

**A REVIEW
OF
LENDING FOREIGN EXCHANGE
FOR
LOCAL CURRENCY EXPENDITURES
ON
PROJECTS**

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ABBREVIATIONS

ADF	Asian Development Fund
AfDB	African Development Bank
AFIC	Asian Finance and Investment Corporation Ltd.
CIF	Cost, Insurance and Freight
DFI	Development Finance Institutions
DMCs	Developing Member Countries
ERBOP	Economic Review and Bank Operations Paper
IADB	Inter-American Development Bank
LCF	Local Cost Financing
OCR	Ordinary Capital Resources
PRC	People's Republic of China
RRP	Report and Recommendation of the President
TA	Technical Assistance
UN	United Nations

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I. INTRODUCTION

1. In 1974 the Bank introduced local cost financing (LCF) by lending foreign exchange for local currency expenditures on projects. The 1974 LCF policy framework was first reviewed in 1978, and subsequently in 1983.¹ The main objectives of the present review are to examine the need for changes in Bank policies and procedures towards LCF in the light of changing operational directions and priorities, and to propose appropriate changes.

2. Since the 1983 review of LCF, the Bank's operations have changed significantly, involving new borrowers; expansion of lending modalities; adoption of the strategic planning approach; and increased emphasis on cross-cutting concerns, namely poverty reduction, equity, gender issues, and the environment. In the last two decades, the Asian and Pacific Region has demonstrated great dynamism, and many of the Bank's developing member countries (DMCs) are carrying out major economic reforms. On the other hand, the Region continues to be the home for most of the world's poor and faces major environmental problems and serious infrastructure constraints. Considering the changed circumstances, a review of the Bank's existing LCF policy was undertaken to assess past experience and examine the scope for improvements to respond to the emerging situation. While the discussion in this Paper is directed mainly to the Bank's lending operations in the public sector, the analysis will also generally apply to Bank lending operations in the private sector.

II. BACKGROUND

A. The Charter Provision

3. Many of the issues relating to LCF by the Bank have their origin in the Charter provisions that envision financing local cost expenditures by providing foreign currencies only in special cases. Specifically, Article 13 of the Agreement Establishing the Asian Development Bank stipulates:

In making direct loans or participating in them, the Bank may provide financing in any of the following ways:

- (i) by furnishing the borrower with currencies other than the currency of the member in whose territory the project, concerned is to be carried out (the latter currency hereinafter to be called "local currency"), which are necessary to meet the foreign exchange costs of such project; or*
- (ii) by providing financing to meet local expenditures on the project concerned, where it can do so by supplying local currency without selling any of its holdings in gold or convertible currencies. In special cases when, in the opinion of the Bank, the project causes or is likely to cause undue loss or strain on the balance-of-payments of the member in whose territory the project is to be carried out, the financing granted by the Bank to meet local expenditures may be provided in currencies other than that of such member; in such cases, the amount of the financing granted by the Bank for this purpose shall not exceed a reasonable portion of the total local expenditures incurred by the borrower.*

¹ Doc. R65-74, Revision 1, Final, *Lending Foreign Exchange for Local Currency Expenditures on Projects*, dated 16 July 1974; Doc. R130-78, *A Review of Lending Foreign Exchange for Local Currency Expenditures on Projects*, dated 20 November 1978; and Doc. R1-83, Revision 2, Final, *A Review of Lending Foreign Exchange for Local Currency Expenditures on Projects*, dated 24 March 1983.

4. Section 3.05 of the Asian Development Fund (ADF) Regulations dated 26 August 1986, governing loans from this fund, provides: "*The Bank may also provide foreign currencies to meet a reasonable portion of the local expenditures on a project when in the opinion of the Board of Directors this is necessary or appropriate, having regard to the economic position or prospects of the recipient country and to the nature and requirements of the project.*" The Bank provisions regarding LCF are broadly similar to those of other multilateral development banks, including the World Bank.

5. The Bank's Charter permits full financing by the Bank of the foreign exchange costs of the project. The financing of local costs, however, is allowed only on a selective basis. LCF policy is required to evolve rules for the selective use of the Bank's ordinary capital resources (OCR) and ADF resources in the financing of local costs of projects as envisaged in the Charter.

B. Evolution of the LCF Policy Framework

6. When the Bank introduced LCF in 1974, it recognized that LCF could play an important role in ensuring timely project implementation and in encouraging and supporting socially oriented projects. It also recognized that such financing should be selective. Bank LCF, therefore, was considered justified, subject to the Charter's limitation referred to in para. 3, if

- (i) the DMC concerned was making a reasonable effort towards development in general and towards mobilization of resources for development in particular,
- (ii) the available resources were being allocated by the DMC concerned in a reasonably prudent manner to finance its development program,
- (iii) the financial requirements of the development program of the DMC concerned exceeded the reasonable limits of domestic savings and expected availability of foreign resources, and
- (iv) the financial requirements could not be met adequately by financing only foreign exchange costs of development projects.

7. The principles discussed in para. 6 have been endorsed and adopted in subsequent revisions of the LCF policy. The LCF policy framework adopted in 1974 stipulated that the Bank should be cautious and selective in LCF: hence, while lending, not more than 5 per cent for OCR and 10 per cent for ADF was to be allowed for LCF. It was decided that the DMCs classified by the United Nations (UN) as least-developed or as severely affected should be given priority for LCF.¹

8. The policy review in 1978 confirmed the appropriateness of the Bank's approach to LCF. While the Bank would continue to consider LCF for a broad range of projects in the less developed DMCs, higher priority would be given to the Bank's growing interest in socially oriented projects and the employment effects of projects as well as the optimal allocation of resources. The LCF ceiling for ADF lending was raised to 15 per cent, though the 5 per cent ceiling was retained for OCR. The concept of financing a "reasonable portion" of the total local cost of a project was also introduced during this review, and it was

¹ The least developed DMCs at that time included Afghanistan, Bangladesh, Lao People's Democratic Republic, Nepal, and Western Samoa. Severely affected DMCs were those affected by war or prevailing world economic events and included Cambodia, Pakistan, and Viet Nam.

decided that LCF should normally not exceed 60 per cent of the total local cost expenditures of a project.

