

Economies in the East Asia and Pacific region continued to grow at a steady pace of 8.2 percent in 2005 and continued at about the same rate in the first half of 2006. Sustained growth has lifted 50 million people out of poverty each year for the past five years. With just 8 percent of the population living below \$1 a day, East Asia has the chance to reduce absolute poverty significantly by 2010. Much of the region's poverty reduction has resulted from rapid growth in China, which in turn has increased exports from China's neighbors. The region's exports have almost doubled over the last three years. Despite the highest real oil prices in more than 25 years, growth in 2005 has been only moderately affected. Several countries, most notably Indonesia, have taken action to reduce costly and regressive fuel subsidies while also encouraging consumers and firms to adapt to higher oil prices.

Developing countries in the region are now being challenged to improve their investment climate, boost efforts to innovate and build skills, and protect those vulnerable to devastating shocks like health crises, job losses, and natural disasters. The threat of avian flu also presents a major

uncertainty. Countries across the region are taking steps to manage possible outbreaks. Although avian flu has severely affected those connected to poultry farming, the impact has not spilled into the overall economy.

### WORLD BANK ASSISTANCE

The Bank's strategy for the region is to support broad-based economic growth, promote trade and integration, enhance the environment for good governance, increase social stability, and achieve the Millennium Development Goals. To help reach those goals, the Bank approved \$3.4 billion for the region in fiscal 2006, \$1 billion in IDA credits, \$84.5 million in IDA grants, and \$2.3 billion in IBRD loans. Carbon fund contracts in the amount of \$939.3 million were signed this year, bringing the regional total committed for reducing global greenhouse gas emissions to \$1.1 billion.

In China, the Bank approved a new country partnership strategy that addresses equity, the environment, and the rural-to-urban transition. With an updated strategy for assistance to Indonesia, the Bank has reinforced its support

### EAST ASIA AND PACIFIC FAST FACTS

Total population:	1.9 billion
Population growth:	0.8%
Life expectancy at birth:	70 years
Infant mortality per 1,000 births:	29
Female youth literacy:	97%
2005 GNI per capita:	\$1,630
Number of people living with HIV/AIDS:	2.4 million

### TOTAL FISCAL 2006

<b>New Commitments</b>
IBRD \$2,344.3 million
IDA \$1,057.2 million

### TOTAL FISCAL 2006

<b>Disbursements</b>
IBRD \$1,806 million
IDA \$755 million

Portfolio of projects under implementation as of June 30, 2006: \$19.5 billion

**Note:** Life expectancy at birth, infant mortality rate per 1,000 live births, and female youth literacy are for 2004; HIV/AIDS data are from the UNAIDS 2006 Report on the Global AIDS Epidemic; other indicators are for 2005 from the World Development Indicators Database.

## COUNTRIES ELIGIBLE FOR WORLD BANK BORROWING

Cambodia	Kiribati	Malaysia	Mongolia	Philippines	Timor-Leste
China	Korea, Republic of	Marshall Islands	Myanmar	Samoa	Tonga
Fiji	Lao People's Democratic Republic	Micronesia, Federated States of	Palau	Solomon Islands	Vanuatu
Indonesia			Papua New Guinea	Thailand	Vietnam

for anticorruption efforts and improvements in the investment climate. Post-tsunami reconstruction in Indonesia's Aceh province has accelerated significantly (see box 2.1), with thousands of land titles distributed as part of the Bank's efforts to promote community-led reconstruction; \$28.5 million has been allocated for this activity under the World Bank-managed \$526 million Multi-Donor Fund for Aceh and Nias, to which 15 donors make contributions, with the European Commission and the Netherlands being the largest contributors. At the Indonesian government's request, the Bank organized a donor meeting just two days after the May 27, 2006, Yogyakarta earthquake and worked with the government to assess the damage in time for the annual donors' meeting in June. In Timor-Leste, the Bank's assistance strategy is being reoriented to take into account the factors leading to the deteriorating security situation. The Bank is continuing harmonization efforts with development partners to assist the country in refocusing the reform agenda on governance issues, public finances, service delivery, and job creation, and to ensure that achievements made in strengthening institutional capacities around petroleum revenues are not lost to conflict.

Groundbreaking work on improving governance and fighting corruption is being done in the region. Indonesia's country assistance strategy, for example, was the first with a governance focus. It is supported by the evolving work on safeguards strengthening in the region's project portfolio and, more broadly, by public service and systems reforms.

The Bank is working to address challenges posed by the Millennium Development Goals. In Mongolia, the Rural Education and Development Project will enhance the quality of education in rural primary schools. In Vietnam, where access to clean water and household sanitation services is a critical need, the Red River Delta Water Supply and Sanitation Project will improve services in four provinces.

