



OU YANGJIE

East Asia and the Pacific

Project Financing and Portfolio

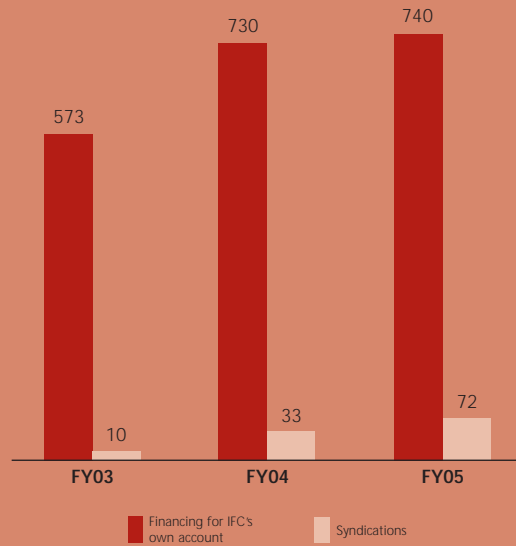
(millions of U.S. dollars)

| | FY03 | FY04 | FY05 |
|--|--------------|--------------|--------------|
| Financing committed for IFC's account | 573 | 730 | 740 |
| Loans | 135 | 427 | 520 |
| Equity | 178 | 239 | 195 |
| Guarantees and risk management | 260 | 64 | 25 |
| Loan syndications signed | 10 | 33 | 72 |
| TOTAL COMMITMENTS SIGNED | 583 | 763 | 811 |
| Committed portfolio for IFC's account | 2,791 | 2,897 | 2,940 |
| Loans | 1,354 | 1,503 | 1,572 |
| Equity | 850 | 961 | 910 |
| Guarantees and risk management | 587 | 433 | 458 |
| Committed portfolio held for others (loan participations) | 1,138 | 907 | 821 |
| TOTAL COMMITTED PORTFOLIO | 3,929 | 3,804 | 3,761 |

Loans include loan-type, quasi-equity products. Equity includes equity-type, quasi-equity products.

Commitments

(millions of U.S. dollars)



IFC's Largest Country Exposures

Committed portfolio for IFC's own account as of June 30, 2005*
(millions of U.S. dollars)

| | |
|--------------------|-----|
| China | 999 |
| Indonesia | 494 |
| Philippines | 480 |
| Thailand | 336 |
| Korea, Republic of | 155 |

*Excludes individual country shares of regional and global projects.

Project Commitments and Countries

| | FY03 | FY04 | FY05 |
|---------------------|------|------|------|
| Number of projects | 31 | 40 | 40 |
| Number of countries | 7 | 7 | 11 |

Domestic Demand and Trade Fuel a Boom

East Asia and the Pacific grew by 8.5 percent in 2004, a regional boom led by strong domestic demand and trade growth in China. Growth has also been robust in Malaysia, the Philippines, Thailand, and Vietnam, with Indonesia not far behind. Underpinning this surge are reforms associated with WTO membership, a more welcoming attitude to foreign capital, and efforts to recapitalize and restructure the financial sector in the countries most affected by the 1997 financial crisis.

To maintain this momentum, however, economies in the region need to deepen and diversify their financial systems, strengthen corporate governance and other responsible business practices, and improve the environment for private investments in infrastructure. IFC's investment and technical assistance programs in the region focus on these priority areas for reform.

IFC is working to develop new and stronger banks in East Asia, particularly in transition economies. In Cambodia, we provided a loan to help Canadia Bank expand its lending operations; through technical assistance, we are helping Canadia become a leader in risk management and other best practices. In Vietnam, we increased our equity stake in Sacombank, part of our ongoing support to strengthen its capital base and institutional capacity. In China, our equity investment in Bank of Beijing supports its strategic development and modernization (see box).

