



South-South Investment

Creating Opportunity in East Asia and the Pacific

In partnership with: Australia ▪ Canada ▪ Finland ▪ Japan ▪ Norway ▪ Switzerland ▪ The United Kingdom ▪
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MESSAGE FROM THE DIRECTOR

Investment flows from emerging markets into other emerging markets – often referred to as South-South investments – have become a key source of financing for developing countries, as well as a means to transfer standards, knowledge, and successful business models. These trade and financial flows also support increased regional integration, something that is particularly important in Asia Pacific with the formation of the ASEAN Economic Community this year.

Studies have shown that Southern foreign direct investment typically reaches very poor and remote developing countries. Because Southern companies use innovative business models developed in one emerging market and replicate them in the recipient Southern country, these business models and technologies are often

more attuned to the needs and conditions in developing countries. They can be more flexible and adopted faster than investments from developed markets.

South-South investments can also increase bilateral and regional trade with the potential to generate more jobs and bring down the cost of goods and services, making them more affordable for the poor.

With its track record, global presence, and client base, IFC is well-positioned to be the partner of choice for sustainable South-South partnerships. We provide equity or loan financing for such projects and advise both companies and governments on how to create the conditions under which the cross-border transfer of goods, funds, and knowledge flourishes.

South-South projects are particularly aimed toward introducing better governance and sustainable business practices, and improving environmental and social operating standards. There is significant opportunity to develop projects and share learning among regions in areas like clean tech, renewable energy and energy efficiency, and broader adaptation and mitigation strategies.

The collection of stories in this booklet shows in practical terms how IFC-supported cross-border knowledge-sharing and business-transfer opens up opportunities in East Asia and the Pacific. We hope you enjoy reading these vignettes – and maybe they will even spark new ideas for launching or supporting sustainable South-South business opportunities in you, the reader.



A handwritten signature in black ink, appearing to read 'Vivek Pathak', written in a cursive style.

Vivek Pathak
Director
East Asia and the Pacific

IFC'S APPROACH TO SOUTH-SOUTH INVESTMENT IN EAST ASIA PACIFIC



For all their economic achievements in recent years, the needs of developing countries remain vast. The infrastructure investment gap in Asia, for example, is estimated to be around \$1 billion annually between 2010 and 2020.

These needs represent significant opportunities for private enterprises from other developing countries, which have shown a robust appetite to expand into untapped emerging markets. Developing countries now account for more than one-third of foreign direct investment in emerging markets. Leveraging our global reach, IFC has been an important facilitator of South-South investment – an important way to stimulate regional integration, job creation, and economic development.

What We Do

- Increased South-South integration has been one of IFC's five core strategic objectives since 2004. IFC aims to increase lending, equity, and advice to support firms and governments in other emerging markets.
- In fiscal year 2015, our long-term finance investments in such projects reached \$1.34 billion, accounting for 13 percent of IFC long-term finance commitments for our own account. Around one third of this total, or \$425 million, was in South-South projects supported by Asian sponsors investing in Asia and other regions of the world.

How We Do It

- Dedicated staff serves as a focal point for South-South investment in India and China, alongside staff in Africa and Latin America.
- In Asia, the focus is not only on single transactions but also on mobilization from Asian investors. Of the \$46.7 billion in total trade supported¹ by IFC's Global Trade Finance Program from its 2005 inception through fiscal year 2015, 44 percent has been in South-South trade. In addition, as part of IFC's Syndicated Lending Program, an increasing number of emerging-market banks are co-financiers (nearly 45 percent of the total number of participants in fiscal year 2015 compared with 26 percent in fiscal year 2010). Of the more than \$2 billion provided by these banks, \$1.2 billion came from East Asian banks.
- Emphasis on cross-continent South-South investment – for example, Asia to Africa – whereby IFC's deep local knowledge is leveraged, particularly in helping Chinese investors invest abroad responsibly.
- IFC's investment climate and public-private partnership advisory services share lessons among developing markets, often facilitating direct engagement between government officials from different countries.

What We Find

- IFC tends to work with solid investors in its South-South projects, which pose lower market risks than the non-South-South projects.
- Overall, South-South projects yield a strong development dividend. At the same time, there is a strong need to help governments and companies replicate exemplary environmental and social performance in South-South projects.
- IFC's South-South projects are typically with established clients, signifying a natural progression of working with clients domestically first, followed by support for investments abroad.
- Political risk mitigation is an important concern for Southern investors and a source of demand for IFC's services. Similarly, IFC's strong local market and industry knowledge is highly valued by South-South clients.