The Bank is working closely with technical agencies and governments to prevent, prepare for, and control the spread of avian flu, which continues to be a threat in East Asia. In Vietnam, projects to address both animal and human health issues are under way; a new operation for the Lao People's Democratic Republic was approved. Other risks come from natural disasters, especially hurricane-strength cyclones.

Much of the region's gross domestic product comes from coastal areas (especially in China), where the impact of rising sea levels and weather-related disasters is greatest. The Bank report *Not If, But When* examines disaster preparedness for the Pacific Islands, some of which are extremely prone to these threats. In Vietnam, a natural disaster risk-management project is taking an innovative approach to reducing the impact of natural hazards, especially at the community level, where vulnerability is often greatest.

Under the auspices of the World Bank's Umbrella Carbon Facility, two Chinese companies agreed to the largest HFC-23 (trifluoromethane) emissions reduction project on record. The companies are expected to reduce emissions by about 19 million tons of carbon dioxide annually. More than half of the HFC-23 revenues flowing to the government of China will be used by a new Clean Development Fund to invest in climate change-related activities such as energy efficiency, renewable energy, and coal mine methane recovery and use.

### **BUILDING THE CLIMATE FOR INVESTMENT**

The Bank's policy-based lending builds institutions that support investment and promote economic growth. A \$400 million second development policy loan for Indonesia supports improvements in the investment climate, public financial management, and other key priorities. It also brings the World Bank, the government of Japan, and the Asian Development Bank together around a common policy framework. Almost a dozen donors have united behind the reform programs financed by poverty reduction support credits in Vietnam. Progress also continues under the economic and structural reform program in Lao PDR, one of the poorest countries in East Asia.

Trade and integration are playing a significant role in the region's poverty reduction efforts, and the Bank is supporting new areas of that work with a customs modernization project in Vietnam. The Bank cosponsored a conference on financial sector diversification, with a final report on the issue to be presented at the Bank's Annual Meetings in Singapore in September 2006.

Infrastructure continues to be a challenge, as noted in last year's joint study, *Connecting East Asia*. With new

FIGURE 2.3

**EAST ASIA AND PACIFIC**

IBRD AND IDA LENDING BY THEME | FISCAL 2006

SHARE OF TOTAL OF \$3.4 BILLION

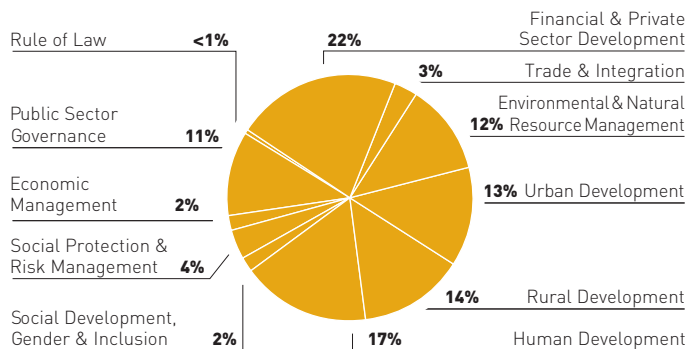
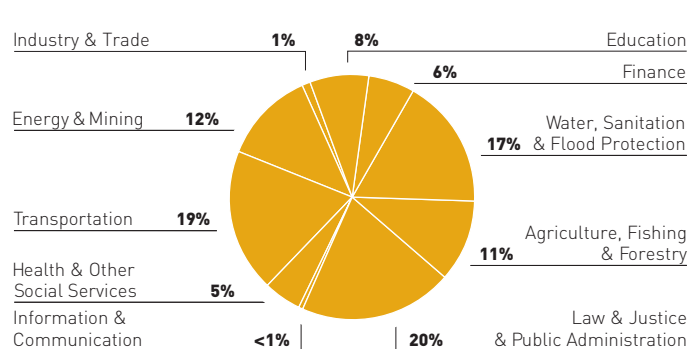


FIGURE 2.4

**EAST ASIA AND PACIFIC**

IBRD AND IDA LENDING BY SECTOR | FISCAL 2006

SHARE OF TOTAL OF \$3.4 BILLION



energy projects this fiscal year in China, Indonesia, the Philippines, and Vietnam, the Bank is contributing to energy efficiency and improved transmission and distribution. Construction on the Nam Theun 2 Hydropower Project in Lao PDR is moving ahead satisfactorily, with continued efforts to ensure that construction progress is matched by efforts to mitigate the impact on people and the environment.

**FOSTERING PARTICIPATION IN DEVELOPMENT**

The Bank is working to enhance the environment for governance at national and subnational levels. A community-driven development initiative is investigating how community development projects can enhance demand for good governance. Missions to Cambodia and the Philippines under the Forest Law Enforcement and Governance Initiative are looking at how improved law enforcement can contribute to sustainability in the

region’s forests. A major judicial conference held in the Philippines brought together judges from around the world to talk about improving the skills and effectiveness of the courts. The multidonor, Bank-administered Mindanao (Philippines) Trust Fund–Reconstruction and Development Program was launched to promote inclusive and effective governance processes. The first phase of this program has begun and is focused on developing the capacity of local institutions.

