

No. 659

**INTERNATIONAL DEVELOPMENT ASSOCIATION
and
REPUBLIC OF KOREA**

**Development Credit Agreement—*Third Railroad Project*
(with annexed General Conditions Applicable to Development Credit Agreements). Signed at Seoul on 14 May 1970**

Authentic text: English.

*Filed and recorded at the request of the International Development Association on
23 November 1970.*

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

**Contrat de crédit de développement — *Troisième projet
relatif aux chemins de fer* (avec, en annexe, les Conditions
générales applicables aux contrats de crédit de développe-
ment). Signé à Séoul le 14 mai 1970**

Texte authentique: anglais.

*Classé et inscrit au répertoire à la demande de l'Association internationale de
développement le 23 novembre 1970.*

DEVELOPMENT CREDIT AGREEMENT¹

AGREEMENT, dated May 14, 1970 between the REPUBLIC OF KOREA (hereinafter called the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (hereinafter called the Association).

WHEREAS the Association has previously financed the foreign exchange costs of two projects forming a part of the programs for rehabilitation, modernization, expansion and increase in capacity of the Korean railways and has entered into development credit agreements with the Borrower dated August 17, 1962² and December 18, 1967;³

WHEREAS the Association has assisted the Borrower in financing the first three years of the Borrower's railroad development program for the years 1967 through 1971;

WHEREAS the Borrower has requested the Association to assist in the financing of the project described in Schedule 2 to this Agreement, such project being the last two years of the aforesaid railroad development program;

WHEREAS the Borrower has also requested the International Bank for Reconstruction and Development (hereinafter called the Bank) to provide additional financing for such project and, by a loan agreement of even date herewith⁴ between the Borrower and the Bank, the Bank agrees to provide such financing in an aggregate principal amount equivalent to forty million dollars (\$40,000,000); and

WHEREAS the Borrower and the Association intend, to the extent practicable, that the proceeds of the credit provided for in this Agreement be disbursed on account of expenditures under such project before disbursements of the proceeds of the loan provided for in such loan agreement are made;

NOW THEREFORE the parties hereto hereby agree as follows:

Article I

GENERAL CONDITIONS; DEFINITIONS

Section 1.01. The parties to this Development Credit Agreement accept all the provisions of the General Conditions Applicable to Development Credit

¹ Came into force on 11 September 1970, upon notification by the Association to the Government of the Republic of Korea.

² United Nations, *Treaty Series*, vol. 468, p. 387.

³ *Ibid.*, vol. 639, p. 303.

⁴ See p. 285 of this volume.

Agreements of the Association dated January 31, 1969,¹ with the same force and effect as if they were fully set forth herein (said General Conditions Applicable to Development Credit Agreements of the Association being hereinafter called the General Conditions).

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

(a) "Government Organization Law" means the Governments Organization Law, Law No. 1506 of December 14, 1963, as amended up to July 24, 1967, and as the same may be amended from time to time;

(b) "KNR" means the Korean National Railroad and includes the Office of Railroads established by the Government Organization Law;

(c) "Loan Agreement" means the loan agreement of even date herewith between the Borrower and the Bank, and such term includes the General Conditions Applicable to Loan and Guarantee Agreements of the Bank dated January 31, 1969,² as made applicable thereto, all agreements supplemental to such agreement and all schedules thereto, as such agreement, supplemental agreements and schedules may be amended from time to time;

(d) "Investment Plan" means the 1967-1971 investment plan of the KNR as described in Schedule 2 to this Agreement and as the description thereof may be amended from time to time with the agreement of the Borrower and the Association;

(e) "General Survey" means the General Survey of the Production, Transport and Distribution of Coal and Briquets for the City of Seoul dated August 1968 and prepared by Sofrerail—Sofremines, consultants for the KNR;

(f) "Economic Planning Board" means the Economic Planning Board established under Article 19 of the Government Organization Law;

(g) "Director-General" means the Director-General of the KNR appointed pursuant to Article 34 (4) of the Government Organization Law; and

(h) "Won" and the letter W mean the currency of the Republic of Korea.

¹ See p. 338 of this volume.

² United Nations, *Treaty Series*, vol. 691, p. 300.

Article II

THE CREDIT

Section 2.01. The Association agrees to lend the Borrower, on the terms and conditions in this Development Credit Agreement set forth or referred to, an amount in various currencies equivalent to fifteen million dollars (\$15,000,000).

