Officer and Chairman	Richard B. Perry, ASIA/CD
Country Desk	Chester S. Bell, Jr., ASIA/EA/K
Legal Advisor	William Jones, GC/ASIA
Procurement Advisor	Wes Tribble, SER/COM

Drafted by: CSBell and RBPerry

January 29, 1973

February 6, 1973

I. Background and Introduction

Since the mid-1960's, the Korean economy has established a record of growth and development which is impressive by any standards. Of particular note has been the performance of the export sector, composed primarily of manufactured goods, which has demonstrated an ability to sustain an average annual growth rate of over 30% between 1966 and 1971. Given Korea's lack of exploitable natural resources and scarcity of arable land on the one hand, and its relative abundance of human resources on the other, the heavily-industrialized, export-oriented characteristics of the economy today are readily understood.

Progress, however, has not been without its costs. The heavy emphasis on industrialization has contributed to the relatively poor performance of the agricultural sector which, coupled with a high population-to-land ratio, has been a major factor in Korea's chronic inability to produce sufficient food for its requirements. This is particularly true in the category of food grains, the major staple of the Korean diet. As a result, grain imports in the magnitude of two million tons annually have been necessary for the past four years, at a yearly foreign exchange cost of over \$200 million.

In an effort to alleviate the persisting food grain shortages, and to address such related problems as lagging income levels and inadequate social services in the rural sector, the ROKG is placing a major emphasis on rural development in general, and agricultural development in particular, in their Third Five-Year Plan (1972-1976). The ROKG's basic strategy for agricultural development was originally described in Annex I of the Mission's FY 1972 CFS. However, the strategy continues to undergo review and refinement by Korean planners as requirements become more clearly identified and policy implementation takes the form of specific program action.

A.I.D. is continuing to be responsive to and supportive of Korea's efforts under the Third Five-Year Plan. Our specific assistance to the ROKG in this area has taken several forms (see below), consisting basically of a mix of (a) technical assistance, primarily in the form of studies, to help provide a firmer base for long-term strategy and developmental planning, and (b) concessionary financing for food grain imports (mostly rice) to help meet the immediate needs until the long-term developmental measures make themselves felt in such ways as improved production.

Notable examples of recent A.I.D. assistance to Korean Agriculture:

-- During FY 1970, A.I.D. grant-financed a study (performed by a U.S.D.A. team) used by Korea's Ministry of Agriculture and Forestry (MAF) in the preparation of the agriculture portion of the Third Five-Year Plan.

-- In early CY 1971, A.I.D. authorized a Development Loan (AID-DLC/P-946) of up to \$35 million to finance 200,000 MT of rice imports from the U. S.

-- In May 1971, A.I.D. authorized a \$14 million Development Loan (AID-DLC/P-967) to assist Korea in financing a program of agricultural credit to be utilized by individual farmers and farm cooperatives for the purposes of farm mechanization and improved commodity warehousing facilities. The local currency (won) required by the credit program was generated by the import and sale of an additional 89,000 MT of U. S. rice.

-- In March 1972, the ROKG and A.I.D. signed a Development Loan (AID-DLC/P-1001) for \$17,000,000 to finance 100,000 MT of U. S. rice.

-- Under a previously-authorized A.I.D. feasibility study loan, the ROKG (through the MAF) financed a detailed study of Korea's needs in the area of agricultural mechanization and how these needs can best be met.

-- A comprehensive study of all aspects (other than that being covered by the foregoing) of Korea's agricultural sector, conducted by a Michigan State University team, was grant-financed by A.I.D.

The sector study and the farm mechanization study both were completed in 1972, and are presently undergoing a thorough review by the ROKG. Together they are expected to provide the ROKG with considerable data - and expertise in utilization of the data - which, it is hoped, will lead to sound ROKG sectoral planning and policy formulation in the future.

In addition to the above inputs being financed by A.I.D., Korea's agricultural sector will benefit from numerous other investments throughout the period of the Third Five-Year Plan. This increased emphasis on agriculture will undoubtedly show a measurable improvement in the sector's overall performance, possibly to the extent of self-sufficiency in some major food grains. However, such an improvement will not come overnight and, in the meantime, Korea must continue to meet a portion of her food grain needs through imports.

As for rice, this year it will be necessary for Korea to import in the range of 650,000 to 700,000 MT (quantity stated on Brown basis). Last year (1972), the rice import requirement was calculated to be 800,000 MT (Brown), which the U. S. Government committed itself to financing with the combination of a PL 480, Title I, Agreement for 700,000 MT and a \$17 million Development Loan (DL) for 100,000 MT. Due to a technical problem involving borrowing authority, the ROKG was not in a position to tender for the DL rice until late 1972. By that time, U. S. rice prices had risen to such a level that the \$17 million would cover only approximately 80,000 MT instead of the programmed 100,000 MT. The ROKG then decided to purchase the

80,000 MT at the offered price. However, before the contract could be signed, the U.S. Government removed the export subsidy on rice (\$27.78 per ton) and the offering price increased accordingly. The \$17 million loan was sufficient to finance only 65,000 MT. Because of the action on the subsidy, A.I.D. agreed to consider the ROKG's request to provide additional funds sufficient to finance the entire 80,000 tons, which was contracted for on January 10, 1973. Thus, approximately \$3.1 million of the \$25 million DL proposed herein will actually be used to finance a portion of the foregoing transaction. The balance of the DL (approximately \$21.9 million) will be used to finance an additional 80,000 tons also purchased by the ROKG in January 1973. The rice purchases are being financed by A.I.D. on a direct reimbursement basis. The A.I.D. reimbursement is, of course, subject to approval of this loan.

II. Korea's Third Five Year Plan Requirements

Of considerable importance to Korea's rapid economic development has been and continues to be the effective utilization and management of the various economic inputs made available. This has been accomplished largely through the mechanism of well-conceived and energetically-pursued development plans, known as the Five Year Plans, which have established developmental goals and identified specific projects and programs to be undertaken and/or expanded.

The Third Five-Year Plan covers the period 1972-1976, during which time Korea hopes to consolidate the gains made under the first two Plans (1962-1971) and form a base for sustained, balanced economic growth in the years ahead. The Plan, originally published in late 1971, has a "basic direction," calling for development of the rural economy, further increases of exports and the establishment of heavy industries, including chemicals. Expanding on the Plan's basic direction, certain major goals were identified, including the following:

- Self-sufficiency in major food grains, and higher incomes for farmers and fisherman;
- Improved and expanded health facilities, and additional roads and electrification in the rural areas;
- Balanced development of such economy-wide services as electricity, transportation, storage, cargo handling and communications;
- Promotion of regional development through the four major river basin development plans, and through the creation of industrial estates.

