International Fund for Agricultural Development (IFAD)

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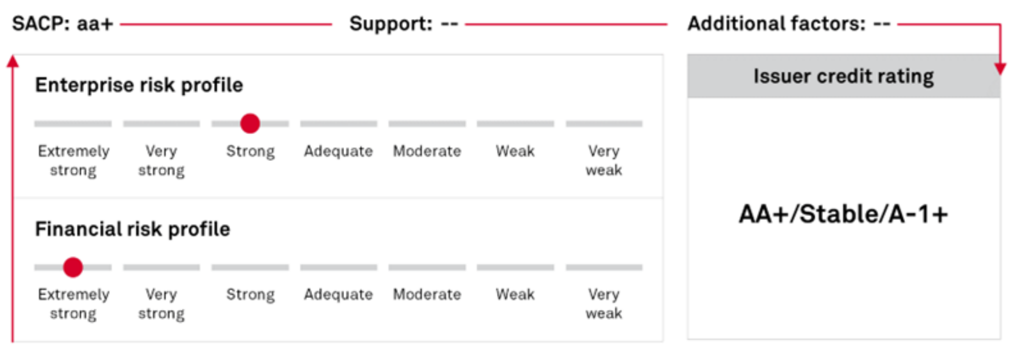
This report does not constitute a rating action.

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 gradually increasing through capital markets borrowing.
-- Benefits from a strong social and environmental mandate to transform agricultural economies and food systems.	-- Despite a gradual increasing market borrowing, IFAD's core resources will continue to be paid in capital from its shareholders.
-- Continued robust shareholder support through ongoing and future capital replenishments.	-- IFAD benefits from a strong preferred credit treatment, with no track record of write-offs.
-- IFAD's management plans on increasing its lending and cofinancing to the private sector, while increasing leverage to increase its lending resources.	-- Liquidity remains strong, underpinned by its policy of targeting a full 12 months' coverage of gross disbursements.

S&P Global Ratings expects equity to remain IFAD's main source of financing, despite the institution gradually expanding its sources of funding. In 2023 IFAD has continued to strengthen its funding profile, adding two new sustainable private placements totaling €180 million. It has also increased its debt-to-equity ratio limit to 50% from 35%. Nonetheless, we expect IFAD to continue to provide concessional loans and grants to low- and middle-income countries and that equity will remain its core funding source.

The IFAD13 capital replenishment consultation will end in December 2023, whereby the institution aims to target core contributions that are at least as high as those of IFAD12. IFAD launched its new replenishment cycle consultation process in February 2023 for 2025-2027 and has already received higher pledges from donors such as Spain, France, and Norway. IFAD has introduced so-called climate contributions for member states, which should attract new contributions from members and will account as core contributions to IFAD's equity.

Thanks to increased capital contributions from member states, we expect IFAD's capital to remain extremely strong, underpinning our 'AA+' rating, with a risk-adjusted capital (RAC) ratio of 83.7% as of June 2023. IFAD's RAC ratio benefits from its strong preferred creditor treatment, with outstanding arrears at 2.1% as of June 2023. IFAD's financial risk profile is also strengthened by the institution's strong liquidity position, in which liquidity covers more than 12 months of the projected disbursement of loans and grants as well as scheduled debt repayments.

Outlook

The stable outlook on IFAD reflects our view that its mandate will remain strong, reflecting increasing needs in the poorest countries affected by ongoing macroeconomic challenges. The stable outlook also reflects our view that IFAD will continue to be mainly equity funded through shareholder capital contributions, despite introducing capital markets funding.

Downside scenario

We could consider a negative rating action if we observed waning support for IFAD from its member states, implying 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 comitments for the next 12 months.

Upside scenario

We could take a positive rating action if IFAD significantly strengthens its governance, showing a track record of effective implementation of its new borrowing framework and adherence to new policies while mantaining robust member support.

Enterprise Risk Profile

Policy Importance

IFAD has a unique mandate, being the only development institution to be exclusively focused on agricultural transformation. IFAD's mandate is to eradicate poverty and hunger by investing in poor rural communities and their food systems. The institution does this by investing in the poorest of the poor, in areas beyond the reach of many other development institutions. IFAD is the second-largest multilateral institution for financing agricultural projects, after the International Development Association (IDA). Since its creation IFAD has provided close to $24 billion in funding and currently has loan exposures in 109 countries (with a total portfolio of $8.4 billion outstanding loans). IFAD's expertise in agriculture is in demand; for example the Egyptian government has appointed IFAD to lead the food pillar of its Water-Energy-Food-Ecosystem Nexus program.