9. When the policy review occurred in 1983, the developing countries were facing a difficult economic environment (worldwide recession, high energy prices, high interest rates, large external debt, etc.). The situation was particularly difficult for the low-income DMCs. The countries in the Region were undertaking adjustments and economic reforms. A Bank study¹ had concluded that the effectiveness of Bank activities in many DMCs could be improved by providing LCF on a larger scale. As a result, the overall and project-specific ceilings were replaced with a new and more flexible approach consistent with the charter limitation, which has since remained applicable. Under the 1983 policy, the Bank may normally finance up to a certain percentage of total project cost. The percentage depends on whether a DMC belongs to Group A, B, or C.² For Group A DMCs, the standard percentage limit is 80 per cent; for Group B, 60 per cent; and for Group C, 40 per cent.³ This means that the Bank may essentially finance the foreign exchange cost of a project plus local currency expenditures up to the applicable total percentage limit. Further, Bank financing may exceed the standard percentage limits if (i) the foreign exchange cost of a project is greater than the limit,⁴ or (ii) LCF beyond the limit is justified on country and project grounds (this being often the case in projects with high economic and social benefits, but low foreign exchange costs, and multiprojects in small DMCs). Hence, LCF is often used for supporting labor-intensive projects in the agriculture and social sectors but is less frequently needed in capital-intensive projects with a high import content.

10. Program loans provided by the Bank prior to November 1987 could include a provision for LCF. However such LCF was limited to project elements. Under the revised program loan policy, which is essentially policy-based, no project elements are envisaged, and hence, no LCF.⁵

11. Overall, LCF is provided primarily for project lending, which remains the principal modality of Bank assistance to DMCs. Subprojects under sector loans are eligible for LCF. Prior to 1987, LCF was not provided in the Bank's credit lines to development finance institutions (DFIs).⁶ Only noncredit components included in the DFI loans (such as consulting services for institutional strengthening, and promotional activities of the DFIs) could be provided with LCF, subject to justification. Since 1987,⁷ LCF is allowed under DFI credit lines, particularly in subloans to small-scale private enterprises. Loans to the private sector may also include LCF in suitable cases.⁸

C. Review of Past Experience

1. Overview of Past Trends

12. For this analysis, three periods are examined, (1974-1977, 1978-1982, and 1983-1993) with reference to the three major policy reviews in 1974, 1978, and 1983. Four

¹ Study of Operational Priorities and Plans of the Asian Development Bank for the 1980s, June 1983.

² See Appendix 1 for the list of DMCs by group.

³ Moreover, the ceiling on LCF in technical assistance (TA) operations was raised from 10 per cent to 15 per cent of total TA financed by the Bank, irrespective of the mode of financing. In 1986, the cost of local consultants was excluded from the 15 per cent ceiling on local cost financing applicable for TAs (Doc. R42-86, Revision 1, dated 12 May 1986).

⁴ In such cases, the Bank would be prepared to finance the entire direct and indirect foreign exchange cost of the project.

⁵ Doc. R117, Revision 1, Final, *A Review of Program Lending Policies*, dated 5 November 1987.

⁶ Doc. R1-83, Revision 2, Final, dated 24 March 1983, para. 64.

⁷ Doc. R27-87, *Review of Bank Policies on Credit Lines to Development Finance Institutions*, dated 18 February 1987, para. 118.

⁸ Doc. R93-85, *Lending to the Private Sector Without Government Guarantee*, dated 9 September 1985.

aspects are analyzed for the three periods: (i) LCF in committed loans, (ii) LCF to least developed DMCs, (iii) sector distribution of LCF, and (iv) average cost sharing.

13. Table 1 shows that the significance of LCF in Bank operations has been increasing since its introduction in 1974. Consistent with the evolution of the Bank's policy, the share of LCF in total lending has also increased. In the case of OCR operations, LCF rose from an average of 1.6 per cent of the Bank's total lending in the 1974-1977 period to 3.7 per cent for 1978-1982, and 10.1 per cent for the most recent period. The corresponding shares of LCF in ADF operations were 6.8 per cent, 14.4 per cent, and 31.3 per cent.

Table 1: LCF in Committed Loans

Item	1974-1977	1978-1982	1983-1993
A. <u>OCR Operations</u>			
1. Total No. of Loans	90	146	328
2. No. of Loans with LCF	10	26	110
Percentage	11.1	17.8	33.5
3. Total Lending (\$ million)	2,023.6	4,856.2	24,851.5
4. LCF Portion (\$ million)	32.0	180.4	2,518.0
Percentage	1.6	3.7	10.1
B. <u>ADF Operations</u>			
1. Total No. of Loans	70	133	338
2. No. of Loans with LCF	20	56	217
Percentage	28.6	42.1	64.2
3. Total Lending (\$ million)	846.8	2,351.1	11,344.3
4. LCF Portion (\$ million)	58.0	339.1	3,555.9
Percentage	6.8	14.4	31.3

14. Table 2 presents the country distribution of LCF. It is not meaningful to compare LCF allocation between DMCs that borrow only ADF resources and DMCs that borrow from both ADF and OCR. Therefore, the comparison has distinguished between ADF and OCR operations.

