



East Asia and the Pacific

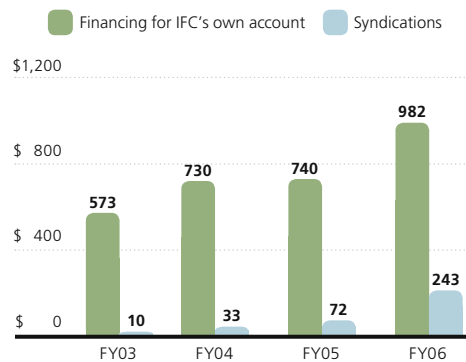
CAMBODIA CHINA FIJI INDONESIA KIRIBATI REPUBLIC OF KOREA LAO PEOPLE'S DEMOCRATIC REPUBLIC
 MALAYSIA MARSHALL ISLANDS FEDERATED STATES OF MICRONESIA MONGOLIA MYANMAR PALAU PAPUA NEW GUINEA
 PHILIPPINES SAMOA SOLOMON ISLANDS THAILAND TIMOR-LESTE TONGA VANUATU VIETNAM

IFC'S STRATEGY FOR EAST ASIA AND THE PACIFIC

- Strengthen financial institutions in the region, deepen capital markets, and expand access to finance for small and medium enterprises
- Support Chinese domestic companies seeking to adopt international standards in governance, environmental, and social practices
- Assist in developing nonbank financial institutions and capital markets and improve access to finance for underserved markets
- Create model infrastructure projects to meet Indonesia's significant infrastructure needs
- Develop financial markets and invest in infrastructure in the region's low-income and high-risk countries, with focus on the needs of small and medium enterprises

COMMITMENTS

(U.S. \$ millions)



OVERVIEW OF IFC ACTIVITY

	FY06	FY05
Total number of investment projects	41	40
Total expenditures for technical assistance and advisory service projects (U.S.\$ millions)	\$26	\$24

IFC STAFF AND CONSULTANTS

	Headquarters	Field Offices
As of June 30, 2006	6	344

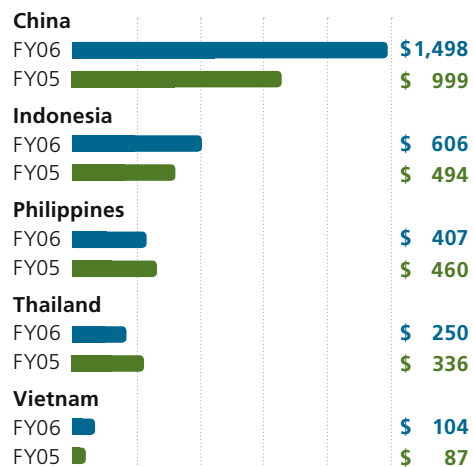
PROJECT FINANCING AND PORTFOLIO

(U.S.\$ millions)

	FY06*	FY05
Financing committed for IFC's account	\$ 982	\$ 740
Loans**	624	520
Equity**	310	195
Guarantees and risk management	48	25
Loan syndications signed	243	72
TOTAL COMMITMENTS SIGNED	1,225	811
Committed portfolio for IFC's account	3,253	2,920
Committed portfolio held for others (loan and guarantee participations)	689	821
TOTAL COMMITTED PORTFOLIO	3,942	3,741

IFC'S LARGEST COUNTRY EXPOSURES

Committed portfolio for IFC's own account as of June 30, 2006. (U.S.\$ millions)



* Includes regional shares of Soco Facility and Avenue Asia investments, which are officially classified as global projects.

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



HOANG TUAN DUNG

IFC is helping the Bat Trang Ceramics Association in Vietnam increase sales and export its products.

BALANCING SUSTAINABLE PRIVATE SECTOR DEVELOPMENT WITH RAPID GROWTH

East Asia and the Pacific continues to be the world's fastest-growing region, with GDP growth of about 6.8 percent in calendar year 2005, down slightly from 7.5 percent in 2004. Economic growth accelerated in Cambodia, Indonesia, and Vietnam and continued at very high rates in China, whereas it slowed in Malaysia, the Philippines, Thailand, and the smaller economies in the Pacific region. While higher oil prices have moderated growth, consumer and business confidence in the region has remained strong, and private consumption and investment growth have gained momentum. Intra-regional trade continues to grow as Chinese companies become important investors both within and beyond the region.

Rapid growth is creating tensions regarding infrastructure, the environment, the social fabric, and financial systems. The sustainability of the region's economic growth will depend on deepening its financial

system, broadening the base of growth through small business development, meeting infrastructure needs, and managing the social and environmental consequences of high growth. IFC's strategy in East Asia and the Pacific is to develop solutions to these challenges through innovative combinations of financing, technical assistance, and public-private partnerships.