IFAD is closely aligned with sustainable development goals (SDGs), especially those regarding poverty, hunger, gender equality, work and economic growth, climate, and life on land. Every replenishment cycle, IFAD publishes its impact assessment, showing how it has performed against the targets it has set for its strategic objectives and highlighting how it has contributed to the SDGs. More recently, IFAD also launched its annual impact report under its Sustainable Development Finance Framework (SDFF), which provides investors details on the use of proceeds from IFAD's sustainable bond issuances.

In our view, recent macroeconomic events as well as climate-related shocks have increased global hunger and poverty rates, making IFAD's mandate and role more important. Global hunger at end-2022 remained above pre-pandemic levels and continues to affect 9.2% of the world's population. It will likely be exacerbated by ongoing geopolitical conflicts. IFAD set up Rural Poor Stimulus Facility funding mechanisms after the pandemic, as well as a Crisis Response Initiative, which is a financing facility dedicated to support the small-scale producers most affected by the Ukraine war. IFAD raised $53 million in supplementary contributions from member states for the Rural Poor Stimulus Facility, which, together with its allocation of $40 million from grant resources, mobilized $93 million. Thiswas distiributed across more than 60 countries. IFAD raised $80 million through supplementary contributions from member states for the Crisis Response Initiative, which strengthened resilience in 22 countries.

IFAD mainly provides loans on highly concessional terms; at year-end 2022 these represented 79.2% of IFAD's total loans. Its largest loan exposures, as of June 2023, are to Asia and the Pacific (38%), East and Southern Africa (24%), West and Central Arica (19%), Near East, north Africa and Europe (12%), and Latin America and the Caribbean (7%). Eligibility to borrow on highly concessional terms, blend terms, or ordinary terms is determined by a member's income as defined by GNI (as per the World Bank calculation) and a creditworthiness assessment. IFAD can also issue grants to developing member states, or intergovernmental organizations in which member states participate. As of December 2022, 3.6% of IFAD's replenishment is allocated to the grants program.

IFAD's frequent capital replenishment cycles underpin its enterprise risk profile, and has allowed it to fulfill its public policy mandate through economic cycles. The IFAD12 replenishment cycle (2022-2024) pledges $1.3 billion from 116 member states, and one special contribution from the Vatican, with 49 countries increasing their contributions from the previous cycle. G7 member states have increased their contributions by 40% on average, signaling IFAD's policy importance and mandate.