¹ Total trade supported represents the value of goods traded under IFC guarantees issued in support of the payment obligations of emerging-market banks.



CONTENTS

Deepening Financial Markets

Mongolia/China

Mongolia Helps Small Businesses Prosper in a Remote Region of China 6

Cambodia/Myanmar

Expanding Credit in Myanmar 8

Connecting Markets

China/Ghana/the Middle East

Emerging-Market Funds for Emerging Markets 10

India/Vietnam

Indian Investment Creates Jobs in Vietnam 12

Sharing Knowledge

East Asian Countries

Replicating the Success of Sustainable Energy Financing Across East Asia 14

Lao PDR/China/Vietnam/Myanmar

Sustainable Banking, Sustainable Hydropower 16

Vietnam/Myanmar

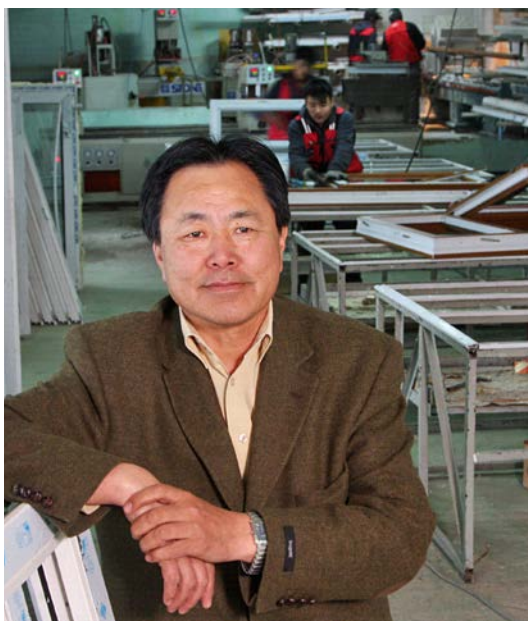
Public-Private Sector Dialogue Helps Drive Reforms 18

Vietnam/Lao PDR

Boosting Lending: Learning from Vietnam 20

Mongolia Helps Small Businesses Prosper in a Remote Region of China

Small business owners and women entrepreneurs often face an uphill battle in obtaining loans. One Mongolian microfinance company is trying to change that in China's Xinjiang province and in Mongolia



Lin Weizhi, General Manager of Xinjiang Pinzhong Import-Export Trading Co., recalls how his firm was cash-strapped and needed urgent financing to tie it over. Lin turned to Urumqi Tianrong Microcredit Co., a joint venture set up by Mongolia-based TenGer Financial Group, IFC, and three other investors from China and Mongolia.

“We got a 300,000 yuan loan in three days,” Lin says. “The interest rate was low and the process was simple. It would be difficult to obtain a loan so quickly from a bank, that’s why we decided to turn to Tianrong.”

Established in 2012, Tianrong is the first microfinance company to expand financing from Mongolia and China to support small businesses in Xinjiang, one of the least developed regions in China, and economic cooperation in Central Asia. This movement of capital from one developing country to another – often called South-South investment – is crucial to deepening financial markets, generating jobs, and stimulating economic growth in frontier



markets. It is also a strategic priority for IFC, which made a 10 million yuan equity investment in Tianrong.

“When Tianrong was established in 2012, we received strong support from IFC. In particular, IFC’s Advisory Services helped us build local knowledge and operational capacity,” says Fiezulla Saidov, Chief Executive Officer of Tianrong Microcredit. “Now the company is well recognized by the local community and we aim to contribute more and do more micro loans in Xinjiang.”

By the end of 2014, Tianrong has an outstanding loan portfolio of about 100 million yuan for around 780 smaller businesses in Xinjiang with an average loan size of 120,000 yuan. IFC also provided technical advice to help Tianrong improve its product design and risk management. More than a third of Tianrong’s outstanding loans were disbursed to ethnic minorities in Urumqi.

As well as extending more financing to small business owners in Xinjiang, TenGer Financial Group is doing the same in its home market. Since 2014, IFC has been advising its flagship subsidiary and Mongolia’s leading microfinance lender, XacBank, on exploring new financing opportunities for small businesses and women entrepreneurs.

Women run or partly own more than half of Mongolia’s companies, but women-owned businesses are still underrepresented in the loan portfolios of banks.