**Table 2: Country Distribution of LCF
(in per cent)**

Item	1974-1977		1978-1982		1983-1993	
	% of Total Bank Lending	% of Total LCF	% of Total Bank Lending	% of Total LCF	% of Total Bank Lending	% of Total LCF
A. OCR Operations						
1. Least developed countries ^a	-	-	-	-	-	-
2. Group A countries	12.8	-	5.1	-	42.7	26.0
3. Group B countries	52.4	87.5	64.2	100.0	50.0	72.5
4. Group C countries	34.8	12.5	30.7	-	7.3	1.5
B. ADF Operations						
1. Least developed countries ^a	61.5	76.8	54.3	66.0	40.6	38.1
2. Group A countries	94.5	100.0	90.5	95.0	85.6	84.8
3. Group B countries	5.5	-	9.5	5.0	14.4	15.2
4. Group C countries	-	-	-	-	-	-

– denotes value is nil

^a The following DMCs are included in this group based on their current classification as LDCs by UN: Afghanistan Bangladesh, Bhutan, Cambodia, Kiribati, Lao PDR, Maldives, Myanmar, Nepal, Solomon Islands, Tuvalu, Vanuatu, and Western Samoa.

15. Group B countries accounted for most of the LCF from OCR in all periods. However, during 1983-1993, Group A countries accounted for 26 per cent. These countries were People's Republic of China (PRC), India, and Pakistan. From ADF, Group A countries including the least developed accounted for most LCF, consistent with the Bank policy of giving priority to these countries for LCF.

16. Table 3 provides the sector-wide distribution of LCF in comparison to the total lending program in the relevant sectors. It demonstrates (i) the dominant high share of the agriculture and rural development sector; (ii) the substantial increase in Bank lending and LCF for the social infrastructure sector and for employment-creating projects (e.g., in the transport sector, for rural infrastructure and infrastructure improvements projects); and (iii) little or no LCF for the energy (other than for rural electrification), industry (aside from small and cottage industries), and financial (except rural credit) sectors.

**Table 3: Sector Distribution of LCF^a
(in Per Cent)**

Sector	1974-1977		1978-1982		1983-1993	
	Share in Total Lending	Share in LCF	Share in Total Lending	Share in LCF	Share in Total Lending	Share in LCF
1. Agriculture and Rural Development	29.4	65.5	33.0	72.0	23.1	41.3
2. Energy	22.3	5.0	26.3	9.8	25.9	2.3
3. Industry and Minerals	5.2	-	1.8	-	4.1	0.0 ^b
4. Transport and Communications	16.6	17.5	11.2	7.7	20.2	20.8
5. Social Infrastructure	11.2	11.9	16.9	10.5	14.7	30.0
6. Financial, Multisector and Others	15.4	-	10.8	0.0 ^b	11.9	5.5

^a includes both OCR and ADF.

^b value is less than 0.05 per cent.
value is nil

17. Finally, Table 4 shows how the LCF affected the cost sharing, i.e., Bank financing as a percentage of the total project cost.¹ Generally, the Bank has borne a higher percentage of total project cost in projects involving LCF compared with projects that did not involve LCF.

**Table 4: Cost Sharing
(Bank loans as percentage of total project costs)**

Item	1974-1977	1978-1982	1983-1993
A. <u>OCR Operations</u>			
1. Loans without LCF	52.3	37.6	38.7
2. Loans with LCF	51.3	43.1	53.1
B. <u>ADF Operations</u>			
1. Loans without LCF	30.3	31.8	44.6 ^a
2. Loans with LCF	51.2	50.5	69.0

^a Includes blend loans for projects with large total project cost; en these are excluded from computation, the percentage is 58.0.

¹ Only normal projects, (excluding credit lines, program loans, and rehabilitation and emergency assistance loans) are included.

2. Use of LCF under Special Circumstances

18. The 1980s represented a period of considerable achievement for the Region and the Bank's DMCs in the face of major challenges and an adverse international environment. Many of the DMCs carried out successful structural adjustments. Several also suffered natural disasters. The Bank used LCF to respond to the changing circumstances and developments in several ways.

19. Recognizing that several DMCs faced serious difficulties from the global recession, which had led to domestic resource constraints and cutbacks in development expenditures, in early 1983 the Bank introduced a one-time and short-term measure to facilitate timely implementation of selected high-priority ongoing Bank-financed projects through increased provision of LCF.¹ Four DMCs — Bangladesh, Philippines, Sri Lanka, and Western Samoa — were assisted. The Bank provided a total of \$60 million in new loans and agreed to utilize \$70.8 million by reallocating to LCF part of the foreign exchange components of ongoing loans involving 29 projects.

20. Under the influence of the world-wide recession that followed the second oil shock in 1979 and the advent of the external debt crisis in late 1983, the Philippines, traditionally dependent on a sizable inflow of external assistance, was forced to adjust to severely reduced levels of foreign capital and the consequent impact on economic growth. The advent of the new government in early 1986 generated a more optimistic view of economic prospects. Therefore, in response to a request for assistance to promote the country's recovery, the Bank agreed to provide \$100 million (half each from OCR and ADF) to finance part of the local currency expenditures for 36 Bank-financed projects during 1986 and 1987.²

21. A steep decline in the prices of Indonesia's major non-oil exports followed by a depressed demand for oil affected the Indonesian economy in the early 1980s. The Government responded with a broad range of policy measures, commencing in 1983, aimed at stabilization, including an austerity budget, rescheduling public investment programs, devaluation, and floating the currency. Despite these measures, the sharp decline in the price of oil, low commodity prices, and depreciation of the US dollar led to a significant deterioration in the external sector of Indonesia's economy in late 1985. This led to further adjustment measures. At the meeting of the Inter-Governmental Group on Indonesia in June 1986, several members of the group indicated that, in support of these government efforts, they would finance a greater share of project costs, including local currency requirements, and would provide greater concessionality in their assistance. The Bank also undertook a detailed review with the Indonesian Government of all ongoing Bank-assisted projects. Following this, the Bank agreed to provide a special assistance loan of \$30.6 million to meet the shortfall in local currency required for six ongoing high-priority projects in the education sector.³

22. During the 1980s floods, cyclones, earthquakes, and civil disturbances had a severe impact on the economic and social development of several DMCs. The Bank responded to emergency needs for the first time in 1987, and a policy framework was established for rehabilitation assistance after disasters in 1989, following the introduction of

¹ Doc. R17-83, *Proposal for Special Assistance to Selected Bank-Financed Projects*, dated 8 February 1983.

