



BRYCE MEEKER

Europe and Central Asia

Project Financing and Portfolio

(millions of U.S. dollars)

	FY03	FY04*	FY05**
Financing committed for IFC's account	1,203	1,667	1,938
Loans	1,058	1,374	1,751
Equity	50	292	187
Guarantees and risk management	95	1	0
Loan syndications signed	191	363	419
TOTAL COMMITMENTS SIGNED	1,394	2,030	2,357
Committed portfolio for IFC's account	3,575	4,548	5,423
Loans	2,899	3,768	4,602
Equity	521	667	719
Guarantees and risk management	156	113	102
Committed portfolio held for others (loan participations)	785	935	1,008
TOTAL COMMITTED PORTFOLIO	4,360	5,482	6,431

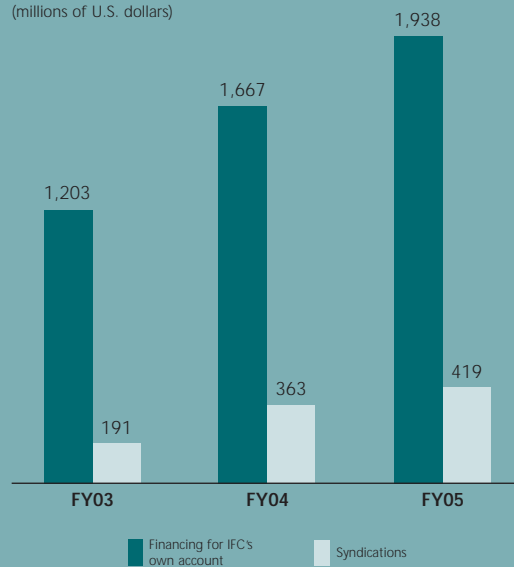
Loans include loan-type, quasi-equity products. Equity includes equity-type, quasi-equity products.

* Includes BTC Pipeline and regional share of LNM Holdings, which are officially classified as global projects.

** Includes regional share of Melrose Facility, which is officially classified as a global project. Committed portfolio includes BTC Pipeline, which is officially classified as a global project.

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)

Russian Federation	1,432
Turkey	981
Romania	409
Ukraine	265
Bulgaria	253

*Excludes individual country shares of regional and global projects.

Project Commitments and Countries

	FY03	FY04	FY05
Number of projects	60	65*	67
Number of countries	18	17	15

* Includes BTC Pipeline.

Rising Investment and Broader Impact

At 7.2 percent during 2004, growth in Europe and Central Asia has remained strong. IFC's activity here covers many sectors, led by the financial sector, where our investments, expertise in structuring transactions, and advice to firms and governments are helping build capital markets and expanding access to finance. During FY05 we also continued expanding our technical assistance efforts, particularly in Southeast Europe.

Southern Europe and Central Asia Rapid Change, Varied Opportunities

Southern Europe and Central Asia is an economically diverse region, with per capita incomes ranging from \$200 a year in Tajikistan to \$6,500 in Croatia. Most countries are in transition from state-controlled to free market economies or are coming out of conflict. But most of these are changing rapidly, with a growing private sector and emerging local businesses, and are drawing increased interest from foreign investors. This year, the economies of Southeast Europe and Turkey registered strong growth; for the most part, growth was healthy in Central Asia and Azerbaijan. Economic development in the region will require large investments to accelerate growth, increase employment, and facilitate integration into international markets. During FY05, IFC's investments in the region reached \$811 million in new commitments, compared to \$842 million in FY04; we also mobilized \$174 million through syndications.

IFC has been involved in restructuring and privatizing the financial sector in much of the region. This year, we continued to support private banks, which in turn help improve access to finance for local private companies and smaller businesses. IFC is also fostering the development of nonbank financial institutions, especially in housing finance and leasing. In Kazakhstan, we invested in Bank Turan Alem Leasing, the country's first commercial leasing

company (see box, p. 19). Here IFC took a 10 percent shareholding and helped attract foreign strategic and technical partners; our involvement helped set new standards in corporate governance, encouraging other investors to enter the country. In Turkey, through a loan and equity package, IFC supported Intercity, a vehicle leasing operation, reflecting our strategy to help innovative clients and entrepreneurs (see box). IFC supported TSKB, a large term-lending institution, to enhance the availability of funding for Turkish companies. IFC invested in financial institutions, often with technical assistance to strengthen capacity, in Azerbaijan, Bosnia and Herzegovina, Croatia, Romania, and Tajikistan. In Serbia and Montenegro alone, IFC committed \$108 million in the banking sector this year.