Women repeatedly identify insufficient access to finance and business development services as major constraints to growing their businesses.

IFC has been helping XacBank introduce innovative customer-management practices to improve its ability to target and retain women and small-business clients.

“Innovation is critical for XacBank’s future growth,” says XacBank Chief Executive Officer Bat-Ochir Dugersuren. “We are committed to partnering with IFC to make new ventures that enhance our competitiveness.”

“IFC’s Advisory Services helped us build local knowledge and operational capacity. Now the company is well recognized by the local community.”

Fiezulla Saidov
CEO of Tianrong Microcredit

Expanding Credit in Myanmar

After years of economic isolation, Myanmar has emerged as a new frontier market. Financial services providers are keen to capitalize on the country's rich potential: Only three in 10 Myanmar adults have formal access to credit, deposit, and other financial services, such as insurance and remittance. Small businesses crave capital, with demand for microcredit outstripping supply fourfold



In Channy, President and Group Managing Director of ACLEDA Bank PLC, is quick to seize the opportunity. The Cambodia-based lender has been helping businesses across the Mekong region since it first sought help from IFC in 2000 to transform itself from a modest microfinance institution into Cambodia's biggest bank by assets today. Not only did IFC advise on the establishment of a microfinance institution in Myanmar, it also invested \$2 million in the venture – its first investment in the country.

“As a leading microfinance provider in Cambodia, we are confident we can leverage our extensive experience in providing affordable financing to serve Myanmar's smaller enterprises and low-income households,” says Channy. “The establishment of ACLEDA MFI Myanmar Co. is a milestone in our long-term partnership with IFC.”

A group of 10 Cambodian microfinance experts from ACLEDA traveled to Yangon in September 2012 to start setting up ACLEDA MFI Myanmar Co., helping

to design loan products suitable for the market as well as recruiting and training local staff. All Myanmar employees took part in a six-week intensive training course in ACLEDA's Phnom Penh training center in Phnom Penh before starting work at the bank's Yangon office.

The creation of ACLEDA MFI Myanmar is central to Channy's vision and IFC's strategic goal of revitalizing Myanmar's private sector and spurring job creation.

Until now, most people in the country have had to rely on family savings or borrow money from informal lenders charging exorbitant interests.

To provide an avenue of affordable financing, ACLEDA MFI Myanmar aims to give loans to more than 350,000 Myanmar people, mostly women, by 2020.

“Through ACLEDA MFI Myanmar, IFC will help scale up the country's microfinance industry and increase access to financial services for both the urban and rural poor,” says Adel Meer, IFC's Financial Institutions Group Manager for East Asia and the Pacific. “This will help convince other players that affordable microfinance services can be delivered effectively in Myanmar.”

IFC has helped ACLEDA adopt international banking standards, improve its risk-management and corporate-governance practices as well as strengthening its managerial systems and staff capacity. These efforts have allowed the bank to achieve impressive results and build a solid foundation for further



growth, including the setting up of its Myanmar arm, Channy says.

ACLEDA MFI Myanmar Co., established in 2013, has disbursed more than \$27 million to nearly 75,000 individual borrowers and micro businesses in 73 townships in the Bago and Yangon areas as of September 2015.

“IFC's assistance in our early days was significant and much appreciated. Its advice, based on its broad experience in emerging financial markets, has led ACLEDA to grow into what it is today,” Channy says.

350,000

Myanmar people, mostly women, will get a loan from Acleda MFI Myanmar by 2020

Emerging-Market Funds for Emerging Markets

When the Vodafone Group decided in 2008 to venture into West Africa, a market deemed risky by many investors, it ran into a problem: Commercial banks were unable to arrange a debt facility for the project, as liquidity was tight following the 2008-2009 global financial crisis



Eventually, Vodafone turned to IFC, whose expertise enabled it to quickly pull together a diverse group of commercial banks and development financial institutions from Africa, China, and Germany to arrange syndicated loans of \$115 million for the company. IFC and its partners committed a total of \$215 million for Vodafone's expansion in Ghana.

"IFC has introduced us to new partners and sources of financing that are critical for us to continue to expand in Ghana,

especially in rural areas," says Vodafone Ghana CEO Kyle Whitehill. "The partnership with IFC enables us to provide reliable and affordable mobile and internet services for consumers and businesses, contributing to the country's economic growth."

