International Fund for Agricultural Development (IFAD)

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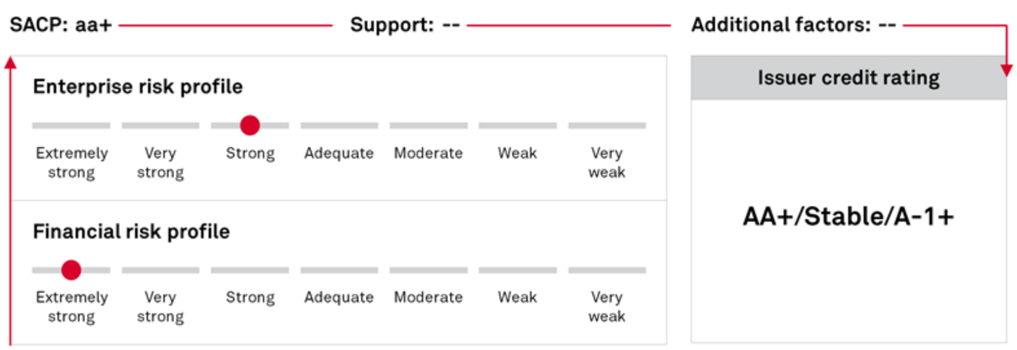
This report does not constitute a rating action.

Ratings Score Snapshot



SACP--Stand-alone credit profile.

Overview

Enterprise risk profile	Financial risk profile
Unique mandate serving poor rural communities.	An extremely strong capital position, with leverage increasing through capital market borrowing.
--Benefits from a strong social and environmental mandate to transform agricultural economies and food systems.	--Despite gradually increasing capital market borrowings, IFAD's core resources will continue to be paid in capital from its shareholders.
--Continued robust shareholder support through ongoing and future capital replenishments.	--Strong preferred credit treatment, with no track record of write-offs.
--Management will be focused on achieving a higher impact through a more decentralized business model, while gradually increasing leverage to achieve more lending resources.	--Liquidity to remain strong, underpinned by its new liquidity policy of targeting a full 12 months' coverage of gross disbursements.

S&P Global Ratings expects that equity will remain IFAD's main source of financing, despite the institution expanding its sources of funding. During the first half of 2022, IFAD, as part of its new borrowing framework, issued its first private placements for a total amount of $150 million. We expect shareholders will continue to fund IFAD through successful capital replenishments to support its mandate of providing concessional loans to low- and middle-income countries for the development of the agricultural sector.

We expect capital will remain extremely strong, with a risk-adjusted-capital (RAC) ratio of 81.1% as of June 30, 2022. This will be further underpinned by IFAD's recently launched 12th capital replenishment cycle (IFAD12), during which we expect it will receive $1.3 billion in new equity. IFAD enjoys strong preferred creditor treatment, demonstrated by no new country arrears over these past two challenging years.

Outlook

The stable outlook on IFAD reflects our view that its mandate will continue to be strong and supported by increasing needs in the poorest countries most affected by the ongoing macroeconomic challenges that have materialized following the outbreak of COVID-19 and the conflict in Ukraine. The stable outlook also reflects our view that IFAD will continue to be mainly equity funded, despite the institution introducing capital market funding, with shareholders capital contributions.

Downside scenario

We could consider a negative rating action if we observed waning support for IFAD from its member states, implying a weaker policy importance. Although unlikely, we could also take a negative rating action if we saw IFAD's RAC ratio deteriorating significantly to below 23%, or liquidity dropping to less than 1x its commitments for the next 12 months.

Upside scenario

Although unlikely, we could take a positive rating action if IFAD significantly strengthened its governance, showing a structural track record of effective implementation of its new borrowing framework and adherence to its newly developed policies while maintaining robust support from its members.