China, Papua New Guinea, the Philippines, and Vietnam all held development marketplaces this year, granting more than \$2.3 million to civil society groups to test new approaches to local development challenges (see box 1.5). Public information centers around the region have made more information available to people with disabilities, especially the blind, and are working with local groups to increase understanding of development issues. (See [www.worldbank.org/eap](http://www.worldbank.org/eap).)

**BOX 2.1**

**REBUILDING PEACE IN ACEH**

After the August 2005 Helsinki Peace Accord between the government of Indonesia and the Free Aceh Movement, the government asked the Bank to help support the peace process. The Bank has since distributed peace posters and copies of the peace agreement, piloted peace radio training, and taken part in Forum Bersama to reintegrate former combatants into their communities. The Kecamatan Development Program is working with the International Organization for Migration to provide reintegration grants, and the Support for Poor and Disadvantaged Areas Program will bring those areas into the reconstruction process and provide transitional support to ex-combatants.

Bank support for the peace process includes working closely with the Aceh Monitoring Mission, the European Union,

the International Organization for Migration, the United Nations Development Programme, Japan, and the United States in cooperation with the provincial government. The program includes a comprehensive research program to support policy making, which involves completing an assessment of reintegration needs. The program will include analytic work on the elections, an evaluation of the reintegration program, and a study analyzing how to mainstream conflict-sensitive principles into tsunami aid.

The Bank has helped develop innovative approaches for monitoring corruption across the main Aceh transport routes so that demands for illicit payments, which have contributed to rising construction costs, can be tracked. The Bank is also monitoring conflict trends and reintegration dynamics at the request of the provincial government.

TABLE 2.2

**WORLD BANK LENDING TO BORROWERS IN EAST ASIA AND PACIFIC** BY THEME AND SECTOR | FISCAL 2001–2006  
 MILLIONS OF DOLLARS

THEME	2001	2002	2003	2004	2005	2006
Economic Management	0.0	4.8	29.7	0.0	87.0	78.7
Environmental and Natural Resource Management	399.3	102.3	232.3	432.2	446.9	396.4
Financial and Private Sector Development	310.9	512.8	458.8	553.9	340.6	720.7
Human Development	52.6	226.4	152.7	164.6	184.6	543.7
Public Sector Governance	65.1	127.4	341.5	299.0	344.5	385.9
Rule of Law	3.8	20.3	7.3	67.3	45.8	13.4
Rural Development	341.6	360.9	411.7	400.9	484.1	465.7
Social Development, Gender, and Inclusion	248.0	173.0	143.7	167.2	241.1	83.3
Social Protection and Risk Management	239.4	138.7	161.5	5.5	88.7	144.9
Trade and Integration	40.0	43.3	138.0	82.9	126.5	112.1
Urban Development	433.1	63.6	233.6	399.2	493.5	456.9
<b>Theme Total</b>	<b>2,133.8</b>	<b>1,773.6</b>	<b>2,310.8</b>	<b>2,572.7</b>	<b>2,883.3</b>	<b>3,401.6</b>
<b>SECTOR</b>						
Agriculture, Fishing, and Forestry	109.7	151.2	106.7	290.4	207.9	373.3
Education	14.8	134.6	225.7	118.6	228.0	287.9
Energy and Mining	142.2	314.5	254.3	67.2	359.1	425.2
Finance	87.5	219.2	22.7	49.0	213.1	197.6
Health and Other Social Services	217.3	243.8	184.1	84.3	204.3	160.6
Industry and Trade	151.8	9.4	32.5	78.7	159.1	29.3
Information and Communication	12.5	11.1	6.6	0.0	5.0	5.3
Law and Justice and Public Administration	257.4	115.2	385.1	257.5	436.6	693.6
Transportation	729.7	540.2	684.3	1,209.9	306.7	652.3
Water, Sanitation, and Flood Protection	410.8	34.4	408.7	417.1	763.7	576.5
<b>Sector Total</b>	<b>2,133.8</b>	<b>1,773.6</b>	<b>2,310.8</b>	<b>2,572.7</b>	<b>2,883.3</b>	<b>3,401.6</b>
Of which IBRD	1,136.1	982.4	1,767.1	1,665.5	1,809.8	2,344.3
Of which IDA	997.7	791.2	543.7	907.2	1,073.6	1,057.2

**Note:** Includes all adjustment, development policy, and investment loans. Effective fiscal 2005, lending includes guarantees and guarantee facilities. Numbers may not add to totals due to rounding.