



COURTESY OF MERLON EGYPT

Middle East and North Africa

Project Financing and Portfolio

(millions of U.S. dollars)

	FY03	FY04*	FY05**
Financing committed for IFC's account	287	236	315
Loans	164	186	257
Equity	0	13	20
Guarantees and risk management	123	37	38
Loan syndications signed	0	0	0
TOTAL COMMITMENTS SIGNED	287	236	315
Committed portfolio for IFC's account	1,337	1,144	1,210
Loans	803	840	926
Equity	253	191	161
Guarantees and risk management	281	113	123
Committed portfolio held for others (loan participations)	837	739	664
TOTAL COMMITTED PORTFOLIO	2,174	1,882	1,874

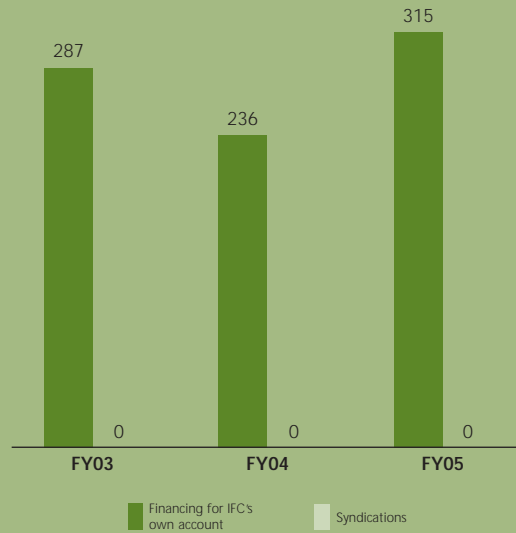
Loans include loan-type, quasi-equity products. Equity includes equity-type, quasi-equity products.

* Includes regional share of LNM Holdings, which is officially classified as a global project.

** Includes regional shares of BAPTF and Melrose Facility, which are officially classified as global projects.

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)

Pakistan	315
Egypt	297
Oman	105
Morocco	80
Algeria	72

*Excludes individual country shares of regional and global projects.

Project Commitments and Countries

	FY03	FY04	FY05
Number of projects	17	18*	21**
Number of countries	6	7	8

* Includes LNM Holdings.

** Includes Melrose Facility.

Building Capacity in the Private Sector

Fiscal 2005 saw major changes in the way IFC operates in the Middle East and North Africa. With the launch of the Private Enterprise Partnership for the Middle East and North Africa (PEP-MENA), the Corporation now has the capacity to provide a wide range of technical assistance throughout the region in addition to traditional financing. IFC's field presence also broadened, with new offices in Jordan, the United Arab Emirates, and the Republic of Yemen.

IFC's strategy aims to address the main challenges of the region, including employment creation and increased investment, in order to accelerate growth and create more open economies. IFC is focusing on highly developmental sectors, including housing and development of smaller enterprises, with about 40 percent of FY05 commitments in these sectors. IFC is using technical assistance, separately or in combination with long-term capital, to reach our goals and to introduce best practices in the region.

Our investment program is broad-based and includes the financial sector, manufacturing, oil and gas, education, agribusiness, and infrastructure. Our efforts in higher-risk countries, including Afghanistan and Iraq, emphasize the financial sector and other basics of private sector development. Our Dubai office is helping mobilize private resource flows from the capital-surplus countries of the Persian Gulf to the region's FDI-seeking economies and beyond.

Launched formally in October 2004 and largely donor-funded, PEP-MENA focuses on the financial sector, small and medium enterprises, the business enabling environment,

public-private partnerships, and the privatization or restructuring of state-owned enterprises (see box). Building on earlier initiatives to support the region's smaller businesses, the partnership has initiated programs in many countries, from frontier to more developed markets, and is assessing possibilities for others throughout the region.