Environmental, Social, And Governance

IFAD is part of the U.N., which was created as an outcome of the World Food Conference in 1974 in response to the food crisis during the early 1970s. Since its establishment in 1977, IFAD has focused on eradicating poverty and hunger in the most remote areas of the world by investing in making rural economies and food systems more sustainable. IFAD is the only specialized global development organization exclusively focused on transforming poor rural economies. Unlike other multilateral lending institutions (MLIs), it targets the poorest, most remote areas where other organizations have a lesser presence due to lack of resources and expertise. We therefore view IFAD as having a clear focus on social and environmental factors.

The institution's funding is well aligned with sustainable development goals, especially those regarding poverty, hunger, gender equality, work and economic growth, other inequalities, climate, and life on land. Every year, IFAD publishes its impact assessment, mapped to the U.N.'s sustainable development goals (SDGs), allowing it to be easily comparable and trackable with peers.

More recently, as part of IFAD's new borrowing framework, IFAD has issued two private placements in capital markets. Proceeds from issuances will be used to finance or refinance eligible development projects in member countries. These proceeds, together with those coming from sovereign and concessional partner loans to IFAD, will be part of IFAD's Sustainable Development Financing Framework, for which IFAD will annually report impact. We believe that IFAD's issuances will serve to attract investors interested in SDGs and sustainable agriculture. IFAD also receives supplementary sources of financing; for example it raised about $300 million from the Global Environmental Facility, Green Climate Fund and Adaptation Fund. In any case, core contributions will remain the cornerstone of IFAD's financial model, backed by members' annual contributions.

Combined with domestic and international co-financing, IFAD's operations have improved the income of 77 million people, the agricultural production of 62 million, the market access and business opportunities of 64 million, and the resilience of 38 million.

Enterprise Risk Profile

A unique and strongly supported mandate to transform agricultural systems in poor rural areas to improve their economic sustainability

Policy importance: Its unique mandate is supported by a well-diversified shareholder base. IFAD's mandate is to eradicate poverty and hunger by investing in poor rural communities. The institution aims to do this by increasing rural peoples' productive capacity and market participation, and by strengthening the environmental sustainability and climate resilience of rural peoples' activities. Since its creation in 1977, IFAD has provided $23.9 billion in funding and currently has loan exposures in 109 countries. IFAD's expertise in the agricultural field is on demand; for example, the government of Egypt recently appointed IFAD to take part of its Nexus of Water, Food and Energy program to lead its food pillar. The African Development Bank will lead its water pillar, and the European Bank for Reconstruction and Development the one on energy.

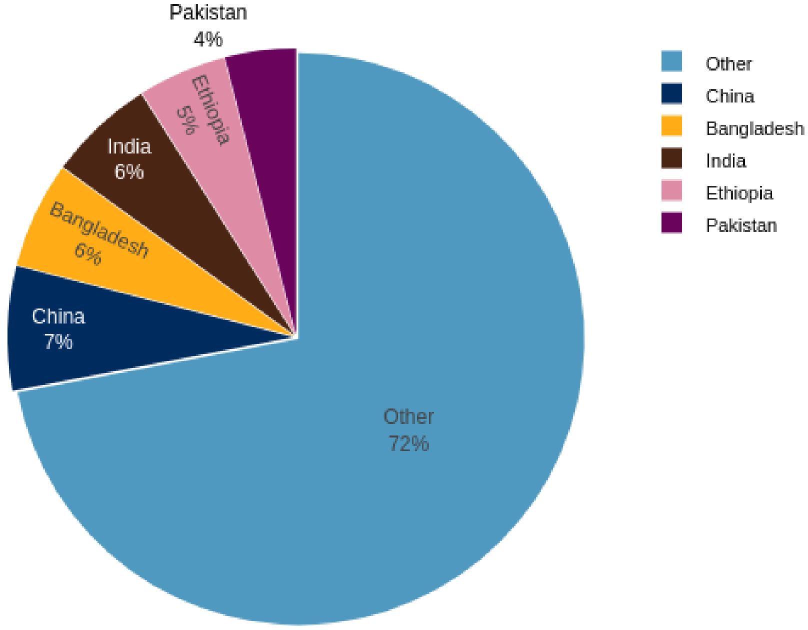
Recent economic challenges such as the COVID-19 and the war in Ukraine have raised the need for sustained investment in poor rural areas, which in our view supports IFAD's mandate. We believe that IFAD's expertise on the agricultural sector is in demand due to the ongoing food crisis, and we expect IFAD's efforts will focus on increasing its presence and impact in the low- and middle-income countries over the next decade. In doing so, IFAD is working toward increasing its co-financing ratios. As a response to the pandemic, IFAD put in place the Rural Poor Stimulus Facility (RPSF) funding mechanism to provide support for those in need. In total, the RPSF has gathered $93 million, including contributions from Canada, Germany, Netherlands, Sweden, and Switzerland. In addition, as an immediate response to the war in Ukraine IFAD has launched the Crisis Response Initiative, which aims to protect the development gains of poor rural households and producers, having in mind priority countries that are at a high risk or financial distress, such as Somalia, for example.