Also, specific performance targets were set for the normal economic indicators, such as growth of GNP (in the aggregate, and per capita), sectoral contributions to GNP and gross investment and savings.

In late summer 1972 (the first year of the Plan), the ROKG began implementing a new policy of concerted developmental effort in the rural areas, necessitating some modification of the Plan. Known as Sae Maul, or "New Community Making" this special program calls for notable increases in investment in the following eight key areas of the agricultural/rural sector: expansion of irrigation facilities, watershed development, upland development, paddy rearrangement, farm mechanization, product processing and marketing, rural electrification, and rural health.

Table 1 is a summary of the Third Plan Investment Allocations, showing the composition as originally planned, and as affected by the modifications resulting from the Sae Maul program. In the

aggregate, this new emphasis on agricultural/rural development will result in an increase of the Third Five-Year Plan's investment portion by 1.9%, or the equivalent of \$280 million. Of greater significance is the increase in agriculture's share of total investment from 11.8% to 16.6%, and - although the average growth rate during the Plan remains unchanged from the original target of 8.6% per year - the growth rate for the agriculture sector will increase from 4.5% to 4.9% annually. Of the total amount to be invested from 1972 thru 1976, ROKG planners had originally projected 80% to come from domestic sources and 20% from external sources.^{1/} A final domestic vs. external source breakdown for the revised investment plan has not been made available to date. However, preliminary figures made public in August 1972 for incremental investment in agricultural/rural (Sae Maul) programs showed domestic sources providing \$67 million equivalent, or 24% and external sources providing \$213 million or 76%; of the total external sources, approximately nine-tenths (\$192 million) would be to be in the form of loans. Thus it appears obvious that Korea intends to rely rather heavily on external assistance for the incremental investment called for under the revised Plan. External assistance requirements will amount to approximately \$48 million per annum over the remaining four years of the Third Five-Year Plan.

Thus, it is in the context of the entire Third Five-Year Plan including the Sae Maul program - and not simply the immediate Balance of Payments situation - that the DL assistance proposed herein should be viewed. In addition, commodity financing under this loan will generate won capital which the ROKG could use directly or indirectly to support the investment requirements, including agricultural/rural development requirements, of the TFYP. Also, such assistance represents a most practicable means of providing resource inputs during this early stage of the Plan, while agricultural project and/or sector lending activities are still being refined. We do not expect that these activities will be ready for financing before FY 1974.

^{1/} Under the Second Five Year Plan, the sources of investment were 63.6% domestic, and 36.4% external.

TABLE 1

KOREA: THIRD FIVE YEAR PLAN INVESTMENT ALLOCATION

Sector	(Billions of won*)			Composition in %		
	SFYP (1967-71)	TFYP - (1972-1976)		1967-71	1972-1976	
		Original	Revised		Original	Revised
Agriculture, Forestry and Fisheries	189.0	536.1	765.5	6.3	11.3	16.6
Mining and Manufacturing	883.0	1301.9	1306.0	29.4	23.8	28.3
Social Overhead and Other Services	1927.6	2686.5	2539.9	64.3	58.4	55.1
Totals	<u>2999.6</u>	<u>4524.5</u>	<u>4611.4</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
Totals (\$ equivalent)	\$9.68 billion	\$14.59 billion	\$14.87 billion			

*U.S. \$1.00 = 310 won (1970 prices)

Source: The Government of Korea, The Third Five Year Economic Development Plan (A Draft Translation), 1972-1976

(Revised figures for 1972-1976 furnished by USAID/Korea)

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III. Balance of Payments and Debt Service Considerations

As can be seen from Table 2, Korea's recent Balance of Payments (BOP) performance presents a somewhat mixed picture. In order to achieve and maintain the overall growth rates experienced since 1965, heavy investment has been required. Domestic savings provided a respectable share of the needed investment sources (an annual average of 55%), but large capital inflows plus domestic credit expansion also have been necessary, with resulting inflation and accumulated debt service requirements of substantial proportions (see Table 3).

In 1972, Korea's trade and overall BOP performance was rather remarkable. The dramatic (\$382 million) reduction in the trade deficit was due largely to the 45% increase in exports, while imports were allowed to increase only about six percent--a rate substantially less than the average in recent years. Net capital inflow declined by \$170 million, attributable mainly to a large reduction in bank and short-term borrowing. Foreign exchange holdings increased to \$691 million, equal to a little over three months' CIF imports.

The ROKG is inclined to regard the 1972 BOP performance as providing a temporary breathing spell. It feels the results are due primarily to an unusual combination of various factors such as favorable currency adjustments in the importing countries, the increased efforts of manufacturers to market their products abroad in the face of depressed domestic demand, very low utilization of import stocks in the previous year due to decreased production, and substitution of certain imported raw materials by local products. This could indicate the possibility of a sudden worsening BOP position, threatening a marked increase in short-term debt, if and when the whole economy is back to a normal level of activity. Therefore, considerable importance is being placed on maintaining foreign exchange holdings at an adequate level as a hedge against price increases and other fluctuations which could affect current account requirements. The fact that external debt servicing requirements remain relatively high in the next few years also is a consideration in maintaining foreign exchange holdings.

The Mission's preliminary projections for 1973-1974 is not as guarded as that of the ROKG. However, for 1973, an increase in the current account deficit of about \$169 million is expected to result from a rather sharp deterioration in the services component, which will be offset only slightly by an improved trade balance. Capital inflows are expected to increase by \$105 million and foreign exchange reserves by \$85 million (compared to \$156 million in 1972), remaining roughly equivalent to three months' imports (on CIF basis). The cost of imported grains, incidentally, is projected to rise by about \$105 million to a level of \$400 million in 1973. The outlook for 1974, generally speaking, is for a continuation of 1973 performance, with a slight increase foreseen in net capital requirements, on the assumption of approximately 15% increase in imports.

With respect to the entire Third Five-Year Plan period, the Mission has revised its BOP estimates through 1974 to reflect the impact of the Sae Maul program and other factors. The net current account deficit increases from \$466 million (preliminary) in 1972 to \$635 million in 1973 and 628 million in 1974. Net capital requirements increase from \$615 million in 1972 to \$720 million and \$744 million in 1973 and 1974, respectively. See Table 2.

Taking into consideration Korea's longer-term BOP and debt service position, we conclude that extension of the loan proposed herein on A.I.D.'s standard concessionary terms is appropriate. On such terms, prospects for repayment of the loan are deemed reasonable, particularly in view of the long-term projected up-trend in export earnings.