The deal marked IFC's first syndication with Chinese banks (\$72 million from the Export-Import Bank of China and China Development Bank) and Africa's EcoBank (\$9.75 million). As more Chinese banks seek sustainable investment opportunities overseas, they are finding IFC's involvement reassuring: Projects funded by IFC and banks in its syndication program are subject to IFC's Performance Standards, ensuring that these projects are financially, socially, and environmentally viable in the long run.

In April 2014, IFC helped another Chinese bank provide financing for a project providing critical services in other developing countries. The IFC-syndicated \$30 million loan from Bank of China



Together with Bank of China, IFC provided a \$30 million syndicated loan to Dubai-based Metito Holdings Ltd. to help the company expand and increase the supply of drinking water and improve wastewater treatment across parts of Asia, the Middle East, and North Africa.

for Dubai-based Metito Holdings Ltd., helped the leading water and wastewater treatment company expand in Asia, the Middle East, and North Africa.

The investment aims to increase the availability of drinking water, improve wastewater treatment, reduce costs, and decrease health risks for local communities across parts of Asia and the MENA region.

The syndication follows IFC's own \$50 million investment in Metito in June 2013 to strengthen the company's capital structure and support its expansion.

“Access to water is a fundamental challenge to economic development and growth,” says Chunyan Cai, Senior Executive Officer of Bank of China Middle East (Dubai) Ltd., which covers the MENA region. “With this long-term investment, which is hard to obtain in challenging markets, Bank of China will help support Metito as a leading provider of essential water and wastewater management solutions in water-stressed regions.”

IFC's experience has shown how Chinese investments can be a win-win-win for private companies, the Chinese banks, and local communities' development needs. As Chinese lenders seek to internationalize by investing overseas, their funding has helped local businesses grow, expand essential services, and improve infrastructure in emerging markets.

Since 1957, IFC's syndicated loan program has mobilized more than \$48 billion from around 500 financial institutions to fund over 1,000 projects in more than 110 emerging markets, making it the largest financing program among multilateral institutions.

“IFC has introduced us to new partners and sources of financing that are critical for us to expand in Ghana.”

Kyle Whitehill
CEO of Vodafone Ghana

Indian Investment Creates Jobs in Vietnam

Despite being the world's largest producer of Robusta beans and the second-largest coffee bean exporter, around 95 percent of Vietnam's coffee bean exports are unprocessed. Vietnam is keen to adopt coffee manufacturing technology that can help lift the export value of its coffee and improve the sector's competitiveness



For women like Dinh Thi Phuong in Dak Lak, a major coffee-growing province in the Central Highlands of Vietnam, finding a permanent job in their hometown is a dream come true, as it allows them to work while raising their children at the same time.

However, a lack of employment opportunities at home has meant that many have had to leave for bigger cities

to work in garment or footwear factories. So when CCL Products, a leading instant-coffee manufacturer based in India, set up its subsidiary Ngon Coffee Co. and a factory in Dak Lak in 2009, local workers were thrilled.

“I worked part-time as a mobile-phone fee collector over the past few years, as I did not want to leave my kids alone,” says Phuong, a mother of two children

aged 6 and 10, who took a job at Ngon Coffee as soon as it began operations. “My current job is more stable and I still have time to take care of my family.”

IFC provided CCL, which exports bulk and packaged instant coffee to around 70 countries, with an \$18 million loan to part-finance an instant coffee plant in Vietnam, bringing a transfer of skills, know-how, and technology from the company’s home base in India to Vietnam.

The loan has enabled the company to create jobs for around 150 Vietnamese workers – most of them women – and bring state-of-the-art technology for instant-coffee production to the country; the Indian experts provided on-site training to the Vietnamese workers on how to operate the machines.

“IFC’s investment in our company shows its commitment to support cross-border investments among emerging markets by midsize companies in Asia,” says Rajendra Prasad, CCL’s Chairman and Managing Director.

The Vietnam factory uses an advanced technology to produce higher quality spray-dried coffee powder in a more energy-efficient way. It also uses a boiler fuelled by biomass energy instead of conventional electricity, which helps avoid around 40,000 tons of greenhouse-gas emissions a year.

“Ngon Coffee’s environmentally friendly approach was designed as a best-practice example for local firms in the sector,” says Prasad. “More

95% of Vietnam’s coffee bean exports are unprocessed, bringing little profit; Indian technology will help increase the export value of this commodity

importantly, it helps improve Vietnam’s coffee-processing capacity and add value to Vietnam’s coffee production.”