IFC's commitments in the region totaled \$982 million in FY06, compared with \$740 million in FY05, and included increased financing for agribusiness, information technology, and manufacturing projects. We opened two new technical assistance facilities this year, one in a rural and underdeveloped part of the Philippines and the other in an area of Indonesia recovering from the 2004 tsunami.

FINANCIAL SECTOR DEVELOPMENT

During the fiscal year, IFC continued to deepen and diversify the region's financial sector by introducing long-

term local currency financing, including local currency bonds, and investing in nonbank financial institutions. This year, IFC was the first multilateral issuer of a panda bond in the Chinese nongovernment domestic market, a transaction that marked the opening of the renminbi bond market to international financial institutions.

IFC's financial sector commitments in the region included a local currency loan of 1.3 trillion rupiahs, equivalent to about \$150 million, to Indonesia's PT Bank Danamon. This loan, our largest local currency facility globally and our largest transaction to date in Indonesia, will support expansion of the bank's microcredit unit.

SUPPORT FOR SMALL BUSINESSES AND REGIONAL FIRMS

As part of its development mandate, IFC supports the transformation of domestic companies into regional and global players. IFC provided a \$45 million loan

for expansion of production capacity to Indonesia's Centralpertiwi Bahari, a subsidiary of Charocon Pokhpand Group, the leading agribusiness group in Asia. This will help the company meet increasing demand for its exports, while creating 5,000 jobs in rural areas with limited economic activity. We also committed \$8 million for Paul Maitland International, an exporter of wood furniture in Vietnam. The investment, in addition to providing long-term financing, will help the company maintain its global competitiveness in certified wood products.

IFC's technical assistance for small and medium enterprises is particularly critical in the frontier regions of emerging economies. East Asia now hosts six private enterprise partnerships for technical assistance, including new initiatives in the Philippines and the Aceh province of Indonesia. All six facilities focus on investment climate issues, access to finance, and corporate governance. The new Private Enterprise Partnership for Aceh and Nias is revitalizing small

PROMOTING ACCESS TO CREDIT IN INDONESIA

Indonesian banks generally provide short-term loans for working capital to large businesses, rather than to the rapidly growing smaller firms that make a key contribution to economic growth. To combat financing obstacles for smaller firms, IFC's Program for Eastern Indonesia SME Assistance and its project partner, Swisscontact, have established new business centers, called Promoting Enterprise Access to Credit, to help small businesses get loans from local banks and provide training programs to business service providers. More than 150 Indonesian small and medium enterprises that are working with business centers have already obtained the equivalent of over \$10.5 million in new loans from local banks.

businesses in the agribusiness and fisheries sectors and improving access to finance for businesses devastated by the 2004 tsunami. IFC's Mekong Private Sector Development Facility collaborated this year with Gap Inc., the largest buyer of garments made in Cambodia, to provide training to more than 650 supervisors in garment factories.

In the tourism sector, MPDF provided technical assistance to

introduce Web portals and local booking offices, giving more than 400 smaller hotels and guesthouses in the Mekong region the opportunity to advertise and accept reservations online. This project has been spun off as a separate company, Worldhotel-link. Web sites previously established for Fiji, Samoa, and Vanuatu by Worldhotel-link will continue to be supported by the new company.



FARIDA LASIDA ADJI

IFC's Program for Eastern Indonesia SME Assistance works with local furniture manufacturers to improve quality and competitiveness.

SUSTAINABLE GROWTH FOR THE LONG TERM

Companies are recognizing the value of sustainable business practices in reducing long-term risks, particularly in East Asia and Pacific island economies, where development pressures on

food traceability and agricultural practices at the tens of thousands of farms in the company's supply chain. Employee health and safety and agrochemical use are concerns for the multinational companies that buy North Andre's juice.

A subsidiary of Charoeeon Pokhpand Group, the leading agribusiness group in Asia, plans to create 5,000 jobs in rural areas of Indonesia with a \$45 million IFC loan to expand production capacity.

natural resources are acute. IFC's work in this arena ranges from reducing the emissions of power generation facilities in China to ensuring reasonable housing and work opportunities for people in communities affected by development projects.

We provided technical assistance this year to North Andre, a major Chinese apple juice producer, to improve

Our private enterprise partnerships provide technical assistance for best practices of sustainability. In Indonesia, stable employment and sustainable livelihoods are being created through projects in the seaweed cultivation and forestry industries, and we are helping small businesses in nearby communities become part of the supply chain for a large natural gas project. IFC-PENSA helped an



IFC is supporting United Family Hospitals, an innovative private sector health care provider in China.