Section 2.02. (a) The Association shall open a Credit Account on its books in the name of the Borrower and shall credit to such Account the amount of the Credit.

(b) 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 and in accordance with the allocation of the proceeds of the Credit and of the Loan set forth in Schedule 1 to this Agreement, as such allocation shall be modified from time to time pursuant to the provisions of such Schedule or by further agreement among the Borrower, the Association and the Bank.

Section 2.03. 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, shall be required to meet payments to be made) in respect of the reasonable cost of goods or services required for the Project and to be financed under this Development Credit Agreement.

Section 2.04. No withdrawals from the Credit Account shall be made:

- (i) under Categories I, III, IV and V of the allocation of the proceeds of the Credit and of the Loan referred to in Section 2.02 of this Agreement on account of payments in the currency of the Borrower, or for goods produced in, or services supplied from, the territories of the Borrower; or
- (ii) on account of payments for taxes imposed by the Borrower or any of its political subdivisions on, or in connection with the importation or supply of, goods or services included in Categories II and V of said allocation of the proceeds of the Credit and of the Loan.

Section 2.05. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

Section 2.06. 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 2.07. Service charges shall be payable semi-annually on March 1 and September 1 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Credit withdrawn from the Credit Account in semi-annual installments payable on each March 1 and September 1 commencing March 1, 1980 and ending September 1, 2019, each installment to and including the installment payable on September 1 1989, to be one-half of one per cent ($1\frac{1}{2}$ 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 cause the proceeds of the Credit to be applied in accordance with the provisions of this Development Credit Agreement to expenditures on the Project, described in Schedule 2 to this Agreement.

Section 3.02. Except as the Association shall otherwise agree, (i) the goods and services to be financed out of the proceeds of the Credit shall be procured on the basis of international competitive bidding in accordance with the *Guidelines for Procurement under World Bank Loans and IDA Credits*, published by the Bank in August 1969, and in accordance with such other procedures supplementary thereto as are set forth in Schedule 3 to this Agreement or as shall be agreed between the Borrower and the Association and (ii) contracts for the procurement of such goods and services shall be subject to the prior approval of the Association.

Section 3.03. Except as the Association may otherwise agree, the Borrower shall cause all goods and services financed out of the proceeds of the Credit to be used exclusively in the carrying out of the Project.

Article IV

PARTICULAR COVENANTS

Section 4.01. The Borrower shall cause the KNR to carry out the Project with due diligence and efficiency and in conformity with sound administrative, financial, engineering and railroad practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the purpose.

Section 4.02. The Borrower shall make available to the KNR the proceeds of the Credit on the following terms:

- (i) interest at seven per cent (7 %) per annum on the principal amount outstanding from time to time; and
- (ii) amortization in twenty-five years, including four years of grace.

Section 4.03. (a) The Borrower shall cause the KNR 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.

(b) The Borrower shall cause the KNR 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 KNR; 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 KNR; and shall furnish or cause the KNR 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 administration, operations and financial condition of the KNR.

Section 4.04. (a) The Borrower shall take out and maintain or cause the KNR to take out and maintain with responsible insurers, or make other provision satisfactory to the Association for, insurance against such risks and in such amount as shall be consistent with sound practice.

(b) The Borrower shall cause the KNR to 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 usable by the Borrower to replace or repair such goods.

Section 4.05. The Borrower shall cause the KNR 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 KNR 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 4.06. The Borrower shall cause the KNR:

- (i) not later than January 1, 1971 to: (A) maintain its accounts and financial statements (balance sheets, statements of income and expense and related statements and records) solely in accordance with commercial accounting system; and (B) cease to maintain said accounts and financial statements in accordance with procedures hitherto followed; and
- (ii) to prepare its budget for fiscal years 1971 and thereafter in accordance with the commercial accounting system, and to install and maintain on a continuing basis, not later than December 31, 1973, a performance budgeting system consistent with the recommendations contained in the Final Report on Performance Budgeting Project (dated October 30, 1965, prepared by Booz, Allen and Hamilton International Inc., Consultants) except as the Association shall otherwise agree.

