Appendix 1

CLASSIFICATION OF THE BANK'S DEVELOPING MEMBERS

Classification	**Members**
Group A	Afghanistan Bangladesh Bhutan Cambodia China, People's Republic of Cook Islands India Kiribati Kyrgyz Republic Lao PDR Maldives Marshall Islands Micronesia, Fed. States of Mongolia Myanmar Nepal Pakistan Solomon Islands Sri Lanka Tonga Tuvalu Vanuatu Viet Nam Western Samoa
Group B	Indonesia Kazakhstan Papua New Guinea Philippines Thailand
Group C	Fiji Hong Kong Korea, Republic of Malaysia Singapore Taipei,China

(Reference in text: page 3, para. 9)

Appendix 2
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DISTRIBUTION OF LOCAL COST FINANCING AMONG DEVELOPING MEMBER COUNTRIES

Table 1: Local Cost Financing from Ordinary Capital Resources, 1974-1977
(in $ million)

DMC	Total Loan Amount	Share of Bank Lending (%)	Local Costs	Share of Bank LCF (%)
Indonesia	387.5	19.1	9.0	28.2
Korea, Rep. of	440.1	21.7	4.0	12.5
Malaysia	198.3	9.8	–	–
Pakistan	260.0	12.8	–	–
Papua New Guinea	17.7	0.9	–	–
Philippines	421.5	20.8	14.5	45.2
Thailand	233.4	11.5	4.5	14.1
Others [a]	65.1	3.2	–	–
All DMCs	**2,023.6**	**100.0**	**32.0**	**100.0**

– denotes value is nil.
[a] Includes Hong Kong, Singapore, and Sri Lanka.

(Reference in text: page 8, para. 24)

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Table 2: Local Cost Financing from Asian Development Fund Resources, 1974-1977
(in $ million)

DMC	Total Loan Amount	Share of Bank Lending (%)	Local Costs	Share of Bank LCF (%)
Afghanistan	53.5	6.3	3.9	6.7
Bangladesh	242.0	28.6	38.2	65.7
Indonesia	14.2	1.7	–	–
Kiribati	1.8	0.2	–	–
Lao PDR	6.0	0.7	–	–
Myanmar	118.7	14.0	–	–
Nepal	87.6	10.3	2.1	3.6
Pakistan	171.8	20.3	10.0	17.2
Papua New Guinea	21.2	2.5	–	–
Philippines	5.8	0.7	–	–
Solomon Islands	9.2	1.1	1.4	2.4
Sri Lanka	78.0	9.2	–	–
Thailand	5.0	0.6	–	–
Tonga	0.4	0.0	–	–
Viet Nam	20.4	2.4	2.1	3.5
Western Samoa	11.2	1.3	0.4	0.7
All DMCs	**846.8**	**99.95**	**58.0**	**100.0**

– denotes value is nil.
0.0 denotes value is less than 0.05 per cent.

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Table 3: Local Cost Financing from Ordinary Capital Resources, 1978-1982
(in $ million)

DMC	Total Loan Amount	Share of Bank Lending (%)	Local Costs	Share of Bank LCF (%)
Fiji	39.2	0.8	–	–
Indonesia	1,378.6	28.4	70.2	38.9
Korea, Rep. of	895.3	18.4	–	–
Malaysia	465.5	9.6	–	–
Pakistan	246.4	5.1	–	–
Papua New Guinea	38.3	0.8	2.0	1.1
Philippines	925.5	19.1	83.2	46.1
Thailand	774.9	16.0	25.0	13.9
Others [a]	92.6	1.9	–	–
All DMCs	**4,856.2**	**100.0**	**180.4**	**100.0**

– denotes value is nil.
[a] Includes Hong Kong and Singapore

Table 4: Local Cost Financing from Asian Development Fund Resources, 1978-1982
(in $ million)

DMC	Total Loan Amount	Share of Bank Lending (%)	Local Costs	Share of Bank LCF (%)
Afghanistan	21.6	0.9	–	0.0
Bangladesh	771.0	32.8	160.4	47.3
Cook Islands	2.5	0.1	0.1	0.0
Indonesia	49.0	2.1	4.0	1.2
Lao PDR	25.2	1.1	–	–
Maldives	1.0	0.0	–	–
Myanmar	268.5	11.4	9.3	2.7
Nepal	171.6	7.3	54.1	16.0
Pakistan	637.2	27.1	66.5	19.6
Papua New Guinea	45.4	1.9	–	–
Philippines	64.0	2.7	5.1	1.5
Solomon Islands	5.7	0.2	–	–
Sri Lanka	203.0	8.6	31.5	9.3
Thailand	64.0	2.7	8.0	2.4
Tonga	4.4	0.2	0.1	–
Vanuatu	1.0	0.0	–	–
Western Samoa	16.2	0.7	–	–
All DMCs	**2,351.1**	**100.0**	**339.1**	**100.0**

– denotes value is nil.
0.0 denotes value is less than 0.05 per cent.