TABLE 2

KOREA: BALANCE OF PAYMENTS

Item	Millions of Dollars						
	Actual				Preliminary 1972	Projected	
	1968	1969	1970	1971		1973	1974
1. Exports, F.O.B.	486.2	658.3	888.0	1,132.3	1,645	2,148	2,685
2. Imports, F.O.B.	1,322.0	1,650.1	1,748.0	2,178.3	2,309	2,766	3,181
3. Trade gap	-335.8	-991.7	-860.0	-1,045.9	-664	-618	-496
4. Net receipts for services	174.7	201.9	160.8	27.8	35	-157	-262
5. Net goods & services	-666.5	-794.4	-756.4	-1,018.1	-629	-775	-758
6. Net transfer receipts	226.1	243.6	157.0	170.6	163	140	130
7. Net current account	-440.4	-550.8	-599.4	-847.5	-466	-635	-628
8. Changes in foreign exchange holdings (increase (-))	-40.4	-161.8	-25.0	49.0	-156	-85	-116
9. Net Capital requirements	476.7	716.6	624.4	785.4	615	720	744
10. Errors & omissions	+4.1	-4.0	0	13.1	7	0	0

Source: USAID/Korea

TABLE 3

KOREA: DEBT SERVICE RATIOS

Item	Millions of Dollars							
	Actual				Preliminary 1972	Projected		
	1968	1969	1970	1971		1973	1974	
A. Foreign Exchange Earnings	880.2	1,150.7	1,379.0	1,616.0	2,206	2,690	3,227	
1. Export, F.O.B.	486.2	658.3	822.2	1,132.3	1,645	2,148	2,685	
2. Service earnings and Investment income receipts	394.0	495.4	496.8	483.7	561	542	542	
B. Principal and Interest Payments on Debt Maturities 3 Years and Above	59.6	102.0	169.7	215.6	294	360	413	
C. Principal and Interest Payments on Debt of One to Three Years	16.6	25.0	117.9	106.5	79	129	114	
D. Debt Service Ratio on Foreign Obligations with Maturities of Three Years and Above D = B/A x 100	6.8	8.9	12.3	13.3	13.3	13.4	12.8	
E. Debt Service Ratio on Obligations with Maturities of One Year and Above D = B + C/A x 100	8.7	11.0	20.9	19.9	16.9	18.2	16.3	

Source: USAID/Korea

IV. Korea's Rice Situation and the Proposed Loan

The rice supply situation faced by Korea at the present time is viewed by the Korean authorities as very serious.

The 1972 Korean rice crop was well below production levels of previous years (see Table 4, below). According to figures of December 1972, (which were not final), the crop amounted to only 3,640,000 MT, primarily due to heavy rains during the harvest period. World rice prices have risen sharply at the same time, owing to lower than normal production in most East Asian countries and stepped up demand for U. S. rice in many countries. Thus, funds programmed and budgeted for rice have not yielded the planned procurement levels. (In 1971 and early 1972, Korea was paying in the neighborhood of \$146 per MT for U. S. rice. Recent procurements, in January 1973, have resulted in costs of about \$240 per MT).

Table 4.
Korea: Supply and Distribution of Rice
(000 MT, Polished Basis)

	<u>Actual</u> <u>RY*71</u>	<u>Estimated</u> <u>RY 72</u>	<u>Projected</u> <u>RY 73</u>
<u>Supply</u>			
Beginning Stock	325	412	610
Production	3,939	3,997	3,640
Imports	925	557	600 ^{1/}
Total Supply	<u>5,189</u>	<u>4,966</u>	<u>4,850</u>
<u>Demand</u>			
Consumption	4,777	4,194	4,414
Ending Stock	412	610	436
Total Distribution	<u>5,189</u>	<u>4,966</u>	<u>4,850</u>

The ROKG hopes to reduce rice consumption in 1973 by requiring restaurants to serve a mixture of rice and barley with a larger proportion of barley and increasing the number of "riceless days," when restaurants serve noodles or dishes using other grains.

Because of the Government's concern that there may be a serious grain shortage this summer and fall, they are taking several steps:

- (1) Some 336,000 MT of U. S. rice (brown basis) is under procurement or awaiting shipment at the present time, including: about

*RY - Rice Year: November 1st of the preceding year to October 31st of the stated year.

^{1/} - Figure from Seoul 0352, 1/19/73 (on a Brown basis this would amount to approx. 705,000 MT); This level is contingent on the availability of financing and the concurrency of the Japanese and U. S. Governments.

66,000 MT financed under AID Loan 489-H-084 of FY 1972; another 95,000 MT, for which this proposed loan will provide reimbursement; and 100,000 MT (approximately) remaining under the February 14, 1972, PL 480 Agreement. The balance (75,000 MT) is being bought with Korean foreign exchange (KFX).

- (2) Procurement of about 400,000 MT of barley is being arranged as a KFX purchase.
- (3) The Japanese Government is being requested to sell up to 115,000 MT of rice even though it is understood the rice would have to come from 1970 stocks.

In CY 1973, U. S. rice shipment to Korea will probably amount to:

300,000 MT	Title I, PL 480 (100,000 MT FY 72, 200,000 MT FY 73)
75,000 MT	KFX purchased
95,000 MT	FY 1973 DL
<u>66,000 MT</u>	FY 1972 DL
536,000 MT	Total

The estimated cost of the rice and related services to be financed with the proceeds of this loan has been calculated as follows:

Export Value of Rice (95,000 MT @\$240.)	\$22,800,000
Ocean Transportation U. S. Flag	1,400,000
Contingencies	<u>800,000</u>
Total	\$25,000,000

Should the ROKG decide to finance U.S. transportation costs with its own foreign exchange, it could increase its purchases of rice above the 95,000 tons, accordingly within the \$25 million loan.

The estimated 95,000 MT of rice being financed under this loan together with the \$17 million FY 1972 DL (66,000 MT) and purchases under PL 480 financing (both past and transactions currently underway) will come very close to providing the 800,000 tons of rice that the U.S. Government agreed to finance.

V. Loan Implementation

At the request of the ROKG, A.I.D. has agreed in principle to finance rice purchases with the proceeds of this loan on a reimbursement basis subject to authorization of the loan. Because of the tight current supply of U. S. rice, the ROKG wished to take advantage of a recent opportunity to purchase a substantial tonnage (155,000 MT) at the present prevailing price level and avoid further escalations. Under the circumstances, it is A.I.D.'s recommendation that a portion (approximately 95,000 MT) of that transaction be considered eligible for financing, on a reimbursable basis, under this loan. As stated in an earlier section of this paper, approximately \$3.1 million of the loan proceeds will be used to finance the added costs (above the available \$17 million of A.I.D.'s FY 1972 Rice Loan) of the 80,000 MT purchased in early January 1973. Thus the Transaction Eligibility Date for this proposed \$25 million loan will be January 1, 1973. Eligibility for all reimbursement will depend, of course, on the procurement having been carried out in compliance with applicable A.I.D. regulations concerning price, documentation, and 50/50 shipping.