Section 4.07. The Borrower shall cause the KNR to: (i) have its accounts and financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited in accordance with sound auditing principles consistently applied, by independent auditors acceptable to the Association; (ii) furnish to the Association, as soon as available but, in any case, not later than five months after the end of each fiscal year, certified copies of its financial statements for such year, as so audited, and a report of such audit by the said auditors of such scope and in such detail as the Association shall have reasonably requested; and (iii) furnish to the Association such other information concerning the accounts and financial statements of the Borrower and the audit thereof as the Association shall reasonably request.

Section 4.08. The Borrower shall, commencing 1970, cause the KNR to make adequate allocation of funds for purposes of the audit of its accounts in its annual operating budget and shall make available, whenever necessary, foreign exchange required for the said purposes.

Section 4.09. (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 organization, administration, operations and financial condition of the KNR and its develop-

ment 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 4.10. The Borrower shall cause the KNR to employ competent and experienced consultants, satisfactory to the Association, upon terms and conditions satisfactory to the Borrower and the Association to:

- (i) make a study of and recommend measures necessary for: (A) the improvement of the maintenance of diesel locomotives and railcars; and (B) the current as well as anticipated future maintenance services and manufacturing operations (other than the manufacture of motive power) of existing workshops;
- (ii) advise the KNR on and to plan for the modernization and expansion of its telecommunication system; and
- (iii) assist the KNR in the evaluation of bids for diesel locomotives and track maintenance equipment and in the making of recommendations for the award of contracts in respect thereof.

Section 4.11. The Borrower shall ensure:

- (i) that the KNR shall employ competent and experienced consultants, satisfactory to the Association, upon terms and conditions satisfactory to the Borrower and the Association to study and make recommendations on the desirability of the construction of a workshop at Dae Jeon; and
- (ii) that the KNR shall not engage in the construction of a workshop at Dae Jeon or at any other place prior to the completion of the Study of said consultants.

Section 4.12. The Borrower shall ensure that the KNR shall not engage in the development, enlargement or modernization of marshalling yards or construct new marshalling yards prior to the completion by consultants of the study currently in progress.

Section 4.13. The Borrower shall ensure that the KNR: (i) promptly upon the completion of each study referred to in Sections 4.11 and 4.12 of this Agreement gives the Borrower and the Association an opportunity to comment thereon; and (ii) takes all steps necessary to implement such recommendations made by said consultants as shall have been agreed to by the Borrower and the Association.

Section 4.14. The Borrower confirms:

- (i) that it generally agrees with all the recommendations contained in the General Survey (1968);
- (ii) that it intends to take all measures necessary for the implementation of said recommendations;
- (iii) that it shall prepare or cause to be prepared not later than June 30, 1970, a program satisfactory to the Association, setting forth the details for such implementation;
- (iv) that it shall entrust the Economic Planning Board with the responsibility to initiate, take and perform all actions, measures and functions necessary to achieve coordination in the implementation and execution of the aforesaid program; and
- (v) that it shall execute and implement the aforesaid recommendations in accordance with aforesaid program, not later than December 31, 1972, except as the Association shall otherwise agree.

Section 4.15. The Borrower shall cause the KNR to make 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: (i) the recommendations of the consultants currently studying KNR's costs and tariff structure; (ii) the information obtained from traffic cost analyses; and (iii) conditions of competition from other modes of transport. Except as the Association shall otherwise agree, such tariff revisions shall come into effect not later than twelve months from the date of receipt by the Borrower of the recommendations of the said consultants.

Section 4.16. (a) Except as the Association shall otherwise agree, the Borrower shall cause the KNR to take from time to time, all necessary measures, (including but not limited to adjustments of the tariff structure and rates of the KNR), satisfactory to the Association as shall be required to enable the KNR, out of internally generated resources:

- (i) to meet interest on and amortization of debt;
- (ii) to maintain adequate working capital;
- (iii) to establish and maintain reserves adequate to meet contingencies; and
- (iv) to finance a reasonable proportion of its capital expenditures including replacement of assets.

(b) For the purposes of meeting the requirements set forth in paragraph (a) above the Borrower shall cause the KNR to take all necessary steps to earn commencing fiscal year 1971, an annual rate of return of 7% on its net fixed assets in operation, or such higher rate of return as may be necessary to meet such requirements.