In manufacturing and services, and consistent with IFC's strategy to encourage "south-to-south" investments, we helped a Lebanese sponsor invest in the Albanian cement sector; a competitive local supply of cement will reduce Albania's dependence on imports (see box). In another example of interregional investment, we worked with Arcelik, a Turkish firm, to establish a greenfield manufacturing facility in Russia that will improve the company's position as a globally competitive supplier of major household appliances. In Bulgaria and Croatia, IFC invested in discount retail outlets and hypermarkets; these are expected to improve distribution of locally procured goods at competitive prices to consumers nationally.

In the social sectors, IFC supported two projects in Turkey, where the market is well positioned for private provision of education and health services. IFC is helping a leading health services provider establish two hospitals, one in Istanbul specializing in oncology and neurosurgery, the other serving general health care needs in Bursa. In education, IFC made its first loan in Turkish lira to assist a K-12 school and vocational institute in expanding its services, including in information technology and software.



COURTESY OF FUSHE KRUIJE

Albania: The First Investment in the Privatized Industrial Sector

This year IFC provided a \$30 million loan for rehabilitation and expansion of Albania's Fushe Kruje Cement Factory, which will install a new production line, increasing capacity to 1.3 million tons a year. A good example of interregional or "south-to-south" investment, the project is sponsored by Seament Holding, a major cement trading group based in Lebanon. It will establish the only modern cement factory in a market that consumes 1.5 million tons of cement per year, two-thirds of which is imported. Located near inexpensive sources of clay and limestone and operating with a low capital cost, the factory is expected to produce clinker and cement at roughly half the cost of imports.

With a total cost of \$130 million, the project is the first investment in Albania's industrial sector since its privatization. It brings modern production technology and operational know-how to the country while providing attractive wages to 400 workers in an area with few employment opportunities. Fushe Kruje will draw on IFC's environmental due diligence and supervisory oversight to raise its environmental and social management to international best practices. The workers will also benefit from a more formalized safety program.

IFC played a key role in completing the financial plan, which posed challenges due to the project's size and a shortage of domestic and external sources of funding. Our presence gave comfort to other financial institutions, encouraging them to participate. The project will help demonstrate the feasibility of project finance in Albania and promote more foreign direct investment in the country.

In infrastructure, IFC is helping potential European Union accession countries privatize their utilities. In Romania, IFC provided a financing package to DistrigazSud, a recently privatized gas distribution company. The private provision of infrastructure services, especially through public-private partnerships, will be increasingly important, especially in Southeast Europe, and IFC will seek to support the emerging opportunities in this area.

IFC continues to give priority to the frontier markets of Central Asia, where opportunities for investments remain severely constrained. Here, through the donor-supported Private Enterprise Partnership, IFC has deployed technical assistance, especially for small and medium enterprises. To achieve long-term, sustainable impact, regional and country programs have been established in the areas of leasing, housing and mortgage finance, microfinance, corporate governance, and supply chain links between small and large companies. A major new initiative in leasing will combine technical assistance with



Tajikistan: Supporting the Growth of Smaller Businesses

One of the poorest countries in the former Soviet Union, Tajikistan needs private sector growth to help raise living standards. Because investment opportunities are limited, IFC is providing technical assistance to improve the investment climate and supporting pioneering programs that help bring scarce capital to small and medium enterprises. During FY05, IFC followed up on a survey of smaller businesses that it conducted last year with Swiss support. The survey identified major regulatory hurdles that entrepreneurs face, including complex licensing procedures and repeated and overlapping inspections. IFC has convened stakeholders to build consensus on the issues, established close partnerships with several key



ALEJANDRO PEREZ

IFC's advice on corporate governance helped Romania's Banca Comercială Română improve its credit rating this year.

investment capital to selected financial intermediaries in four Central Asian countries.