IFAD is currently in the process of decentralizing its operating model to increase its impact on social and environmental objectives. Over IFAD12, the institution has continued its decentralization strategy with the goal of reaching 45% of staff on the filed by 2023 (at 36.5% at year-end 2021). With this strategy, IFAD aims at improving its efficiency and capacity in the field. In doing so, they also increased their regional offices, with the establishment of two new regional offices in Nairobi and Abidjan, bringing the total number of regional offices to 42. IFAD is the only MLI that targets and reaches remote rural areas with the sole purpose of promoting and investing in local economies through agricultural and food systems. According to IFAD's Development Effectiveness report from 2021, IFAD has reached 91 million rural people.

IFAD mainly provides loans at highly concessional terms, which at year-end 2021 represented 81% of total loans. IFAD's largest loan exposures are to Asia and the Pacific (38%), East and Southern Africa (24%), West and Central Africa (19%), the Near East, North Africa, and Europe (12%), and Latin America and the Caribbean (7%). IFAD's resources are generally directed to poorer countries, which receive either grants or concessional loans. The eligibility to borrow at highly concessional, blend, or ordinary terms is determined by a member's level of income as defined by GNI (as per the World Bank calculation) and a creditworthiness assessment.

Countries To Which IFAD Has The Highest Purpose-Related Exposure

As a percentage of gross purpose-related assets plus guarantees



Source: S&P Global Ratings.

Support from its member states through successful capital replenishment cycles underpins IFAD's enterprise risk profile, and has allowed IFAD to fulfill its public policy mandate through economic cycles. The IFAD12 capital replenishment cycle targets $1.55 billion in contributions from member states; this is higher than the $1.2 billion targeted under the previous replenishment cycle, IFAD11 (almost 90% was reached). As of October 2022, 108 countries have pledged a total of $1.3 billion. In IFAD12, about 47 countries planned to increase their contributions compared to IFAD11, and major G-7 countries increased their contributions by more than 30%. According to IFAD's targets, cumulative contributions from member states to IFAD since its inception will reach $10.2 billion by the end of 2024. Alongside IFAD's shareholders contributions, IFAD also benefits from strategic partnerships with other nonmember states, multilateral organizations, domestic financial institutions, other intergovernmental organizations. As part of IFAD12, IFAD as also launched a borrowing framework to include debt funding from private placements.

IFAD has 177 member countries, of which Poland was the last country to join in 2020; 12 members have signed up during the past decade. All G-20 countries are IFAD members except Australia, the only member to have withdrawn from the institution. Generally, when a member decided to leave an MLI, we can consider it negative for the MLI. However, Australia withdrew from IFAD almost two decades ago, in 2003, and was not among the top-20 contributors. In our view, this reduces the impact of the withdrawal. Members also prove their support by compensating IFAD for debt-relief measures. The institution participates in the Heavily Indebted Poor Countries (HIPC) initiative, for which members offer compensation through the HIPC Trust Fund managed by the World Bank on a pay-as-you-go basis.

