

No. 639

**INTERNATIONAL DEVELOPMENT ASSOCIATION
and
REPUBLIC OF KOREA**

**Development Credit Agreement—*Second Railroad Project*
(with related letter and annexed Development Credit
Regulations No. 1, as amended). Signed at Washington,
on 18 December 1967**

Official text: English.

*Filed and recorded at the request of the International Development Association
on 5 July 1968.*

**ASSOCIATION INTERNATIONALE
DE DÉVELOPPEMENT
et
RÉPUBLIQUE DE CORÉE**

**Contrat de crédit de développement—*Deuxième projet
relatif aux chemins de fer* (avec lettre y relative et,
en annexe, le Règlement n° 1 sur les crédits de
développement, tel qu'il a été modifié). Signé à
Washington, le 18 décembre 1967**

Texte officiel anglais.

*Classé et inscrit au répertoire à la demande de l'Association internationale
de développement le 5 juillet 1968.*

No. 639. DEVELOPMENT CREDIT AGREEMENT¹ (*SECOND RAILROAD PROJECT*) BETWEEN THE REPUBLIC OF KOREA AND THE INTERNATIONAL DEVELOPMENT ASSOCIATION. SIGNED AT WASHINGTON, ON 18 DECEMBER 1967

AGREEMENT, dated December 18, 1967, between the REPUBLIC OF KOREA (hereinafter called the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (hereinafter called the Association).

WHEREAS the Borrower has undertaken a railroad development program for the years 1967 through 1971 designed to expand the capacity and improve the operations of the Korean National Railroad in order to meet growing traffic needs ;

WHEREAS the Borrower has asked the Association to assist it in the financing of the first three years of such railroad development program ;

WHEREAS the Association has agreed to make a development credit available for such purpose on the terms and conditions provided herein ;

NOW THEREFORE the parties hereto hereby agree as follows :

Article I

CREDIT REGULATIONS ; SPECIAL DEFINITION

Section 1.01. The parties to this Agreement accept all the provisions of Development Credit Regulations No. 1 of the Association dated June 1, 1961 as amended February 9, 1967² (said Development Credit Regulations No. 1 being hereinafter called the Regulations), with the same force and effect as if they were fully set forth herein.

Section 1.02. Wherever used in this Development Credit Agreement the term "National Railroad" means the Korean National Railroad and

¹ Came into force on 13 March 1968, upon notification by the Association to the Government of the Republic of Korea.

² See p. 320 of this volume.

includes any agency, public corporation or other entity established by the Borrower to manage, operate and develop the railroads of the Borrower.

Article II

THE CREDIT

Section 2.01. The Association agrees to make available to the Borrower, on the terms and conditions in this Development Credit Agreement set forth or referred to, a development credit in an amount in various currencies equivalent to eleven million dollars (\$ 11,000,000).

Section 2.02. The Association shall open a Credit Account in the name of the Borrower and shall credit to such Credit Account the amount of the Credit. The amount of the Credit may be withdrawn from the Credit Account as provided in, and subject to the rights of cancellation and suspension set forth in, this Development Credit Agreement.

Section 2.03. (a) The Borrower shall be entitled to withdraw from the Credit Account such amounts as shall have been paid, or, if the Association shall so agree, as shall be required to meet payments to be made, for the reasonable cost of goods required for carrying out the Project.

(b) Except as shall be otherwise agreed between the Borrower and the Association, no withdrawals shall be made on account of (i) expenditures prior to the date of this Agreement or (ii) expenditures in the currency of the Borrower or for goods produced in (including services supplied from) the territories of the Borrower.

Section 2.04. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one per cent ($\frac{3}{4}$ of 1 %) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.05. The currency of United States dollars is specified for the purposes of Section 3.02 of the Regulations.

Section 2.06. Services charges shall be payable semi-annually on June 1 and December 1 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Credit withdrawn from the Credit Account in semi-annual installments payable on each June 1 and December 1 commencing December 1, 1977 and ending June 1, 2017, each installment to and including the installment payable on June 1, 1987 to be one-half of one per cent ($\frac{1}{2}$ of 1 %) of such principal amount, and each installment thereafter to be one and one-half per cent ($1\frac{1}{2}$ %) of such principal amount.

Article III

USE OF THE PROCEEDS OF THE CREDIT

Section 3.01. The Borrower shall apply the proceeds of the Credit in accordance with the provisions of this Agreement to expenditures on the Project described in the Schedule to this Agreement. The specific allocation of the proceeds of the Credit, and the methods and procedures for procurement of the goods to be financed out of such proceeds, shall be determined by agreement between the Borrower and the Association, subject to modification by further agreement between them.

Section 3.02. Except as the Borrower and the Association shall otherwise agree, the Borrower shall cause all goods financed out of the proceeds of the Credit to be used in the territories of the Borrower exclusively in the carrying out of the Project.

Article IV

PARTICULAR COVENANTS

Section 4.01. (a) The Borrower shall cause the National Railroad to carry out the Project with due diligence and efficiency and in conformity with sound engineering, railroad and financial practices.