² Loans 779/780-PHI: Special Project Implementation Assistance, for \$50 million and \$50 million, respectively, approved on 7 April 1986.

³ Loan 822-INO, Special Project Implementation Assistance, for \$30.6 million, approved on 16 December 1986.

a special facility for small island DMCs in 1987. The Bank has provided \$593.4 million for 20 rehabilitation loans to 10 DMCs. LCF provided under 16 of these loans amounted to \$253.3 million or 43 per cent of the total loan amounts. The DMCs were Bangladesh, Cook Islands, Indonesia, Marshall Islands, Pakistan, Philippines, Solomon Islands, Sri Lanka and Western Samoa.

23. The Board paper proposing the policy framework for countries affected by the Gulf crisis in 1991 provided that up to 90 per cent of the project cost could be financed. However, given the nature of the scheme, it did not involve LCF. The assistance covered the import requirements for fuel and fertilizers, and the financing of up to 90 per cent of project costs, thus financing only foreign exchange costs.

24. The distribution of the Bank's total lending during 1983-1993 is presented by country in Appendix 2 and by sector in Appendix 3. An analysis of the Bank's share of the project cost in each DMC and by sector in both QCR and ADF is provided in Appendix 4. More detailed country notes covering most of the borrowing DMCs are provided in Appendix 5.¹

D. LCF Policies of Other Multilateral Development Banks

25. All the multilateral development banks presently provide LCF. Their Charter provisions in this regard are broadly similar. The evolution of these institutions' LCF policies and practices is of relevance to Bank operations, since all these institutions address the same issue of maximizing the development impact of their assistance.

1. World Bank

26. The International Bank for Reconstruction and Development and International Development Association Articles of Agreement stipulate that the World Bank will normally finance foreign exchange costs, but that in exceptional circumstances it may finance local costs. LCF is limited to lending for investment, technical assistance, and emergency recovery. It is not permitted under adjustment or other nonproject loans.

27. The World Bank provides LCF essentially under two conditions: (i) when the financial requirements of the country's development exceed the limits of available domestic savings and expected foreign exchange resources (resource transfer objective), and (ii) if the foreign exchange component of a specific project is too low to provide the World Bank with necessary influence (cost-sharing consideration).

28. The World Bank sets cost-sharing ceilings for each borrower considering the latter's ability to mobilize domestic and foreign financial resources, which is reflected in (and accordingly based on) its per capita income. These ceilings are (i) applicable not to individual projects, but to the overall lending program; (ii) expected to be above actual cost-sharing; and (iii) applied to a rolling three-year lending program. The World Bank usually expects the borrower to demonstrate commitment by contributing at least 10 per cent of the total project cost, but under exceptional conditions may relax this requirement. The World Bank's share of the project cost is determined after excluding taxes and duties.

29. The World Bank procedures for LCF involve the following: (i) the country strategy paper documents the resource transfer objective for the country, including whether LCF is justified; (ii) subject to this, various project documents indicate the specific

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A few recent borrowers (Cambodia, Marshall Islands, and Mongolia) and inactive borrowers (Hong Kong; Republic of Korea; Myanmar; Singapore; Taipei, China) and Viet Nam are not included.

justification for LCF (i.e., whether on resource transfer or project grounds); (iii) the Country Department Director may make exceptions to the 10 per cent minimum contribution rule in justified cases; (iv) the Regional Vice President may approve a temporary increase in the cost-sharing ceiling for an individual country in appropriate cases, but changes that are not temporary may be made only with the approval of the President; and (v) the annual review of portfolio performance includes a report on the cost-sharing and LCF experience. Further details on the World Bank's LCF policies and practices are given in Appendix 6.

2. Inter-American Development Bank

30. The Inter-American Development Bank (IADB) LCF policies are based on cost-sharing principles. IADB finances foreign exchange and local costs of a project up to a maximum percentage of total project cost. The cost-sharing limit is established for four country categories: 50 per cent for Group A countries, 60 per cent for Group B countries, 70 per cent for Group C countries, and 80 per cent for group D countries. The country groupings reflect both per capita income and population size. The financing can exceed these limits if the foreign exchange components are higher, provided it does not mean a substantial reduction in the local contribution and that other sources are not available on reasonable terms. Further, an additional 10 per cent increase is allowed on the cost-sharing limit if at least 50 per cent of the project's net benefits are directed to low-income beneficiaries.

3. African Development Bank

31. The African Development Bank (AfDB) lends foreign exchange from its concessional lending fund (the African Development Fund) to meet local costs of projects or programs under the following conditions:

- (i) the borrower is making a determined effort towards national development and the mobilization of external and internal resources;
- (ii) external assistance is used predominantly for financing foreign exchange costs;
- (iii) the financial requirements of the project or program cannot be met from local resources;
- (iv) domestic resources are excessively costly, affecting the viability of the project or the program; and
- (v) the bulk of the project's implementation requirements can be procured locally.

