

**REPORT**  
**TO THE**  
**BOARD OF DIRECTORS**  
**ON A**  
**PROPOSED INVESTMENT IN**  
**IFC FAST TRACK COVID-19 FACILITY**  
**WORLD REGION**

Chief Operating Officer:	Stephanie Von Friedeburg
Vice President, Risk and Finance	Mohamed Gouled
Vice President, Economics:	Hans Peter Lankes
Vice President & General Counsel:	Christopher Stevens
Regional Vice Presidents:	Snezana Stoiljkovic, Georgina Baker, Sergio Pimenta
Global Industry Senior Directors:	Paulo de Bolle, Morgan Landy, Tomasz Telma, William Sonneborn
Director, ES&G	Mary Porter Peschka

# **WORLD REGION**

## **IFC FAST TRACK COVID-19 FACILITY**

### **Currency**

US Dollar (US\$)

### **Fiscal Year**

July 1, 2019 – June 30, 2020

### **Abbreviations**

AS	Advisory Services
ASF	African Swine Fever
COVID-19	Coronavirus
COVRP	Coronavirus Recovery Program
CPS	Country Partnership Strategy
DA	Distressed Assets
DARP	Debt and Asset Recovery Program
DOTS	Development Outcome Tracking System
ESMS	Environmental and Social Management System
FY	Fiscal Year
GDP	Gross Domestic Product
GTFP	Global Trade Finance & Liquidity Program
GWLF	Global Working Capital Liquidity Facility
IMF	International Money Fund
PMI	Purchasing Managers Index
RSCR	Real Sector Crisis Response
RSCRF	Real Sector Crisis Response Facility
US\$	United States Dollar
WBG	World Bank Group
WHO	World Health Organization

## I. Introduction

1. **On March 3, 2020, Executive Directors discussed how the World Bank Group (WBG) would respond to the global outbreak of the coronavirus disease (COVID-19).**<sup>1</sup> Executive Directors expressed broad support for the WBG to take urgent action to support the global public good by helping client countries to respond to the outbreak and prevent and reduce contagion and loss of life. They supported the establishment and launch of a World Bank Group Fast Track COVID-19 Facility (FTCF or Facility), that would provide up to US\$12 billion in immediate support to assist countries and private sector companies within them to cope with the impact of the global outbreak. Of this amount, US\$6 billion would come from IBRD and IDA, and US\$6 billion would come from IFC. The FTCF was announced in a press release the same day. In addition to the originally-proposed US\$6 billion in funding, in discussion with existing global financial institutions (FIs) clients in relation to COVID-19, we have learned that there is demand for IFC to complement the original proposal further by increasing the Global Trade Liquidity Program (GTLP) by an additional US\$2 billion, thus increasing IFC's total deployment capacity to up to US\$8 billion (the IFC Facility).

2. **The objective of this paper is to describe how the FTCF would operate with respect to IFC resources.** IBRD and IDA are preparing a separate paper that will cover their response to the outbreak. Given the fluidity of the situation, this paper does not seek to provide additional data on the pandemic but is focused instead on setting out the details that will allow IFC to mount a fast and flexible response. Management will keep Executive Directors apprised of how the pandemic evolves as new information becomes available.

3. **The paper is organized as follows:** Section II describes the strategy underpinning the IFC's response, including how this response supports country-level and global efforts. Section III describes the proposed FTCF, including funding, allocation and processing modalities.

## II. IFC's Contribution to the World Bank Group Response

4. **The rapid spread of COVID-19 calls for a global, coordinated, flexible and fast response.** The WBG is committed to playing its part in the global response, working in close partnership with member governments, other agencies and the private sector. In addition to its heavy human toll, the crisis, and its aftermath, pose major challenges for the global economy. The private sector, which provides around 90 percent of employment in developing countries, is already exposed to the effects of severe supply chain disruptions and slowing economic growth. The effects are most prominent in consumption and service-related sectors (e.g. travel, hospitality, tourism, and retail) and in industries with supply chains reliant on China-based production, particularly technology and automotive sectors. The market uncertainty surrounding the impact of COVID-19 on the private sector is evident in the fall in global equity markets and commodity prices over recent weeks. Given this uncertainty over growth and the lack of a visible and quick path to recovery as the virus continues to spread, declining demand coupled with skewed

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<sup>1</sup> See "Briefing Note for Board of Executive Directors on Launch of World Bank Group Fast Track COVID-19 Facility", March 3, 2020.

valuations are also affecting finance and investment providers, who will remain cautious and conservative until market signals are decipherable.