During the year, IFC also committed to a new initiative, the Private Enterprise Partnership for Southeast Europe, which will continue and broaden our technical assistance in the countries there. Its focus will be on smaller businesses, environmental issues, and infrastructure. This year, we worked with Serbia and Montenegro to establish legislation that creates a leasing industry for the first time. In FYR Macedonia, we initiated a program to help the steel recycling industry work with small enterprises that employ more than 5,000 Roma people. In Bosnia and Herzegovina, we introduced alternative dispute resolution for commercial cases, enabling businesses to save time and costs while resolving cash-flow and liquidity issues successfully.

IFC's efforts have had a favorable impact, but major challenges still remain. To meet these challenges effectively, IFC will continue to strive for innovative programs in line with country priorities.

Serbia and Montenegro: Privatization Support to a Major Bank

IFC has taken a shareholding in Podgoricka Banka, the largest bank in Montenegro, to help the government with privatization. Founded in 1906, Podgoricka Banka was one of the first banking institutions in the region. It is the only relatively large bank in Montenegro, with branches across the republic and 230 employees, and it has remained majority state-owned.

IFC has also extended a new €5 million term loan to enhance the bank's reach and allow it to provide long-term loans for the first time. In addition, IFC is providing technical assistance to strengthen the bank's management capacity in advance of privatization: a resident advisor will support its management, while specialists will assist on selected banking functions. Our investment and technical assistance will help improve Podgoricka Banka's performance, corporate governance, market position, and attractiveness to potential strategic investors. The restructuring and IFC's support are expected to have a large impact on the Montenegrin economy, helping attract foreign direct investment and significantly improving the bank's privatization prospects.

inspectorates, and helped the legislature draft a new law governing business inspections.

Also this year, IFC invested in the First MicroFinance Bank of Tajikistan, a joint investment and advisory project with the Aga Khan Development Network and Germany's development bank, KfW. The new bank provides credit and savings products to micro and small enterprises, and it already has over 7,000 clients. IFC is undertaking a broad technical assistance program to help the bank upgrade its operations, train staff, and extend its services to more customers, especially to women. These efforts should contribute to the bank's achieving financial sustainability within four years.



PEP



A Successful Model for Technical Assistance

The Private Enterprise Partnership is IFC's technical assistance program in the former Soviet Union. It is funded jointly by IFC, which has allocated an annual budget of \$4.6 million through FY06, and donor governments, which provided a total of \$73 million from the partnership's founding in 2000 through the end of FY05. The partnership implements programs to build financial markets, link local firms into supply and distribution chains of larger companies, improve corporate governance practices, and strengthen business support services and the regulatory environment for small enterprises. These activities serve the partnership's objective of building and strengthening the private sector and economic growth in these countries. The partnership's technical assistance has facilitated \$493 million in investment, including \$100 million from IFC. Its success has provided a model for new partnerships that IFC is promoting in Sub-Saharan Africa, the Middle East and North Africa, and Southeast Europe.

Georgia and Turkey: Vehicle Leasing Spurs Business Growth

Throughout Europe and Central Asia, IFC promotes leasing as a key source of financing for growing companies. In Georgia, for example, our Private Enterprise Partnership has worked with the government to improve leasing legislation, assessed the market to determine the sectors most in need of leasing, and trained and advised companies on the benefits of leasing. This year IFC lent \$3 million to TBC Leasing, one of Georgia's first leasing firms, allowing it to meet demand for this new financial product.

One company this helps is Clauss, a small, growing business whose 42 employees deliver food and beverage products around Tbilisi. In two years, Clauss has grown from a start-up to become the market leader in distribution services. To keep pace, the company needed more vans—but found it made more sense to lease than to buy them. Leasing does not require collateral or credit history, and it typically offers longer maturities than banks. Thanks to TBC Leasing, Clauss has six new Ford Transit vans. A bigger fleet has helped sales grow by 45 percent, and the company has created 12 new jobs.