32. The amount of foreign exchange made available to finance local costs may not exceed 50 per cent of the total project or program cost. Where other financiers are involved, the local cost financing is limited to 50 per cent of total AfDB and borrower contributions to the components financed by the AfDB. Regarding overall cost sharing, the contribution of the borrower should not be less than 10 per cent of the total amount contributed by the borrower and the AfDB toward financing a project or program. In making foreign exchange available to finance local costs, the African Development Fund gives preference to projects or programs related to rural development and to those of a social nature.

III. PROPOSED APPROACH

A. Need for LCF

33. An essential function performed by the Bank as a development financing institution is to transfer financial resources from capital-surplus countries to the Bank's DMCs that are experiencing resource constraints. The Bank's LCF, particularly under ADF, has been largely a vehicle for relaxing the resource constraints facing the Bank's poorer DMCs. However some LCF, particularly to the PRC from OCR, has been made on the basis of the Bank providing a reasonable share of project costs.

34. Resource constraints for most of the DMCs are expected to continue through the 1990s. While it will be important for the Bank to continue to play its crucial role in international financial intermediation, as a development financing institution it should also ensure that the borrowers' commitment and ownership are adequately reflected in Bank financing policies. Moreover, the Bank wishes to play a more proactive role in projects that address cross-cutting concerns in social development. These projects usually have a substantial local cost content. The Bank's LCF policy in the future should keep these considerations in view.

B. Comments by the Board

35. Recent Board discussions on several loan proposals involving LCF have included comments on the Bank's LCF policies and practices. For example, a request was made for a historical analysis of LCF by country and by sector. The high proportion of LCF as a percentage of the total local cost component of the project has been questioned on several occasions. Questions have also been raised concerning the comparability of the Bank's policies with those of the World Bank regarding indirect foreign exchange and LCF. It was commented that the Bank tended to start automatically with the standard percentage limit and include a large proportion of LCF. Views have also been expressed that DMCs with a favorable balance-of-payments situation and large foreign exchange reserves do not merit LCF. The Board has also been stressing that LCF should not substitute for domestic resource mobilization by the borrower, and that LCF policy should discriminate in favor of projects in the social sector. Some Board members have proposed that, in calculating project costs for determining the standard percentages of financing, the Bank should exclude taxes and duties, as is the practice of the World Bank. A few Board members have also questioned the validity of distinguishing between local currency expenditures and foreign currency expenditures in the context of liberalizing exchange regimes in DMCs.

36. This Paper has presented a historical analysis of Bank LCF, showing that, on a *post facto* basis, the Bank's LCF has been consistent with its policy intentions and within the Charter's limitation. In so far as the high percentage of Bank financing of the local cost component of some projects is concerned, some project-specific observations may be helpful. In several cases, the size of the Bank loan was determined in relation to an appropriate level of project financing rather than to the foreign exchange component, which was low. For example, the \$200 million Bank loan made in 1992 for the Guang-Mei-Shan Railway¹ Project in the PRC included \$82 million in LCF. However, the total Bank loan represented only 37.5 per cent of the total cost of the project, which provided infrastructure required for the growth and development of the mountainous and less-developed eastern area of Guangdong Province. The executing agency of the project, Guangdong Guang-Mei-Shan Railway Company, financed \$333 million equivalent through a combination of domestic borrowing, bond issues, and internal funds. Therefore, the LCF element in the Bank loan was based on

¹ Loan No. 1167, approved on 25 June 1992.

cost-sharing considerations. Similarly, while the Bank provided \$7.3 million for LCF in its \$10.4 million loan for the Tourism Infrastructure Development¹ Project to Nepal in 1992, the Bank loan amounted to a little more than 70 per cent of the total project cost. Similarly, while the \$20.0 million Bank loan to Sri Lanka in 1991 for the Low-Income Housing Development² Project included \$9.5 million in LCF the loan represented only 60 per cent of the total project cost.

37. As regards the balance-of-payments implications of Bank-assisted projects, whatever portion of project cost that is not finance by the Bank will probably result in diversion of resources to the project from the other sectors of the economy and a widening of the resource gap, There are several policy options for reducing the gap, but there will be a lag between the policy action and the desired impact on the resources situation. In the short run, the resource situation will likely worsen. Where the concerned DMC faces a balance-of-payments constraint, financing a higher proportion of the project cost than the foreign exchange component will provide balance-of-payments relief, A favorable balance-of-payments situation or accumulation of foreign exchange reserves over a short period does not necessarily indicate a long-term, f sustainable equilibrium in the balance of payments, Moreover, external sector adjustment should r be sustainable in both current and capital a counts of the balance of payments. The Bank's approach is that, as the DMC makes progress in external sector adjustment, the need for LCF will be reviewed and the provision of LCF will be appropriately adjusted, This approach seems appropriate for the future also.

38. As regards the continuing need for a LCF policy in an environment of liberalizing exchange regimes in DMCs, the distinction between local currency and foreign currency has weakened in many DMCs as consequence of recent economic reforms and greater openness, including trade liberalization, enlarging private sector role, and direct foreign investments. The Bank has supported and will continue to support the further liberalization of foreign exchange regimes in the DMCs. However, even though most DMCs have introduced some degree of exchange regime flexibility for current account transactions, exchange controls are prevalent to some degree. While there has been a definite shift towards integration of DMC economies with the global economy, the reform process is not yet complete. Until the foreign exchange controls are completely withdrawn all borrowing DMCs and their currencies are made fully convertible, the distinction between domestic currency and foreign currency will continue to be relevant in the management of these economies. A related question is whether the LCF policy would be relevant if cost-sharing guidelines were prescribed at the country and project level. The Bank's Charter requires that Bank resources be selectively used for financing local costs. In view of the prevailing exchange regimes in DMCs, it continues to be relevant for the Bank to distinguish between local currency expenditures and foreign costs. The Bank, by selectively limiting the financing of local costs' encourages domestic resource mobilization, fosters ownership and commitment by borrowers for development projects, and gives impetus to social development in its DMCs by preferentially supporting certain sectors and projects.³ Given the Charter limitation, the Bank's LCF policy is therefore a useful instrument for achieving the Bank's development objectives in its DMCs.