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Table 5: Local Cost Financing from Ordinary Capital Resources, 1983-1993
(in $ million)

DMC	Total Loan Amount	Share of Bank Lending (%)	Local Costs	Share of Bank LCF (%)
China, People's Rep. of	2,955.2	11.9	231.0	9.2
Fiji	75.2	0.3	4.6	0.2
India	5,145.0	20.7	403.8	16.0
Indonesia	7,842.7	31.6	1,375.5	54.6
Korea, Rep. of	680.6	2.7	–	–
Malaysia	1,024.0	4.1	34.6	1.4
Nepal [a]	2.1	0.0	–	–
Pakistan	2,499.0	10.1	19.1	0.8
Papua New Guinea	169.0	0.7	7.3	0.3
Philippines	2,637.2	10.6	384.0	15.3
Thailand	1,786.5	7.2	57.9	2.3
Others [b]	35.0	0.1	–	–
All DMCs	**24,851.5**	**100.0**	**2,518.0**	**100.0**

– denotes value is nil.
0.0 denotes value is less than 0.05 per cent.

[a] Refers to private sector loan.
[b] Refers to private sector loan to Asian Finance and Investment Corporation Ltd.

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Table 6: Local Cost Financing from Asian Development Fund Resources, 1983-1993
(in $ million)

DMC	Total Loan Amount	Share of Bank Lending (%)	Local Costs	Share of Bank LCF (%)
Bangladesh	3,115.2	27.5	1,069.2	30.1
Bhutan	44.0	0.4	6.7	0.2
Cambodia	67.7	0.6	4.9	0.1
Cook Islands	9.7	0.1	0.4	0.0
Indonesia	566.7	5.0	174.9	4.9
Kiribati	3.2	0.0	0.3	0.0
Lao PDR	360.9	3.2	23.2	0.7
Maldives	32.9	0.3	–	–
Marshall Islands	16.2	0.1	–	–
Federated States of Micronesia	6.5	0.1	–	–
Mongolia	102.8	0.9	0.1	0.0
Myanmar	124.6	1.1	18.4	0.5
Nepal	851.3	7.5	232.3	6.5
Pakistan	3,404.1	30.0	1,301.3	36.6
Papua New Guinea	239.3	2.1	51.8	1.5
Philippines	825.2	7.3	315.6	8.9
Solomon Islands	28.5	0.3	4.2	0.1
Sri Lanka	1,188.0	10.5	300.0	8.4
Tonga	23.2	0.2	0.2	0.0
Vanuatu	18.3	0.2	1.1	0.0
Viet Nam	261.5	2.3	46.3	1.3
Western Samoa	54.9	0.5	5.1	0.1
All DMCs	**11,344.3**	**100.0**	**3,555.9**	**100.0**

– denotes value is nil.
0.0 denotes value is less than 0.05 per cent.

Appendix 3
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SECTORAL DISTRIBUTION OF LOCAL COST FINANCING

Table 1: 1974-1977 (in $ million)

Sector	Total LCF			Total Loan (OCR+ADF)	% of total Bank Lending	% of total Bank LCF
	OCR	ADF	Total			
Agriculture & Agro-Industry	19.9	39.0	58.9	842.7	29.4	65.5
Energy	–	4.5	4.5	641.1	22.3	5.0
Industry & Nonfuel Minerals	–	–	–	149.1	5.2	–
Transport & Communications	8.0	7.8	15.8	475.6	16.6	17.5
Social Infrastructure	4.1	6.7	10.7	320.9	11.2	11.9
Financial	–	–	–	441.0	15.4	–
Multisector	–	–	–	–	–	–
Others	–	–	–	–	–	–
All Sectors	**32.0**	**58.0**	**90.0**	**2,870.3**	**100.0**	**100.0**

ADF = Asian Development Fund; LCF = local cost financing; OCR = Ordinary Capital Resources

– denotes value is nil.

(Reference in text: page 8, para. 24)

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Table 2: 1978-1982
(in $ million)

Sector	Total LCF			Total Loan (OCR+ADF)	% of total Bank Lending	% of total Bank LCF
	OCR	ADF	Total			
Agriculture & Agro-Industry	119.4	254.4	373.8	2,379.3	33.0	72.0
Energy	10.0	40.7	50.7	1,898.7	26.3	9.8
Industry & Nonfuel Minerals	–	–	–	128.2	1.8	–
Transport & Communications	36.0	4.0	40.0	806.1	11.2	7.7
Social Infrastructure	15.0	39.8	54.8	1,217.0	16.9	10.5
Financial	–	–	–	774.0	10.7	–
Multisector	–	0.2	0.2	3.9	0.1	0.0
Others	–	–	–	–	–	–
All Sectors	**180.4**	**339.1**	**519.5**	**7,207.2**	**100.0**	**100.0**

– denotes value is nil.

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Table 3: 1983-1993
(in $ million)

Sector	Total LCF OCR	Total LCF ADF	Total LCF Total	Total Loan (OCR+ADF)	% of total Bank Lending	% of total Bank LCF
Agriculture & Agro-Industry	746.2	1,765.1	2,511.2	8,378.3	23.1	41.3
Energy	25.4	117.0	142.4	9,376.0	25.9	2.3
Industry & Nonfuel Minerals	–	1.8	1.8	1,497.3	4.1	0.0
Transport & Communications	875.2	387.1	1,262.3	7,322.9	20.2	20.8
Social Infrastructure	790.7	1,032.2	1,822.9	5,307.8	14.7	30.0
Financial	–	–	–	3,552.0	9.8	–
Multisector	80.5	245.5	326.0	751.1	2.1	5.4
Others	–	7.3	7.3	10.4	–	0.1
All Sectors	**2,518.0**	**3,555.9**	**6,073.9**	**36,195.8**	**100.0**	**100.0**

– denotes value is nil.
0.0 denotes value is less than 0.05 per cent.