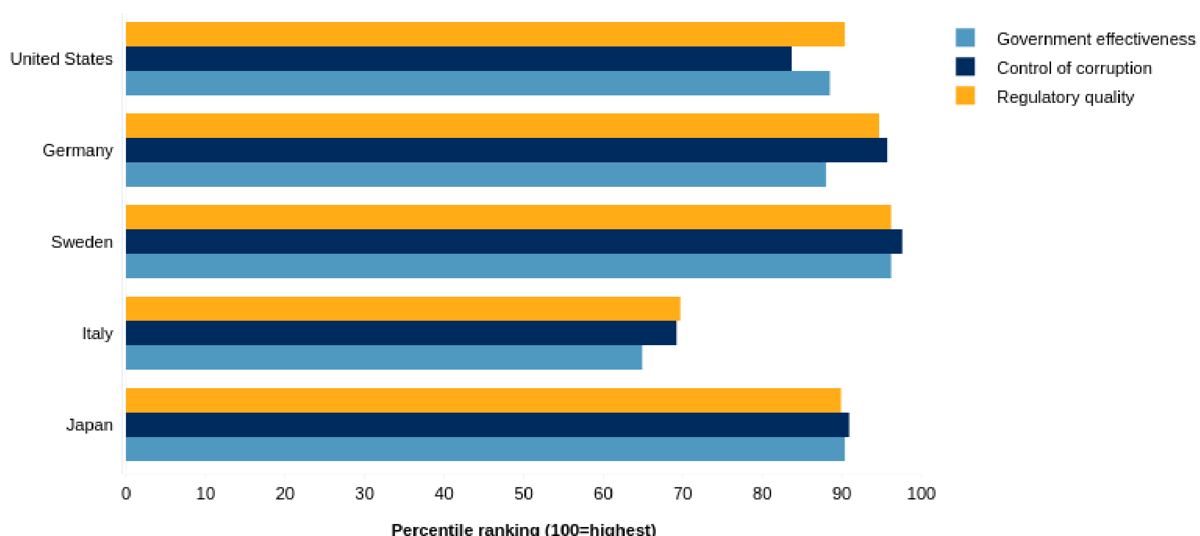
In our view, IFAD's policy importance is strengthened by preferred creditor treatment. IFAD's arrears ratio stood at 2.5% of outstanding loans at end-June 2022, with four countries currently in arrears. Currently, outstanding arrears are to Venezuela, Yemen, Somalia, and Korea. The institution has never written off a loan, due to its strong payment-enforcement measures. When a country is in arrears for more than 75 days, all loans and grants are immediately suspended. There is also the possibility of members compensating arrears for some countries, which in our view strengthens membership commitment toward the institution and its purpose.

IFAD's governance structure is diversified thanks to its large membership and no private-sector holdings. Members' voting powers are determined by their capital contributions, with the U.S. being the largest contributor (6.8%), followed by Germany (4.2%). Members with the highest voting power also have a larger influence during the replenishment consultation process, typically presented in the 'List A' countries, which account for 49.8% of the votes. While some members can also be borrowing countries, we believe agency risk is limited because loan amounts are determined by formula and objective indicators. Moreover, IFAD's top-10 members by contributions generally have high governance standards according to the World Bank's indicators.

IFAD recently appointed a new president, which will lead the institution at a crucial time when rising food and fuel prices are affecting poor rural people. We believe IFAD's management will tackle challenges ahead with the support of its integrated borrowing framework, which will be used to gradually expand the institution's resources and impact. The framework was recently updated to include borrowing from financial markets through private placements, with the purpose of increasing its lending capacity and diversifying its lending resources. This decision was made during IFAD11's discussions with the intention to test it over IFAD12 and under the firm assumption that most of IFAD's loan assets will continue to be funded by equity. While this is a step forward for IFAD to expand and diversify its resources, we believe there is still a lack of a track record of its implementation. We believe IFAD will continue to align and setup all the needed processes on the risk management side to build a solid and gradual path for the integration of IFAD's borrowing framework. We believe that IFAD12, led by its recently appointed President Mr. Lario, will place special focus on increasing its response to and impact on the ongoing food crisis by raising equity and leverage in a gradual and prudent manner, and not surpassing a 35% debt-to-equity threshold established by its member states. Management has also updated its risk management framework, which involved increasing its staff members and upgrading the chief risk officer's functions within the executive management team, with unfettered access to IFAD's governing bodies, which in turns decides on IFAD's strategy. We consider that IFAD's management is adequately embedding risk management in the decision-making process.