C. Indirect Foreign Costs and LCF: A Comparison with World Bank Practice

39. The Bank's policy on indirect foreign cost is similar to that of the World Bank. The calculation of the foreign exchange costs of a project in both institutions involves the following: (i) direct procurement of foreign goods and services; (ii) direct use of foreign

¹ Loan No.1156, approved on 16 January 1992.

² Loan No.1096, approved on 29 August 1991.

³ See para. 48.

resources by foreign contractors; (iii) direct use of foreign resources by local contractors; and (iv) indirect use of foreign resources by foreign and local contractors, suppliers, and consultants. In turn, the last item includes (i) locally procured goods of foreign manufacture (use cost, insurance, and freight [CIF] value); (ii) estimated CIF value of major imported items (raw materials, components, etc.) used in the manufacture of domestically produced goods (this may include an estimate of the depreciation of costs of imported capital assets used in local manufacturing); (iii) depreciation of imported capital items used plus any foreign exchange payments to expatriate personnel under domestic consulting services and experts; and (iv) estimated imported materials of locally made components. As a practical matter, only items of significant size are normally included, and cost items that will have an inconsequential effect on the final estimate and are difficult to estimate are disregarded.

40. As occurs in the World Bank, the Bank does not distinguish between direct and indirect foreign exchange costs in its financing. With the increasing openness to the world economy and the active participation by foreign investors and business enterprises in DMCs, the need to make such a distinction has become weak at best.

41. The LCF policies of the Bank and the World Bank are largely similar, which is understandable. The cost-sharing ceilings used by the World Bank (see Appendix 6) appear higher than the Bank's standard percentage limit for similar DMCs. However, the two ratios are computed differently. For example, the World Bank excludes duties and taxes in computing its ratio, while the Bank does not. Thus, a comparison is not strictly valid. Nevertheless, in actuality, the two ratios may represent similar values.

42. The main rationale for including taxes and duties in the cost estimates while calculating standard percentages for Bank financing is that in most cases the payment of taxes and duties is a financial cost to the project, even though at the national level taxes and duties are a transfer payment and are not an "economic" cost to the project. Allocation of funds for payment of taxes and duties for a project shows commitment at the project level to give priority to that project in resource allocation. This is particularly true where the borrower and the project owner are not the same. For example, customs duties levied by the national government are a cost to a project implemented by the provincial government or an autonomous entity. The provincial government or that entity has the option either to import the concerned equipment on payment of customs duties or not to import the equipment and allocate these resources to some other use. Since the Bank is mainly a project-financing institution, commitment shown at the project level through allocation of taxes and duties is an important consideration for the Bank in deciding to assist the project. Accordingly, the present practice of including taxes and duties in the cost estimates while calculating standard percentage limits for Bank financing is justified. It is however recognized that in some cases the member-borrower and the project owner may be the same. In these cases, payment of taxes and duties may not represent a financial burden at the project owner's level as in the example discussed earlier. It will therefore be appropriate to determine the actual cost-sharing limit at the project level, keeping in view the relationship between the project owner and the borrower and the need to obtain an adequate level of commitment to the project from the Bank's counterparts, at the project owner's level or the borrower's level, as may be relevant.

43. The two institutions have similar practices regarding the minimum contribution required by the borrower to demonstrate commitment to a project. For individual projects, both banks usually expect the borrower to make a minimum contribution to project costs.¹ The World Bank defines this as net of taxes and duties, while the Bank does not specifically

¹ 20 per cent in the case of the Bank, and 10 per cent in the case of the World Bank.

do so.² However, both institutions find a lower contribution justifiable if government finances are seriously strained, and if warranted by a reassessment of the lending priorities. In general, to ensure that there is no disincentive to seeking cofinancing and to reduce the potential for conflict with other agencies, neither institution prescribes an external cost ceiling, allowing a government also to demonstrate commitment by allocating to the project other external resources for cofinancing. Recent studies on the issue of "local ownership" and the quality of projects have pointed to the need to pay attention to a number of factors and issues to ensure commitment. However, while direct financial contribution cannot be treated as the all-encompassing proxy for commitment, it continues to be important that a minimum level of local contribution is secured to promote ownership.

44. In one respect, the World Bank's LCF policy seems less restrictive than the Bank's. The World Bank's 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 technical assistance loans. To ensure flexibility, the country limit is applied to a rolling three-year investment lending program, encompassing two prior years and the current year. However, the limits are ceilings, and actual cost sharing is expected to be below the limits. Because of the World Bank's ceilings, and since the Bank allows its financing to exceed the standard percentage limit in special cases, in reality this difference may be less relevant.

IV. CONCLUSIONS AND RECOMMENDATIONS

45. In recent years, the Bank has grown in size and complexity and, with the adoption of the strategic planning approach, it now provides greater country focus and gives specific importance to poverty reduction, social concerns, and environmental issues. At the same time the needs of the Region for development assistance and external resources have increased. The implications of these for the Bank's LCF policies are as follows:

- (i) The need for extending LCF on a selective basis continues.
- (ii) LCF should be used to support the achievement of the Bank's medium-term strategic objectives.
- (iii) While the existing LCF policies have generally met their objectives, a close monitoring of LCF is needed to achieve a more effective allocation of LCF resources under the Bank's changing strategic directions.