(c) For the purposes of this Section:

- (i) the annual rate of return shall be calculated by relating the net operating income for the year in question to the average of the value of the net fixed assets of the KNR in operation at the beginning and at the end of each year;
- (ii) the term "value of net fixed assets in operation" shall mean the gross book value of such assets, less the amount of accumulated depreciation, as valued from time to time in accordance with sound and consistently maintained methods of valuation acceptable to the Association;
- (iii) the term "net operating income" shall mean the difference between:
 - (A) gross operating revenue accruing from the KNR services; and
 - (B) the operating and administrative expenses, taxes (if any), adequate maintenance and depreciation but excluding interest and other charges on debt.

Section 4.17. The Borrower shall cause the KNR to remove all restrictions relating to freight traffic over short distances promptly after adjustments in tariffs and rates of the KNR consistent with the provisions of Sections 4.15 of this Agreement.

Section 4.18. Except as the Association shall otherwise agree:

- (i) until the Project has been completed, the Borrower shall cause the KNR not to undertake or execute, for its own account or for the account of any third party or parties, any project or development program other than that provided for in the Investment Plan or the Project; and
- (ii) the Borrower shall not cause or permit the KNR to engage in the manufacture of motive power.

Section 4.19. Upon completion of the study by consultants of transport coordination and highway organization currently in progress, the Borrower shall promptly consult with the Association with a view to agreeing, not later than December 31, 1970, on: (i) measures necessary to achieve adequate coordination in the field of transportation, particularly with respect to the establishment of a body satisfactory to the Borrower and the Association for overall planning of the transport sector; and (ii) the timing for the implementation of said measures.

Section 4.20. Except as the Association shall otherwise agree, the Borrower shall cause the KNR to prepare not later than June 30, 1970, a program satisfactory to the Association for the training of KNR's staff.

Section 4.21. Except as the Association shall otherwise agree, the Borrower shall take all measures necessary to empower, not later than June 1, 1970, the Director-General to: (i) reallocate and transfer funds among subparagraphs of KNR's annual operating budget so as to increase or decrease funds allocated for items other than the items relating to salaries and public charges; (ii) reallocate and transfer funds from the contingencies provision to any other item of KNR's operating budget; and (iii) allocate and transfer funds from KNR's excess revenues to any item in KNR's operating budget:

Provided that prior to making such reallocation or transfer: (i) the Director-General shall have made a request in writing to the Minister of the Economic Planning Board for such reallocation and transfer; and (ii) the Minister of the Economic Planning Board shall not have communicated in writing his objections to the Director-General to such request within thirty days from the date of receipt of such request.

Section 4.22. 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 4.23. 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. If any event specified in Section 7.01 of the General Conditions or in Section 5.02 of this Agreement shall occur and shall continue for the period, if any, therein set forth, then at any subsequent time during the continuance thereof, the Association, at its option, may by notice to the Borrower declare the principal of the Credit then outstanding to be due and payable immediately together with the service charges thereon and upon any such declaration such principal, together with such charges, shall become due and payable immediately, anything in this Development Credit Agreement to the contrary notwithstanding.

Section 5.02. For the purposes of Section 7.01 of the General Conditions, the following additional event is specified:

Any amendment to the Government Organization Law shall occur or any other action shall be taken so as to substantially affect the organization, functions and operations of the KNR without the Association having, in advance thereof, notified the Borrower of its concurrence therewith, and such event shall continue for a period of sixty days.

Article VI

EFFECTIVE DATE; TERMINATION

Section 6.01. The following events are specified as additional conditions to the effectiveness of this Development Credit Agreement within the meaning of Section 10.01 (b) of the General Conditions:

- (a) that the consultants provided for under Sections 4.10 (i) and 4.11 of this Agreement shall have been employed by the KNR; and
- (b) that all the conditions precedent to the effectiveness of the Loan Agreement other than the effectiveness of the Development Credit Agreement shall have been fulfilled.

Section 6.02. The date of September 11, 1970, is hereby specified for the purposes of Section 10.04 of the General Conditions.

Section 6.03. The obligations of the Borrower under Sections 4.01 through 4.04 (a), 4.05 through 4.08, 4.16, 4.18(ii) and 4.21 of this Development Credit Agreement shall terminate on the date on which this Development Credit Agreement shall terminate or on a date twenty-five years after the date of this Development Credit Agreement, whichever shall be the earlier.

Article VII

MISCELLANEOUS

Section 7.01. The Closing Date shall be December 31, 1972, or such other date as shall be agreed between the Borrower and the Association.

Section 7.02. The Minister, Economic Planning Board, of the Borrower is designated as representative of the Borrower for the purposes of Section 9.03 of the General Conditions.

