IFC EXPERIENCE IN DISTRESSED ASSET RECOVERY PROGRAM

International Finance Corporation
WORLD BANK GROUP

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DISTRESSED ASSET RECOVERY PROGRAM OVERVIEW

Distressed Asset Recovery Program (DARP) is a global platform that focuses on the acquisition and resolution of distressed assets across emerging markets, with significant developmental impact and attractive returns

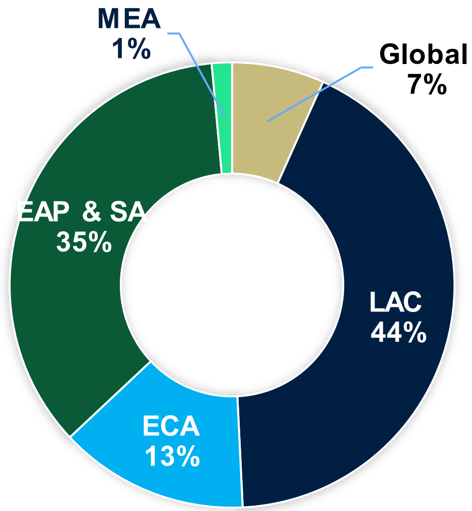
DARP	Supports the creation of strong distressed assets markets in emerging economies.
Strategy	Based on two pillars: (i) building the essential servicing infrastructure required across markets and (ii) deploying capital, including mobilized capital from third-party investors, to stimulate the market through the acquisition and resolution of distressed assets.
Impact	(i) Allows financial institutions to offload their NPLs and free up capital to resume lending; (ii) helps individuals and SMEs/corporates to normalize obligations, preserve assets and become creditworthy again; (iii) fosters best resolution practices, including integrity, corporate governance and environmental and social policies and procedures.
Global Reach	Leading global distressed assets investor in emerging markets, including Latin America, Eastern Europe, Asia and Africa.
Network	Extensive and unique network of partners worldwide, including reputable servicers, banks and investors.
Type of Investments	(i) Equity investments in servicers and (ii) establishment and mobilization of capital into investment facilities, for (a) NPL portfolios (retail and SMEs) and (b) single asset opportunities (special situations, special lending and SME/corporate turnarounds).
Track Record	Since 2007, DARP has committed US$7.8 billion globally, including mobilization of US$5.0 billion, which has enabled banks to offload more than US$33 billion of NPLs, while helping over 19 million debtors resolve their obligations and regain access to formal credit.

TRACK RECORD HIGHLIGHTS

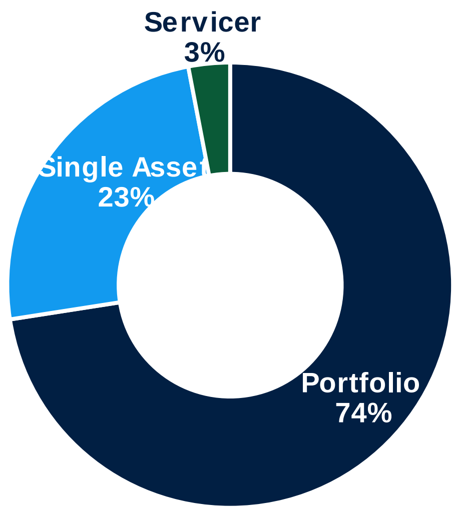
DARP and its partners have committed more than US$7.8 billion, of which US$2.8 billion comes from IFC's account and US$5.0 billion from third-party investors