Appendix 5
Page 1

REVIEW OF THE BANK'S EXPERIENCE WITH LOCAL COST FINANCING, 1983-1993
COUNTRY NOTES FOR SELECTED DEVELOPMIENT MEMBER COUNTRIES

A. Bangladesh

1. Bangladesh, a least developed country, suffered a series of external shocks and natural disasters during 1983-1993, including (i) the impact of the oil price increase and world recession in the early 1980s, (ii) the worst floods in its history in 1987, (iii) floods in 1988 that were worse than those in 1987, and (iv) a devastating cyclone in 1990. The country was also among those most severely affected by the Gulf crisis in 1990.

2. Project-type lending — (regular projects, credit lines, supplementary loans, and rehabilitation loans), accounted for more than 83 per cent of total lending, and foreign cost financing accounted for 60 per cent of such loans. The Bank's share of total project cost was about 70 per cent. The Bank responded to the situation created by a series of external shocks and disasters during this period and allowed financing at levels higher than the 80 per cent ceiling. Agriculture, social infrastructure, and transport (particularly feeder roads and road improvements) had higher levels of financing than the energy and industry sectors.

Table 1: Summary of Bank Lending to Bangladesh, 1983-1993
($ million)

Type	No. of Loans	Bank Financing: Foreign Exchange Cost	Bank Financing: Local Currency Cost	Bank Financing: Total Loan	Cofinancing Amount
A. Project Loans	37	1,286.7	889.6	2,176.3	204.3
B. Agri-credits/DFI Loans	5	153.3	26.7	180.0	53.3
C. Program Loans	6	475.7	–	475.7	–
D. Rehabilitation/Restoration Loans	6	92.1	126.0	218.1	0.1
E. Supplementary Loans	2	26.0	8.4	34.4	23.2
F. Special Assistance Loan	1	–	17.0	17.0	–
G. TA Loan	1	1.6	1.5	3.1	–
H. Subtotal (A through G)	58	2,035.4	1,069.2	3,104.6	280.9
I. Private Sector Loans	3	10.5	–	10.5	–
Total	61	2,045.9	1,069.2	3,115.1	280.9

– denotes value is nil.
DFI - development finance institution
TA - (Technical Assistance)

(Reference in text: page 8, para. 24)

B. Bhutan

3. Bhutan is one of the Bank's least developed developing member countries (DMCs). The tax base is extremely small, which limits the Government's ability to raise domestic revenue. Provision of local cost financing (LCF) to Bhutan is justified because of the limited monetization of the economy and the small revenue base.

Table 2: Summary of Bank Lending to Bhutan, 1983-1993
($ million)

Type	No. of Loans	Bank Financing: Foreign Exchange Cost	Bank Financing: Local Currency Cost	Bank Financing: Total Loan	Cofinancing Amount
A. Project Loans	9	34.8	6.7	41.5	11.1
B. DFI Loans	1	2.5	–	2.5	–
Total	10	37.3	6.7	44.0	11.1

– denotes value is nil.

C. People's Republic of China (PRC)

4. The PRC made rapid progress in reducing the incidence of poverty, relaxing the role of mandatory planning in economic management and integrating its economy with the rest of the world in the 1980s. However, by late 1988 the economy experienced excess demand pressures brought on partly by the rapid pace of reform and partly by the reduced control of the Central Government over fiscal and monetary management. The resource gap (the difference between gross domestic investments and savings) quickly widened, reflected by the weakening of the external payments position. In 1988-1989 the Government introduced an austerity-cum-stabilization program that curbed excess demand pressures and inflation. Although the country is making major efforts to improve domestic resource mobilization, the domestic budget experienced chronic fiscal deficits since the mid-1980s and the Government will need to continue external borrowings in the medium term to close the resource gap.

Table 3: Summary of Bank Lending to the PRC, 1983-1993
($ mIllion)

Type	No. of Loans	Bank Financing: Foreign Exchange Cost	Bank Financing: Local Currency Cost	Bank Financing: Total Loan	Cofinancing Amount
A. Project Loans	24	2,174.2	211.0	2,385.2	177.4
B. Agri-credits/DFI Loans	6	520.0	–	520.0	50.4
C. Subtotal (A + B)	30	2,694.2	211.0	2,905.2	227.8
D. Private Sector Loan	1	30.0	20.0	50.0	140.0
Total	31	2,724.2	231.0	2,955.2	367.8

5. Project-type lending (regular projects, and credit lines) accounted for more than 98 per cent of total lending, with foreign cost financing accounting for about 93 per cent of such loans. The Bank's share of the total project cost was about 41 per cent. The Bank provided LCF financing in 10 of 31 projects, mainly on cost-sharing considerations.

D. India

Table 4: Summary of Bank Lending to India, 1983-1993
($ million)

Type	No. of Loans	Bank Financing: Foreign Exchange Cost	Bank Financing: Local Currency Cost	Bank Financing: Total Loan	Cofinancing Amount
A. Project Loans	19	3,427.3	399.3	3,826.6	2,169.6
B. Agri-credits/DFI Loans	4	470.0	–	470.0	–
C. Program Loans	2	550.0	–	550.0	250.0
D. Special Assistance Loan	1	150.0	–	150.0	150.0
E. TA Loan	1	8.2	4.5	12.7	
F. Subtotal (A through E)	27	4,605.5	403.8	5,009.3	2,569.6
G. Private Sector Loans	9	135.7	–	135.7	226.1
Total	36	4,743.2	403.8	5,145.0	2,795.7

6. Although India is considered as a “most seriously affected" country, LCF to the country remained at modest levels primarily because lending had been mostly for the power and transport sectors. Project-type lending (regular projects, credit lines, supplementary and rehabilitation loans) accounted for 83 per cent of total lending, and foreign cost financing accounted for 91 per cent of such loans. The Bank's share of total project cost was 37 per cent. There was an indication of sector considerations in the determination of overall Bank financing, with the power and transport sectors receiving lower amounts than the standard limit of 80 per cent.