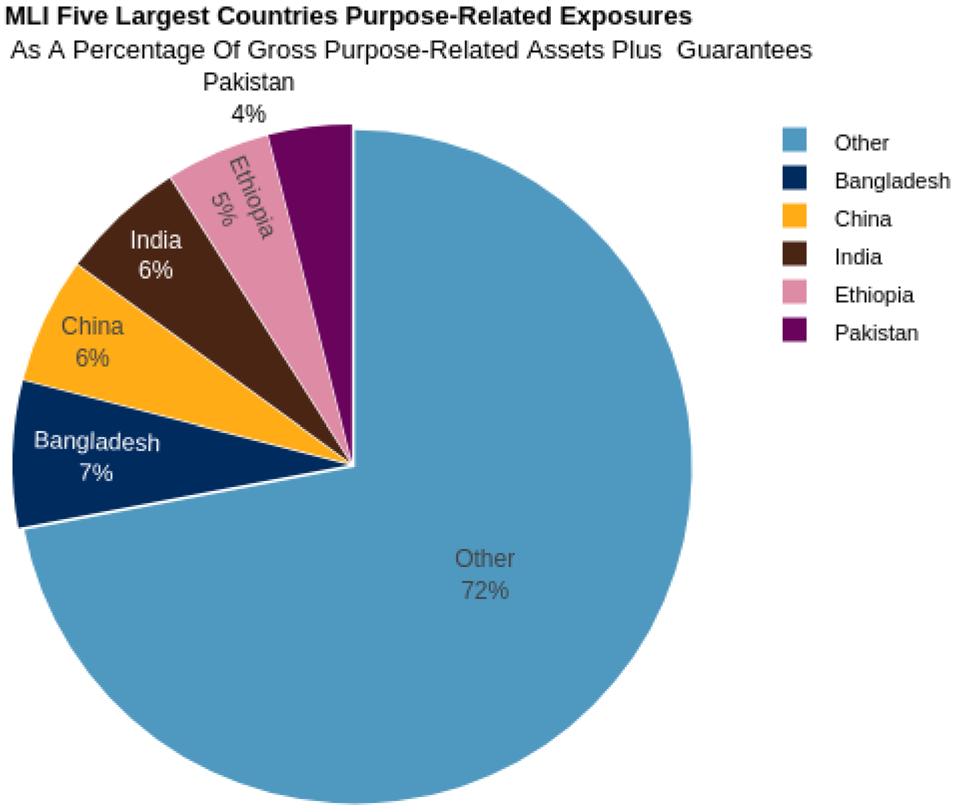
IFAD is trying to decentralize its operating model to improve its capacity and efficiency in the field. During IFAD12 it set the goal of reaching 45% of staff in the field by 2024 (43.6% as of March 2023). IFAD currently has 43 country offices across the world, with a recently increased office presence in the Pacific, Latin America, and Caribbean. By the end of 2024, IFAD expects to have 50 operational country offices. IFAD is the only MLI that has a niche and exclusive focus on investing and promoting agricultural transformation and food systems in the poorest rural areas. We understand that while very costly, this widespread office presence allows the institution to fulfill its mandate more effectively. According to IFAD's 2023 Report of Development Effectiveness, at year-end 2022, IFAD's projects have reached 78.6 million people since its inception.

The IFAD13 (2025-2027) consultation process began in February 2023 and some countries have already announced higher pledges than for IFAD12. IFAD's fourth and final consultation on IFAD13 will be in December 2023, when we understand member states will announce their initial pledges. IFAD's management wants to collect more than it did for IFAD12, and so far France, Norway, and Spain have announced higher pledges. IFAD has introduced a new form of core contributions called climate contributions, which will allow member states to use part of their climate budget to allocate resources to IFAD. In this context, the institution expects to attract new or higher contributions from member states.

IFAD continues to build relationships with strategic partners to strengthen its focus on the private sector and cofinancing activity, and thereby boost its impact. Nevertheless, IFAD's key focus will remain government lending, backed by core contributions from member states. We think that its lending to the private sector will be via non-sovereign resources, such as capital markets or financial institutions, and only gradually increase over time. In 2020-2022, IFAD surpassed its cofinancing target of $1.50 to raise $1.63 in cofinancing for every dollar invested. IFAD's main cofinanciers are other multilateral organizations and sovereign financial institutions. Some of these are the ADB, the World Bank, the European Investment Bank, and KFW. We believe that IFAD's increasing cofinancing efforts will enhance its impact in the field and enable it to reach smaller farming businesses across the world.

IFAD has 177 member countries; 12 have signed up during the past decade. Moreover, in February 2023 Ukraine was endorsed to become a member, and its membership will become effective once it makes the accession deposit. Given Ukraine's important role in agriculture, it stands to benefit from IFAD's resources in coming years. All G-20 countries are IFAD members, except Australia, the only member to withdraw from the institution, almost two decades ago. We note that Australia has continued to support the institution through supplementary contributions to specific projects in the Pacific. Overall, we view membership support as very strong given IFAD's successful capital replenishment cycles and increasing membership base. IFAD's 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 via the World-Bank-managed HIPC Trust Fund on a pay-as-you-go basis.