5. **As demonstrated in previous crisis response initiatives, the private sector is key in helping to address the economic challenges resulting from the epidemic.** Many private companies are in critical need of payment term extensions on their trade transactions or require additional liquidity to support operations amidst lower production orders. IFC can support these companies directly or through financial institutions to channel much-needed financing to support sustained operations. Helping private sector companies to continue to operate is key to job preservation and to further limit the downside of demand retraction.

6. **The revised US\$8 billion response from IFC is designed to help companies with the operational and financial impacts of COVID-19.** Through our support through financial intermediaries and corporate clients, it will help to sustain jobs and continued economic activity in member countries. IFC will collaborate closely with the World Bank to pool available resources and bring to fruition public and private solutions to both mitigate impact to member countries and support expansion of prevention and awareness programs. Should the impacts of the outbreak push countries into economic crisis IFC will be ready to participate further in global support efforts with instruments and resources, working closely with the World Bank.

7. **IFC's Facility is informed by a successful track record of implementing crisis response initiatives to address global and regional challenges that hamper private sector activity and economic growth in developing countries.** For example, at the time of the 2008-2009 global financial crisis, IFC was able to rapidly expand the reach and impact of its existing Global Trade Finance Program (GTFP), which doubled its commitments to US\$1.4 billion during FY08 and increased commitments further to US\$2.5 billion in FY09. In addition, the Working Capital Solutions (WCS) loan product was leveraged in West Africa during the 2014 Ebola outbreak to deliver trade loans for Guinea, Sierra Leone, and Liberia to support critical goods supplies when these markets were severely disrupted by the effects of another devastating health crisis.

8. **IFC is in the process of completing a COVID-19 impact and vulnerability assessment on its portfolio globally.** To date, the most significant impacts have been in: (i) discretionary consumption and service-related sectors such as travel, logistics, tourism, meetings and conferencing, which have experienced a steep decline in demand; (ii) companies with global supply chains, including the automotive, electronics, agribusiness and textile industries, which are facing a disruption to operations; and (iii) select pharmaceutical, medical supplies and food companies, which are facing a surge in demand. The consistent theme among IFC's portfolio clients thus far is that a prolonged and widespread crisis will lead to liquidity and working capital constraints alongside a subdued risk appetite from investors, forcing them to scale back operations and reduce costs through measures such as laying off staff or reducing compensation. This is particularly applicable for micro, small and medium enterprises (MSMEs), which are typically less resilient to exogenous shocks.

### III. Proposed IFC Fast Track COVID-19 Facility

9. **Objective:** The IFC Facility is an important pillar in IFC's overall crisis response effort, which seeks to deliver fast and flexible solutions to clients across sectors and countries dealing with the spread of COVID-19. IFC anticipates that, through the course of several projects and programs, it will be able to significantly support efforts aimed at reducing the global economic effects of the outbreak. It is expected that this Facility will, at the level of various projects, directly and indirectly support access to finance and liquidity for emerging market banks, commodity traders and real sector participants, including MSMEs in vulnerable countries and sectors, enabling them to continue providing vital employment, goods and services as well as generate tax revenues.