STATUTORY CHECKLISTI. COUNTRY PERFORMANCE

A. Progress Towards Country Goals

1. FAA 201(b)(5), 201(b)(7), 201(b)(8), 208. Discuss the extent to which the country is:

a. Making appropriate efforts to increase food production and improve production and improve means for food storage and distribution.

a. From 1961 through 1970 the National Income accounts show that the value added in the agriculture sector increased by approximately 50% (an average growth of 5% per year or a growth rate of 4.1%) Significantly, this decade included the two drought years of 1967 and 1968; however, significant investments have been made in irrigation facilities which will minimize future weather influences on production.

In the past two years, rice prices have been allowed to increase substantially more than the 5% increase allowed in the previous three years. This increase will provide additional incentive for farmers to use fertilizer and pesticides required to increase production.

Substantial effort and expenditure is being made to introduce new rice varieties, and to increase and improve food storage capacity.

b. Creating a favorable climate for foreign and domestic private enterprise and investment;

b. Korea has taken a number of effective steps to create a favorable investment climate. A liberal foreign investment law was enacted, and intensive study is being undertaken by the ROKG of means of expanding capital markets. An investment center has been established, and domestic investment has been assisted by a number of A.I.D. loans such as the loan to the Korea Development Bank.

c. Increasing the people's role in the development process;

c. Koreans are basically a homogeneous people whose society is relatively free and politically stable. Korea does not possess deep sectional, religious or social cleavages. Korea's rapid economic development benefits increasingly larger segments of the population.

d. Allocating expenditures to development rather than to unnecessary military purposes or intervention in other free countries' affairs;

d. Korea has wisely allocated its resources in such a way as to maximize its economic development while maintaining sufficient military forces to insure a relative freedom from possible external aggression. Korea is not intervening in other free and independent nations' affairs.

e. Willing to contribute funds to the project or program;

e. End-users will pay, in local currency, the full cost of the commodity to be financed under the loan.

f. Making economic, social and political reforms such as tax collection improvements and changes in land tenure arrangement; and making progress toward respect for the rule of law, freedom of expression and of the press, and recognizing the importance of individual freedom, initiative, and private enterprise;

f. Korean land reform programs have eliminated the large land-holding class and have created a large number of independent farmers who own their own small farms. The ROKG has assisted in the establishment of a number of farm and fishery cooperatives which have been of significant assistance to the independent farm and fishery communities.

Our Mission has assisted the ROKG in its efforts to reform the equity of tax rates and collection procedures. These reforms have greatly increased both the amount of taxes collected and the equity with which the program is administered.

On October 17, 1972, the President of Korea declared martial law, giving as reasons domestic and international political developments. Under the martial law,

political liberties were restricted and the Korean press was placed under tight control. A new constitution has since been adopted and martial law lifted on December 13, but restrictions on political activity and press freedom continue.

g. responding to the vital economic, political and social concerns of its people, and demonstrating a clear determination to take effective self-help measures.

g. The ROKG has made significant progress in its efforts to provide a better life for the average Korean citizen. The Government has encouraged the rapid expansion of small and medium industry, stimulated the development of credit unions and fishing cooperatives and has helped in many other ways to better the lot of its people.

B. Relations with the United States

1. FAA Sec. 620(c). Is the government indebted to any U.S. citizen for goods or services furnished or ordered where: (a) such citizen has exhausted available legal remedies, including arbitration, or (b) the debt is not denied or contested by the government, or (c) the indebtedness arises under such government's or a predecessor's unconditional guarantee?

1. No such situation is known to exist.

2. FAA Sec. 620(d). If the loan is intended for construction or operation of any productive enterprise that will compete with U.S. enterprise, has the country agreed that it will establish appropriate procedures to prevent export to the U.S. of more than 20% of its enterprises annual production during the life of the loan?

2. The loan is not intended for such purposes.

3. FAA 620(e)(1). Has the country's government, or any agency or subdivision thereof, (a) nationalized or expropriated

3. No such actions are known.

property owned by U.S. citizens or by any business entity not less than 50% beneficially owned by U.S. citizens, (b) taken steps to repudiate or nullify existing contracts or agreements with such citizens or entity, or (c) imposed or enforced discriminatory taxes or other exactions, or restrictive maintenance or operation conditions? If so, and more than six months have elapsed since such occurrence, identify the document indicating that the government, or appropriate agency or subdivision thereof, has taken appropriate steps to discharge its obligations under international law toward such citizen or entity? If less than six months have elapsed, what steps if any has it taken to discharge its obligations.

4. FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction by mob action of U.S. property, and failed to take appropriate measures to prevent a recurrence and to provide adequate compensation for such damage or destruction?

4. No such incident is known to have occurred.

5. FAA Sec. 620(1). Has the government instituted an investment guaranty program under FAA Sec. 221 (b)(1) for the specific risks of inconvertibility and expropriation or confiscation?

5. Yes.

6. FAA 620(c). Fisherman's Protective Act of 1954, as amended, Section 5. Has the country seized, or imposed any penalty or sanction against, any U.S. fishing vessel on account of its fishing activities in international waters? If, as a result of a seizure, the U.S.G. has made reimbursement under the provisions of the Fisherman's Protective Act and such amount has not been paid in full by the

6. No.

seizing country, identify the documentation which describes how the withholding of assistance under the FAA has been or will be accomplished.

7. FAA Sec. 620(g). Has the country been in default, during a period in excess of six months, in payment to the U.S. on any FAA loan?

7. No.

8. FAA Sec. 620(t). Have diplomatic relations between the country and the U.S. been severed? If so, have they been renewed?

8. Diplomatic relations between Korea and the United States have not been severed.

C. Relations with Other Nations and the U.N.

1. FAA Sec. 620(i). Has the country been officially represented at any international conference when that representation included planning activities involving insurrection or subversion directed against the U.S. or countries receiving U.S. assistance?

1. Korea is not known to have been so represented.

2. FAA Secs. 620(u), 620(n). Has the country sold, furnished, or permitted ships or aircraft under its registry to carry to Cuba or North Vietnam, items of economic, military or other assistance?

2. No.

3. FSS Sec. 620(u); App. §108
What is the status of the country's U.N. dues, assessments or other obligations? Does the loan agreement bar any use of funds to pay U.N. assessments, dues or arrearages?

3. The Republic of Korea is not a member of the United Nations. The loan agreement will stipulate that only eligible commodities and services can be procured with the proceeds of the loan.

D. Military Situation

1. FAA Sec. 620(i). Has the country engaged in or prepared for aggressive military efforts directed against the U.S. or countries receiving U.S. assistance?