Vietnam is the world’s largest producer of Robusta beans and the second-largest coffee exporter, but around 95 percent of its coffee beans exports are unprocessed.

The investment by India’s CCL in Vietnam has transferred superior manufacturing technology from India to increase the production of high-quality processed coffee in Vietnam and improved the sector’s competitiveness.

Ngon Coffee plans to generate annual export earnings of \$35 million by 2015 and its workers are expecting to benefit from this too.

“I hope my salary will increase soon, so that I will be able to save more to build my own house,” says Phuong.

Replicating the Success of Sustainable Energy Financing Across East Asia

IFC's Sustainable Energy Financing Program connects companies across East Asia and the Pacific and shares best practices to address environmental challenges, climate change, and high power costs



Ts Baatarbileg runs NVTs Co., the largest egg and poultry business in Mongolia. As the country's demand for chicken meat continues to grow, the CEO has been expanding his business but encountered a problem: growing mounds of untreated chicken manure.

“We spent six years searching for the technology to treat chicken manure with eco-friendly solutions,” says Baatarbileg. “We eventually found it abroad through IFC's China Utility-Based Energy Efficiency Finance (CHUEE) program.”

Upon learning of NVTs's problem from XacBank, a partner bank of IFC Mongolia, the Mongolia team sought help from the CHUEE team in Beijing, which put Baatarbileg in touch with Beijing HELEE Bio-Energy Co., a company that specializes in turning chicken manure into biogas energy.

This is just one instance where IFC's Sustainable Energy Finance Program – supported by different donors in different countries – has enabled collaboration among emerging East Asian companies to address environmental challenges, climate change, and the high cost of power.

Will Beloe, who leads IFC's Sustainable Energy Finance program in Asia, says his team has been helping to transfer best practices from one country to another. “For example, IFC Philippines brought a client bank to Jakarta to talk about its Sustainable Energy Finance experience at a bankers' forum to encourage Indonesian financial institutions to offer the program to their own clients,” he says.

After CHUEE implemented a successful program recognizing best practice energy-efficiency and renewable-energy projects,



the Philippines created similar awards to recognize companies with outstanding investments in these fields and entice others to follow their lead.

IFC's partner banks, Bank of the Philippine Islands and BDO Unibank, have provided \$846.3 million worth of financing to projects that have helped avoid two million metric tons of greenhouse-gas emissions annually, equivalent to removing around 382,000 cars from Philippine roads.

"We are sharing IFC's global expertise and knowledge with our clients to help them make more informed decisions on energy investments that will increase their bottom lines and highlight their social responsibility," says Walter Wassmer, a top-level executive at BDO Unibank.

In Vietnam, IFC is pushing for greater energy efficiency both through investments and by providing policy advice. IFC has been working with leading Vietnamese lenders Techcombank and VietinBank to develop their energy-efficiency lending facilities for local small and medium enterprises over the past four years. So far, the two banks have committed

total financing of nearly \$63 million for nine sustainable-energy projects, which will help reduce energy use by around 260,000 megawatt hours and cut more than 130,000 tons of carbon dioxide emissions per year.

IFC also supported Vietnam's Energy Efficiency Department with energy-efficiency benchmarking studies in steel, cement, and textile sectors. These studies served as the baseline for the government's target of cutting 10 percent of energy consumption in these energy-intensive sectors in 2015. To achieve this goal, IFC's Philippine team shared its expertise on sustainable energy finance with the Vietnam team and together they brainstormed an awareness campaign.

"The popularity of this campaign is due to IFC's technical assistance. We hope that more businesses will become aware of the benefits and tools they can access to improve their energy efficiency," says Phuong Hoang Kim, former Deputy Director of the Department of Science, Technology and Energy Efficiency under the Ministry of Industry and Trade.

Sustainable Banking, Sustainable Hydropower

For a resource-rich country like the Lao People's Democratic Republic, the development of hydropower is key to supporting the growth of its economy, but doing so sustainably remains a challenge. Banks face higher credit risk if the hydropower projects they finance causes tension between businesses and local communities, depletes water resources, or increases environmental costs

Encouragingly, banking regulators and associations from Lao PDR's top three lending markets – China, Thailand, and Vietnam – are on the move to support banks' adoption of sustainable-banking practices, which integrate environmental and social risk screening into lending decisions. More financial institutions have been embracing this practice because it helps them make better investments, ultimately yielding higher returns.