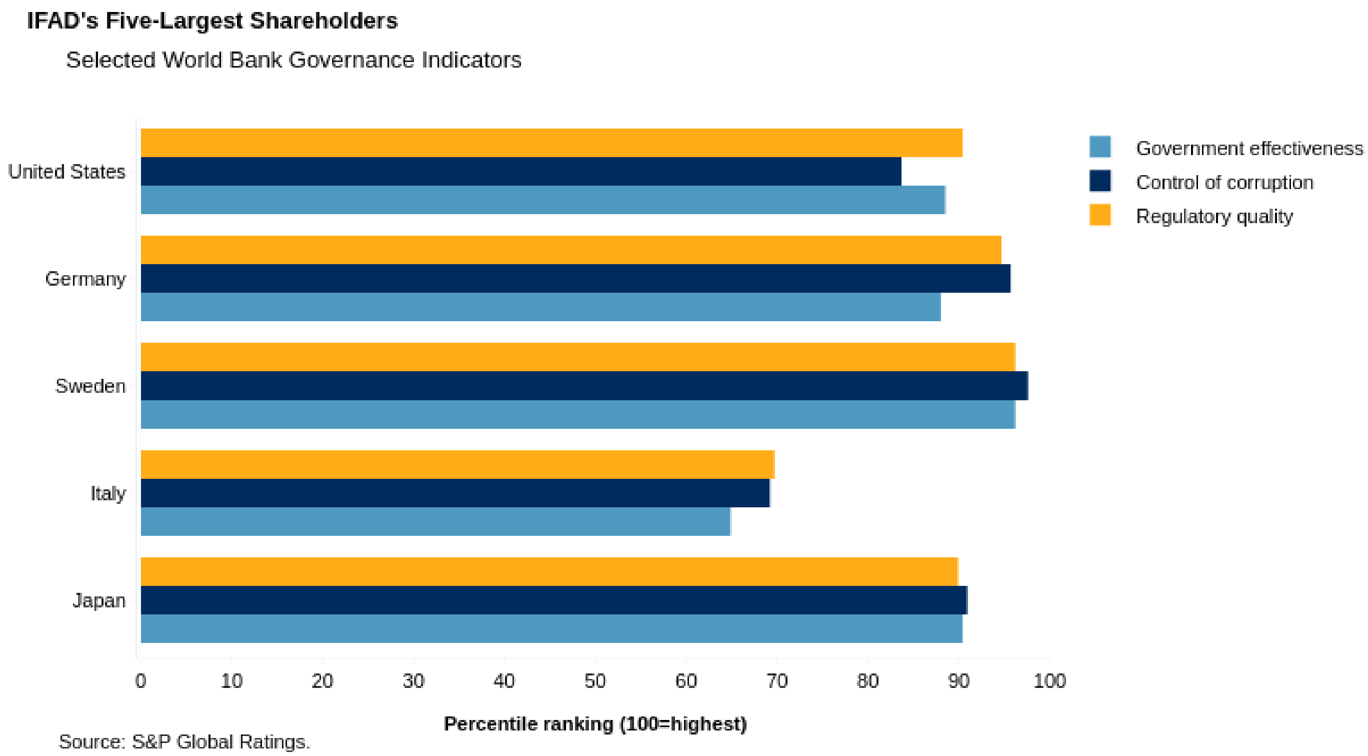
IFAD's policy importance is strengthened by preferred creditor treatment. We estimate IFAD's arrears ratio at 2.1% of outstanding loans as of June 2023, with four countries currently in arrears--Venezuela, Yemen, North Korea, and most recently Lebanon. IFAD's arrears ratio has slightly improved thanks to some donors clearing Somalia's arrears in 2022, highlighting what we view as strong membership support of the institution and its purpose. IFAD has enforcing measures that support its preferred credit status, in our view. When a country is in arrears for more than 75 days, all loans and grants are immediately suspended.



Source: S&P Global Ratings.

Governance and management expertise

IFAD's governance structure is robust and 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 (6.9%) followed by Germany (4.2%) and Italy (4.0%). Members with the largest voting powers also have more influence during the replenishment consultation process, typically represented in the List A&B countries, which account for 60.8% of the votes, as of September 2023. 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 have high governance standards according to the World Bank's indicators. Additionally, more than 50% of IFAD's shareholders have a credit rating equal to or higher than 'A-'.



