

## IFC's Response to the Global Financial Crisis

### AT A GLANCE:

- IFC has launched a broad and targeted set of initiatives to help private enterprises cope with the global financial and economic crises. **Financing for these initiatives is expected to total more than \$30 billion over the next three years**, combining IFC funds with contributions mobilized from various sources, including governments and other international financial institutions (IFIs).
- The private sector is critical to development and employment in emerging markets, and will be essential for economic recovery and growth. IFC's crisis response addresses both the immediate and anticipated needs of our clients—it aims to help restore liquidity, rebuild financial infrastructure, manage troubled assets, and alleviate specific regional difficulties.
- **IFC aims to ease financing and liquidity constraints** on trade, the lifeblood of the global economy. We aim to ensure the availability of credit for micro, small, and medium enterprises, which are essential for reducing poverty and creating jobs. We aim to support viable infrastructure projects that can pave the way for strong economic growth once the crisis is over. To stave off rising food prices that would disproportionately hurt the poor, we also are developing ways to help agribusinesses address liquidity and capital challenges.
- **Strengthening financial infrastructure and recapitalizing the banking sector in developing countries is an important priority for IFC.** Besides investing in the banking sector, IFC will also provide advisory services designed to strengthen financial infrastructure and provide policy guidance.
- **IFC is working to develop solutions to the problem of troubled assets** as the crisis deepens and banks face rising rates of non-performing loans. We also will develop initiatives for particular regions as the need arises.
- **Mobilizing funds from governments and other sources will be critical to our efforts.** The government of Japan has been an important contributor to our initiatives. We also are working with German development finance institutions on initiatives to support trade, banking, and microfinance, and we expect many more such partnerships.

### IFC's Crisis Response Initiatives

#### 1. *Providing Liquidity Support:*

**Trade:** Amid the global crisis, money has moved towards low-risk assets and sectors such as government Treasury bills, or to short-term financing, and away from lending to emerging markets. That has resulted in trade finance lines being cut and created need for funding in some sectors that were previously well-financed. Many analysts predict that global trade will shrink this year for the first time in three decades, largely because of a loss of trust between banks.

The IFC *Global Trade Finance Program*, which was increased from \$1 billion to \$3 billion in response to the financial crisis, provides unfunded support in the form of guarantees for trade transactions in emerging markets. The expansion is expected to support about \$6 billion of additional trade per year.

IFC has also worked with governments, DFIs, and private sector banks on a *Global Trade Liquidity Pool* (GTLP) of \$4 billion to \$6 billion assist global trade finance on a larger scale. The GTLP will leverage the extensive trade networks of up to 10 major international banks by risk sharing on their regional trade portfolios. The GTLP will also be used to support specific sector initiatives such as agricultural exports.

**Infrastructure:** IFC is establishing an *Infrastructure Crisis Facility* to bridge the gap in available financing for viable, privately funded or public-private-partnership projects that face financial distress as a result of the crisis. The facility also aims to ensure a minimum level of continued new-project activity in a sector where restarting project-development plans could take several years. The facility will include debt and equity components providing short- to medium-term financing for infrastructure projects. It also will include advisory services to help governments design or redesign of public-private-partnership projects. IFC will invest up to \$300 million or its equivalent in the equity fund over three to five years. We expect other sources to invest a minimum of \$1.2 billion.

**Microfinance:** IFC and the German development bank KfW have launched a \$500 million facility that will support microfinance institutions facing refinancing difficulties. The *Microfinance Enhancement Facility* is expected to provide refinancing to more than 100 microfinance institutions in up to 40 countries. It will support lending to as many as 60 million low-income borrowers in many of the world's poorest countries. It is a short- to medium-term facility consisting of initial contributions of \$150 million from IFC and \$130 million from KfW. The facility will be managed by BlueOrchard Finance, responsAbility Social Investments AG, and Cyrano Management, three of the industry's leading fund managers.

**Agribusiness:** Sharp fluctuations in food prices, along with the financial crisis, have hurt agribusinesses in ways that are having rippling effects across the global food supply chain. IFC is working to establish a Global Food Fund to address short- and medium-term constraints in the global food-supply chain. The fund would be designed to increase the global supply of agricultural commodities and improve the global, regional, and local agriculture infrastructure to enable more efficient distribution of food. The size of the fund would be between \$1.5 billion and \$3 billion, and would consist of contributions from IFC and its partners. The fund would focus on IFC's priority areas: Sub-Saharan Africa and frontier regions of other emerging markets where sovereign funds currently have little exposure.

## 2. *Rebuilding Financial Infrastructure*

**Bank Recapitalization:** As losses mount among private banks, a recapitalization of the sector is needed. The *IFC Recapitalization Fund* aims to provide additional capital for banks in developing countries to ensure they can support economic recovery and job creation through the crisis. The fund will make subordinated loans and equity or equity-linked investments in systemically important private banks, or in state-owned banks that are on a clear path to privatization. IFC has invested \$1 billion of its own money in the fund. Japan has invested \$2 billion through the Japan Bank for International Cooperation, bringing the total to \$3 billion. IFC is talking with other potential investors.

**Advisory Services & Policy:** IFC's advisory services are important for private sector growth, improving the business-enabling environment, and reinforcing public policy reform. IFC has a strong advisory capacity and unique expertise that could serve clients well during crisis while complementing the work of the IMF and World Bank. We are refocusing existing advisory services programs to make them better geared to helping clients in the crisis. We are scaling up

programs that are responding to growing client needs. IFC is also designing new crisis-response programs in risk management and non-performing loan management. IFC is in the process of raising between \$40 million and \$60 million from donors to supplement its own resources to be used in advisory work at the firm and bank level (such as risk management and corporate governance) and also at the policy level (for example, insolvency frameworks).

### **3. *Managing Troubled Assets***

The decline of the real and financial sectors is intensifying problems with non-performing loans (NPLs). IFC is working to create a private sector program to address the issue and achieve a clean-up of banking systems. We aim to encourage transparent auctions to help governments and banks transfer their NPLs to the private sector for processing and foster sustainable and prudent work-out practices. With NPLs expected to peak in the next two years, IFC will increase its presence in the market significantly. We are considering establishing a global facility of up to \$4 billion to acquire and resolve distressed assets, and expect mobilize between \$3 billion and \$3.5 billion from other sources for that facility. Through the facility, IFC would also expand investment in distressed-asset servicing companies and provide selected advisory services to increase the capacity of local financial institutions to manage distressed assets.

#### **Targeted Regional Initiatives**

**Emerging Europe:** IFC is part of a group of large international financial institutions that have pledged to provide up to €24.5 billion to support the banking sectors in central and eastern Europe and to fund lending to businesses hit by the global economic crisis. Under the Joint IFI Action Plan, the institutions will provide rapid, large-scale and coordinated financial assistance to support lending to the real economy, particularly to small and medium enterprises. The financial support will include equity and debt finance, credit lines, and political risk insurance. IFC, through its crisis response initiatives in sectors including banking, infrastructure, and trade as well as through its traditional investment and advisory services, is expected to contribute up to €2 billion.

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