



RATING ACTION COMMENTARY

Fitch Affirms IFAD at 'AA+'; Outlook Stable

Fri 23 Sep, 2022 - 10:24 ET

Fitch Ratings - Paris - 23 Sep 2022: Fitch Ratings has affirmed International Fund for Agricultural Development's (IFAD) Long-Term Issuer Default Rating (IDR) at 'AA+' with a Stable Outlook.

A full list of rating actions is at the end of this rating action commentary.

KEY RATING DRIVERS

SCP Underpins Rating: IFAD's 'AA+' Long-Term IDR continues to be anchored on its Standalone Credit Profile (SCP). IFAD's SCP assessment is driven by its solvency (aa+) and liquidity (aa+) profiles, which are unchanged from last year. The medium-risk business environment does not translate into any notch adjustment to the rating. Our assessment of IFAD's shareholders' capacity and propensity to support does not provide any uplift above our assessment of its SCP.

IFAD12 Replenishment On-Going: IFAD's main financial resources are contributions from its member states, paid through three-year replenishment cycles, with the most significant contributors the G8 countries, including the US (AAA/Stable), Germany (AAA/Stable) and Italy (BBB/Stable). The fund's current replenishment cycle, IFAD 12 (which runs from 2022-2024), is expected to be around USD1.3 billion in size, which is an increase from the previous cycle (IFAD 11: USD1.1 billion). Relative to IFAD 11, 47 countries have increased their contribution; of which 30 have increased by over 40%.

Inaugural Issuance Under EMTN Programme: Approved by its board in September 2021 and finalised in December 2021, IFAD has issued two private placements totalling

USD150 million under its EMTN Programme. As IFAD continues to transition to a hybrid funding structure, Fitch understands that IFAD will continue issuing private placements under its Sustainable Development Finance Framework to meet the funding targets of the ongoing replenishment. In addition to paid-in replenishments from its contributors, IFAD also funds its operations using loans from its sovereign shareholders, including some extended under concessional terms.

'Excellent' Capitalisation Underpins Solvency: Fitch expects IFAD's equity/assets ratio will continue to far exceed the 25% 'excellent' threshold over the medium term. As of end-2021, this ratio was around 81%. Our assessment is also supported by the fund's usable capital/risk-weighted assets (FRA) ratio, which also far exceeds the 35% 'excellent' threshold (end-2021: 74%). IFAD is inherently loss-making, owing to its business model, but this is offset by the paid-in contributions it receives from its member states. We expect both ratios to remain well above the 'excellent' thresholds in the medium term, despite the fund gradually increasing its leverage.

Credit Risk Assessment Unchanged: Non-performing loans (NPLs) represented 2.5% of total loans at end-2021. As of June 2022, there were four sovereigns classified as NPLs to IFAD (North Korea, Somalia, Venezuela, Yemen), which is unchanged from last year. In line with IFAD's own expectations, Fitch forecasts that NPLs will increase from a 'low' level (below 3%) to a 'moderate' level (3%-6%) over the medium term, reflecting the impact of the current deterioration in the economic environment on loan performance. Fitch forecasts the NPL rate to be closer to 4.0%-4.5% by the end of the forecast period (2024). The average rating of IFAD's loan portfolio is also unchanged at 'B+'. IFAD has no lending exposure to Russia (NR), Ukraine (CC) or Belarus (RD).

Quality of Treasury Portfolio Improving: Liquidity is a rating strength for IFAD, with the liquidity profile assessed at 'aa+', unchanged from last year's review. The quality of IFAD's treasury asset portfolio has improved over the past 12 months, with an increased share of 'AAA' to 'AA' rated treasury assets (2021: 81% vs. 2020: 72%). This continued improvement reflects changes made to the fund's investment guidelines, which became active at the start of IFAD 12. In terms of IFAD's liquidity buffer, as of end-2021, IFAD's coverage of short-term debt by eligible liquid assets was well above 1,000%, far above the 150% 'excellent' threshold outlined in the criteria, and we expect this to continue over the forecast period.