IFC also continues to encourage the deepening and strengthening of the financial sector through technical assistance and investments in nonbank financial institutions. In the Philippines, we helped the National Housing Mortgage Finance Corporation conduct the country's first auction of nonperforming housing loans; this auction is a model mechanism for resolving nonperforming assets and helps develop a market for them. In Thailand, we provided a loan to Siam Industrial

Credit Public Company Limited, a finance company that focuses on retail services and commercial financing for small and medium enterprises. Proceeds of the loan will be used primarily to fund the company's growing business in leasing. In Indonesia, IFC made its first rupiah-denominated loan to Austindo Nusantara Jaya Finance, an independent finance company. The loan will help the company expand its leasing activities, diversify its funding base, and better match the currency of its assets and liabilities. To help develop the private equity market in China, IFC invested up to \$5 million in the BioVeda China Fund, through which institutional investors will provide capital for developing Chinese companies in biotechnology and life sciences. In Malaysia, IFC became the first supranational institution to undertake a bond issue using the principles of Islamic finance; the 500 million ringgit issue (equivalent to \$132 million) helps deepen the country's domestic capital market.

Expansion of private infrastructure, including through privatization, is another priority for IFC in East Asia. This year, IFC assisted in the expansion of Minsheng Shipping, a company operating on the Yangtze River in China (see box). In the Philippines, we made a long-term corporate loan in local currency to CEPALCO, an electricity distribution company, to finance its investment program (see box, p. 15). Also in the Philippines, IFC provided a \$22 million loan to a consortium of local shareholders to computerize and connect the offices of the country's Land Registration Authority (see box).

IFC continues to promote the growth of the region's domestic companies as they transform themselves into regional and international competitors. This effort is particularly strong in China, where our program in general manufacturing expanded significantly in FY05. IFC made a loan

The Philippines: A Private Sector Approach to Land Registration

Property rights can support economic growth and development but only when they are formalized, for example through land titling and registration. This is crucial for poor people, who may have assets—basic housing, informal businesses—but lack formal rights to them. Lacking rights constrains people's ability to use assets as collateral and raise capital for small enterprises. It can also preclude entrepreneurs from connecting to the formal economy, making it difficult or illegal for them to obtain utility services.

In the Philippines, IFC is helping the government address this problem. A leader in privatization, the Philippines has awarded concessions for various public utilities and selected government services. To meet the urgent need for land registration and titling, it awarded a concession to Land Registration Systems, Inc., a local private company, to computerize and connect the 162 offices of the country's land registration authority. By building a database and network infrastructure, the privatization will increase the authority's efficiency and the security, quality, and accessibility of land title information. It will also improve the process of issuing land records.

IFC has provided a loan of \$22 million and a quasi-equity instrument of \$2.7 million to support this privatization, which we expect to send a positive signal to the market and demonstrate the viability of service concessions to other governments. The project also complements the World Bank's efforts to promote broader institutional reforms in land administration.



China: Opening the Interior to Trade

In little more than 20 years, China has emerged as one of world's premier trading nations. But because the benefits of growth have largely bypassed the country's interior, the Chinese government is working to accelerate economic development there. IFC is supporting this goal through, for example, the donor-funded China Project Development Facility, which provides technical assistance to improve the business climate and develop financing and business support services for smaller businesses in the southwestern province of Sichuan.

Our larger investments are also making a difference. Based in the city of Chongqing, Minsheng Shipping is a leading transportation company along the Yangtze River, the principal artery linking the interior of China with the coast. Minsheng operates nearly 70 vessels on the river, including container liners, barges, tugboats, and specialized vessels for carrying vehicles (called "ro-ro" vessels, short for "roll on, roll off"). Minsheng also operates six oceangoing container vessels, mainly to serve the market between China and Japan.

To serve its clients more effectively, Minsheng is shifting its river operations from the barge and tug business to container and ro-ro operations. Through our \$15 million investment, IFC is helping the company acquire 20 new vessels by 2007. The project will help Minsheng optimize its fleet structure, gain efficiency, and capitalize on a growing demand for transportation along the Yangtze.

China: Upgrading Bank Operations and Securing Foreign Investment

The challenges facing Chinese banks in general—high levels of nonperforming loans, a thin capital base, management and governance in need of strengthening—are amplified among the city commercial banks that China established by consolidating some 2,000 urban credit cooperatives in large and midsize cities. These institutions also face heavy local government influence and are restricted to conducting business only within their city boundaries. IFC has been helping the Bank of Beijing build its business amid these challenges.

