

Research Update:

International Fund For Agricultural Development Assigned 'AA+/A-1+' Ratings; Outlook Stable

November 19, 2020

Overview

- The International Fund for Agricultural Development (IFAD) is a specialized U.N. agency, with the mission of eradicating poverty and hunger in rural areas by providing resources on concessional terms in developing countries.
- We consider IFAD's enterprise risk profile strong, underpinned by its unique mandate, robust record of membership support through recurrent capital replenishments, and strong preferred creditor treatment.
- Our view of IFAD's financial risk profile as extremely strong takes into consideration our risk-adjusted capital (RAC) ratio for IFAD of 90.1% and robust liquidity. However, IFAD lacks a record of accessing market funding.
- We are therefore assigning our 'AA+/A-1+' ratings to IFAD.
- The outlook is stable based on our expectation that IFAD's members will remain supportive through its upcoming capital replenishment cycle, while liquidity remains strong over the next two years.

PRIMARY CREDIT ANALYST

Marta Saenz
Madrid
+ 34 91 788 7231
marta.saenz
@spglobal.com

SECONDARY CONTACTS

Alexander Ekbon
Stockholm
+ 46 84 40 5911
alexander.ekbon
@spglobal.com

Patrice Cochelin
Paris
+ 33144207325
patrice.cochelin
@spglobal.com

Rating Action

On Nov. 19, 2020, S&P Global Ratings assigned its 'AA+' long-term and 'A-1+' short-term foreign currency issuer credit ratings to IFAD. The outlook is stable.

Outlook

The stable outlook reflects our view that we do not see any signs of IFAD's enterprise or financial risk profile weakening in the next two years.

Downside scenario

We could consider a negative action if we saw weakening support from its member states,

implying a weaker policy importance. Although unlikely, we could also take a negative action if we saw its RAC ratio deteriorating significantly to below 23%, or its liquidity dropping below 1x its commitments for the next 12 months.

Upside scenario

Although we consider it unlikely in the next 24 months, we could take a positive action on IFAD, if we saw a strengthening of its governance, showing a structural track record of an effective implementation of IFAD's new borrowing framework, and adherence to other newly developed policies and processes, while maintaining robust support from its members.

Rationale

Our ratings on IFAD reflect our assessment of its enterprise risk profile as strong and its financial risk profile as extremely strong. IFAD does not have callable capital from its members, though members have proven to be supportive throughout the 11 capital replenishment cycles and other supplementary contributions since inception.

IFAD's strong policy importance and adequate governance and management expertise underpins its enterprise risk profile. IFAD is a specialized U.N. agency established by international treaty in 1977, with the sole focus of investing in rural poor communities by transforming agricultural economies and food systems. Given the nature of IFAD, it is also highly focused on achieving the U.N.'s sustainable development goals (SDGs), especially those related to poverty, food insecurity, and climate change. IFAD is currently active in 94 countries and has delivered more than \$22 billion of financing through loans and grants to lower- and middle-income countries across the globe since its inception.

We believe IFAD's policy importance is supported by a mandate focusing on borrowers that are not serviced by private-sector entities and not serviced by other multilateral institutions (MLIs). While other MLIs also invest in rural and poor areas, IFAD's projects target the poorest of the poor in the most rural areas and are characterized by small project sizes and few co-investors. This close position to smallholder farmers, communities, and other market players where IFAD operates allows for closer connections and understanding of the targeted projects than other MLI. For this reason, other institutions pursue working with IFAD to benefit from their knowledge and resources in the field. IFAD participates in co-financing with other larger institutions such as the European Commission, the World Bank, and the Global Agricultural and Food Security Fund. Co-financing with national development banks is also common, and another testimony to the alignment of IFAD's policy goals with those of its shareholders. IFAD's mandate has a high degree of alignment with the social and environmental objectives of its shareholders and the U.N., which it demonstrates through systematic impact monitoring against SDGs.

At year-end 2019, loans and grants to low and lower-middle income countries represented 90% of IFAD's investments. Of this about 41% of the investments is focused on sub-Saharan Africa; 33% in Asia-Pacific; 15% in the Near East, North Africa, and Europe; and 11% in Latin America and the Caribbean. The majority of lending in these countries is done on concessional terms, which at year-end 2019 represented 84% of the cumulative commitments. To be eligible to borrow from IFAD at the most favorable terms, a country must comply with the same conditions that the International Development Association (IDA) applies for their concessional loan eligibility, which are based on specific gross national income thresholds that are updated on an annual basis.

Support from member states has proved to be robust through the economic cycles, via capital replenishments occurring every three years. Members have contributed \$9.3 billion up to IFAD's

11th replenishment cycle (2019-2021). The governing council runs the replenishment consultation process, where they analyze IFAD's available resources and commitments for the following three years. During the last consultation process, members agreed to expand the program of loans and grants up to \$3.5 billion, and to do so by increasing replenishment contributions to \$1.2 billion for IFAD11. In 2019, 94 countries had contributed, reaching 84% of this target already.

IFAD has 177 member countries (91% of the U.N. nations), and Poland was the last country to join in June 2020, while an additional 12 members signed up in the past decade. All G20 countries are IFAD members, except for Australia, which is the only member to ever withdraw from the institution. When a supporting member decides to leave an MLI, we generally consider it negative for the MLI. However, almost two decades have passed since Australia withdrew from IFAD in 2003, and the fact it was not among the top-20 contributors at the time reduces the impact in our view. In addition, its capital was not reimbursed, and Australia has since provided support through supplementary contribution funds to enhance rural development in the Pacific. IFAD's membership is open to any U.N. member or member of other U.N. agencies.