Indonesian acacia plantation gain membership in the World Wildlife Fund's Global Forest and Trade Network: this certification is a major milestone for plantation forestry in a country where natural forests continue to be lost to illegal logging. We are also working with the International Labour Organization in Southeast Asia to promote niche tourism initiatives and institutionalize factory compliance projects. In Vietnam, IFC completed an analysis of constraints facing women business owners and managers, then launched a sustainable finance program to improve their access to finance.

MODEL PUBLIC-PRIVATE PARTNERSHIP IN SAMOA

International transport links are critical to Samoa's economic development. IFC's advisory services provided a unique solution to meet the country's air transport needs by involving the private sector.

Samoa's government could not afford the subsidies required to continue operations of publicly owned Polynesian Airlines, and IFC helped devise a competitive process to select a new private sector partner. Australia's Virgin Blue emerged as the successful bidder with a proposal that will allow the Samoan government to develop tourism, guarantee air access to Samoa, and reduce its contributions to the airline. In other markets where it operates, Virgin Blue has increased tourist arrivals by over a third within the first three years of operations. The Samoan public-private partnership, which will be managed on a commercial, for-profit basis, is the first instance of a low-cost carrier participating in an airline privatization.

INFRASTRUCTURE AND HEALTH CARE

Infrastructure investments, a high priority for IFC in the region, are needed to maintain existing systems and support continued growth at rates that reduce poverty. We diversified into new infrastructure sectors in East Asia this year with loans for desalination and small hydropower development in China. IFC provided financing to Dagang NewSpring to build a seawater desalination plant in Tianjin, China. The plant will help relieve water shortages and alleviate pollution of surface and groundwater.

We lent \$22 million to Zhongda Yanjin Power Generation for three run-of-river power stations. This project, our first investment in Yunnan, one of China's less developed western provinces, will ease power shortages and reduce greenhouse

gas emissions by an estimated 8 million tons over 30 years. This project is expected to attract more investors to Yunnan and nearby provinces, where investment lags behind China's urbanized coast. We are also advising the Philippine government on the privatization of parts of the Small Power Utilities Group, which supplies electricity to rural areas off the power grid.

Our investments in China's high-growth technology sector totaled \$50 million this year for five projects. These included a \$15 million equity investment in ChinaSoft, a software solutions provider, which received a matching investment by Microsoft Corporation USA; a \$20 million equity participation in the SBCVC technology

fund; and a \$10 million investment in NeoPhotonics, which designs and produces components for fiber optic networks.

IFC provided an \$8 million loan to expand China's United Family Hospitals. The country is in the early stages of opening its health sector to private practitioners and foreign investors, and the project will increase access to high-quality health care. We also provided a \$4.6 million financing package for Shanghai Aerospace Computer System Engineering Co., Ltd., which provides high-quality, affordable medical education and training via satellite throughout China, allowing health care practitioners to satisfy continuing education requirements in remote areas.

SUPPORT FOR BUSINESS POLICY DEVELOPMENT IN VIETNAM

In December 2005, Vietnam's national assembly passed two key pieces of business legislation—the Investment Law and the Enterprise Law—to improve the investment climate for domestic and foreign businesses. IFC's Mekong Private Sector Development Facility provided comprehensive technical assistance to government drafting committees and the National Assembly during the law-making process, earning government praise for this support.

MPDF's assistance began with research and presentations for the two drafting committees; topics included best international practice for investment incentives, investor protection, corporate governance, and alternative approaches for legally establishing corporate groups. The facility's advocacy and communications campaign ensured that the issues were widely discussed in the media and among stakeholders to provide wide-ranging feedback on the draft laws.



A sustainable tourism technical assistance project develops export markets for handicraft producers.



LARRY JIANG

IFC's investment in Central Pertiwi Bahari is helping this Indonesian shrimp farm expand to new export markets.

LOCAL CURRENCY LOAN FACILITY BENEFITS SMALL INDONESIAN BUSINESSES

IFC provided its largest local currency loan, equivalent to \$150 million, this year to PT Bank Danamon. The bank is the leading lender for small and medium enterprises and consumer financing in the Indonesian market. IFC's financing, unavailable to the bank in the private market, will help the bank substantially increase its microfinance and small business lending. The structure of the local currency loan also demonstrates that IFC can offer the innovative, large-scale lending that East Asia requires.

Our support for Bank Danamon is part of a broader commitment to increase our activities in Indonesia and continue our support for small and medium enterprises. IFC's investment is expected to encourage other institutions to begin or increase lending to entrepreneurs and small and medium enterprises.

Local currency financing helps domestic borrowers match assets and liabilities and eliminates the risk associated with borrowing in a foreign currency.