“Take China as an example – their banking regulator has played a pioneering role on promoting more sustainable banking practices,” says Wei Yuan, IFC Operations Officer based in Beijing.

Since 2007, IFC has been advising the Chinese government on its Green Credit Policy, which directs loan financing from highly polluting and high-energy-consuming projects to those that are greener, more climate friendly and socially

inclusive. In 2008, with IFC's support, China's Industrial Bank adopted the Equator Principles, a global benchmark for assessing and managing environmental and social risks in projects, becoming the first Equator bank in China.

Industrial Bank also made green finance part of its business, building a portfolio in the sector that exceeded \$40 billion by September 2014, representing around 24 percent of its overall corporate lending.

In Vietnam, banking regulators are working to improve national guidelines that identify and manage environmental and social risks in project financing. For example, the State Bank of Vietnam, in partnership with IFC, is drafting regulation mandating environmental and social risk management in the country's lending activities with the aim of launching a green credit policy similar to that of China.

“We’re reaching out through training, events, and seminars,” says Huong Thien Nguyen, IFC Operations Officer based in Hanoi. “Our aim is to raise awareness of good environmental and social practices to get the new regulations enforced.”

Efforts made by banking regulators in Vietnam and China to pioneer the development of mandatory sustainable-banking guidelines could have a positive impact beyond their own borders.

To encourage that potential, IFC has helped set up the Sustainable Banking Network, an international platform of regulators and banking associations from 14 countries focused on practical knowledge sharing.

“Lessons learned from cases where regulators take a lead such as in China and Vietnam could be very useful in Thailand,” says Twatchai Yongkittikul, Secretary General of the Thai Bankers’ Association. “Equator banks can create lending incentives for hydropower developers that meet environmental and social standards. This is what I would like to see happening in Thailand.”

In May 2014, IFC’s Mekong Hydro Program worked with more than 60 bank executives in Vietnam to better identify, assess, manage, and mitigate environmental and social risks in projects. The workshop – organized together with the Institute of Manpower, Banking and Finance – showed that by ensuring large-scale infrastructure projects address environmental and social risks, banks can reduce their risk exposure and encourage sustainable investments

that yield benefits for people and the environment as well as investors. IFC is now working to bring these key lessons to Myanmar, as the country tries to tap into its vast potential for hydropower development.

“We hope our work with banking regulators in China and Vietnam has a positive impact on overseas financing, especially for projects that have environmental or social impacts,” says IFC’s Yuan.

“We hope our work with banking regulators in China and Vietnam has a positive impact on overseas financing.”

Wei Yuan
IFC Operations Officer



Public-Private Sector Dialogue Helps Drive Reforms

Across East Asia Pacific, more and more emerging markets are seeing the benefit of close cooperation between the public and private sectors to fine-tune policymaking and drive business and economic development

IFC has been supporting these economies – including Cambodia, Lao People’s Democratic Republic, and Vietnam – in setting up platforms for firms and government officials to exchange views and voice their concerns, which can often lead to important policy reforms to create a better business environment.

“Our experience in supporting public-private sector dialogue across the world shows that companies can operate at their best and contribute their most to economic development once they can help shape business-friendly laws and regulations,” said Vikram Kumar, IFC Resident Representative for Myanmar.

Vietnam, in particular, is an example where a public-private sector dialogue delivers tangible results and its key lessons are now shared with neighboring countries. The Vietnam Business Forum, which IFC helped establish in 1997, contributed to the passage of 73 laws and regulations, helping businesses save around \$240 million. IFC managed the forum’s secretariat until early

2012 before handing it over to the private sector. The forum continues to serve as a dialogue platform between the government and the business community today.

Myanmar is in a similar position as Vietnam back in the mid-1990s when it started to implement market-oriented reforms to open up the economy. Today, IFC is working with the Myanmar government and its private sector to replicate Vietnam’s success by setting up a Myanmar Business Forum to resolve regulatory constraints that hinder economic development.

\$240 million the amount saved by businesses after the Vietnam Business Forum pushed for simplified laws and regulations to improve the ease of doing business



“Public-private exchanges will help accelerate ongoing economic reforms and lead to regulatory changes that are most needed to improve the ease of doing business,” said Pwint San, Myanmar’s Deputy Minister of Commerce and Secretary of the Special Task Force for Business and Trade Promotion.