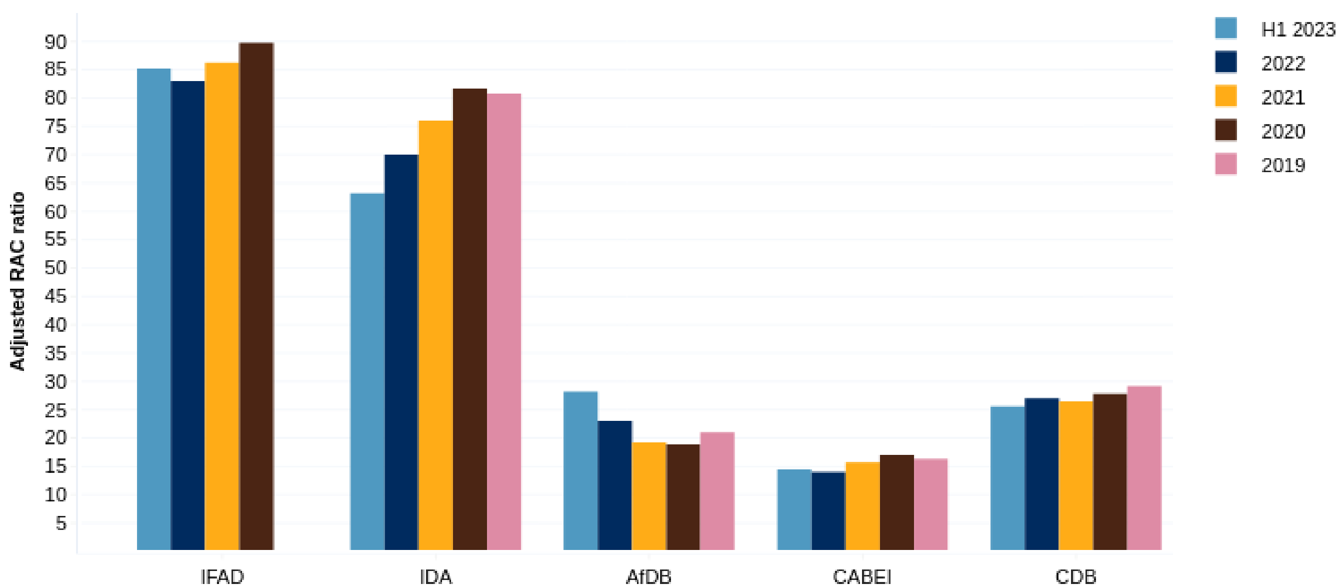
We expect IFAD's management to continue expanding the institution's resources with market funding, but equity will remain its main source, and any increases in leverage will be gradual. IFAD issued its two first private placements in 2022, and has issued €180 million in 2023. IFAD's borrowing framework was established in 2020, as member states agreed to look out for new resources for the institution to expand its lending capacity. This framework, updated in April 2023, mentions that IFAD's borrowing framework will also be used as a tool to manage liquidity resources. We note that IFAD's management is successfully implementing this framework, although there is still a limited track record, and the institution continues to update and align some of its policies with its needs.

We consider that IFAD's management is adequately embedding risk management in its decision making. During 2022, the institution leveraged 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 turn decide IFAD's strategy. IFAD has also developed new operational risk management tools to facilitate the identification and reporting of its own risk incidents.

Financial Risk Profile

Capital adequacy: Our rating on IFAD is underpinned by the institution's extremely strong capital adequacy. At the end of June 2023, IFAD's RAC ratio stood at 85.2% (using parameters as of Sept. 15, 2023), incorporating adjustments specific to MLIs. Our main adjustment to IFAD's RAC ratio is its single-name concentration exposure, which is largely offset by the benefit that accrues from its preferred creditor treatment. Capitalization is supported by very high levels of equity, and total adjusted capital of $7,635 billion as of June 2023. IFAD's equity has been increasing since its inception, with cumulative contributions reaching $10.2 billion, including IFAD12, thanks to the 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, given its nature, 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 its capital growth over time.

Risk-Adjusted Capital Ratio Peer Comparison



Source: S&P Global Ratings.