IFC invested \$315 million for its own account in 21 projects during FY05, across a number of sectors. In the financial sector, we provided support for housing finance, notably in Saudi Arabia (see box) and Oman; other investments focused on small and medium enterprises, insurance, and banking. IFC's \$45 million to Oman's Alliance Housing Bank, the first institution of its kind in the Gulf states, will be accompanied by capacity-building technical assistance from PEP-MENA. The Corporation committed its first investments in Iraq, with pioneering projects in the financial sector; we also launched the first bond issue by a supranational in Morocco (see box).

In infrastructure, IFC's activities increased in FY05, reflecting greater business development efforts, particularly for advisory services. We expanded our investment in the port sector of Pakistan and undertook advisory assignments in power distribution. Other advisory projects included an airport terminal in Saudi Arabia (see box) and, in Morocco, the world's first public-private partnership for irrigation. Here a Moroccan-led private consortium will join with the government to provide water for citrus farming; the project will establish a significantly lower tariff than farmers now pay for use of rapidly depleting groundwater.

Saudi Arabia: Upgrading a Key Airport Terminal

IFC is advising Saudi Arabia's aviation authority on private sector participation to expand and rehabilitate the Hajj Terminal at the King Abdulaziz International Airport in Jeddah, which is used by Muslims visiting the holy city of Mecca during the *hajj* and *umrah* pilgrimages. The *hajj* season takes place over a six-week period, creating unusually heavy air traffic in a concentrated time frame. Given the number of pilgrims to be accommodated and the diverse requirements of the *hajj*, the facility was designed and built in 1981 to function much like a large village in the range of services it provides. With improvements in air transport, the number of pilgrims has grown significantly, reaching an estimated 2.5 million people in 2004. The terminal's facilities have become inadequate, and its capacity is constraining the growth of the pilgrimage itself.

To alleviate this situation and accommodate future growth, the aviation authority has enlisted IFC's help to bring in the private sector under a "build then own" scheme. The project represents the first large-scale private sector involvement in an air terminal in the Middle East. The Saudi government intends to use the Hajj Terminal as a model for private sector participation that can be replicated at other airport terminals in the country.



TOREK FARHADI

The engagement in Iraq's banking sector demonstrates how the technical assistance provided by PEP-MENA complements IFC's investment program. Here PEP-MENA joined with the Arab Academy for Banking and Financial Services to conduct in-depth training for Iraqi bankers. This five-month initiative was geared to operating-level staff and focused on retail banking, risk management, credit appraisal, and other key topics. It was followed by a strategy seminar for senior managers of Iraqi banks. During the year, IFC also committed its first investment in Iraq's banking sector, an equity investment in Credit Bank of Iraq, together with the National Bank of Kuwait. Credit Bank was one of the participants in the PEP-MENA training, and the funding

will help it contribute to the reconstruction effort in the country. IFC also invested in the first subproject of the Iraq Small Business Finance Facility, a donor-funded program that allows us to provide financing and technical assistance to local Iraqi banks (see box).

IFC investments in Iran's financial sector this year include two credit lines to private Iranian banks, Karafarin Bank and Saman Bank, for on-lending to private companies. Through this project and a related technical assistance program—the first of its kind in Iran in 25 years—market-based practices in banking and risk management will be introduced to these nascent private sector banks. Like much of Iran's economy, banking has been heavily dominated by the public sector. Hence IFC's credit lines have a

Morocco: An Innovative Bond Issue in Local Currency

IFC broke new ground in the region this year with innovative financial transactions. The Corporation became the first supranational to launch a bond issue in the African continent or the Middle East. The bond, denominated in Moroccan dirhams and launched in Morocco's domestic capital market, will help develop that market and will provide a benchmark for future bond issuers. The issue was for seven-year bonds totaling 1 billion dirhams (equivalent to about \$117 million). The bonds were targeted to domestic institutional investors, and the transaction was listed on the Casablanca Stock Exchange. More than 20 investors, including insurance companies, mutual funds, and pension funds, purchased the paper. The success of the issue shows how far Morocco has come in instituting structural reforms in its local financial markets. IFC worked closely with Moroccan authorities for two years to bring this transaction to fruition. The results demonstrate the effective partnerships IFC can establish with governments to support capital market development.