46. This review has generally confirmed that the LCF policies enunciated in 1983 continue to be relevant for guiding Bank operations in the future. It continues to be appropriate for the Bank to distinguish between local currency expenditures and foreign currency expenditures, and to provide a policy framework for the financing of local currency costs as envisaged by the Charter limitation. Within the Charter's mandate, the Bank has gradually liberalized its LCF policy, and since 1983 has used LCF as a means of supporting social sector projects and to ease tight resource situations in DMCs. This approach has given rise to a distinction between country considerations and project considerations in the Bank's LCF policy. The former addresses the need to provide resource support for DMCs facing an investment saving gap, provided their domestic resource mobilization effort is adequate. The latter focuses on the need for the Bank to bear a reasonable part of the cost of a project that has a high priority on strategic considerations but a low foreign exchange content. However, it is recognized that a close monitoring of the utilization of LCF is needed

² See para. 41 also.

to ensure that excessive use of LCF does not act as a deterrent to domestic resource mobilization and that LCF is used for supporting high priority projects. Paras. 47-50 deal with the institution of a framework for a more rigorous implementation and monitoring of the Bank's LCF policy.

47. While determining maximum cost sharing ceilings in public sector projects, an important issue is whether the DMC has provided a minimum contribution to project financing, to confirm its commitment. This contribution is based on the capacity of the DMC to raise resources from both domestic and external sources, and is broadly reflected in its per capita income level. The existing standard percentage financing limits, which are based on country groupings, therefore continue to provide an appropriate basis for determining maximum cost-sharing ceilings for each DMC. There are no strong reasons for changing the standard percentage limits at this stage. However, these limits should not be automatically applied and should be periodically adjusted, taking into account the country's performance in domestic resource mobilization, the balance-of-payments situation, and special circumstances that may prevail from time to time. Management should review the country cost-sharing limits periodically, preferably at the time of country program paper discussions, and determine the effective country cost-sharing limits in the case of each DMC.

48. In practice, programming considerations broadly limit the actual cost-sharing percentage for a project. With a given amount of programmed assistance for a DMC in a year and the number of projects that can be progressed for approval in that year, the actual cost-sharing limits for the various projects are determined in a broad way. Apart from this, in determining the actual allocation of the Bank's share in the total project cost for each project, differentiation should be made between sectors that generally have the institutional capacity and the demand base to raise local resources (e.g., power, transport, industry) and those that are relatively weak (e.g., social infrastructure). In general, the Bank's share of the total project cost should be lower in the former than in the latter. However, the following considerations are also relevant for determining the contribution of the Bank: (i) institutional capacity of the implementing agency to raise local resources, (ii) priority of the sector in the allocation of budget expenditures, (iii) availability of cofinancing, (iv) availability and affordability of domestic capital market resources for the project, and (v) the relationship between the project owner and the borrower (see para. 42). These considerations supplement the project level considerations which were prescribed in the 1983 Review of LCF policy (para. 9) and are currently in use. Significant variations in cost sharing between similar projects in the same sector should be explained in the Report and Recommendation of the President (RRP) with reference to these factors. As before, sectors that can contribute to such cross-cutting concerns as poverty reduction, human resources development, environmental improvements, as well as rural infrastructure projects, will merit high priority for LCF. Keeping in view the individual country ceilings determined periodically at the time of country Program Paper discussion, Management will determine the actual cost-sharing limit for each project (at the Management Review Meeting) based on an analysis of an appropriate cost-sharing arrangement among the Bank, the government, and other agencies.

49. The Compendium of Country Notes should, in the case of each DMC that is an active borrower, include a section on the Bank's LCF policy towards the DMC. Subject to this, the RRP on individual projects should provide justification for specific projects: (i) country grounds (i.e., the country ceilings in practice should not be applied automatically but should be based on an assessment of whether the borrower is making adequate efforts towards mobilizing domestic savings and external capital from other sources on appropriate terms), and (ii) project cost-sharing grounds (i.e., if the specific project has too little foreign exchange cost to permit the Bank to achieve its project objectives by foreign exchange financing alone). The country justification should be based on an analysis of the DMC's

development performance, particularly in the fiscal and external sectors of the economy, as presented in the Economic Review and Bank Operations Paper (ERBOP). If no significant developments have taken place since the presentation of the ERBOP, a short reference in the RRP to the analysis given in the ERBOP should suffice.

50. An information system is needed for systematically reporting the commitment of LCF in each DMC. At the end of the year, the Programs Departments will prepare a report to Management on the amount made available LCF to each DMC in that year. This analysis should appropriately touch upon balance-of-payments and fiscal performance of each DMC and the measures undertaken to improve domestic resource mobilization. A summary of this report should be presented in the next Compendium of Country Notes and in the ERBOP.

51. The resources situation in the Bank's DMCs in general remains weak compared with their investment needs. The Bank's medium-term strategic framework has also placed considerable emphasis on projects that address socioeconomic concerns such as poverty reduction and human resource development. These suggest that the Bank should continue to use its LCF policy for the socioeconomic betterment of its DMCs in the medium term. However, in its lending operations, the Bank will continue to emphasize foreign exchange financing, since it is felt that the main constraint to economic development of Bank DMCs in the foreseeable future will be a shortage of foreign exchange resources.

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)

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)

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.

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.

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.

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.

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)

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.

Table 3: 1983-1993
(in \$ million)

Sector	Total LCF			Total Loan (OCR+ADF)	% of total Bank Lending	% of total Bank LCF
	OCR	ADF	Total			
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.