10. **Components:** The proposed US\$8 billion IFC Facility has the following components: (i) a US\$2 billion Real Sector Crisis Response Envelope (RSE); and (ii) a US\$6 billion Financial Institutions Response Envelope (FIGE). The FIGE comprises US\$2 billion from our existing Board-approved Global Trade Finance Program (GTFP), US\$2 billion in new Working Capital Solutions (WCS) that provide funding to emerging market banks to extend new working capital lines and/or refinance performing portfolios when cash flows have been disrupted by the crisis, and a US\$2 billion expansion of IFC's Global Trade Liquidity Program (GTLP) and the Critical Commodities Finance Program (CCFP). The latter US\$2 billion has been added to the original IFC proposal as a result of conversations with our global financial institutions' clients, who have indicated demand for these products in order to provide support to their underlying clients affected by COVID-19 disruptions. Each envelope is detailed below:

#### **The US\$2 billion Real Sector Crisis Envelope (RSE)**

- **Envelope Overview:** The Real Sector Crisis Response Facility of up to US\$2 billion is for existing IFC Infrastructure and Manufacturing, Agribusiness and Services (MAS) clients experiencing or vulnerable to the economic impacts of COVID-19. Funds from the envelope will be structured as medium- to long-term loans and risk-sharing instruments.
- **Use of Funds:** Funds from the RSE will be used to help clients relieve liquidity pressure by increasing working capital, rescheduling existing debt or to cover costs of delays in project implementation. The RSE will also help companies in need of working capital to meet higher demand for their goods or services. In addition, IFC's funding will be available to support companies in diversifying their sources of supply or relocating their operations outside of an affected country to mitigate their operational risk.
- **Priority Sectors and Clients:** The RSE will be deployed globally to existing clients that: (i) face significant disruption of migrant labor force and/or with manufacturing facilities in countries impacted directly or indirectly; (ii) form part of a disrupted supply chain; (iii) suffer from delayed settlement of receivables and loss of revenue; (iv) suffer from a sharp drop in the Asian demand for commodities; (v) have a concentrated supplier base; (vi) operate in the hard-hit manufacturing sectors (e.g., automotive, consumer durables, electronics), agribusiness, retail, tourism and hospitality, health, transport and logistics (e.g., ports, last mile delivery), general infrastructure and utility (e.g., water, waste, gas, power) sectors; and (vii) experience significantly higher demand for their goods and

services due to COVID-19, including online retail, pharmaceutical companies, clinics and medical equipment manufacturers.

- **Instruments**: IFC will make available medium to long-term senior and subordinated loans as well as equity when required. Lending to any one country will be limited to 20 percent of the overall envelope. No single borrower will receive more than 10 percent of the envelope and equity will represent no more than 20 percent of the envelope.

### **The US\$6 billion Financial Institutions Response Envelope (FIGE)**

- **Envelope Overview**: The Financial Institutions Response Envelope requires a multi-faceted and flexible approach that moves quickly to support trade finance to sustain current flows and move goods across borders and to address the liquidity and risk mitigation needs of companies facing demand and supply shocks. It seeks to provide private sector-focused support to help alleviate the immediate trade, working capital, and medium-term financing needs of companies in affected countries to maintain trade flows, stabilize the economy, support employment, and restore supplies of key goods and services.
- **Use of Funds**: Investments will quickly provide financial institutions' clients with lines for trade finance, working capital, and risk mitigation solutions to help maintain trade flows, continue lending to MSMEs, support employment, and help mitigate the expected global economic slowdown as a result of COVID-19.
- **Priority Sectors and Clients**: IFC will deploy a range of tools and investments to many banking sector clients globally, allowing for investments to be made across regions and countries impacted by the global economic impact of the outbreak.
- **Global Trade Finance Program (GTFP)**: The first component of the FIGE is the GTFP which is expected to scale up to deliver an incremental US\$2 billion in response to the COVID-19 crisis within its existing approved program amount of US\$5 billion under Delegated Authority as approved by the Board (IFC/R2012-0302). The GTFP platform connects more than 500 correspondent and issuing banks engaged in trade finance across all regions and is available to all participating local banks in countries of operations (emerging markets issuing banks or EMIBs) that meet IFC's standards. GTFP covers the payment risk obligation of EMIBs for any trade-related instruments to support the import and export of a wide array of goods to and from developing countries and can also assist EMIBs to meet working capital liquidity needs related to trade financing. As part of deployment of the GTFP, IFC will work with the International Development Association (IDA) team to determine whether a Private Sector Window (PSW) risk-sharing facility can be developed to allow this product to reach clients in IDA and Fragile and Conflict-Affected Situations (FCS).
- **Working Capital Solutions (WCS)**: The second component of the FIGE are working capital loans that will build on IFC's existing product platforms that serve the working capital needs of businesses in developing countries through local banks. WCS loans provide both USD and local currency funding to local FIs in emerging market and developing economies