IFC Commitments

By Region



By Investment



NPL Portfolio Highlights

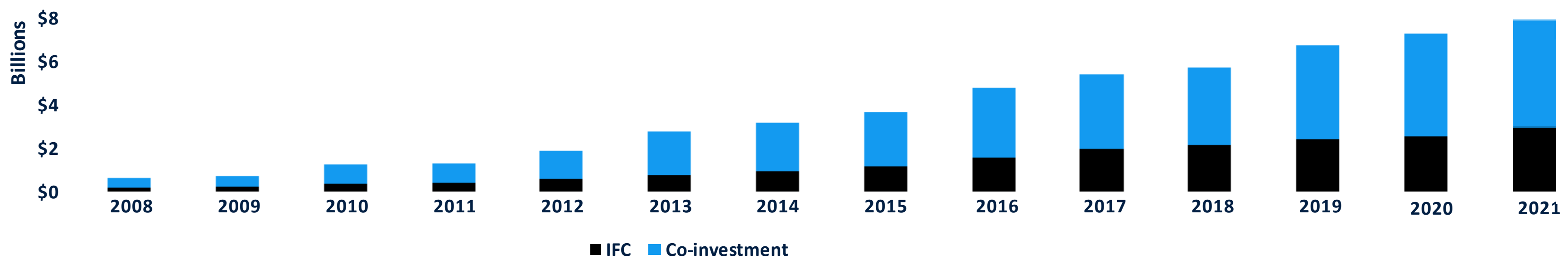
160+ Portfolios Acquired

US$33+ Billion in UPB*

30+ million credits

19+ million debtors

DARP – Historical Cumulative Commitments by Fiscal Year **



(*) UPB: Unpaid Principal Balance, which refers to the amount due that has not yet been remitted to the lender
(**) IFC's Fiscal Year begins on July 1st of the previous calendar year and runs through June 30th of the designated calendar year

UNIQUE GLOBAL NETWORK

DARP's global network of partners provides local knowledge and expertise and ensures use of best resolution practices

DARP Platforms Target Markets

Latin America: *Reintegra (Colombia), Systemgroup (Andean region and Central America), Jive (Brazil), Secorse (Mexico).*
Middle East and North Africa: *Omni Bridgeway (regional).*
Europe and Central Asia: *ADM Capital, APS, EMSA (regional), EOS (Russia), Kruk (Romania).*
Global: *Lapithus.*
Asia: *ADM Capital, Clearwater (regional), Altico, Encore, IndiaRF (India), Collectius (Indonesia, Malaysia, the Philippines, Thailand and Vietnam), JC Flowers.*
Sub-Saharan Africa: *Nimble (regional).*

DARP STRATEGY: SERVICERS AND SPVs

Building Global NPL Servicing Infrastructure and Investment Capacity

OBJECTIVES

Servicing Infrastructure (Equity in Servicers)	Investment Capacity (DARP SPVs for NPL Portfolios and for Single Assets)
• Enhance IFC's distressed assets resolution capacity • Build robust network of servicers • Align interest among partners • Promote best practices	• Rapidly respond to distressed assets opportunities • Efficiently mobilize funding from other investors • Achieve balanced risk-rewards structures

DARP SOLUTION

Investment in Servicers	DARP SPV: NPL Portfolios	DARP SPV: Single Assets
• Minority equity investments • Board representation • Knowledge sharing among servicers in the IFC network of servicers	• SPV to buy NPL portfolios • Each future acquisition is carried out more efficiently based on a streamlined process	• Investments to restructure or (re) finance sizeable distressed assets / companies • Special lending to companies in distress

APPROVAL RIGHTS

Investment in Servicers	DARP SPV: NPL Portfolios	DARP SPV: Single Assets
• IFC standard equity rights and terms.	• IFC has a veto right for each new NPL portfolio acquisition.	• IFC approval is not required for each single asset investment. • Eligibility Criteria needs to be met for each investment.

FIVE PILLARS: CRITICAL FOR INVESTMENT DECISION

Although many elements factor into an investor's decision, these are the most critical in determining whether it is possible to invest in a market

1. VOLUME	Volume justifies the cost of due diligence on a market. Investors can spend several million EUR in legal, tax, and accounting due diligence before ever bidding for a portfolio. Cost can be prohibitive for smaller markets so volume as well as asset class of NPLs is important in determining investor interest.
2. TRANSFERABILITY	Investors prefer an offshore bankruptcy remote vehicle to which NPLs can be transferred and ringfenced. An inability for a non-bank to purchase NPLs would make investment more difficult and costly. Other constraints, such as borrower consent, also inhibit transfer and, thus, investment.
3. PRICE GAP	Loans that are overclassified, overvalued, and under-provisioned result in a price gap between sellers and buyers. The inability for banks to deduct provisions or losses from sales of NPLs from taxable income is also a source of price gap. Both can prevent sales even when volume is sufficient and transferability not an issue.
4. STRUCTURE	Impediments related to the funding of the SPV, including the ability to receive the upside on the portfolio after repayment of the initial purchase price (e.g. capital controls).
5. INSOLVENCY, BANKRUPTCY AND ENFORCEMENT	Regardless of asset class, de jure and de facto enforcement procedures are important as they impact the value of NPLs, resulting in additional price gaps between sellers and buyers. These include out of court enforcement, legal enforcement, bailiff and auction regulations, and time required to obtain legal decision and enforcement.