(b) The Borrower shall make available to the National Railroad the proceeds of the Credit on a reimbursable basis and on such other terms and conditions as shall be agreed between the Borrower and the Association.

(c) Whenever there is reasonable cause to believe that the funds available to the National Railroad will be inadequate to meet the estimated expenditures required for carrying out the Project, the Borrower shall promptly provide the National Railroad with, or cause the National Railroad to be promptly provided with, such funds as are required to meet such expenditures on terms and conditions satisfactory to the Association.

(d) The Borrower shall cause the National Railroad, in the carrying out of the Project, to employ qualified and experienced consultants acceptable to the Association to an extent and upon terms and conditions satisfactory to the Association.

(e) The Borrower shall cause the National Railroad to furnish to the Association upon request, promptly upon their preparation, the plans, specifications, contract documents and work schedules for the Project and any material modifications subsequently made therein, in such detail as the Association shall reasonably request.

(f) The Borrower shall cause the National Railroad to maintain records adequate to identify the goods financed out of the proceeds of the Credit, to disclose the use thereof in the Project, to record the progress of the Project (including the cost thereof) and to reflect in accordance with consistently maintained sound accounting practices the operations and financial condition of the National Railroad; shall enable the Association's representatives to inspect the Project, the goods and any relevant records and documents, and all facilities, sites, works, properties and equipment of the National Railroad; and shall furnish or cause the National Railroad to furnish to the Association all such information as the Association shall reasonably request concerning the expenditure of the proceeds of the Credit, the Project, the goods to be financed out of the proceeds of the Credit, and the operations and financial condition of the National Railroad.

(g) The Borrower shall insure or cause to be insured with responsible insurers all imported goods financed out of the proceeds of the Credit against marine, transit and other hazards incident to the acquisition, transportation and delivery to the place of use or installation and for such insurance any indemnity shall be payable in a currency freely useable by the Borrower to replace or repair such goods.

Section 4.02. The Borrower shall cause the National Railroad to be managed and operated at all times in accordance with sound business, financial and railroad practices under the supervision of qualified and experienced management and shall cause the National Railroad to operate, maintain, renew and repair its equipment and property, including the equipment and property included in the Project, in accordance with sound engineering and railroad practices.

Section 4.03. The Borrower shall cause the National Railroad to establish and maintain tariffs of rates and fares which will provide revenues sufficient to meet all operating expenses, including adequate maintenance and depreciation, and to earn an adequate rate of return on the net fixed assets in use of the National Railroad.

Section 4.04. The Borrower shall have the accounts of the National Railroad regularly audited and its financial statements (balance sheet and related statement of revenues and expenditures), beginning with those relating to the fiscal year ending December 31, 1966, certified annually by an independent auditor acceptable to the Association promptly after the end of the fiscal

year to which they apply and shall promptly furnish to the Association copies of such statements and the auditor's report thereon.

Section 4.05. (a) The Borrower and the Association shall cooperate fully to assure that the purposes of the Credit will be accomplished. To that end, each of them shall furnish to the other all such information as it shall reasonably request with regard to the general status of the Credit. On the part of the Borrower, such information shall include information with respect to financial and economic conditions in the territories of the Borrower and the international balance of payments position of the Borrower.

(b) The Borrower and the Association shall from time to time exchange views through their representatives with regard to matters relating to the purposes of the Credit, the maintenance of the service thereof and the operations, administration and financial condition of the National Railroad and its development program. The Borrower shall promptly inform the Association of any condition which interferes with, or threatens to interfere with, the accomplishment of the purposes of the Credit or the maintenance of the service thereof.

(c) The Borrower shall afford all reasonable opportunity for accredited representatives of the Association to visit any part of the territories of the Borrower for purposes related to the Credit.

Section 4.06. The principal of, and service charges on, the Credit shall be paid without deduction for, and free from, any taxes, and free from all restrictions, imposed under the laws of the Borrower or laws in effect in its territories.

Section 4.07. This Agreement shall be free from any taxes that shall be imposed under the laws of the Borrower or laws in effect in its territories on or in connection with the execution, delivery or registration thereof.

Article V

REMEDIES OF THE ASSOCIATION

Section 5.01. (i) If any event specified in paragraph (a) or paragraph (c) of Section 5.02 of the Regulations shall occur and shall continue for a period of thirty days, or (ii) if any event specified in paragraph (b) of Section 5.02 of the Regulations shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Association to the Borrower, then at any subsequent time during the continuance thereof, the Association, at its option, may declare the principal of the Credit then outstanding to be

due and payable immediately, and upon any such declaration such principal shall become due and payable immediately, anything in this Development Credit Agreement to the contrary notwithstanding.

Article VI

EFFECTIVE DATE ; TERMINATION

Section 6.01. The following event is specified as an additional condition to the effectiveness of this Agreement within the meaning of Section 8.01 (b) of the Regulations :

The Borrower has entered into with consultants acceptable to the Association an agreement on terms and conditions satisfactory to the Association to undertake a comprehensive study of the most practical and economic means of dealing with the reception, storage, processing and distribution of coal in the Seoul area and other matters related to the production and shipment of coal.