(EMDEs) to support their client businesses' trade and working capital needs for a one-year (renewable for up to two) period. Under the WCS, IFC intends to provide up to US\$2 billion in funding and liquidity channeled through banks to support companies in markets affected by COVID-19. WCS loans are to existing FI clients for new loans or refinancing to any existing underlying loan by a company that may have difficulties in servicing its debt as a result of the outbreak. Faced with lower revenues, higher costs, supply disruptions, complicated inventory management, and pricing power erosion, businesses are experiencing strained cash flows, lower profit margins and balance sheet constraints. Therefore, many impacted companies need working capital liquidity as short-term bridge financing for banks to continue operating.

- As a result of ongoing discussions with FI clients on support for the WCS, there is demand for IFC to complement the above solutions with an additional amount of up to US\$2 billion through the Global Trade Liquidity Program (GTLP) and the Critical Commodities Finance Program (CCFP). Both of them are proven rapid response, counter-cyclical solutions that partners with global banks to support trade finance with emerging markets issuing banks and the flow of critical commodities to address financing challenges faced by their client beneficiaries in emerging markets in sectors such as healthcare, agribusiness, manufacturing, and infrastructure. Unlike the GTFP which is available to all participating local banks in EMDEs, the GTLP and CCFP are risk-sharing models whereby IFC will provide funded and/or unfunded risk sharing facilities to support the continued flow of trade transactions and critical commodities in emerging market countries, working with existing clients to support trade finance involving EMDEs.

11. ***IFC Facility Amounts and Common Mechanics Across the IFC Facility:*** As a result of the above, in addition to the existing Board-approved Delegated Authority for the US\$2 billion GTFP, IFC is also seeking Delegated Authority from the Board to set the terms of new investments resulting from the proposed IFC Facility of US\$6 billion, comprised of US\$2 billion for the RSE, US\$2 billion for the WCS and US\$2 billion for expansion of the GTLP and CCFP programs. All the IFC Facility's envelopes will share common approaches and mechanics, as follows:

- **Availability:** Given that the impact of COVID-19 continues to evolve and remains uncertain, each component of the IFC Facility is requested for a two-year availability period. It will be made available to existing clients to support existing lines of business only, and to those in good standing with good underlying fundamentals for long-term sustainability and an ability to demonstrate real or potential disruption in operations resulting from COVID-19.
- **Approval Procedures:** In order to deploy the IFC Facility promptly and urgently, IFC proposes that investments under each component be made under Delegated Authority from the Board, with the exception of RSE sub-projects exceeding US\$100 million and/or those with a Category A E&S rating, whereby IFC Management will revert to the Board via a shortened five-day Absence of Objection. Projects will be approved by IFC Management based on credit, environmental and social governance and compliance criteria, as applied in past crisis response facilities.

- Environment and Social: RSE has not been categorized on a stand-alone basis given each sub-project or existing client has an established E&S category and E&S rating. Only existing clients with updated E&S risk ratings of 1 (Excellent) or 2 (Satisfactory) will be eligible for support under the RSE. Furthermore, each sub-project will be subject to IFC's E&S risk screening and categorization procedure, including consideration of contextual and project-specific impacts of COVID-19 on project E&S performance. For projects with no new material E&S risks and impacts, public disclosure will occur *post-facto* via an update to existing client disclosure materials. For those with material new E&S risks and impacts that cannot be mitigated under existing client E&S mitigation arrangements, these will be subjected to mainstream IFC E&S diligence and disclosure processes. In such cases, public disclosure periods will be based on project commitment dates in *lieu* of Board dates.