E. Indonesia

Table 5: Summary of Bank Lending to Indonesia, 1983-1993
($ million)

		Bank Financing			
Type	**No. of Loans**	**Foreign Exchange Cost**	**Local Currency Cost**	**Total Loan**	**Cofinancing Amount**
A. Project Loans	77	5,203.5	1,504.6	6,708.1	1,843.9
B. Agri-credits/DFI Loans	6	655.0	–	655.0	–
C. Program Loans	7	850.0	–	850.0	50.0
D. Rehabilitation Loan	1	17.8	8.2	26.0	
E. Special Assistance Loan	1	–	30.6	30.6	142.7
F. TA Loans	4	41.7	7.0	48.7	–
G. Subtotal (A through F)	96	6,768.0	1,550.4	8,318.4	2,036.6
H. Private Sector Loans	7	91.0	–	91.0	148.0
Total	103	6,859.0	1,550.4	8,409.4	2,184.6

7. LCF to Indonesia was justified on considerations of the instability of oil prices and the pursuance of structural adjustment pr grams. Excluding private sector loans without government guarantee, LCF was less than 19 per cent of the total loan amount and less than 10 per cent of the total project cost, and Bank financing of total project costs was about 52 per cent. The Bank responded to domestic resource constraints emerging after the oil price fall in the mid-1980s with a Special Assistance Loan for counterpart funding. Social infrastructure and agriculture had higher levels of financing than the physical infrastructure sectors.

F. Lao People's Democratic Republic (Lao PDR)

Table 6: Summary of Bank Lending to the Lao PDR, 1983-1993
($ million)

Type	No. of Loans	Bank Financing: Foreign Exchange Cost	Bank Financing: Local Currency Cost	Total Loan	Cofinancing Amount
A. Project Loans	18	259.7	23.2	282.9	71.2
B. Program Loans	3	75.0	0.0	75.0	–
C. Supplementary Loan	3.0	1.0	–		
Total	22	337.7	23.2	360.9	72.2

8. The Lao PDR is classified by the United Nations as a least developed country. LCF was done in only a few projects but was justified on the basis of the country's limitation in generating domestic savings. Bank assistance was mostly to finance foreign exchange costs of project-type loans, estimated to be 72 per cent of total loans.

G. Malaysia

Table 7: Summary of Bank Lending to Malaysia, 1983-1993
($ million)

Type	No. of Loans	Bank Financing: Foreign Exchange Cost	Bank Financing: Local Currency Cost	Total Loan	Cofinancing Amount
A. Project Loans	22	987.6	34.6	1,022.2	98.3
B. TA Loans	1	1.78	–	1.78	
Total	23	989.4	34.6	1,024.0	98.3

9. A review of Bank lending to Malaysia during the reference period {1983-1993) reveals that LCF was just over 3 per cent of the loan amount and 1 per cent of the total project costs. Bank financing of project costs was 42 per cent. Even within the small percentage of LCF, there was clear indication of sector considerations in that projects with poverty or social considerations were provided with LCF.

H. Nepal

10. Nepal is considered among the least developed countries by UN. The country is landlocked, has high population growth and rugged terrain, depends on agriculture, and has a low domestic savings level. Nepal underwent political changes in early 1990, and was affected by the Gulf crisis and the expiry of the trade and transit treaty with India.

Table 8: Summary of Bank Lending to Nepal, 1983-1993
($ million)

Type	No. of Loans	Bank Financing: Foreign Exchange Cost	Bank Financing: Local Currency Cost	Bank Financing: Total Loan	Cofinancing Amount
A. Project Loans	31	361.2	232.6	593.8	28.2
B. Agri-credits/DFI Loans	2	57.6	1.4	59.0	2.1
C. Program Loans	4	130.6	–	130.6	–
D. Supplementary Loans	4	33.4	–	33.4	13.0
E. Special Assistance Loan	1	31.5	–	31.5	–
F. Subtotal (A through E)	42	614.3	234.0	848.3	43.3
G. Private Sector Loans	2	5.1	–	5.1	–
Total	44	619.4	234.0	853.4	43.3

11. Project-type lending (regular projects, credit lines, and supplementary loans) accounted for more than 80 per cent of total lending, and foreign exchange cost financing accounted for more than 65 per cent of such lending. The Bank's share of total project cost was 71 per cent. Five of the 44 loans to Nepal exceeded the 80 per cent ceiling, mainly on economic considerations, and one was special assistance to alleviate the impact of the Gulf crisis. The agriculture, transport, and social infrastructure sectors received the highest share of lending and LCF.