The Union of Myanmar Federation of Chambers of Commerce and Industry (UMFCCI) set up the forum’s private sector secretariat following presidential approval of the forum’s establishment in February 2014. However, IFC’s support for Myanmar began about two years before that when it first sent a private sector delegation to see the Vietnam Business Forum in 2012. Since then, two more delegations, including public and private sector, have attended the biannual Vietnam Business Forum and have met with various stakeholders in Vietnam to learn more about how to facilitate public-private dialogue. Following these visits, the government established a secretariat within the Special Task Force for Business and

Trade Promotion under the Ministry of Commerce to facilitate government coordination.

“It has been an invaluable experience seeing how the Vietnam Business Forum operates, observing the two sectors’ dynamic interactions, and meeting the key people involved in making it work,” said Thet Thet Khine, the UMFCCI’s Joint Secretary General who was part of the Myanmar delegation and is a key member of the Myanmar Business Forum’s private sector secretariat.

Under the leadership of the UMFCCI, the private sector has established five working groups in key sectors such as infrastructure, natural resources, manufacturing, trade and investment, hotels and tourism, and agriculture, fisheries, forestry and livestock.

These private sector working groups meet regularly to prioritize issues that will then be raised with the Myanmar government in coordination with the task force.

Boosting Lending: Learning from Vietnam

Lao officials learn the inner workings of Vietnam's online movable collateral registry to expand access to finance for small and medium enterprises in their own country



A few years back, Namseng Xathousinh, a Lao finance official, began contemplating a system that would allow small businesses to use movable assets, such as factory equipment, timber, tractors, and other inventory, as collateral for obtaining loans. Previously, companies could only get loans from banks if they were able to put up immovable assets, such as land, as security.

Easier access to finance spurs the growth of smaller businesses, which form the backbone of the Lao economy.

To tackle the monumental task of implementing this change, which promised to unlock lending to farmers and other small business owners, Xathousinh and his colleagues from the Lao People's Democratic Republic's Ministry of Finance traveled to neighboring Vietnam, which established its online movable collateral registry in 2012, to learn the ins-and-outs of its operation.

“It was clear from the very beginning that in order for the registry in Lao PDR to be a success, we needed to get it right from the start,” says Xathousinh. “What we were after was advice from other countries that had experience in movable-asset lending.”

Exchanges with Vietnam taught Xathousinh and his team everything from the key operational procedures and technical requirements of setting up the online secured transaction registry to its day-to-day management.

“Here in Vietnam, it took us time to decide on an appropriate platform for the online registry and to select a good vendor to help us set up the system,” says Vu Duc Long, Director General of Vietnam’s National Agency for Secured Transactions under the Ministry of Justice. “I believe our Lao colleagues will be able to save time and run their operation smoothly by taking our experience into account.”

After the Vietnam trip, the Lao officials returned to their own country and, with support from IFC, developed Lao’s own online registry and modified it to support the Lao language.

“The most valuable lesson we learned was that getting banks on board is not done overnight,” says Xathousinh. “Although we’ve made good progress, we have to work very hard to convince banks that registering personal collateral for loans is secure and beneficial.”

Following several years of hard work, Lao’s online registry was launched on November 20, 2013 and half of Lao PDR’s banks had become clients of the registry by July 2014. The registry has facilitated more than \$1.2 billion in loans since its launch. Small businesses are finding it easier to obtain loans for motor vehicles, heavy equipment, and farm machinery.

“A few years ago, the idea of Lao banks lending to small businesses based on

movable collateral would have been unlikely,” says Xathousinh. “Today, we’re proving to banks that movable-asset lending offers many benefits to both the lender and the borrower.”

Through the knowledge-sharing trip with Vietnam, Xathousinh has forged professional relationships with his Vietnamese counterparts, who regularly give him technical support and advice on how to best manage the online collateral registry.

“When I have any doubt, I simply pick up the phone and call our colleagues in Vietnam. They are always happy to offer advice, which has helped build our confidence tremendously. We know our colleagues have been there too, which motivates us to push forward,” he says.



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Page 8: IFC

Page 9: IFC

Page 10: Metito Group

Page 10: Metito Group

Page 12: IFC

Page 14: Hamid Sardar-Afkhami

Page 15: IFC

Page 17: IFC

Page 19: IFC

Page 20: IFC

Page 21: IFC

Page 23: Hamid Sardar-Afkhami





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