In Turkey, IFC has provided a \$45 million financing package to Intercity, an independently owned business that leases cars, vans, and trucks to the private sector. Its vehicles assist a wide range of commercial clients in sales calls, inventory management, and the transportation and delivery of goods. Founded in 1992 by a local entrepreneur, Intercity has become the country's largest vehicle leasing and fleet management company, with more than \$20 million in annual revenue. It has a 20 percent market share, 90 employees, and over 6,000 vehicles under management.

By providing Intercity with both equity and long-term funding, IFC is helping an entrepreneurial business become a larger, more significant player in Turkey. The project addresses a scarcity of medium-term financing for the country's auto leasing industry and promotes the development of operational leasing. IFC's support is expected to encourage other financial intermediaries in Turkey to consider operational leases as an alternative financing instrument.



COURTESY OF CLAUSS



COURTESY OF CLAUSS



TED POLLETT

Central and Eastern Europe

Supporting the Region's Expanding Opportunities

IFC's commitments in Central and Eastern Europe exceeded \$1.1 billion, with an additional \$245 million in syndications, a record high, reflecting the region's continued growth and increasing investment opportunities. The majority of this funding went to Russia, where IFC invested more than \$832 million in 21 projects, with an emphasis on the financial sector and infrastructure. The sharpest increase was in Ukraine, where strong growth and an impetus for reform enabled IFC to quadruple its investment volume, to \$255 million. Technical assistance continued to play an important role in former Soviet countries, helping develop financial institutions, improve the business environment for smaller enterprises, strengthen corporate governance, and target strategic industries by strengthening supply chains and access to markets.

Inadequate infrastructure remains a constraint to the region's business growth, but the private sector is helping address the problem. This year, IFC's projects to support Russia's transport infrastructure included two investments to build cargo ships, with Volga Shipping and Northwest Shipping Company, and investments to increase the capacity of two rail shipping companies, Eurosisibtrans and Russkiy Mir. In Ukraine, IFC supported two private electricity distribution companies (see box).

Access to finance remains a challenge, particularly for smaller companies. IFC continued to provide financing and know-how to strengthen local

financial institutions, including one of Georgia's first leasing companies (see box). In Belarus, IFC made a loan to Belgazprombank; coordinated technical assistance funded by Sweden will strengthen the bank's operations. In Ukraine, IFC provided \$35 million to Aval Bank, one of the country's largest locally owned banks. In Russia, IFC supported Sibakadembank's further growth in Siberia. We also provided a subordinated loan and a ruble-linked loan to a repeat client, Center-Invest in the Rostov oblast, allowing long-term ruble financing to the bank's small business clients. IFC lent to Moscow Credit Bank and continued to support Russian Standard Bank, with a \$20 million ruble-linked loan. In addition, IFC targeted smaller borrowers through ruble-linked credits to the Russian Women's Microfinance Network. IFC leveraged its long experience in corporate governance advisory services, launching projects with Russian and Ukrainian banks.

IFC complemented its work with local banks by supporting two global clients that are active in building banking and leasing services throughout Eastern Europe. Raffeisen International will expand its subsidiaries in Belarus, Russia, and Serbia and Montenegro, while Societe Generale will direct our funding to subsidiaries in Russia and Ukraine.

Housing finance is another priority for IFC. Our efforts in Russia include mortgage credit lines, a Dutch- and Swiss-funded advisory program to help develop a primary mortgage market, and ongoing work with the Russian government on securitization transactions (see box). In Latvia, IFC structured and brought to market the first cross-border sale of notes



COURTESY OF KUAZ

Russia: Better Governance Attracts Investment

Kuibyshevazot Joint Stock Company produces chemicals for artificial fibers and engineering plastics. Based in the Samara region, 600 miles southeast of Moscow, it is also one of Russia's leading producers of nitric fertilizers. It has a good reputation in the market and in the community where it operates.

In 2002, when the company's management enrolled in a corporate governance program run by IFC's Private Enterprise Partnership with funding from the Netherlands and Switzerland, they realized that to attract international long-term financing at competitive rates, the company needed to align its corporate governance with global best practice. Drawing on IFC's advice, Kuibyshevazot's management and shareholders developed a plan to upgrade corporate governance practices throughout the company.