I. Pakistan

Table 9: Summary of Bank Lending to Pakistan, 1983-1993
($ million)

Type	No. of Loans	Bank Financing: Foreign Exchange Cost	Bank Financing: Local Currency Cost	Bank Financing: Total Loan	Cofinancing Amount
A. Project Loans	58	2,863.9	1,215.4	4,079.3	1,827.7
B. Agri-credits/DFI Loans	11	960.0	–	960.0	210.2
C. Program Loans	5	550.0	–	550.0	–
D. Rehabilitation/Restoration Loans	3	59.0	105.0	164.0	55.7
E. Subtotal (A through D)	77	4,432.9	1,320.4	5,753.3	2,093.6
F. Private Sector Loans	16	149.8	–	149.8	260.5
Total	93	4,582.7	1,320.4	5,903.1	2,354.1

12. Local cost financing amounted to 22 per cent of Bank's total financing. Among the project-type lending, regular projects accounted for 69 per cent of total loans to the country, where the agriculture and energy sectors received three fourths of the total regular project loans. Overall, Bank loans were about 41 per cent of total project cost in project-type lending, which was lower than the allowed percentage limit of 80 per cent. The Bank responded to a series of external shocks and disasters (e.g., the Gulf Crisis in 1990, and floods in 1988 and 1992) that affected the country during the period and, in these cases, allowed financing at levels higher than the 80 per cent ceiling. The agriculture and social infrastructure sectors had higher levels of financing, while the finance, industry, and the energy sectors had lower levels and no LCF.

J. Papua New Guinea

Table 10: Summary of Bank Lending to PNG, 1983-1993
($ million)

Type	No. of Loans	Bank Financing: Foreign Exchange Cost	Bank Financing: Local Currency Cost	Bank Financing: Total Loan
A. Project Loans	21	258.5	54.3	312.8
B. Program Loans	2	80.0	–	80.0
C. Special Assistance Loan	1	6.4	4.1	10.5
D. TA Loan	1	4.2	0.8	5.0
Total	25	349.1	59.2	408.3

13. Project-type lending (regular projects) accounted for about 77 per cent of total lending, and foreign cost financing accounted for 83 per cent of such loans. The Bank's share of total project cost of regular projects accounted for 66 per cent, which exceeded the 60 per cent ceiling for Group B DMCs, mainly because of budgetary constraints and the rural-based nature of the projects. The agriculture and social infrastructure sectors received LCF during 1983-1993.

K. The Philippines

Table 11: Summary of Bank Lending to the Philippines, 1983-1993
($ million)

Type	No. of Loans	Bank Financing: Foreign Exchange Cost	Bank Financing: Local Currency Cost	Bank Financing: Total Loan	Cofinancing Amount
A. Project Loans	38	1,768.0	452.8	2,220.8	405.9
B. Agri-credits/DFI Loans	6	271.9	41.1	313.0	4.8
C. Program Loans	7	430.0	–	430.0	440.9
D. Rehabilitation/Restoration Loans	4	131.8	60.2	192.0	–
E. Supplementary Loan	1	9.7	18.2	27.9	–
F. Special Assistance Loans	3	–	126.7	126.7	–
G. TA Loans	2	3.5	0.6	4.1	–
H. Private Sector Loans	9	147.9	–	147.9	752.7
Total	70	2,762.8	699.6	3,462.4	1,604.3

14. Bank LCF to the Philippines was justified on the basis of the country's serious economic difficulties including constrained balance of payments. Project-type lending (regular projects, credit lines, supplementary and rehabilitation loans) remained the major mode of Bank assistance, accounting for 80 per cent of total loans. The share of total foreign exchange cost to total loans was 80 per cent. The Bank's share of total project financing was about 63 per cent. The Bank allowed its percentage limit of financing to exceed 60 per cent in most loans because of the country's budgetary constraints. The Bank made four rehabilitation loans amounting to $192 million.

L. Sri Lanka

15. Sri Lanka, classified by the United Nations Development Programme as one of the "most seriously affected" countries, has had recurring civil disturbances since 1983. Severe droughts during 1985-1987 and the Middle East crisis in 1990 adversely affected the growth of the economy and aggravated the already precarious situation of the country.

Table 12: Summary of Bank Lending to Sri Lanka, 1983-1993
($ million)

		Bank Financing			
Type	No. of Loans	Foreign Exchange Cost	Local Currency Cost	Total Loan	Cofinancing Amount
A. Project Loans	27	463.8	269.5	733.3	214.8
B. Agri-credits/DFI Loans	5	155.0	–	155.0	100.0
C. Program Loans	4	249.0	–	249.0	–
D. Rehabilitation Loans	2	19.2	15.8	35.0	
E. Special Assistance Loan	1	–	14.7	14.7	–
F. Subtotal (A through E)	39	887.0	300.0	1,187.0	314.8
G. Private Sector Loan	1	1.0	–	1.0	–
Total	40	888.0	300.0.	1,188.0	314.8

16. Considerable LCF was provided to Sri Lanka, with LCF reaching 37 per cent of total lending for regular projects. The Bank's share of total project cost was 64 per cent. Of 40 loans approved during the period, 41oans for agriculture and road restoration that contained LCF exceeded the 80 per cent ceiling. Sector considerations were employed in determining the levels of LCF, with the agriculture and social infrastructure sectors receiving greater amounts of LCF than the energy and the transport and communications sectors.

M. Thailand

Table 13: Summary of Bank Lending to Thailand, 1983-1993
($ million)

Type	No. of Loans	Bank Financing: Foreign Exchange Cost	Bank Financing: Local Currency Cost	Total Loan	Cofinancing Amount
A. Project Loans	21	1,572.1	57.9	1,630.0	1,773.8
B. Agri-credits/DFI Loans	2	75.0	–	75.0	67.0
C. Subtotal (A & B)	23	1,647.1	–	81.5	1,840.0
D. Private Sector Loan	3	81.5	–	81.5	170.0
Total	26	1,728.6	57.9	1,786.5	2,010.8

17. Project lending accounted for 95 per cent of the total Bank lending to Thailand. LCF was small and mainly for transport, social infrastructures and agriculture.