Section 6.02. The date of March 15, 1968 is hereby specified for the purposes of Section 8.04 of the Regulations.

Section 6.03. The obligations of the Borrower under Sections 4.02, 4.03 and 4.04 of this Agreement shall terminate on the date on which this Agreement shall terminate or on a date twenty-five years after the date of this Agreement, whichever shall be the earlier.

Article VII

MISCELLANEOUS

Section 7.01. The Closing Date shall be June 30, 1970, or such other date as may from time to time be agreed between the Borrower and the Association.

Section 7.02. The following addresses are specified for the purposes of Section 7.01 of the Regulations :

For the Borrower :

Minister, Economic Planning Board
Republic of Korea
Seoul, Korea

Alternative address for cables :

EPB
Seoul

For the Association :

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Alternative address for cables :

Indevas
Washington, D.C.

Section 7.03. The Minister, Economic Planning Board of the Borrower is designated for the purposes of Section 7.03 of the Regulations.

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

Republic of Korea :

By DONG JO KIM
Authorized Representative

International Development Association :

By George D. WOODS
President

SCHEDULE

DESCRIPTION OF PROJECT

The Project consists of the first three years, 1967-1969, of the 1967-1971 development program for the Borrower's railroad system. The development program is designed to expand the capacity and improve the operations of the National Railroad in order to meet growing traffic needs.

The Project includes the acquisition of diesel locomotives and rolling stock, together with spare parts ; the renewal and improvement of permanent way and structures and construction of approximately 150 km of new line ; the extension of station and other facilities in the Seoul area ; the construction of marshalling yards ; the modernization of stations, freight yards, rolling stock, maintenance sheds, workshop plant and equipment, and communications ; and the preparation of studies, with the aid of consultants, to improve the operations of the National Railroad.

The acquisition of certain rolling stock and the retention of consulting services are the portions of the Project to be financed out of the proceeds of the Credit. The Project is expected to be completed by December 31, 1969

LETTER RELATING TO THE DEVELOPMENT CREDIT AGREEMENT

KOREAN EMBASSY
WASHINGTON, D.C.

December 18, 1967

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433

Re : *Credit No. 110 KO (Second Railroad Project)*
Rates and Charges : Cash Position

Dear Sirs :

1. Referring to Section 4.03 of the Development Credit (*Second Railroad Project*) of even date between us, we have agreed that rates of return of not less than 5 % per annum for the years 1969-1970 and of not less than 6 % per annum for 1971 and thereafter, on the value of the average net fixed assets in use by the Korean National Railroad (KNR) adjusted as specified in paragraph 2 (b) of this letter, shall be deemed to be an adequate return for the purposes of the said Section.

2. Such rate of return in respect of any fiscal year shall be computed by relating KNR's net operating income for that fiscal year to the average of the net depreciated value of the fixed assets in use by KNR at the beginning and end of that fiscal year. For the purpose of such computation :
 - (a) The "net operating income" will be determined by subtracting from gross revenues all operating expenses, including adequate maintenance, and provision for straight line depreciation on all depreciable assets in use, calculated in accordance with sound accountancy principles, consistently applied.

 - (b) "Net depreciated value of fixed assets in use" will be the gross value of such assets less accumulated depreciation. The gross value of the fixed assets, together with the accumulated depreciation, will take into account the audited results of the revaluation currently being undertaken and of any future revaluation.

3. The Government of the Republic of Korea will cause the KNR to promptly take such measures as are necessary to improve the rates of return as required, including, but not limited to, tariff increases, including :

- (a) an increase of 50 % in passenger fares and of 30 % in freight rates by no later than January 1, 1968 ;
- (b) such revisions of tariffs as shall be necessary to bring rates and fares into close relationship to the costs of the services provided, taking into account the recommendations of the consultants being engaged to study KNR's costs and tariff structure, and the information obtained from traffic cost analysis.
4. With reference to Section 4.01 of the Credit Agreement, we intend to cause KNR to maintain at all times an adequate cash position. To this end, KNR shall maintain internally generated funds (net operating revenue, depreciation and other provisions) at a level sufficient to meet debt interest and amortization, to provide adequate working capital, to establish and preserve adequate liquid reserves to meet accruing liabilities and future contingencies and to cover a material part of the costs of the capital investment program, including replacements.

Please indicate your agreement with the foregoing by signing the form of confirmation on the enclosed copy of this letter and returning it to us.

Very truly yours,

Republic of Korea :

By DONG KO JIM
Authorized Representative

Confirmed :

International Development Association :

By I.P.M. CARGILL
Director, Asia Department

INTERNATIONAL DEVELOPMENT ASSOCIATION

DEVELOPMENT CREDIT REGULATIONS No. 1, DATED 1 JUNE 1961,
AS AMENDED 9 FEBRUARY 1967

REGULATIONS APPLICABLE TO DEVELOPMENT CREDIT AGREEMENTS WITH MEMBER
GOVERNMENTS

[*Not published herein. See United Nations, Treaty Series, Vol. 617, under No. 8907.*]