IFAD's Five-Largest Shareholders

Selected World Bank Governance Indicators



Source: S&P Global Ratings.

Financial Risk Profile

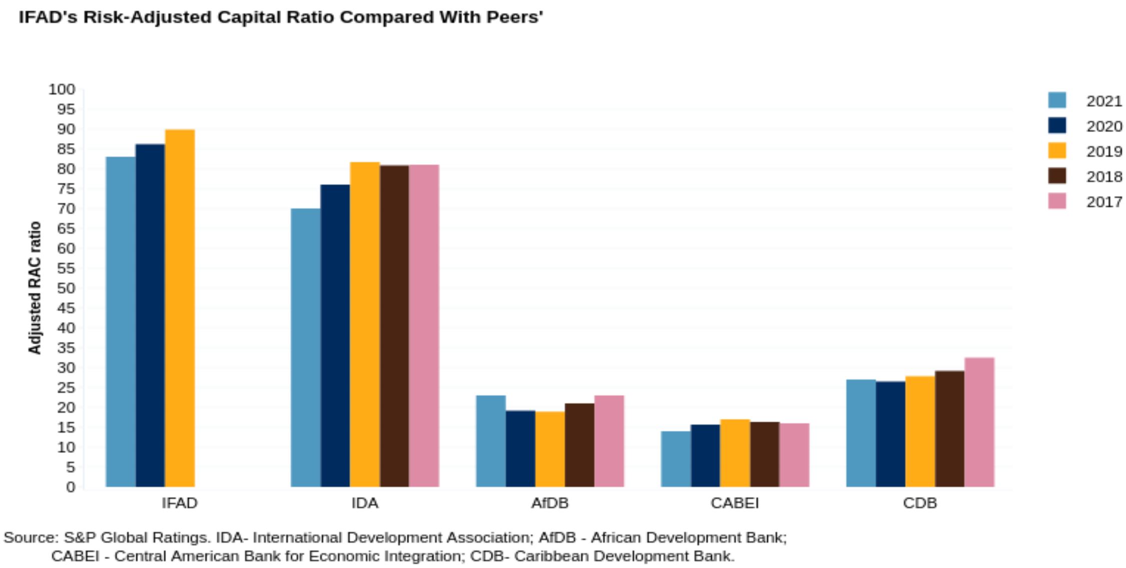
Extremely strong capital structure, supported by recent capital market funding

Capital adequacy: IFAD's creditworthiness is underpinned by its extremely strong capital adequacy. At the end of June 2022, IFAD's RAC ratio stood at 81.1% (using parameters as of Nov. 17, 2022), incorporating adjustments specific to MLIs. Our main adjustment to IFAD's RAC ratio is its single-name concentration exposure, which is essentially offset by the benefit that accrues from its preferred creditor treatment. Capitalization is supported by very high levels of equity, with total adjusted capital at $7.4 billion on June 30, 2022. IFAD's equity has been increasing since its inception, with cumulative contributions reaching $10.2 billion, including IFAD12, thanks to capital replenishment cycles. We also see its strong equity as proof of members' commitment to capital adequacy and the institution's unique mission. Since we continue to expect capital contributions to be the cornerstone of IFAD's funding mix, we also expect its portion of concessional loans and grants to have the largest 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 on its income statement, exceeding interest-earning loans. However, such losses are compensated by contributions in line with IFAD's business model and internal policies, supporting IFAD's capital growth over time.