1. No.

2. FAA Sec. 620(s). What is (a) the percentage of the country's budget devoted to military purposes, and (b) the amount of the country's foreign exchange resources used to acquire military equipment, and (c) has the country spent money for sophisticated weapons systems purchased since the statutory limitation became effective?

2.(a). Korean defense budget expenditures as a percent of central government expenditures have declined from 32.0% in 1965 to 20% in 1970, below the mean for the region of 27.2%.

(b) Foreign exchange purchases of military items were about \$3 million over the period 1965 to 1968 and accounted for a negligible portion of the defense budget. In 1969 they were about \$1 million, or 1% of total imports. Korean requirements for imports of military equipment have been provided under the Military Assistance Program.

Is the country diverting U.S. development assistance or PL 480 sales to military expenditures? Is the country diverting its own resources to unnecessary military expenditures? (Findings on these questions are to be made for each country at least once each fiscal year and, in addition, as often as may be required by a material change in relevant circumstances.)

The Dept. of State and A.I.D. have reviewed Korean actions under the Symington Amendment and have concluded that Korea is not diverting U.S. development assistance or PL 480 sales to military purposes. They also determined that Korea is not diverting its own resources to unnecessary military expenditures to a degree which materially interferes with its development. The Country Team concurs.

(c) No.

II. CONDITION OF THE LOAN

A. General Soundness

Interest and Repayment

1. FAA 201(a), 201(b)(2).

Is the rate of interest excessive or unreasonable for the borrower? Are there reasonable prospects for repayment? What is the interest rate during the grace period and during the period following the grace period? Is the rate of interest higher than the country's applicable legal rate of interest?

The proposed loan contains a rate of interest which is concessionary. The Borrower has the capacity to repay the loan at the rates of interest to be required. The rates in the proposed loan are 2% per annum during the grace period and 3% per annum thereafter for the remaining thirty years of the repayment period. The interest rate is not higher than the country's applicable legal rate of interest.

Financing

1. FAA 201(b)(1). To what extent can financing on reasonable terms be obtained from other free-world sources, including private sources within the U.S.?

Financing of this commodity on terms comparable to those proposed for this loan is not known to be available from other free-world sources, including private sources within the U.S. Neither the Export-Import Bank of the U.S. nor the I.B.R.D. is interested in financing this transaction.

Economic and Technical Soundness

1. FAA 201(b)(2), 201(e). Is the activity economically and technically sound?

1. The activity is economically and technically sound, and the loan application and other information available to the Mission indicates that the loan funds will be used in an economically and technically sound manner.

2. FAA 611(a)(1). Have engineering, financial, and other plans necessary to carry out assistance, and a reasonable firm estimate of the cost of assistance to the U.S., been completed?

2. Not Applicable.

3. FAA 611(b); App. 101. If the loan or grant is for a water or related land-resources construction project or program, do plans include a cost-benefit computation? Does the project or program meet the relevant U.S. standards and criteria used in determining feasibility?

3. Not Applicable.

4. FAA 611(e). If this is a Capital Assistance Project with U.S. financing in excess of \$1 million, has the principal A.I.D. officer in the country certified as to the country's capability effectively to maintain and utilize the project?

4. This is not a Capital Assistance Project.

B. Relation to Achievement of Country and Regional Goals

Country Goals

1. FAA 207, 281(a). What is this loan's relation to:

a. Institutions needed for a democratic society and to assure maximum participation on the part of the people in the task of economic development.

b. Enabling the country to meet its food needs both from its own resources and through development, with U.S. help, of infrastructure to support increased agricultural productivity.

c. Meeting increasing need for trained manpower.

d. Developing programs to meet public health needs.

1. Proceeds of the loan will be used solely to finance the importation of a single food commodity (rice), thereby assisting Korea in meeting its food needs.

There is no direct relationship between the loan and the other institutional and developmental goals cited in these sections (207, 281(a)) of the FAA.

e. Assisting other important economic, political, and social development activities, including industrial development; growth of free labor unions; cooperatives and voluntary agencies; improvement of transportation and communication systems; capabilities for planning and public administration; urban development; and modernization of existing laws.

2. FAA 201(b)(4). Describe the activity's consistency with and relationship to other development activities, and its contribution to realizable long-range objectives.

2. & 3. There is no direct relationship between this activity and other development activities, nor will there be a direct contribution to realizable long-range objectives on the achievement of self-sustaining growth.

3. FAA 201(b)(9). How will the activity to be financed contribute to the achievement of self-sustaining growth?

4. FAA 201(f). If this is a project loan, describe how such project will promote the country's economic development, taking into account the country's human and material resource requirements and the relationship between ultimate objectives of the project and overall economic development.

4. Not Applicable.

5. FAA 201(b)(3). In what ways does the activity give reasonable promise of contributing to development of economic resources, or to increasing productive capacities?

5. See 2. and 3. above.

6. FAA 281(b). How does the program under which assistance is provided recognize the particular needs, desires, and capacities of the country's people; utilize the country's intellectual resources to encourage institutional development; and support civic education and training in skills required for effective participation in political processes?

6. There is, at best, only an indirect relationship between the importation of a basic food and the particular needs, desires, and capacities of the country's people, nor does the loan result in direct institutional development or civic education.

7. FAA 601(a). How will this loan encourage the country's efforts to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions?

7. There is no direct relationship between this loan and the objectives stated in Sec. 601(a) of the Foreign Assistance Act.

8. FSS 202(a). Indicate the amount of money under the loan which is available to encourage economic development through private enterprise; available to intermediate credit institutions or other borrowers for use by private enterprise; being used to finance procurement from private sources.

8. The total amount of the loan will be used to finance procurement from private sources.

9. FSS 611(a)(2). What legislative action is required within the recipient country? What is the basis for a reasonable anticipation that such action will be completed in time to permit orderly accomplishment of purposes of loan?

9. No legislative action will be required as a condition precedent to this loan.

Regional Goals

1. FAA 619. If this loan is assisting a newly independent country, to what extent do the circumstances permit such assistance to be furnished through multilateral organizations or plans?

1. Korea is not a newly independent nation.

2. FAA 209. If this loan is directed at a problem or an opportunity that is regional in nature, how does assistance under this loan encourage a regional development program? What multilateral assistance is presently being furnished to the country?

2. This loan is not directed at a regional problem.

Korea is a member of the Asian Development Bank (ADB) and is receiving assistance from the World Bank. Both of these organizations are expected to become increasingly active in Korea.

C. Relation to U.S. Economy

Employment, Balance of Payments,
Private Enterprise.

1. FAA 201(b)(6); 102

What are the possible effects of this loan on U.S. economy, with special reference to areas of substantial labor surplus? Describe the extent to which assistance is constituted of U.S. commodities and services, furnished in a manner consistent with improving the U.S. balance of payments position.