FIGE has been provisionally classified as a Category FI-2 project. The investments under the envelope are expected to have limited E&S risks and impacts and will exclude support to sub-borrowers exposed to higher risk activities. Only existing FI clients with recently updated E&S risk ratings of satisfactory or better will be eligible for support under the FIGE WSC component. Existing clients will be required to comply with their existing E&S requirements. Public disclosure will occur *post-facto* via an update to existing client disclosure materials.

- Legal and Compliance: IFC will be working with existing clients that do not pose any material legal or integrity due diligence issues and meet IFC's AML/CFT standards. Any (i) material disclosures related to legal, integrity or compliance issues and (ii) disclosures related to acceptability under the policy on the use of intermediate jurisdictions in IFC operations approved by the Board (IFC/R2014-0206) (the OFC Policy) on individual investments will be made in the periodic reporting to the Board through the special COVID-19 section in the quarterly Investment Operations Report (IOR).
- Additionality: IFC's additionality in the IFC Facility is driven largely by our countercyclical role during crises, especially at a times when other lending institutions or investors' appetite may be subdued. In this instance, it is the combination of: (i) IFC's successful experience with rapid crisis response efforts, especially in the trade finance space; (ii) its extensive network of banks that support global emerging markets; (iii) its set of programs aimed at investing both large scale and transactional liquidity and capital for trade finance and working capital in emerging markets; (iv) its ability to support real sector clients to address liquidity constraints in response to COVID-19 and to provide critical goods, equipment, and supplies; (v) its ability to help clients re-direct supply chains; and (vi) its support to continued employment in countries of operation.
- Development Impact: The development impact thesis shared by all projects under the IFC Facility is that by supporting clients' capacity to sustain operations during an acute shock, IFC best positions the private sector to support the economic recovery process, shortening the time it will take for the most vulnerable to return to their traditional income-earning opportunities. The traditional Anticipated Impact Measurement and Monitoring (AIMM) construct will not be used to assess projects that are part of this crisis response package, as regular benchmarks used to compare a project's efficiency do not apply. Under a crisis

situation the premium is not on efficiency, but rather on the ability to respond promptly and sustained availability of output. As a result, sub-projects will receive an initial AIMM rating of 53, based on an overall assessment. The assessment will be adjusted as actual projects come on stream.

- Investment Operations Report (IOR): As part of the quarterly IOR, IFC will develop a special section reporting on COVID-19 initiatives for the IFC Facility and will closely monitor implementation and utilization which would include: (i) regions and countries reached; (ii) number of clients; (iii) number and type of beneficiaries reached; and (iv) number and size of investments, among others. In addition, any individual projects being considered under the IFC Facility will be reported in the Monthly Operations Report (MOR), which will include a new ex-ante section for sub-projects that are anticipated to be committed in the coming month. This would enable the Executive Directors the opportunity to express views regarding their individual position on a sub-project being considered for commitment.
- Article III Notification: No Article III Notification has been issued in connection with the submission of the IFC Facility for approval by the Board of Directors. Prior to any investment being entered into under the IFC Facility, an Article III will be circulated to the relevant country on a no-objection basis.

12. **Pipeline**: IFC is in the process of completing a COVID-19 impact and vulnerability assessment on its portfolio. Based on this analysis and ongoing enhanced management of individual clients by portfolio managers, IFC will generate a pipeline of projects to be financed. Please see Appendix A for an initial list of expected investments and/or sectors under the RSE and FIGE components.

13. **Risks**: As lessons from other crises has demonstrated, underutilization of the FIGE is possible. IFC proposes to monitor this closely and will revert to the Board with changes, as needed, including on introduction of new clients and support from the PSW. Given that IFC has limited experience with the RSE, IFC has fewer lessons learned; however, underutilization may again be a risk, as will our ability to gage the extent and length of disruptions generated by COVID-19. Management proposes to revert to the Board with changes, as necessary, including the proposed country/client exposure limits and the possibility of introducing new clients.