International Fund for Agricultural Development--Risk-Adjusted Capital Framework Data: June 30, 2022

Mil. $	Exposure	S&P Global Ratings' RWA	Average S&P Global Ratings' RW (%)
Credit risk			
Government and central banks	11,067	9,905	90
Institutions	297	84	28
Corporate	16	10	66
Securitization			
Other assets	275	340	123
Total credit risk	11,655	10,340	89
Operational risk			
Total operational risk		768	
Risk transfer mechanisms			
Risk transfer mechanisms RWA			
RWA before MLI Adjustments		11,107	100
MLI adjustments			
Single name (on corporate exposures)		73	696
Sector (on corporate portfolio)		3	3
Geographic		(784)	(8)
Preferred creditor treatment (on sovereign exposures)		(3,361)	(34)
Preferential treatment (on FI and corporate exposures)		(11)	(11)
Single name (on sovereign exposures)		2,194	22
Total MLI adjustments		(1,887)	(17)
RWA after MLI adjustments		9,220	83
		Total adjusted capital	**S&P Global Ratings' RAC ratio (%)**
Capital ratio before adjustments		7,475.7	67.3
Capital ratio after adjustments		7,475.7	81.1

MLI--Multilateral lending institutions. RW--Risk weight. RWA--Risk-weighted assets. Parameters as of Nov. 17, 2022.



Funding: IFAD's funding structure comprises capital contributions from its members, sovereign loans, concessional partner loans, and more recently the introduction of market funding through private placements. Sovereign loans were first introduced in 2014, during IFAD9, and since then they have established a track record. The latest sovereign loan engagement has been done through European Investment Bank for a total amount of €500 million in November 2022 to be used to invest in global food security. IFAD also uses concessional partner loans, introduced in 2017, signed with countries such as France, India, and Finland. In December 2021, IFAD established a euro medium-term note program, under which in June 2022 it did its first inaugural private placement issuance of $100 million, followed by a second placement of $50 million. With these issuances, IFAD has become the first U.N. fund and the only U.N. body (other than the World Bank Group) to enter capital markets. Total debt outstanding at June 30, 2022, reached $1.7 billion. We expect IFAD will increase its leverage in a prudent and gradual manner, with debt equity not exceeding 35% during IFAD12.

Liquidity: We assess IFAD's liquidity as strong. Its six- and 12-month liquidity ratios stood at 1.74x and 2.43x, respectively at end-June 2022, proving that its current cash inflows comfortably exceed its scheduled outflows, mainly including disbursements to borrowers. We therefore expect that IFAD will not need to modify its planned disbursements for the following year. As per IFAD's liquidity policy, the institution targets liquidity covering 100% of gross disbursements, which we view as prudent.

IFAD also enjoys from adequate investment policies, which support our strong funding and liquidity assessments. IFAD's liquid assets are held in highly rated, fixed-income instruments; at end-June 2022, 25% of the investment portfolio were rated 'AAA', 59% were in the 'AA' category and 16% in the 'A' category.

International Fund For Agricultural Development--Selected Indicators

	2021	2020	2019	2018	2017	2016
ENTERPRISE PROFILE						
Policy importance						
Total purpose-related exposure (loans, equity, etc.) (mil. $)*	8,234	8,177	7,614	7,313	7,140	6,377