Section 7.03. The following addresses are specified for the purposes of Section 9.01 of the General Conditions:

For the Borrower:

Minister, Economic Planning Board

Republic of Korea

Seoul, Korea

Cable address:

EPB

Seoul

For the Association:

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

Cable address:

Indevas
Washington, D.C.

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 Seoul, Republic of Korea, as of the day and year first above written.

Republic of Korea:

By KIM, HAK-YUL
Authorized Representative

International Development Association:

By ROBERT S. McNAMARA
President

SCHEDULE 1

ALLOCATION OF THE PROCEEDS OF THE CREDIT AND OF THE LOAN

<i>Category</i>	<i>Maximum Amounts Dollar Equivalent Expressed in</i>
I. 50 Diesel locomotives and spare parts	19,500,000
II. 2,740 Freight Cars	28,400,000
III. Track maintenance Equipment	2,400,000
IV. Telecommunications Equipment	2,600,000
V. Consulting services and training program	500,000
VI. Unallocated	1,600,000
	<hr/>
TOTAL	55,000,000

ALLOCATION OF THE PROCEEDS OF THE CREDIT

1. The amount of the Credit shall be withdrawn from the Credit Account as provided under Article II of this Agreement, and shall be applied to expenditures under any of the Categories I through V, until the total of such withdrawals, and of commitments, if any, in respect of such expenditures, shall have reached the equivalent of \$15,000,000.

ALLOCATION OF THE PROCEEDS OF THE LOAN

2. The amount of the Loan shall be withdrawn from the Loan Account as provided under Article II of the Loan Agreement, and shall be applied to expenditures under any of the Categories I through V incurred, after the amount of the Credit shall have been exhausted, except that withdrawals from the Loan Account may be made prior to such exhaustion in respect of commitment referred to in Section 2.04 (c) of the Loan Agreement.

REALLOCATION UPON CHANGE IN COST ESTIMATES

3. If the estimate of the expenditures under any of the Categories I through V shall decrease, the amount then allocated to, and no longer required for, such Category will be reallocated to Category VI by the Association and the Bank, or by the Bank, as the case may be.

4. If the estimate of the expenditures under any of the Categories I through V shall increase, an amount equal to the portion, if any, of such increase to be financed out of the proceeds of the Credit and the Loan will be allocated at the request of the Borrower, by the Association and the Bank, or by the Bank, as the case may be, to such Category from Category VI, subject, however, to the requirements for contingencies, as determined by the Association and the Bank, or by the Bank, as the case may be, in respect of the cost of expenditures under any of the other Categories.

SCHEDULE 2

DESCRIPTION OF INVESTMENT PLAN AND PROJECT

A. The Investment Plan

The investment Plan, estimated to require the expenditures of about Won 90 billion, including contingencies, consists of:

1. Construction of New Lines

Construction of about 80 km of line between Jin Ju and Sun Cheon, to improve access to the main port of Pu San and about 90 km in short lines and spurs to serve coal mines and industrial areas.

2. Increase in Station and Line Capacity

Commencement of electrification of about 350 km of lines connecting Seoul to the northeastern part of Korea; expansion of freight handling facilities and improved operating facilities in the Seoul area; double tracking of the Seoul-Inchon line (31 km) and about 80 km of the Dae Jeon-Iri line and improvements to marshalling yards.

3. Way and structural Renewals and Improvements

Relaying of about 1,000 km of track with 50 kg/m rail; replacement of wooden ties by concrete ties; strengthening of bridges and acquisition of mechanical track maintenance equipment.

4. *Motive Power and Rolling Stock*

Importation of about 160 diesel locomotives; purchase of about 650 passenger coaches, 7,200 freight cars, five wrecking cranes and 1,700 containers.

5. *Rolling Stock Maintenance and Construction Equipment*

Importation of machinery and tools and modernization of sheds and workshops.

6. *Miscellaneous*

Installation of a modern telecommunications system; improvement of electrical supply and office equipment and employment of consultants and training of railway personnel.