N. South Pacific Developing Member Countries (SPDMCs)

Table 14: Summary of Bank Lending to SPDMCs, 1983-1993
($ million)

Type	No. of Loans	Bank Financing: Foreign Exchange Cost	Bank Financing: Local Currency Cost	Total Loan	Cofinancing Amount
A. Project Loans	24	115.0	9.0	124.0	87.2
B. Agri-credits/DFI Loans	11	35.5	3.1	38.6	14.6
C. Program Loans	2	35.0	–	35.0	–
D. Rehabilitation/Restoration Loans	5	9.2	1.5	10.7	–
E. Supplementary Loan	1	3.4	–	3.4	–
F. Special Assistance Loan	1	–	1.6	1.6	–
Total	44	198.1	15.2	213.3	101.8

18. There was a relatively small amount of LCF in loans to the SPDMCs (Cook Islands, Fiji, Kiribati, Solomon Islands, Tonga, Vanuatu, and Western Samoa) during the 11-year period. For DFI loans, the loan amounts are shown as foreign exchange because the proportion of LCF is not known at the time of loan approval. However, the DFI loan agreements allow some LCF under prescribed conditions. The actual LCF for DFI loans could be only approximated after loan disbursements were conducted. For other than DFI loans, the standard percentage limits (Fiji: 40 per cent; and the other six countries: 80 per cent) have generally been absorbed by the foreign exchange costs of the projects, thus providing little scope for LCF.

LOCAL COST FINANCING POLICIES AND PRACTICES OF THE WORLD BANK

1. The Articles of Agreement of the International Bank for Reconstruction and Development (IBRD) and International Development Association (IDA) have been interpreted as allowing local cost financing (LCF) certain circumstances:

(i) When indirect foreign costs can be clearly identified, financing of local expenditures up to the equivalent of such costs may be provided.

(ii) If, on the basis of a careful appraisal of a country's overall development program, the World Bank judges that the financial requirements of the program will exceed the limits of available local savings and expected foreign exchange resources, financing of local costs in certain high priority projects may also be provided. In addition, under these circumstances, LCF may be considered:

(a) if a specific project has too little foreign exchange cost to permit the World Bank to achieve its project objectives by foreign exchange financing alone, and

(b) in technical assistance (TA) projects and in TA components of investment projects, for the local costs of goods and services procured locally even without international competitive bidding (ICB).

2. To protect local suppliers against discrimination in competitive bidding or selection, when a contract is awarded to local suppliers as a result of an ICB procedure, the World Bank disburses up to the full ex-factory cost of the items provided. Similarly, when local consultants are selected through a competitive process from a short list of local and foreign firms, the World Bank permits financing of the same proportion of costs for such local consultants as for foreign consultants. In such cases, the financing of the local cost component of locally procured items is a consequence of the World Bank's procurement policy and does " not need to be justified further on country resource transfer or project grounds.

3. The World Bank sets cost-sharing ceilings for all borrowers, including countries eligible for foreign exchange financing only. A country's upper limit on World Bank cost sharing is a function of its ability to mobilize domestic and foreign financial resources and thus is based on its per capita income.

4. World Bank cost-sharing limits are applicable not to individual projects but to its overall lending program for a country (excluding financial intermediary, supplemental, emergency recovery, adjustment, and TA loans). The limits are ceilings, and actual cost sharing is expected to be below the limits. To ensure flexibility, the country limit is applied to a rolling three-year investment lending program, encompassing two prior years and the current year. Phase-in of the rolling average began 1 July 1992, with the full three-year period applying from FY1995.

(References in text: page 9, para. 29; page 12, para. 41)

5. For individual projects, the World Bank usually expects the borrower to demonstrate commitment to the project by making a 10 per cent minimum contribution to its cost (net of taxes and duties). However, if government finances are seriously strained, and if a reassessment of the bank's lending priorities warrants it, a lower borrower contribution may be justified. In general, to ensure that there is no disincentive to seeking cofinancing and to reduce the potential for conflicts with other funding sources, the World Bank does not limit total external cost sharing (bank plus cofinanciers). In exceptional cases, the World Bank allows a government to demonstrate commitment by allocating to the project general external resources for cofinancing, thereby permitting up to 100 per cent external financing.

6. With regard to procedures for LCF and cost sharing, the Country Strategy Paper (CSP) documents the World Bank's resource transfer objective for the country 1 including the analysis by which the objective was reached, and a statement on whether LCF is justified.

7. Subject to the CSP's recommendations, the Executive Project Summary, the Staff Appraisal Report, and the Memorandum and Recommendation of the President give the justification for LCF for specific projects, on country resource transfer grounds or project grounds. When local cost financing for local procurement and local consultants is projected to account for less than 5 per cent of the loan, justification on country resource transfer or on project grounds is not required.

8. The uniform cost-sharing limits applicable to all countries within each of the income groups are given in Table 1.

Table 1: Cost-sharing Limits

Per Capita Income Group	**Per Capita Income (US dollars)**	**Cost-Sharing Limit %**
I and II: IDA only	Up to 1,235	90
I and II: IBRD and Blend	Up to 1,235	75
III/IV	1,236 – 4,465	60
V	Over 4,465	50

9. The Regional Vice President establishes country cost-sharing limits on the basis of the income group limits. The country department documents the country limit in the CSP. Within the country limits, the Country Department Director determines cost sharing for individual projects.