FIVE PILLARS: FACTORS TO CONSIDER (non-exhaustive)

DARP considers multiple specific factors under each Pillar. Some of these factor are shared between and influence different pillars / areas

Volume/ NPL data		Transferability			Price Gap	Structure			Insolvency, bankruptcy and enforcement		
1 Market total loans	7 Recent loan sales	11 Conditions for transfer	17 Step-in rights/ procedures	22 Data access for Due diligence	23 Provisions/ LTV/ risk level	Servicing capacity	33 National servicers list	38 Int'l investor restrictions	Debt enforcement and collateral	47 Discretion to stop/block sale	52 Formal restructuring
2 NPL vs. good loans	Information and Due Diligence	12 Offshore SPV considerations	18 Third party guarantee transfer		Bank related tax framework	28 Debt servicers licensing	34 Servicer record keeping	39 Capital controls	42 Collateral enforcement	48 Professional appraisal	53 Regime effectiveness
3 Loans by sector/ borrower	8 Spreadsheets data templates	13 Borrower consent	19 Collateral transfer		24 Provisions deductibility	29 Licensing criteria	Asset ownership	Securitization	43 Bailiff performance	Insolvency law	54 Consumer bankruptcy
4 Historical write/ charge-offs	9 Data sharing standards	14 Special case loans	Personal data protection		25 Sale loss deductibility	30 Local servicing capacity	35 Distressed asset ownership	40 SPV and full step-in rights	44 Bailiff regulations	49 Available WBG reports	
5 Historical restructurings	10 Supervisory disclosures	15 Transfer costs	20 Data transfer with loan		26 Write-off loss deductibility	31 Consumer protection	36 Activity/ service restrictions	41 Asset manager regulation	45 Enforcement outside court	50 Local principal features	
6 Successful NPL restructurings		16 Transfer under enforcement	21 Data transfer w/o loan		27 Collateral sale VAT/stamp duty	32 Debt collectors' right /powers	37 Granting new money		46 Foreclosure remedy	51 Informal restructuring	

DARP CASE STUDY: SPV IRF II

Market Context / Problem

- Indian banks had high levels of NPLs (over US$170 billion) and a NPL ratio of over 14%.
- India's NPL problem had generated a vicious cycle that impacted credit expansion and financial inclusion, economic growth, jobs creation, and fiscal consolidation.
- This problem was recognized by the Government of India as an important issue that required efficient resolution. In this context, the Government implemented some policy changes that have significantly improved the regulatory environment for distressed assets resolution, including the new insolvency code.

Innovation Toolbox

- IFC and World Bank Group (WBG) and the Government of India worked together to address this issue.
- IFC's DARP and the WBG teams worked on a systematic intervention to help resolve the NPL problem.
- Aiming to provide an integrated solution, IFC and WBG worked closely together. They combined the upstream work being done by WBG's technical assistance to strengthen implementation of the new insolvency code to mitigate investor risk with a pioneering market-based intervention by IFC's DARP to mobilize capital.
- This joint effort led to the establishment of one of the first large private sector distressed assets platforms that targets the resolution of mid to large distressed corporates.

Results and Investments

- IFC partnered with Bain Capital and Piramal to set up a DARP platform in India, India Resurgence Fund (IndiaRF). IFC invested $100 million and Bain and Piramal combined invested US$200 million. IndiaRF has raised over US$600 million.
- The distressed assets market is still underdeveloped. IFC is aiming to have a role in demonstrating the attractiveness of this asset class and supporting the implementation of the new insolvency code.
- IFC will help the platform to establish a robust E&S management system and a strong corporate governance framework.

Development Impact

- The DARP platform is expected to help resolve NPLs and preserve jobs.
- Given the relatively underdeveloped distressed assets market, the early stage of implementation of the new insolvency code and the limited number of large players in this space, IFC anticipates that this project will enable the development of the distressed assets market.
- After making its commitment to IndiaRF in 2018, IFC kept further supporting the Indian distressed assets market and in 2021 made an initial commitment of $40 million to J.C. Flowers India Opportunities Fund to target mid-sized corporates in distress.