Soon after the bank's founding in 1996, IFC provided technical assistance to improve its credit risk management and formulate overall business strategies. The bank has considered IFC a close partner ever since, consulting us in its ongoing efforts to improve management and asset quality and recently seeking our advice in the selection of an international strategic investor. IFC's involvement has been encouraged by Chinese regulators, who believe that the development of Beijing's city commercial bank, the country's second-largest, could have a strong demonstration effect for financial sector reform across China.

In FY05, IFC made an equity investment in the Bank of Beijing of up to RMB479 million (about \$58 million). The Netherlands' ING Bank is taking just under the 20 percent ceiling that a single foreign investor is allowed to invest in a Chinese bank; the combined investment will reach the 25 percent maximum imposed by the country's banking regulators for combined foreign shareholdings in a domestic bank. The funding initiates a comprehensive strategic alliance. ING will provide technical and management support to the Bank of Beijing, helping expand its retail business, providing training to staff, and nominating personnel to senior management positions. The Bank of Beijing will use its strong branch network across the city's 12 districts to promote the insurance business of ING's joint ventures in China.



WANG QINGXIAN

and equity investment in Fenglin, one of the country's largest medium-density fiberboard producers, for construction and operation of a plant producing fiberboard and related value-added products. The project will also establish over 13,000 hectares of fast-growing plantation forest, helping make the company's business more environmentally sustainable. Fenglin will be able to play a larger role in meeting the demand from China's furniture and construction industries, while increasing economic activity in one of the poorest areas of southern China. IFC has also invested in North Andre, a major apple juice producer in Shandong province; this will enable it to complete an expansion project by providing permanent working capital and a long-term loan, while benefiting thousands of farmers who supply its processing plants. In the Philippines, we continue to work with Manila Water, as this concessionaire serving eastern Manila develops a more integrated and sustainable approach to managing its business.

We also help build capacity for private enterprises and regulators, and funding for technical assistance in the region has more than doubled, to \$20 million, in the past two years. This assistance, much of it delivered by four regional facilities, is our main product in some smaller, more isolated economies. In Samoa, the Pacific Enterprise Development Facility is helping develop the venture capital industry, privatize infrastructure, and promote tourism development. In Laos, the Mekong Private Sector Development Facility has launched a forum to promote public-private partnership on improving the business environment. Our facilities in less developed regions of China and Indonesia are working on supply chain partnerships that benefit the environment (see box). This year IFC also assessed private sector investment opportunities in Timor-Leste and worked on a strategic business plan with a new microfinance institution in Papua New Guinea.

East Asia: Innovative Partnerships Address Environmental Challenges

IFC's technical assistance facilities are establishing relationships with civil society organizations to help private companies and entrepreneurs contribute more to sustainable development. Examples from our facilities in eastern Indonesia and China's interior demonstrate approaches that are friendly to business and to the environment.

In Indonesia, IFC-PENSA has established a sustainable supply chain program in partnership with the World Wildlife Fund and the Nature Conservancy; it creates market-based alternatives to illegal logging and other practices that are depleting tropical forests. A pilot program is promoting fast-growing acacia wood as an alternative to teak in furniture production. To test the market for acacia products, the program displayed samples from five manufacturers at a furniture show in Singapore in March 2005. Initial orders exceeded \$40,000, and inquiries continue. One company signed an exclusive deal to sell beds to the British market, while another received a 900-piece order for a product using acacia and bamboo.

IFC's China Project Development Facility has set up its own innovative partnership with the World Wildlife Fund, which is helping preserve critical natural habitat in northern Sichuan. The project, initiated by WWF, will help local farmers in Minshan develop sustainable farming as an alternative to illegal logging and the poaching of endangered monkeys and deer, in habitat that is also home to pandas. IFC is providing advisory services and additional resources to create pilots that can be used in an area with more than 500 villages. Our contribution includes helping identify products with a positive impact locally as well as good market prospects. For example, IFC is supporting a company that purchases honey, walnuts, mushrooms, and spices from local communities. Our support has helped attract the global retailer Carrefour, which offers a guaranteed price and provides display space for these products at its outlet in Chengdu. IFC's facility is helping reduce costs in this supply chain and increase product quality to meet the standards of a demanding international business. The project provides new income for local farmers, while Carrefour benefits by building ties to communities and offering unique Chinese products to local consumers.

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