B. *The Project*

The Project consists of the last two years, 1970-1971, of the Investment Plan and is estimated to require the expenditure of about Won 45 billion, including contingencies. The main components of the Project are:

- (a) Construction of about 36 km of new lines.
- (b) Commencement of ground facilities for electrification of about 350 km of line; signalling and track extensions including installation of C.T.C. in the Seoul area and improvements to marshalling yards and to freight handling facilities.
- (c) Track renewals and replacement of 37 kg/m rail with 50 kg/m rail over about 130 km of line, strengthening of bridges and the procurement of mechanized track maintenance equipment.
- (d) Importation of 50 diesel locomotives and spares and the purchase of about 290 passenger cars, 3,750 freight cars and 1,700 containers.
- (e) Replacement of worn-out telecommunications equipment with modern equipment and improvements of electric power supplies and of office equipment.
- (f) Engagement of consultant services.
- (g) Training of KNR's personnel.

The Project is expected to be completed by December 31, 1971.

SCHEDULE 3

PROCUREMENT

1. With respect to contracts of U.S. \$100,000 equivalent or more, the following procedures shall apply:

- (a) One copy of the invitation to bid and the bid advertisements to be published, the conditions of contracts, the specifications, and all other tender documents together with a complete description of the advertising procedure to be used (including list of publications in which the advertisement will appear and the time to be allowed for bid preparation) will be submitted to the Association and the Bank for review and approval prior to the issuance of invitations to bid.

- (b) After bids have been received and analyzed, the analyses of the bids, and the recommendation for awards, together with the reasons for such recommendations, will be submitted to the Association and the Bank for review and approval of the proposed award prior to making an award of contract or issuing a letter of intent.
- (c) If the final contract or letter of intent is to differ materially from the terms and conditions contained in the respective documents approved by the Association and the Bank under paragraphs (a) and (b) above, the text of the proposed changes will be submitted to the Association and the Bank for review and approval prior to the execution of such contract.
- (d) One conformed copy of any letter of intent issued and of any contract executed under paragraphs (a) and (b) above will be sent to the Association and the Bank promptly upon its issuance or execution and prior to the submission to the Association and the Bank of the first application for withdrawal of funds from the Credit and the Loan Account in respect of such contract.

2. With respect to contracts of less than \$100,000 equivalent copies of the invitation to bids, the bid analysis and evaluation, the contract or order, and any other documents the Association and the Bank may request will be sent to the Association and the Bank promptly after the execution of the respective contract and prior to the submission to the Association and the Bank of the first application for withdrawal of funds from the Credit and the Loan Account in respect of such contract.

3. For the purpose of awarding contracts for the purchase of goods included in Category II of the allocation of the proceeds of the Credit and of the Loan referred to in Schedule 1 of this Agreement, and pursuant to paragraph 2.8 of the Guidelines for Procurement referred to in Section 3.02 of this Agreement, the Borrower and the Association agree that where bids are submitted by any private manufacturer established in the territories of the Borrower of any such goods manufactured or processed in the territories of the Borrower to a substantial extent as determined by the Association (hereinafter called Local Bid), the following rules will be observed for the purpose of comparing any Local Bid to any bid other than a Local Bid (hereinafter called Foreign Bid):

- (i) all custom duties and similar taxes on the importation of such goods into the territories of the Borrower will first be deducted from the total of any Foreign Bid;
- (ii) the portion of any such Foreign Bid resulting from subparagraph (i) above which represents the c.i.f. price of such goods will then be increased by 15% thereof or by the amount of such custom duties and similar taxes as generally apply to such goods if imported into the territories of the Borrower by non-exempt purchasers, whichever is lower;
- (iii) the figure resulting from subparagraph (ii) above will be deemed to be the price of any such Foreign Bid for comparison purposes;
- (iv) the price of any Local Bid will be equal to the ex-factory price of the goods offered;

- (v) if the price of the goods offered under the lowest evaluated Local Bid is equal to or lower than the price of the lowest evaluated Foreign Bid resulting from subparagraph (iii) above, then the lowest evaluated Local Bid may be considered the lowest evaluated bid for the purposes of paragraph 3.9 of said Guidelines; and
- (vi) in cases where a Local Bid is considered, pursuant to subparagraph (v) above, to be the lowest evaluated bid, the bid analysis submitted to the Association and the Bank will state the amount of the custom duties and similar taxes referred to under subparagraph (ii) above.

INTERNATIONAL DEVELOPMENT ASSOCIATION

GENERAL CONDITIONS, DATED 31 JANUARY 1969

GENERAL CONDITIONS APPLICABLE TO DEVELOPMENT CREDIT AGREEMENTS

[*Not published herein. See United Nations, Treaty Series, vol. 703, p. 244.*]