10. When there is sufficient evidence that a borrower is committed to a project or investment programs, the Country Department Director may make exceptions to the borrower's minimum 10 per cent cost sharing for individual projects and may permit cofinancing to substitute for the borrower's contribution.

11. The Regional Vice President may approve a temporary increase in the cost-sharing limit for a country whose resource situation has become fundamentally more constrained in recent years or whose external situation has deteriorated sharply. Changes on country grounds that are not temporary may be made only with the approval of the Office of the President.

12. As part of the Annual Review of Portfolio Performance, each Region reports its experience with cost sharing and LCF to the Office of the President. The report

(i) gives actual LCF and cost sharing for loans approved in the current and previous two fiscal years in relation to the country limit,

(ii) indicates country and sector patterns within the Region, and

(iii) highlights any other issues related to LCF or cost sharing that have emerged during the year.

13. Country departments maintain cost data necessary for such monitoring and reporting in the operations management information system.

BANK SHARE OF PROJECT COST BY COUNTRY, 1983-1993[a]
(Amounts in $ million)

Country	Number of Loans	Project Cost [a]: Foreign Exchange Cost	Project Cost: Local Currency Cost	Project Cost: Total Project Cost	Bank Financing: Total Loan	Bank Financing: Local Cost	Bank Financing: Interest During Construction	Bank LCF as Per Cent of: Total Loan	Bank LCF as Per Cent of: Total Project Cost	Bank LCF as Per Cent of: Total Local Cost	Bank Loan As % of total Project Cost
Bangladesh											
ADF	48	1,625.5	2,005.6	3,631.1	2,479.0	1,069.2	52.1	43.1	29.4	53.3	68.3
Bhutan											
ADF	9	42.8	16.3	59.2	41.5	6.7	1.2	16.2	11.3	41.0	70.1
Cambodia											
ADF	1	69.6	8.2	77.8	67.7	4.9	-	7.2	6.3	59.8	87.0
China, PR											
OCR	26	2,637.4	3,655.9	6,293.3	2,555.2	231.0	258.5	9.0	3.7	6.3	40.6
Cook Islands											
ADF	3	11.8	2.2	13.9	8.2	0.4	0.1	5.0	2.9	19.0	58.5
Fiji											
OCR	5	92.4	73.4	165.8	48.2	4.6	-	9.5	2.8	6.3	29.1
India											
OCR	21	6,189.5	4,462.0	10,651.4	3,989.3	403.8	346.5	10.1	3.8	9.0	37.5
Indonesia											
OCR	73	7,654	5,520	13,174	6,537	1,376	888.7				
ADF	11	70.0	124.9	195	341.7	174.9	15.7				
Total	84 c/	7,723.9	5,644.5	13,368.4	6,878.4	1,550.4	904.4	22.5	11.6	27.5	51.5
Kiribati											
ADF	3	2.0	0.7	2.8	2.2	0.3	0.0	12.6	9.7	36.2	77.2
Korea, Rep. of											
OCR	12	724.8	1,164.9	1,889.7	570.6	-	8.6	-	-	-	30.2
Lao PDR											
ADF	19	341.0	80.3	421.3	285.9	23.2	5.4	8.1	5.5	28.9	67.9
Malaysia											
OCR	23	1,313.8	1,125.7	2,439.5	1,024.0	34.6	74.9	3.4	1.4	3.1	42.0
Maldives											
ADF	5	39.0	6.6	45.6	32.9	-	0.7	-	-	-	72.1
Marshall Islands											
ADF	4	15.7	5.6	21.3	16.2	-	0.4	-	-	-	86.7
Micronesia, Federated States of											
ADF	1	6.5	1.0	7.5	6.5	-	0.08	-	-	-	86.7
Mongolia											
ADF	4	71.0	20.5	91.5	72.8	0.1	1.7	0.1	0.1	0.4	79.6
Myanmar											
ADF	3	89.8	96.6	186.4	106.6	18.4	0.9	17.3	9.9	19.1	57.2
Nepal											
ADF	37	506.7	464.0	970.7	693.7	232.3	12.2	33.5	23.9	50.1	71.5
Pakistan											
OCR	17	1,749.5	1,829.8	3,579.3	1,549.1	19.1	149.1				
ADF	44	3,060.1	3,657.7	6,717.8	2,694.1	1,301.3	59.6				
Total	61[c]	4,809.6	5,487.5	10,297.1	4,243.2	1,320.4	208.7	31.1	12.8	24.1	41.2
Papua New Guinea											
OCR	10	212.5	119.6	332.0	145.0	7.3	19.4				
ADF	13	80.0	83.2	163.2	183.3	51.8	4.0				
Total	23[c]	292.5	202.7	495.2	328.3	59.1	23.4	18.0	11.9	29.2	66.3
Philippines											
OCR	33	2,052.6	1,521.4	3,574.0	2,054.30	384.0	205.8				
ADF	17	273.5	437.4	710.9	622.2	315.6	8.2				
Total	50[c]	2,326.1	1,958.8	4,284.9	2,676.5	699.6	214.0	26.1	16.3	35.7	62.5
Solomon Islands											
ADF	7	31.1	15.6	46.6	28.5	4.2	2.6	14.7	9.0	26.9	61.0
Sri Lanka											
ADF	30	536.2	694.9	1,231.10	783.0	300.0	17.7	38.3	24.4	43.2	63.6
Thailand											
OCR	21	3,478.6	2,408.3	5,886.9	1,630.0	57.9	56.3	3.6	1.0	2.4	27.7
Tonga											
ADF	3	12.8	3.3	16.1	13.0	0.2	0.1	1.5	1.2	6.2	81.0
Vanuatu											
ADF	4	15.9	5.0	20.9	13.3	1.1	0.2	8.3	5.3	22.0	63.5
Viet Nam											
ADF	3	215.2	102.4	317.6	261.5	46.3	6.0	17.7	14.6	45.2	82.3
Western Samoa											
ADF	8	50.2	18.8	69.0	35.9	5.1	0.6	14.1	7.3	26.9	52.0
All DMCs											
OCR	241	26,105.0	21,880.5	47,985.4	20,102.5	2,518.0	2,007.8	12.5	5.2	11.5	41.9
ADF	277	7,166.4	7,850.7	15,017.1	8,789.3	3,555.9	189.3	40.5	23.7	45.3	58.5
Total	518	33,271.3	29,731.2	63,002.5	28,891.8	6,073.9	2,197.1	21.0	9.6	20.4	45.9