**REVIEW OF THE BANK'S EXPERIENCE WITH LOCAL COST
FINANCING, 1983-1993
COUNTRY NOTES FOR SELECTED DEVELOPMENT 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		Total Loan	Cofinancing Amount
		Foreign Exchange Cost	Local Currency Cost		
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		Total Loan	Cofinancing Amount
		Foreign Exchange Cost	Local Currency Cost		
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		Total Loan	Cofinancing Amount
		Foreign Exchange Cost	Local Currency Cost		
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		Total Loan	Cofinancing Amount
		Foreign Exchange Cost	Local Currency Cost		
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)

Type	No. of Loans	Bank Financing		Total Loan	Cofinancing Amount
		Foreign Exchange Cost	Local Currency Cost		
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 programs. 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		Total Loan	Cofinancing Amount
		Foreign Exchange Cost	Local Currency Cost		
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		Total Loan	Cofinancing Amount
		Foreign Exchange Cost	Local Currency Cost		
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		Total Loan	Cofinancing Amount
		Foreign Exchange Cost	Local Currency Cost		
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		Total Loan	Cofinancing Amount
		Foreign Exchange Cost	Local Currency Cost		
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		Total Loan
		Foreign Exchange Cost	Local Currency Cost	
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		Total Loan	Cofinancing Amount
		Foreign Exchange Cost	Local Currency Cost		
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)**

Type	No. of Loans	Bank Financing		Total Loan	Cofinancing Amount
		Foreign Exchange Cost	Local Currency Cost		
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, 41 loans 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		Total Loan	Cofinancing Amount
		Foreign Exchange Cost	Local Currency Cost		
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		Total Loan	Cofinancing Amount
		Foreign Exchange Cost	Local Currency Cost		
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	Project Cost ^a			Bank Financing			Bank LCF as Per Cent of			Bank Loan As % of total Project Cost	
	Number of Loans	Foreign Exchange Cost	Local Currency Cost	Total Project Cost	Total Loan	Local Cost	Interest During Construc- tion	Total Loan	Total Project Cost		Total Local Cost
<u>Bangladesh</u>											
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
<u>Bhutan</u>											
ADF	9	42.8	16.3	59.2	41.5	6.7	1.2	16.2	11.3	41.0	70.1
<u>Cambodia</u>											
ADF	1	69.6	8.2	77.8	67.7	4.9	-	7.2	6.3	59.8	87.0
<u>China, PR</u>											
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
<u>Cook Islands</u>											
ADF	3	11.8	2.2	13.9	8.2	0.4	0.1	5.0	2.9	19.0	58.5
<u>Fiji</u>											
OCR	5	92.4	73.4	165.8	48.2	4.6	-	9.5	2.8	6.3	29.1
<u>India</u>											
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
<u>Indonesia</u>											
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
<u>Kiribati</u>											
ADF	3	2.0	0.7	2.8	2.2	0.3	0.0	12.6	9.7	36.2	77.2
<u>Korea, Rep. of</u>											
OCR	12	724.8	1,164.9	1,889.7	570.6	-	8.6	-	-	-	30.2
<u>Lao PDR</u>											
ADF	19	341.0	80.3	421.3	285.9	23.2	5.4	8.1	5.5	28.9	67.9
<u>Malaysia</u>											
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
<u>Maldives</u>											
ADF	5	39.0	6.6	45.6	32.9	-	0.7	-	-	-	72.1
<u>Marshall Islands</u>											
ADF	4	15.7	5.6	21.3	16.2	-	0.4	-	-	-	86.7
<u>Micronesia, Federated States of</u>											
ADF	1	6.5	1.0	7.5	6.5	-	0.08	-	-	-	86.7
<u>Mongolia</u>											
ADF	4	71.0	20.5	91.5	72.8	0.1	1.7	0.1	0.1	0.4	79.6
<u>Myanmar</u>											
ADF	3	89.8	96.6	186.4	106.6	18.4	0.9	17.3	9.9	19.1	57.2
<u>Nepal</u>											
ADF	37	506.7	464.0	970.7	693.7	232.3	12.2	33.5	23.9	50.1	71.5
<u>Pakistan</u>											
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
<u>Papua New Guinea</u>											
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
<u>Philippines</u>											
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
<u>Solomon Islands</u>											
ADF	7	31.1	15.6	46.6	28.5	4.2	2.6	14.7	9.0	26.9	61.0
<u>Sri Lanka</u>											
ADF	30	536.2	694.9	1,231.10	783.0	300.0	17.7	38.3	24.4	43.2	63.6
<u>Thailand</u>											
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
<u>Tonga</u>											
ADF	3	12.8	3.3	16.1	13.0	0.2	0.1	1.5	1.2	6.2	81.0
<u>Vanuatu</u>											
ADF	4	15.9	5.0	20.9	13.3	1.1	0.2	8.3	5.3	22.0	63.5
<u>Viet Nam</u>											
ADF	3	215.2	102.4	317.6	261.5	46.3	6.0	17.7	14.6	45.2	82.3
<u>Western Samoa</u>											
ADF	8	50.2	18.8	69.0	35.9	5.1	0.6	14.1	7.3	26.9	52.0
<u>All DMCs</u>											
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.

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

Country	Number of Loans	Project Cost			Bank Financing			Bank LCF as Per Cent of		Bank Loan As % of total Project Cost	
		Foreign Exchange Cost	Local Currency Cost	Total Project Cost	Interest During Construction	Total Loan	Total Project Cost	Total Local Cost			
<u>Agriculture & Agro-Industry</u>											
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
<u>Energy</u>											
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
<u>Industry</u>											
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
<u>Transport & Communications</u>											
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
<u>Social Infrastructure</u>											
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
<u>Multiproject</u>											
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
<u>Others</u>											
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
<u>All Sectors</u>											
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.