PEP-MENA



REEM HAMDY

PEP-MENA: Greater Impact through Technical Assistance

IFC's Private Enterprise Partnership for the Middle East and North Africa is a new technical assistance facility that supports private sector development in all countries of the region. Its broad program activities include assistance to the financial sector, development of small and medium enterprises, advice on privatization and the business enabling environment, and support for public-private partnerships.

PEP-MENA is increasing access to finance for smaller companies through its advisory program for commercial banks, with assignments underway in Algeria, Egypt, Morocco, Saudi Arabia, and Tunisia. PEP-MENA is helping Afghanistan's first leasing company standardize its underwriting procedures and internal controls and is working with the Central Bank of Yemen to review the country's leasing law. The facility is conducting a survey of corporate governance practices at Lebanese banks and has begun advising these institutions. It is collaborating with FIAS on a study to reduce administrative barriers to business in Egypt, as part of a World Bank Group investment climate assessment; this work will inform further technical assistance and provide a model for efforts in other countries.

In Jordan, Oman, Saudi Arabia, the West Bank and Gaza, and Yemen, the facility is also rolling out Business Edge, IFC's management development program for small and medium enterprises. The program supports local organizations that provide management training to meet the needs of smaller businesses.



KEITH MARTIN

Saudi Arabia: IFC Helps Fund Islamic Home Financing

IFC is providing its first-ever funding for a Murabaha facility, an Islamic finance product, through a transaction with Saudi British Bank. Our investment of 187.5 million Saudi riyals (equivalent to \$50 million) will support the growth of the bank's Islamic home financing portfolio. The project is a key element of IFC's effort to encourage development of a viable housing finance market in Saudi Arabia; we aim to catalyze the country's primary mortgage market and to provide technical and advisory services to local authorities as needed. IFC seeks to replicate this innovative approach across the region, increasing access to housing finance for low- and middle-income individuals. This is also IFC's first use of the World Bank's national currency paid-in capital to fund a project.

significant demonstration effect, encouraging other international financial institutions to invest in the country's private banks.

Also in Iran, IFC invested in Karafarin Leasing Company. We consider leasing a priority for many countries in the region, since it is well suited to the financing of smaller businesses, compatible with Islamic finance, and a sector in which IFC has extensive knowledge and global experience. This year a Pakistani leasing company, ORIX Leasing Pakistan, joined IFC and other partners in an interregional investment in Kazakhstan (see box, p. 19). We also cosponsored a conference on leasing with Yemen's central bank.

Supporting our goal to foster private sector investment in health and education, IFC invested in the International School of Choueifat for a school being built in Adma, Lebanon. The new school will be the flagship for Intered, a Lebanese education company that owns the Choueifat schools across the region and in the West.

Iraq: Lending Targets Smaller Businesses

This year IFC and our partners committed \$12 million to the Iraq National Bank under the Iraq Small Business Finance Facility, which supports development of micro and small businesses in the country through local financial intermediaries.

IFC is contributing up to \$50 million to the facility for on-lending to smaller businesses, along with \$40 million in donor funding from Japan, Spain, the United Kingdom, and the United States. Technical assistance will develop the capacity of local Iraqi banks, so that they can operate on a modern, transparent, and financially sound basis and develop their lending to smaller enterprises. By providing these partner banks with long-term resources to on-lend, the facility will help put entrepreneurial businesses back on their feet and create jobs in the private sector.

The Iraq National Bank has entered into a joint venture with the Export and Finance Bank of Jordan, which has assumed management responsibility. The project is expected to have a very strong developmental impact, improving the lives of ordinary Iraqis by helping them acquire new capital assets for the businesses they run.



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