ADF (Asian Development Fund); OCR (Ordinary Capital Resources)

[a] Includes loans with and without local cost financing by the Bank but excludes agricultural credits, DFI, program, and private sector.

[b] Project cost for blend loans are included under OCR loans for Indonesia, Papua New Guinea and Philippines, and under ADF loans for Pakistan.

[c] Includes blend loans: Indonesia - 6; Pakistan - 5; Papua New Guinea - 5; and Philippines - 4.

(Reference in text: page 8, para. 24)

BANK SHARE OF PROJECT COST BY SECTOR, 1983-1993[a]
(amounts in $ million)

Country	Number of Loans	Project Cost: Foreign Exchange Cost	Project Cost: Local Currency Cost	Project Cost: Total Project Cost	Bank Financing: Total Loan	Bank Financing: Local Cost	Bank Financing: Interest During Construction	Bank LCF as Per Cent of: Total Loan	Bank LCF as Per Cent of: Total Project Cost	Bank LCF as Per Cent of: Total Local Cost	Bank Loan As % of total Project Cost
Agriculture & Agro-Industry											
OCR	56	2,192.3	2,700.3	4,892.6	2,636.1	746.2	332.4	28.3	15.3	27.6	53.9
ADF	109	1,999.3	3,195.6	5,194.9	3,397.5	1,765.1	89.4	52.0	34.0	55.2	65.4
Total	165	4,191.6	5,895.8	10,087.5	6,033.5	2,511.2	421.8	41.6	24.9	42.6	59.8
Energy											
OCR	62	14,032.2	8,329.9	22,362.0	7,584.5	25.4	585.7	0.3	0.1	0.3	33.9
ADF	36	2,583.5	1,789.3	4,372.8	1,346.2	117.0	16.9	8.7	2.7	6.5	30.8
Total	98	16,615.6	10,119.2	26,734.8	8,930.7	142.4	602.6	1.6	0.5	1.4	33.4
Industry											
OCR	8	648.9	496.6	1,145.4	629.3	-	56.0	0.0	0.0	0.0	54.9
ADF	5	85.7	28.7	114.4	65.4	1.8	0.5	2.7	1.6	6.2	57.1
Total	13	734.6	525.2	1,259.8	694.7	1.8	56.5	0.3	0.1	0.3	55.1
Transport & Communications											
OCR	56	6,022.2	6,613.6	12,635.7	5,746.9	875.2	640.5	15.2	6.9	13.2	45.5
ADF	42	1,063.8	778.3	1,842.1	1,422.1	387.1	26.8	27.2	21.0	49.7	77.2
Total	98	7,086.0	7,391.8	14,477.8	7,168.9	1,262.3	667.3	17.6	8.7	17.1	49.5
Social Infrastructure											
OCR	55	3,044.5	3,435.2	6,479.7	3,264.1	790.7	376.2	24.2	12.2	23.0	50.4
ADF	64	1,040.5	1,607.0	2,647.5	2,043.8	1,032.2	50.9	50.5	39.0	64.2	77.2
Total	119	4,084.9	5,042.2	9,127.2	5,307.8	1,822.9	427.1	34.3	20.0	36.2	58.2
Multiproject											
OCR	4	165.0	305.0	470.0	241.7	80.45	17.09	33.3	17.1	26.4	51.4
ADF	20	388.0	442.9	830.9	504.1	245.5	4.6	48.7	29.5	55.4	60.7
Total	24	553.0	747.9	1,300.9	745.8	326.0	21.6	43.7	25.1	43.6	57.3
Others											
OCR	-	-	-	-	-	-	-	-	-	-	-
ADF	1	5.6	9.0	14.6	10.4	7.3	0.3	69.7	49.7	80.6	71.2
Total	1	5.6	9.0	14.6	10.4	7.3	0.3	69.7	49.7	80.6	71.2
All Sectors											
OCR	241	26,105.0	21,880.5	47,985.4	20,102.5	2,518.0	2,007.8	12.5	5.2	11.5	41.9
ADF	277	7,166.4	7,850.7	15,017.1	8,789.3	3,555.9	189.3	40.5	23.7	45.3	58.5
Total	518	33,271.3	29,731.2	63,002.5	28,891.9	6,073.9	2,197.1	21.0	9.6	20.4	45.9

[a] Includes loans with and without local cost financing by the Bank but excludes agriculture credits, DFI, program, and private sector.