2. FAA 612(b); 636(h). What steps have been taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. and local currencies contributed by the country are utilized to meet the cost of contractual and other services, and that U.S. foreign owned currencies are utilized in lieu of dollars?

3. FAA 601(d); App. 109. If this loan is for a capital project, to what extent has the Agency encouraged utilization of engineering and professional services of U.S. firms and their affiliates? If the loan is to be used to finance direct costs for construction, will any of the contractors be persons other than qualified nationals of the country or qualified citizens of the U.S.? If so, has the required waiver been obtained?

4. FAA 608(a). Provide information measures to be taken to utilize U.S. Government excess personal property in lieu of the procurement of new items.

1. There will be little, if any, adverse effect from this loan on the U.S. economy or on areas of substantial labor surplus. The U.S. will be the only eligible source country of commodities financed under the loan. Also, 50/50 shipping will apply.

2. The loan proceeds will be used exclusively to finance foreign exchange costs. All local currency costs will be financed by the host country.

3. Not applicable.

4. U.S. Government Excess Property has no relation to the activity to be financed hereunder.

5. FAA 602. What efforts have been made to assist U.S. small business to participate equitably in the furnishing of commodities and services financed by this loan?

5. Commodity (rice) procurement under the loan will be limited to the U.S. Procurement procedures will follow normal commercial trade practices to the maximum extent practicable, thereby providing for U.S. small business participation in furnishing the commodity to be financed.

6. FAA 621. If the loan provides technical assistance, how is private enterprise on a contract basis utilized? If the facilities of other Federal agencies will be utilized, in what ways are they particularly suitable; are they competitive with private enterprise (if so, explain); and how can they be made available without undue interference with domestic programs?

6. The loan does not provide technical assistance. Facilities of the U.S. Department of Agriculture (USDA) will be used to assist AID in such areas as reviewing procurement tenders and specifications, analyzing prices contained in bid responses, and inspecting the commodity to be shipped. It is felt that the USDA is particularly well-suited to provide such services by virtue of their experience and recognized expertise in the field. In providing such services, USDA is not competitive with private enterprise and it is not felt that so providing would cause undue interference with domestic programs.

7. FAA 611(c). If this loan involves a contract for construction that obligates in excess of \$100,000, will it be on a competitive basis? If not, are there factors which make it impracticable.

7. The loan does not involve such a construction contract.

8. FAA 601(b). Describe the efforts made in connection with this loan to encourage and facilitate participation of private enterprise in achieving the purposes of the Act.

8. Rice and commodity related services will be procured from private sources, and procurement procedures which follow normal commercial practices will be used.

Procurement

1. FAA 604(a). Will commodity procurement be restricted to U.S. except as otherwise determined by the President?

1. Yes

2. FAA § 604(b). Will any part of this loan be used for bulk commodity procurement at adjusted prices higher than the market price prevailing in the U.S. at time of purchase?

2. No.

3. FAA § 604(e). Will any part of this loan be used for procurement of any agricultural commodity or product thereof outside the U.S. when the domestic price of such commodity is less than parity?

3. No.

4. FAA § 604(f). Will the Agency receive the necessary pre-payment certifications from suppliers under a commodity import program agreement as to description and condition of commodities, and on the basis of such, determined eligibility and suitability for financing?

4. Yes

D. Other Requirements

1. FAA § 201(b). Is the country among the 20 countries in which development loan funds may be used to make loans in this fiscal year?

1. Yes.

2. App. § 106. Does the loan agreement provide, with respect to capital projects, for U.S. approval of contract terms and firms?

2. Not applicable.

3. FAA § 620(k). If the loan is for construction of a productive enterprise, with respect to which the aggregate value of assistance to be furnished will exceed \$100 million, what preparation has been made to obtain the express approval of the Congress?

3. Not applicable.

4. FAA §620(b), 620(f); App. s109(b). Has the President determined that the country is not dominated or controlled by the international communist movement? If the country is a communist country (including, but not limited to, the countries listed in FAA s620(f)) and the loan is intended for economic assistance, have the findings required by FAA s620(f) and App. s109(b) been made and reported to the Congress?

4. Yes, the required determination has been made.

5. FAA §620(h). What steps have been taken to insure that the loan will not be used in a manner which, contrary to the best interest of the United States, promotes or assists the foreign aid projects of the Communist-bloc countries?

5. The Loan Agreement will contain a provision covering this requirement.

6. App. §110. Will any funds be used to finance procurement of iron and steel products for use in Vietnam other than as contemplated by s110?

6. No.

7. FAA §636(1). Will any part of this loan be used in financing non-U.S.-manufactured automobiles? If so, has the required waiver been obtained.

7. No.

8. FAA §§620(a)(1) and (2), 620(p); Will any assistance be furnished or funds made available to the government of Cuba or the United Arab Republic?

8. No.

9. FAA §620(g). Will any part of this loan be used to compensate owners for expropriated or nationalized property. If any assistance has been used for such purpose in the past, has appropriate reimbursement been made to the U.S. for sums diverted?

9. No. No assistance has been used for such purposes in the past.

10. FAA §201(f). If this is a project loan, what provisions have been made for appropriate participation by the recipient country's private enterprise?

10. Not applicable.

11. App. §104. Does the loan agreement bar any use of funds to pay pensions, etc., for persons who are serving or who have served in the recipient country's armed forces?

11. Yes. The Loan Agreement will cover this requirement.

12. MMA § 901 b. Does the loan agreement provide for compliance with U.S. shipping requirements, that at least 50% of the gross tonnage of all commodities financed with funds made available under this loan (computed separately by geographic area for dry bulk carriers, dry cargo liners, and tankers) be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates for U.S. flag vessels?
12. Yes.
13. App. §102. Have obligations for engineering and architectural fees and services over \$25,000 on any one project been reported to Congress bi-annually?
13. Not applicable.
14. FAA §481. Has the President determined that the recipient country has failed to take adequate steps to prevent narcotic drugs produced or procured in, or transported through, such country from being sold illegally within the jurisdiction of such country to U.S. Government personnel or their dependents or from entering the United States unlawfully?
14. No.
15. App. §111. Is the loan being used to transfer funds to world lending institutions under FAA s209(d) and 251(h)?
15. No.
16. App. §501. Are any of these funds being used for publicity or propaganda within the United States?
16. No.
17. FAA §612(d). Does the United States own host country excess foreign currency and, if so, what arrangements have been made for its release?
17. Korea is not an excess currency country.
18. FAA §604(d). Will provisions be made for placing marine insurance in the U.S. if the recipient country discriminates against any marine insurance company authorized to do business in the U.S.?
18. Yes. An appropriate provision will be included in the loan agreement.