Medium Risk Business Environment: IFAD's business environment is unchanged from last year and is deemed 'medium risk', which translates into a zero-notch adjustment to the solvency assessment of 'aa+', leading to a SCP of 'aa+'. Our assessment of IFAD's 'low risk' business profile is driven by the 'low risk' quality of governance, supported by the large share of non-borrowing member states and the absence of one overly dominant

contributor. Our 'high risk' assessment of IFAD's operating environment reflects the relatively high share of low-income countries within the distribution of IFAD's countries of operations, along with the 'high risk' credit quality of the fund's countries of operation.

Support Assessment Improves to 'aa': IFAD's rating is fully driven by its SCP and support is not currently a rating driver. IFAD's support rating has improved from 'aa-' at the last review, to 'aa'. This assessment is anchored on the weighted average rating of IFAD's key contributors, which Fitch defines as those member states that contribute over 50% of the fund's total replenishments. Fitch had previously assumed a one-notch downgrade to those key contributors on Negative Outlook (US and Japan) in its forecasts but following the revision of both Outlooks to Stable, we no longer assume these downgrades and forecast the average rating of contributors to remain at the current level of 'aa'.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

-**Solvency (Risk):** Resilience of the loan portfolio that results in a stronger credit risk profile than currently anticipated, particularly an improvement in the fund's loan impairment ratio relative to Fitch's current expectations, to a level commensurate with a 'very low' assessment and an improvement in the average rating of the loan portfolio.

- **Liquidity:** An improvement in our assessment of IFAD's access to capital markets (currently 'weak') following regular, public issuance under the EMTN Programme could lead to a positive adjustment to the liquidity assessment, as could sustained maintenance of 'AAA' to 'AA' rated treasury assets at a level greater than 70%.

Given the solvency and liquidity assessments are at the same level (aa+), there would need to be a positive revision of both of them to result in any upward rating pressure on the Long-Term IDR.

-**Business Environment (Business Profile):** Improvement in our assessment of IFAD's business profile driven by a successful transition towards a gradual increase in leverage, diversification of funding sources and exposure to middle-income borrowers, while adhering to the revised risk management framework.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

-Solvency (Risk): Worse-than-expected impact of the current deterioration in the economic environment on the fund's loan portfolio that leads to a higher loan impairment ratio (above 6%) and/or weaker credit quality of the loan portfolio than currently expected.

-Business Environment (Business Profile): A deterioration in the fund's business profile, which could lead to a negative revision of our current 'low' risk assessment. For example, this could stem from any potential weakening in the fund's strategy risk in the context of the ongoing transition towards a more levered balance sheet.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

IFAD has an ESG Relevance Score of '4' for Rule of Law, Institutional & Regulatory Quality. All supranationals have a score of '4'. Supranationals are neither subject to bank regulation nor supervised by an external authority. Instead, supranationals comply with their own set of rules. Fitch pays particular attention to internal prudential policies, including compliance with these policies. This has a negative impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

IFAD has an ESG Relevance Score of '4+' for 'Human Rights, Community Relations, Access & Affordability'. IFAD extends concessional loans and grants to low-income countries which supports IFAD's policy importance and has a positive impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

The ESG Relevance Score assigned to 'Labour Relations and Practices' has been changed to '2' from '3', given that restrictions on recruitment based on nationality or quotas is no longer considered to be relevant to multilateral development banks' ratings.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

RATING ACTIONS

ENTITY / DEBT ⇅	RATING ⇅			PRIOR ⇅
International Fund for Agricultural Development (IFAD)	LT IDR	AA+ Rating Outlook Stable		AA+ Rating Outlook Stable
	Affirmed			
	ST IDR	F1+	Affirmed	F1+
senior unsecured	LT	AA+	Affirmed	AA+

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

[Supranationals Rating Criteria \(pub. 11 Apr 2022\) \(including rating assumption sensitivity\)](#)

ADDITIONAL DISCLOSURES

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ENDORSEMENT STATUS

International Fund for Agricultural Development (IFAD)

EU Issued, UK Endorsed

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