These efforts have made the company a regional leader in corporate governance while forming the foundation for a deeper relationship with IFC. As part of helping the company prepare for international financing, we assisted with an environmental audit, which led to an integrated health, environment, and safety management system that the company is now putting in place. This year IFC provided a \$15 million corporate loan to Kuibyshevazot to refinance a local currency bond and finance the company's capital expenditure program. Several international banks active in Russia have also expressed interest in working with the company.

Building the Russian Dream

With 144 million people, Russia is potentially Europe's largest market for mortgage finance. Developing this market could raise living standards while helping Russians realize their dreams of owning a home. Over several years IFC has become the country's largest financier of housing finance, with investments topping \$245 million. We have provided credit lines to leading housing finance institutions—including Credit Bank of Moscow in FY05—that are bringing modern practices to bear on a nascent market.

This year IFC also launched a technical assistance project to help develop further Russia's market for primary mortgages. It will work closely with up to five Russian banks, helping them implement international best practices in mortgage origination, underwriting, and servicing, then following up with credit lines. IFC will also train other banks and providers of mortgage-related services as well as advise government agencies.

To make affordable financing for mortgage lending more available to financial institutions, IFC is promoting securitization through a partnership with market participants and the Russian parliament. IFC spearheaded a technical working group that has identified key legal obstacles to securitization transactions and developed recommendations for overcoming them. Russia's Federal Service for Financial Markets, a government agency, is now drafting legislation based on these recommendations, with additional input from the working group.





FABIANA FELD

backed by mortgages, increasing the financing available to final borrowers in the region. This transaction was precedent-setting in the region, with strong potential for replication in other countries. In Belarus, at the request of the National Bank, IFC organized a seminar on mortgage finance, including discussion of international experience and best practice.

IFC provided equity support to local companies through investments in three funds this year: Russia Partners, a venture capital fund; Quadriga Capital, a private equity fund that invests in midsize companies in St. Petersburg and Nizhny Novgorod; and Baring Vostok Private Equity Fund, which works with local Russian companies. In addition, the Corporation lent ABOLmed \$8 million to produce antibiotics in Novosibirsk. IFC joined with foreign investors to support the processing of one of Russia's major natural resources—wood products—through two investments in particleboard lines.

Agribusiness, an important sector for Ukraine's economy, remained a priority for investment and advisory services there. IFC made a second investment of \$80 million in the leading Ukrainian poultry company, Mironovsky, to help expand operations and lower costs. With the second investment, IFC will help Mironovsky improve its corporate governance, prepare for an initial public offering, and further strengthen its food safety program. Apart from this large investment, IFC targeted the vegetable, fruit, and dairy sectors in Ukraine with new advisory projects funded by Sweden and Austria. Through these projects, over the next three years IFC will provide advice and training to small and midsize farms to improve their efficiency and ability to meet a growing demand from food processors for high-quality products.

Ukraine: Recharging the Electricity Sector

Ukraine emerged as the fastest-growing economy in Eastern Europe during 2004, but its aging infrastructure poses a barrier to sustaining this growth. The challenges facing the electricity sector, for example, include deteriorating power plants and power lines, poor reliability, high losses during transmission, nonpayments, and a lack of investment. IFC is helping turn this sector around.

In 2001, Ukraine privatized several electricity distribution companies, and the government is continuing to reform and privatize the sector. This year IFC invested in two of these distribution companies, Kyivoblenergo and Rivneenergo. Both majority-owned by AES Corporation, the companies serve 1.4 million customers in the Kyiv and Rivne regions and cover a combined service area of nearly 50,000 square kilometers. IFC's \$45 million loan to Kyivoblenergo and Rivneenergo will help them reduce electricity losses, refurbish their network equipment, and increase network capacity in high-growth areas. The companies will also improve their overall management efficiency by investing in modern communication systems and information technology. The investment will ensure a more reliable energy supply and better service to 3 million customers, and it should help power Ukraine's further growth.