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DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20523

Minutes of
Development Loan Staff Committee
Meeting
February 9, 1973

DLSC/M-9-73

Persons Present:

Mr. Arthur M. Handly, Chairman	Mr. Selig A. Taubenblatt, ASIA/CD
Ms. Teresita Schaffer, State	Mr. Richard Perry, ASIA/CD
Mr. Thomas Donnelly, Treasury	Mr. Thomas Rishoi, ASIA/CD
Mr. Gerrit Argento, Treasury	Mr. Elmer Lee, ASIA/CD
Mr. Robert Lurensky, Commerce	Mr. Barry Sidman, LA/DR
Mr. E. H. Farstad, Agriculture	Mr. Ronald Bobel, LA/DR
Ms. Dorothy Helprin, Federal Reserve	Mr. Samuel Daines, LA/DR
	Ms. Margo Kranz, LA/NC
Mr. John Rixse, SER/ENGR	Ms. Elizabeth Carter, LA/NC
Ms. Virginia Peterson, SER/COM	Mr. Charles Stockman, LA/NC
Mr. Thomas Gilliland, OLA	Mr. Joe Sconce, LA/NC
Mr. Robert Muscat, PPC/PDA	Mr. George Grande, PPC/DPR/PR
Mr. Larry Smucker, LA /PPC	Ms. Rachel R. Agee, PPC/DPR/PR
Mr. Bruce Berry, SER/FM	Ms. Helen V. Tate, PPC/DPR/PR
Mr. Alfred J. Davidson, TA/H	
Mr. Norman Holly, TA/H	

KOREA - Proposed \$25,000,000 Rice Loan (AID-DLC/P-1066)

Mr. Taubenblatt made the presentation for the Asia Bureau. He pointed out that the first Rice Loan to Korea was made three years ago and constituted a precedent for using development loan funds for the procurement of foodstuffs. There is a continuing rice shortage in Korea. With this loan, the 1972 loan, and through PL 480 assistance, the need for 800,000 metric tons of rice will be met. The loan will be drawn down in accordance with AID reimbursement procedures. No special account arrangements will be made.

TREASURY asked if this was a part of the Kennedy offset. Asia responded that it was not -- it was assistance to the Third Five Year Plan.

TREASURY asked if this terminated development lending to Korea. Asia responded that, although we were working toward that end, such a determination could not be made at this time.

(Continued)

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STATE asked if this loan would follow AID's policy of not controlling counterpart funds. Asia responded in the affirmative.

STATE indicated they had trouble in seeing this loan as part of a Korean agricultural development program. Asia responded that although agricultural development would benefit from the loan, this was not the principal purpose.

COMMERCE asked if any record was kept of the uses of the counterpart funds. Asia responded that no record was kept.

COMMERCE asked if the Koreans will know that the rice is from U.S. aid. Asia responded that all containers will be so labeled.

AGRICULTURE indicated no objection to the loan.

TREASURY asked how counterpart funds were controlled before the Korea Tallow Loan. Asia said this was done in two ways: (1) By setting up a special account which jointly programmed and (2) In Project Loans, the second step repayments went into a Special Account.

TREASURY asked why the policy was changed. Asia responded that we wanted to get out of having to look at a number of individual projects.

The Chairman noted that AID policy is not to require control of generations which are LDC owned. It can, however, be built into the Loan Agreement if a case is made for the programming of counterpart funds.

COMMERCE asked why AID is reluctant to get a feedback on the uses made of local currencies. Asia advised that we do get a global feedback but do not want specific controls.

Mr. Muscat noted that it depends upon the confidence we have in the management capability of a country. If they are capable of programming, we prefer to let them do so.

COMMERCE asked about shipping. Asia noted it can be U.S. or Code 941-- the 50/50 regulation applying. We do not pay for shipment on Korean bottoms as this is regarded as a local cost.

A telephone poll will be taken by close of business on Wednesday, February 14, 1973.

COLOMBIA - Proposed \$19,400,000 Health Sector Loan (AID-9LC/P-1067)

Mr. Barry Sidman presented the proposal for the LA Bureau pointing out that it was the product of intensive evaluation and analysis of the health plan of the Government of Colombia. The purpose of the loan is to provide

(Continued)

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assistance toward development of an integrated health program. Mr. Sidman discussed the elements which make up the health plan.

Mr. Sconce (Program Officer, Colombia Mission) explained the evolution of the health policy in Colombia. Present health services are inefficient and cover only a very narrow range of the population. Many of Colombia's health problems are preventable and are attributable primarily to bad water, poor treatment of waste, and poor nutrition. A preventive approach to health is now the policy.

This proposal of the GOC is based upon considerable experience with AID sector lending. Performance in previous loans has been extremely good. This is the first Health Sector Loan in the Agency.

The AID loan will be used for remodeling and expanding existing hospitals, for the expansion of a preventive health program, and for training and operations research to improve planning and administration. There will be a massive immunization program to control and prevent communicable disease. Family planning programs are provided for, but at the request of the GOC no publicity is given to the fact that any U.S. aid is used for this purpose. AID will finance 14% of the total program; the UK will provide about 11% of the cost and the GOC will finance the remainder.

COMMERCE asked if the UK is financing equipment only and asked what AID is going to finance. LA responded that the UK will provide equipment while AID will finance local costs except for the procurement of vehicles which will amount to \$1.0 million.

COMMERCE expressed its concern with this procedure and asked that AID attempt to get other U.S. products on the list when we work out individual projects.

Mr. Sconce pointed out that we have a favorable trade balance with Colombia. COMMERCE commented that we won't have a favorable trade balance if we continue to make this kind of loan. LA replied that we cannot have it both ways. We cannot encourage other donors to participate in development projects without being prepared to accept the competition involved.

TREASURY referred to page 11 of ANNEX B concerning the construction of hospitals and asked if these would be in rural areas. LA responded that they would not. They are all in cities. Health posts and centers will be located in rural areas and a referral system will be initiated to send patients to urban hospitals whenever necessary. Regional health directors will be responsible for the entire range of health services (urban and rural) and will supervise the referral system.

(Continued)

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FEDERAL RESERVE asked about the disbursement rate on previous sector loans. LA responded that they are about 80% disbursed.

FEDERAL RESERVE asked about Colombia's fiscal problems. LA noted that there are major economic problems which place a heavy burden on the Colombians. However, the present Government has taken strong measures to improve Colombia's fiscal position and there are reasonable prospects that the health sector program will be adequately financed.

FEDERAL RESERVE asked if the Central Bank was financing Colombia's \$2.0 billion annual deficit. LA responded that this was the primary source although several bond issues were also being floated.