Public-sector (including sovereign-guaranteed) loans/purpose-related exposure (%)	100	100	100	100	100	100
Private-sector loans/purpose-related exposures (%)	0	0	0	0	0	0
Gross loan growth (%)						
Preferred creditor treatment ratio (%)	1.97	2.06	2.9	N.A.	N.A.	N.A.
Governance and management expertise						
Share of votes controlled by eligible borrower member countries (%)	50	50	50.51	N.A.	N.A.	N.A.
Concentration of top two shareholders (%)	11	11.5	11.1	N.A.	N.A.	N.A.
Eligible callable capital (mil. $)	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
FINANCIAL RISK PROFILE						
Capital and earnings						
RAC ratio (%)	82.7	86.2	89.8	N.A.	N.A.	N.A.
Net interest income/average net loans (%)	1.4	1.4	1.7	1.6	2.0	1.9
Net income/average shareholders' equity (%)	(4.2)	(3.8)	(3.6)	(3.5)	(3.1)	(3.2)
Impaired loans and advances/total loans (%)	0	0	0	0	0	0
Liquidity ratios						
Liquid assets/adjusted total assets (%)	14.4	12.3	11.4	12.3	15.8	17.1
Liquid assets/gross debt (%)	92.0	100.9	135.4	181.8	281.6	506.1
Liquidity coverage ratio (with planned disbursements):						
Six months (net derivate payables) (x)	2.5	2.4	2.1	N.A.	N.A.	N.A.
12 months (net derivate payables) (x)	1.4	1.4	1.4	N.A.	N.A.	N.A.
12 months (net derivate payables) including 50% of all undisbursed loans (x)	0.6	0.5	0.4	N.A.	N.A.	N.A
Funding ratios						
Gross debt/adjusted total assets (%)	15.7	12.2	8.4	6.8	5.6	3.4
Short-term debt (by remaining maturity)/gross debt (%)	2.4	3.1	2.0	0.0	0.0	0.0

Static funding gap (with planned disbursements)						
12 months (net derivate payables) (x)	11.4	14.8	8.6	N.A.	N.A.	N.A.
Summary balance sheet						
Total assets (mil. $)	10,596	9,883	9,400	9,286	8,940	8,384
Total liabilities (mil. $)	2,012	1,681	1,273	959	872	617
Shareholders' equity (mil. $)	8,584	8,203	8,126	8,327	8,068	7,767

*Not including committed disbursements. PCT--Preferred creditor treatment. RAC--Risk-adjusted capital. N.A.--Not available.

International Fund For Agricultural Development--Peer Comparison

	International Fund For Agricultural Development	The International Development Association	African Development Bank	Central American Bank for Economic Integration	Caribbean Development Bank
Issuer credit ratings	AA+/Stable/A-1+	AAA/Stable/A-1+	AAA/Stable/A-1+	AA/Stable/A-1+	AA+/Stable/A-1+
Total purpose-related exposure (mil. $)	8,234	184,010	22,703	8,691	1,353
Preferred creditor treatment ratio (%)	2.0	0.8	1.2	0.0	0.7
Risk adjusted capital ratio (%)	82.7	70.0	23.2	14.0	26.5
Liquidity ratio 12 months (net derivative payables; %)	1.4	1.7	1.6	1.5	2.5
Funding gap 12 months (net derivative payables; %)	11.4	2.4	1.5	1.8	4.0

Source: S&P Global Ratings.

Rating Component Scores

Enterprise Risk Profile	Extremely strong	Very strong	**Strong**	Adequate	Moderate	Weak	Very weak
Policy Importance	Very strong	**Strong**	Adequate	Moderate	Weak		
Governance and Management	Strong	**Adequate**	Weak				
Financial Risk Profile	**Extremely strong**	Very strong	Strong	Adequate	Moderate	Weak	Very weak
Capital Adequacy	**Extremely strong**	Very strong	Strong	Adequate	Moderate	Weak	Very weak
Funding and Liquidity	Very strong	**Strong**	Adequate	Moderate	Weak	Very weak	

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 2022: Comparative Data For Multilateral Lending Institutions, Oct. 10, 2022
- International Fund For Agricultural Development, Dec.17, 2021

Ratings Detail (as of November 29, 2022)*

International Fund For Agricultural Development		
Issuer Credit Rating		
Foreign Currency		AA+/Stable/A-1+
Senior Unsecured		A-1+
Senior Unsecured		AA+
Issuer Credit Ratings History		
19-Nov-2020	*Foreign Currency*	AA+/Stable/A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.