**Indicative Utilization of FIGE and RSE**

Below are indicative regional utilization breakdowns of the FIGE and RSE envelopes based on initial market sounding. In the case of FIGE, the breakdown reflects demand by platform with financing provided through both the requested FIGE and existing board-delegated programs. In the case of RSE, the breakdown reflects both manufacturing, agribusiness, and services as well as infrastructure investments.

Given the Delegated Authority nature of the Facility, IFC will monitor the ongoing process and implementation with periodic reporting to the Board through the quarterly IOR, which will have a special section reporting on COVID-19 initiatives.

**Regional Breakdown (US\$ millions)**

	New IFC Investment		Amounts from Existing Delegated Authority	Total
	GTLP/CCFP	WCS	GTFP	
<b>East Asia &amp; Pacific</b>	450	575	450	1,475
<b>Europe and Central Asia</b>	200	375	200	775
<b>Latin America &amp; Caribbean</b>	480	550	250	1280
<b>Middle East &amp; North Africa</b>	100	100	200	400
<b>South Asia</b>	320	150	350	820
<b>Sub-Saharan Africa</b>	450	250	550	1,250
<b>Total</b>	<b>2,000</b>	<b>2,000</b>	<b>2,000</b>	<b>6,000</b>

	Real Sector Investment
<b>East Asia &amp; Pacific</b>	550
<b>Europe and Central Asia</b>	250
<b>Latin America &amp; Caribbean</b>	200
<b>Middle East &amp; North Africa</b>	250
<b>South Asia</b>	400
<b>Sub-Saharan Africa</b>	350
<b>Total</b>	<b>2,000</b>

**RSE: Preliminary list of real sectors impacted by COVID-19**

<u>Sector</u>	<u>Disruption</u>	<u>Funding Needs</u>
Agribusiness and Forestry	Supply chain disruption in intermediate chemicals for fertilizer and agro inputs and for the supply of pulp	Help companies alleviate high cost of inputs and diversify supply chain
Healthcare	Demand for non-critical healthcare services or medication has declined substantially as focus and demand has shifted towards COVID-19 related treatment. Additionally, healthcare service providers find themselves stretched to deal with a significant increase in demand for testing and treatment of respiratory diseases	Cash shortage for working capital and debt repayment plus potentially some equipment investments for dealing with surge of demand for treating respiratory diseases
Manufacturing	Significant disruption to supply chain for automotive components, cables, lighting materials	Help company diversify supplier base and reduce dependency on one country
Pharma	Critical components like API and intermediate materials for common drugs e.g. Paracetamol, Metformin and certain antibiotics are largely sourced from China. There have been significant supply disruptions in Asia and Africa. Price of paracetamols, antibiotics have increased.	Provide funds for working capital and help company diversify supplier base and reduce dependency on one country
Retail	Significant decline in consumer foot-traffic	Cash shortage for working capital and debt repayment
Textiles and Readymade Garment (RMG)	Supply disruptions for critical inputs/raw materials	Help companies alleviate high cost of inputs and diversify supply chain
Tourism	Significant number of cancellations and reduction in tourist arrivals	Immediate cash shortage for working capital and debt repayment
Housing and Property	Potential disruption of construction activities, and future construction opportunities.	Cash shortage for working capital. Delayed principal repayment case by case basis
Logistics – last mile delivery	Impacts on mobility and delivery-agent availability, although at this point, not on demand.	Cash shortage for working capital. Delayed principal repayment case by case basis
Logistics – trade linkages in port sector	Volumes are particularly impacted. Potential of similar impacts in other terminal / port / LNG and regassification facilities.	Help companies alleviate pressures from reduced revenues. Delayed principal repayment case by case basis.
General Infrastructure	Where clients depend on inputs of goods or services from Chinese counterparts. Force Majeure declared, as well as delays with commissioning, concerns on delivery of solar panels and other equipment, and impacts on returning Chinese staff.	Help companies alleviate potential increase in project cost. Delayed principal repayment case by case basis.