Members can also support IFAD through complementary contributions, and nonmembers can voluntarily contribute to IFAD's resources or specific programs. Cumulative complementary contributions in 2019 stood at \$576 million, of which 37% correspond to the U.K., 15% to Belgium, 15% to the Netherlands, and 7% to Germany. Additionally, supplementary contributions can also be made by members and other institutions to support specific programs, and project co-financing. We believe this underpins our strong policy importance assessment. As an initial response to the COVID-19 pandemic, IFAD put in place the Rural Poor Stimulus Facility to support small-scale farmers and rural producers, aiming to mobilize \$200 million from member states. So far, members, including Canada and Sweden have contributed up to \$9 million.

In our view, IFAD's policy importance is also strengthened by our preferred creditor treatment (PCT) assessment for IFAD. IFAD's arrears ratio stood at 2.9% of outstanding loans at year-end 2019, with only four countries being currently in arrears with IFAD. IFAD's write-offs historically have been limited due to its strong enforcement measures to pay. When a country is in arrears for more than 75 days, the entire loans and grants are immediately suspended. IFAD participates in the Heavily Indebted Poor Countries initiative. Nevertheless, IFAD receives contributions from its members in compensation, which in our view mitigates capital deterioration.

IFAD's governance structure is diversified, supported by its large membership and no private-sector holdings. Members' voting powers are determined by their capital contributions. The top-five members are the U.S. (7.0%), Germany (4.1%), Japan (4.0%), the U.K. (3.9%), and Italy (3.7%). Members with the highest voting power also have a larger say during the replenishment consultation process, typically represented by the 'List A' countries, which account for 49.5% of the votes. While some members can also be borrowing countries, we believe agency risk is limited due to the fact that loans amounts are determined by formula and objective indicators. Moreover, IFAD's top-10 members by contributions have on average high governance standards according to World Bank indicators.

We understand that there have been long discussions among members on the sufficiency of the resources available to fulfill IFAD's mandate. While we note that all members agree that the main source of funds should come from the capital replenishment cycles, IFAD is currently exploring broadening its funding sources. In doing this, IFAD is currently working on a new borrowing framework, for which the fund's management has also updated its capital adequacy and liquidity policies. As an initial step, in 2015 IFAD introduced their first sovereign loan borrowing, a bilateral funding instrument provided to IFAD on favorable terms, and in 2017 IFAD included additional concessional partner loans from member states. We understand any progress in these fields will be gradual and the majority of IFAD's loan assets will continue to be funded by equity.

Research Update: International Fund For Agricultural Development Assigned 'AA+/A-1+' Ratings; Outlook Stable

Nevertheless, we view this a step forward for IFAD to expand and diversify its resources, though it currently lacks a track record of implementing this new strategy. Given that we expect capital contributions will remain the cornerstone of IFAD's funding mix, we also expect IFAD's portion on concessional loans and grants to have the majority of the share of investments. Therefore, due to the nature of the institution, IFAD is likely to remain loss-making, as grants and debt sustainability framework expenses weigh negatively on their income statement, exceeding interest-earning loans.

IFAD's creditworthiness is underpinned by its extremely strong financial risk profile, largely supported by our assessment of IFAD's extremely strong capital. At year-end 2019, IFAD's RAC ratio stood at 90.1% (using rating parameters as of Oct. 6, 2020), incorporating adjustments specific to MLIs. Our main adjustments to IFAD's RAC are its single-name exposure concentration, which is essentially offset by the benefit that accrues from its preferred creditor treatment. Capitalization is supported by very high levels of equity, given that IFAD received regular equity replenishments and membership commitments toward capital adequacy.

IFAD's funding is supported by a strong one-year funding gap where assets are 8.63x its liabilities. IFAD's funding structure is comprised of capital contributions from its members, and more recently the introduction of sovereign loans and concessional partner loans, but lacks a track record of market funding. However, we understand that under IFAD's new borrowing framework introduction to private institutional investors will be considered, with the purpose of expanding resources diversification and reaching investors with a strong focus on sustainable investments. In any case, we believe IFAD's management will implement its leveraging in a gradual way and maintain its current leverage thresholds, with debt to equity not exceeding 35%.

We expect IFAD's liquidity to remain robust. IFAD's 12- and six-month liquidity ratios surpass our threshold for a strong liquidity assessment, at 1.35x and 2.07x, respectively, proving that IFAD's current cash inflows exceed its scheduled disbursements. IFAD's current liquidity policy suggests that its liquidity coverage ratio should be 60% of gross disbursements. However, IFAD plans to make its liquidity policy more conservative, and we therefore expect the fund's liquidity to remain robust over the next years. Moreover, we believe IFAD has in place adequate investment policies. IFAD's liquid assets are held in highly rated, fixed-income instruments, and at year-end 2019 all its investments were investment grade, with 50% in S&P Global Ratings' 'AA' rating category or above.

Ratings Score Snapshot

Issuer credit rating	AA+/Stable/A-1+
SACP	aa+
Enterprise Risk Profile	Strong
Policy importance	Strong
Governance and management	Adequate
Financial risk profile	Extremely strong
Capital adequacy	Extremely strong
Funding and liquidity	Strong
Extraordinary support	0
Callable capital	0
Group Support	0

Research Update: International Fund For Agricultural Development Assigned 'AA+/A-1+' Ratings; Outlook Stable

Issuer credit rating	AA+/Stable/A-1+
Holistic approach	0

SACP--Stand-alone credit profile.

Related Criteria

- Criteria | Governments | General: Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology, Dec. 14, 2018
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Supranationals Edition 2020: Comparative Data For Multilateral Lending Institutions, Oct. 20, 2020

Ratings List

New Rating

Issuer Credit Rating	AA+/Stable/A-1+
----------------------	-----------------

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

Copyright © 2020 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.