The Chairman asked how TA was being provided for the program. LA responded that we are getting out of the TA grant program and using block grants instead. Pan American Union and the UN also help with TA.

The Chairman asked if procedures have been built into the loan to permit an on-going evaluation of the program at any point in time. LA responded that such procedures had been provided for.

A telephone poll will be taken by close of business on Wednesday, February 14, 1973.

PPC/DPR/PR

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UNITED STATES MISSION-KOREA
SEOUL, KOREA

Director, Economic Affairs, and
Director, U. S. Agency for
International Development

January 23, 1974 .

Subject: A.I.D. Loan No. 489-H-087
Grain Loan
Implementation Letter No. 5

Deputy Prime Minister
and Minister
Economic Planning Board
Republic of Korea
Seoul

Dear Mr. Minister:

This is in response to the Legal Opinion prepared by the Minister of Justice and submitted by EPB's letter dated January 23, 1974 in satisfaction of the condition precedent stipulated in Para. 4 of the First Amendment to the subject Loan Agreement.

We have reviewed the legal opinion and wish to advise you that the legal opinion fulfills the condition as stipulated in the above referenced Amendment. Please note that a relevant amendment to the Commodity Procurement Instruction (CPI) extending contracting, shipping period and adding eligible items to be financed under the loan will be issued by AID Washington shortly.

Sincerely yours,

Michael H. B. Adler
Director



UNITED STATES MISSION-KOREA
SEOUL, KOREA

Director, Economic Affairs, and
Director, U. S. Agency for
International Development

January 21, 1974.

Subject: A.I.D. Loan No. 489-H-087
Rice Loan
Implementation Letter No. 4

Deputy Prime Minister
and Minister
Economic Planning Board
Republic of Korea
Seoul, Korea

Dear Mr. Minister:

This is in response to EPB letter of October 31, 1973 requesting an extension in the Terminal Dates for Disbursement of the Subject loan from October 31, 1973 to June 30, 1974. We are pleased to advise you that the Terminal Date for Disbursement under Section 6.3 of the loan agreement and terminal date for disbursement authorization under 3.2(b) are hereby extended from October 31, 1973 to June 30, 1974.

Sincerely yours,

Michael H. B. Adler
Director

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A.I.D. Loan No. 489-H-087

FIRST AMENDMENT

to

LOAN AGREEMENT

(Korea: Grain Loan)

between the

REPUBLIC OF KOREA

and the

UNITED STATES OF AMERICA

Dated: JAN 21 1974

FIRST AMENDMENT

The Loan Agreement dated February 28, 1973, between the REPUBLIC OF KOREA ("Borrower") and the UNITED STATES OF AMERICA, acting through the AGENCY FOR INTERNATIONAL DEVELOPMENT ("A.I.D."), is hereby amended as follows:

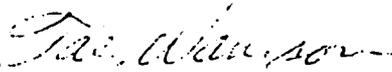
1. In Section 1.1 (The Loan), lines 7 and 8, delete the phrase "approximately 95,000 metric tons of" and immediately after the word "rice," insert the phrase "wheat and feedgrains".
2. In Section 5.2(a) (Source of Procurement), line 2, insert the phrase "wheat and feedgrains" immediately after the word "rice,".
3. In Section 5.4 (Eligible Items), line 1, insert the phrase ", wheat and feedgrains" immediately after the word "rice".
4. As a condition precedent to the effectiveness of this First Amendment, unless A.I.D. otherwise agrees in writing, the Borrower shall furnish in form and substance satisfactory to A.I.D. an opinion of the Minister of Justice of the Republic of Korea, or of other legal counsel satisfactory to A.I.D., that this First Amendment has been duly authorized or ratified by, and executed on behalf of, the Borrower, and that it constitutes a valid and legally binding obligation of the Borrower in accordance with all of its terms.

Except as A.I.D. may otherwise agree in writing, if the above-described document is not furnished within sixty (60) days of the date of this First Amendment, A.I.D. may at any time thereafter terminate this Amendment by giving written notice of this termination to the Borrower. In the event of any termination under this paragraph, the Loan Agreement dated February 28, 1973, shall remain in full force and effect.

5. Except as specifically modified and amended hereby, the Loan Agreement dated February 28, 1973, shall remain in full force and effect. All references in said Agreement to the words "Loan Agreement" or "this Agreement" shall be deemed to mean the Loan Agreement as hereby amended.

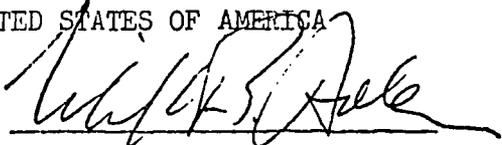
IN WITNESS WHEREOF, the Borrower and the United States of America, each acting through its respective duly authorized representative, have caused this First Amendment to be signed in their names and delivered as of the 21st day of January 1974.

REPUBLIC OF KOREA

By: 

Title: Deputy Prime Minister

UNITED STATES OF AMERICA

By: 

Title: Director

Office of
The Administrator

D R A F T

LOAN AUTHORIZATION

Provided from: Development Loan Funds
(Korea: Rice Loan)

Pursuant to the authority vested in the Administrator, Agency for International Development ("A.I.D.") by the Foreign Assistance Act of 1961, as amended, and the delegations of authority issued thereunder, I hereby authorize the establishment of a loan pursuant to Part I, Chapter 2, Title I, the Development Loan Fund, to the Republic of Korea ("Borrower") of not to exceed Twenty-five Million Dollars (\$25,000,000) to assist in financing the foreign exchange costs of commodities, consisting of approximately 95,000 metric tons of rice, and services related thereto, for Korea.

1. Interest and Terms of Repayment.

The interest on the disbursed balance of this loan shall be two percent (2%) per annum for the first ten (10) years of the loan and three percent (3%) per annum for the remainder of the terms of the loan. The loan shall be repaid within forty (40) years from the date of first disbursement under the loan, including a grace period of not to exceed ten (10) years. On the basis of level semi-annual installments of principal and interest during the repayment period.

2. Currency of Repayment.

Provision shall be made for repayment of the loan and payment of the interest in United States dollars.

3. Source

(a) Commodities (rice) financed under this loan shall be of U.S. source.

(b) Eligible source for commodity-related services shall be the U.S., except that (i) for ocean freight, subject to the limitations of the U.S. Cargo Preference Law, countries in A.I.D. Geographic Code 9⁴1 shall also be eligible sources and (ii) for marine insurance, subject to U.S. law and A.I.D. regulations, countries in such Code 9⁴1 and the borrowing country shall also be eligible sources.

4. Terms and Conditions

The loan will be subject to such terms and conditions as A.I.D. may deem advisable.

Administrator

Date