

# IFC

## Financial Institutions Group (FIG)

# Distressed Asset Recovery Program (DARP)

As of September 2024

### Industry Context

Addressing high levels of non-performing loans (NPLs) is key to preserving financial stability. Without effective distressed assets markets to offload under/non-performing assets from their balance sheets, financial institutions often suffer from: lower earnings (due to provisioning), weaker regulatory/capital adequacy ratios, higher operating costs and higher regulatory capital charges, which ultimately curtail lending capacity. In addition, defaulted borrowers gradually lose access to financing and are at risk of losing their assets, while the absence of adequate credit availability defers planned investments and keeps many high-potential SMEs and corporates from recovering from financial distress, which, in turn, may lead to significant production and job losses.

In response to these challenges, IFC has taken the lead in supporting the development of strong distressed assets markets across emerging economies through its Distressed Asset Recovery Program (DARP). Since 2007, DARP has helped financial institutions offload \$44 billion worth of face value NPLs, enhancing their capacity to originate new loans. In addition, DARP is supporting more than 21 million debtors (both individuals and businesses) normalize their obligations, so that they become creditworthy again.

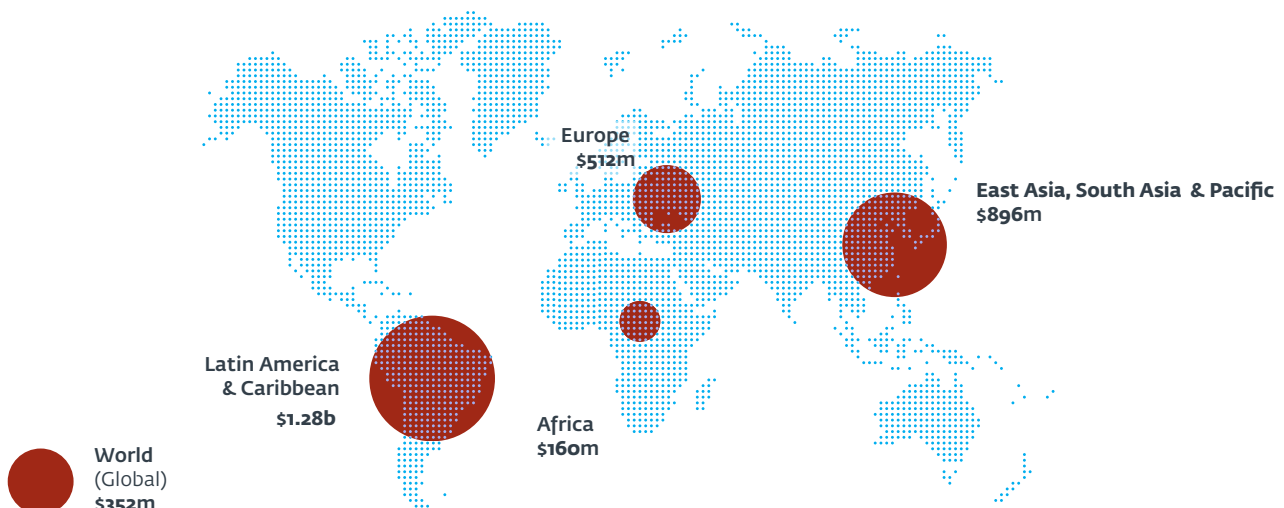
### IFC Strategy and Portfolio

IFC has developed a systematic and holistic approach to supporting the expansion of distressed assets markets in emerging economies (Africa, Latin America, Asia, Europe) guided by three core strategic pillars:

1. Creating an enabling environment: DARP collaborates with the World Bank (WB)'s Finance Competitiveness and Innovation (FCI) and IFC's Upstream and Country Advisory and Economics (CAE) teams to develop conducive investment conditions across emerging markets through upstream efforts with local stakeholders to address key distressed assets market challenges, such as loan transferability, pricing gaps and unfavorable legal and regulatory regimes.
2. Investing and mobilizing private capital: DARP stimulates the development of distressed assets markets by deploying its own funds and mobilizing third-party capital for the acquisition and resolution of distressed assets.
3. Building Servicing Infrastructure: IFC engages with local servicing companies and facilitates the transfer of world class debt resolution knowledge and ESG standards, including integrity, corporate governance and environmental and social policies and procedures.



## FIG DARP Committed Portfolio: \$3.2 billion



## Project Examples



### NIMBLE (SOUTH AFRICA)

Distressed assets markets are almost non-existent in Africa due to several reasons, including loan transferability issues, price gaps, and weak judicial processes. Since 2019, IFC has approved up to \$115 million to be invested in a distressed asset resolution platform managed by Nimble plus an additional \$11 million investment in the equity of Nimble. IFC has also mobilized around \$85 million to this platform. Nimble is the first Sub-Saharan distressed assets regional servicer with a footprint in South Africa, Botswana, Namibia, Eswatini and Lesotho. The company focuses on purchasing and servicing retail and SME/corporate NPLs from financial institutions.

IFC has been contributing to regional growth of the NPL markets in the Sub-Saharan Africa region, including places where commercial capital has low appetite for the asset class. Together with the WB, IFC has also been engaged in facilitating policy, regulatory and structural market changes that will help further unlock the NPL market in South Africa.



### IndiaRF (INDIA)

This project is part of the broader WB's intervention in NPL resolution in India that encompasses regulatory and upstream policy reforms and market transactions. After establishing its presence in India in 2015 providing support to the retail/SME distressed assets segment, in 2018, IFC invested US\$100 million in the first-of-its kind fund raised by IndiaRF, a local investment manager focused on the resolution of corporates in distress. IFC helped mobilize significant capital from the private sector, by playing the role of anchor investor in the fund. At the time of the investment, India was facing high levels of NPLs which curtailed the banks' credit expansion capacity and ultimately job creation and economic growth.

IFC's investment leveraged on the contribution made by the WB in capacity building and implementation of the Insolvency and Bankruptcy Framework in India. In addition, this investment paved the way for IFC to promote environmental and social management standards and corporate governance practices.



### JIVE (BRAZIL)

After having contributed significantly to the successful development of the retail NPL market in Brazil since 2010, in 2020 IFC established a distressed asset platform in partnership with Jive to support the development of the corporate distressed assets segment. Jive is a Brazilian distressed asset manager that focuses on investing in SME/corporate NPLs, legal claims, distressed real estate, and special situations financing. IFC has approved up to \$200 million to be invested in this platform and has mobilized around \$540 million.

IFC's efforts and investments in Brazil have contributed to creating an active distressed assets market. This is complemented by the WB's efforts in enhancing the regulatory and legal environment for distressed assets investments by supporting the new Brazilian insolvency regime (2021). The World Bank Group continues to collaborate to further develop the market, attract more private capital and improve the servicing infrastructure in Brazil.



### EOS (BALKANS AND POLAND)

Since 2021, IFC has approved up to \$225 million to be invested in distressed assets resolution platforms owned by IFC and EOS, mobilizing an additional up to \$225 million. EOS is a leading distressed asset investor and manager in Europe. This investment facilitates the acquisition and resolution of secured retail and SME/corporate NPLs, and distressed real estate assets in Bosnia and Herzegovina (BiH), Bulgaria, Croatia, Poland, Romania, and Serbia. The investment also aims to provide Special Situations financing to companies in some of these jurisdictions. IFC's investment will help to increase the NPL resolution capacity in the Europe region amid the economic impacts from the spillover effects of Covid-19 and the Russian invasion of Ukraine.