# IFC

## Financial Institutions Group (FIG)

# Distressed Asset Recovery Program (DARP)

As of December 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.

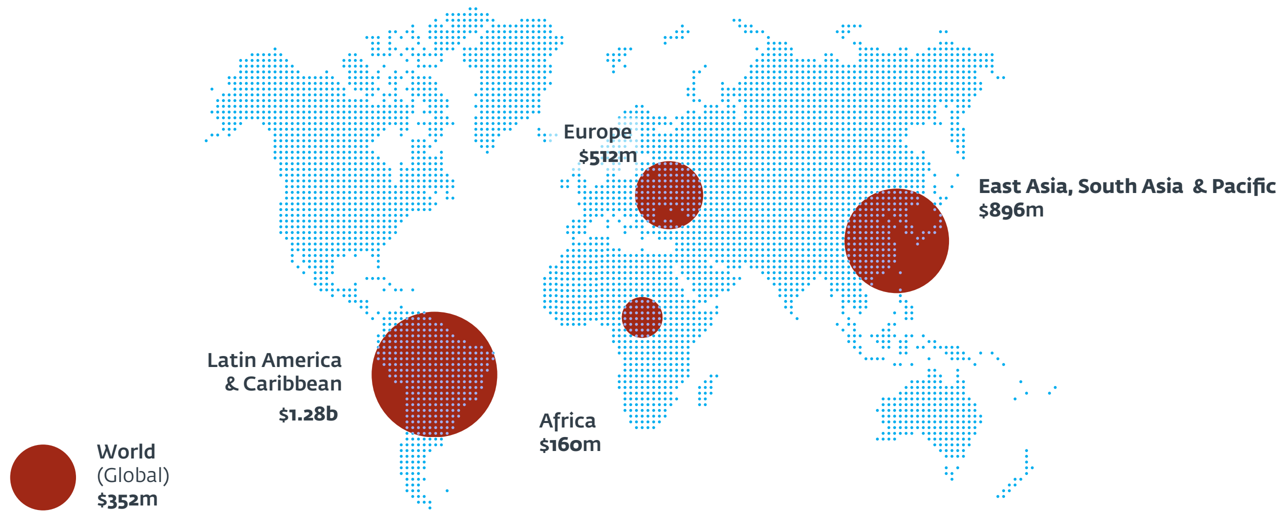
In response to these challenges, IFC has taken the lead in supporting the development of strong distressed assets markets across emerging economies through its Distressed Asset Recovery Program (DARP). Since 2007, DARP has helped financial institutions offload $44 billion worth of face value NPLs, enhancing 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

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## Project Examples

### WELCOME (VIET NAM)

IFC is investing up to $30 million in a Special Purpose Vehicle (SPV), mobilizing another $30 million from Welcome Financial Group, to address the significant non-performing loan (NPL) challenges in Viet Nam's financial sector and to foster market capacity through technical assistance and stakeholder engagement. The SPV aims to acquire and resolve consumer and SME NPL portfolios. The project will help distressed borrowers normalize obligations, regaining credit access. This initiative will also strengthen financial institutions by reducing their NPL stock, enhancing profitability, and enabling greater lending capacity.

### ZENDERE (MEXICO)

IFC supported the creation of a new DARP platform in Mexico to acquire and resolve retail non-performing loans (NPLs) and Real Estate Owned (REOs) by financial institutions (FIs). IFC committed $30 million alongside $10 million from Zendere, and $20 million from a local co-investor. The Project has already acquired ten NPL portfolios, investing $19.4 million, helping FIs offload their NPLs and focus on their core lending activities. It is also supporting the development of the distressed assets market in Mexico, while IFC is achieving attractive risk-adjusted returns.

### EOS (POLAND)

IFC and EOS signed the second $100 million commitment to a DARP platform investing in non-performing loans (NPLs) in Poland ($50 million from IFC and $50 million mobilized). The first tranche, also $100 million, was fully deployed. IFC has assessed 48 NPL portfolios with EUR 2.2 billion in face value, out of which it invested in 16 portfolios with EUR 750 million face value, supporting the development of the distressed assets markets, especially the SME/corporate segment. This project aids both financial institutions and borrowers to address NPLs amid spillover effects from Covid-19 and the Russian invasion of Ukraine, supporting the resilience of Poland's banking sector.

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