Table 1

IFAD RACF (Risk-Adjusted Capital Framework) Data: June 30, 2023)

(USD mil.)	Exposure	S&P Global Ratings RWA	Average S&P Global Ratings RW (%)
Credit risk			
Government and central banks	11,459	9,712	85
Institutions	245	52	21
Corporate	17	11	66
Retail			
Securitization			
Other assets	264	310	117
Total credit risk	11,985	10,085	84
Credit valuation adjustment			
Total credit valuation adjustment			
Market risk			
Equity in the banking book			
Trading book market risk			
Total market risk			
Operational risk			
Total operational risk		222	
Risk transfer mechanisms			
Risk transfer mechanisms RWA			
RWA before MLI Adjustments		10,307	100
MLI adjustments			
Single name (on corporate exposures)		76	696
Sector (on corporate portfolio)		3	3
Geographic		-872	-9
Preferred creditor treatment (on sovereign exposures)		-2,922	-30
Preferential treatment (on FI and corporate exposures)		0	0
Single name (on sovereign exposures)		2,367	24
Total MLI adjustments		-1,349	-13
RWA after MLI adjustments		8,958	87
		Total adjusted capital	**S&P Global Ratings RAC Ratio (%)**
Capital ratio before adjustments		7,635	74.1
Capital ratio after adjustments		7,635	85.2

MLI--Multilateral lending institutions. RW--Risk weight. RWA--Risk-weighted assets. Parameters as of Sept. 15, 2023

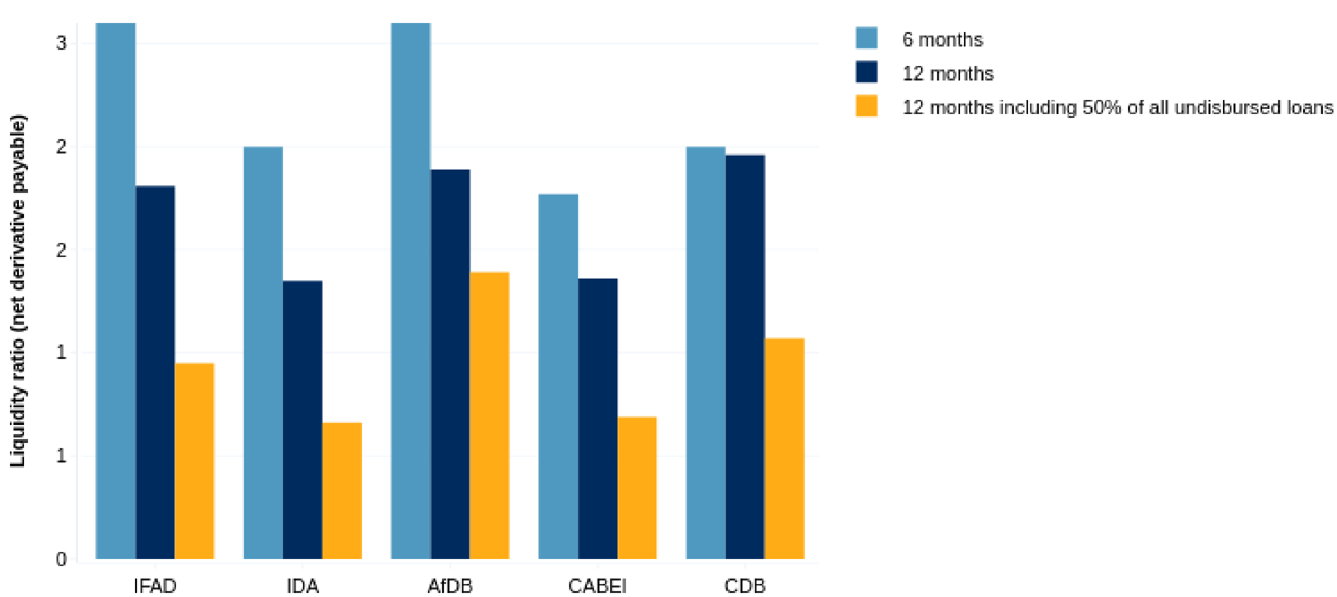
Funding. IFAD is gradually increasing its presence in the capital markets and has issued two additional sustainable private placements in 2023 for a total of €180 million. IFAD has been diversifying its funding structure since 2014, when it first introduced sovereign loans. Later on, in 2017, IFAD included concessional partner loans as a source of funding for its operations. And more recently, in 2022, IFAD launched its medium-term program to issue private placements. So far, IFAD's marked funding has reached about $346 million, which we estimate represents about

15% of its outstanding debt as of June 2023. With these issuances, IFAD became the first U.N. fund and the only U.N. body (other than the World Bank Group) to enter the capital markets. IFAD's largest bulk of debt comes from sovereign loans, which we estimate at about $1.7 billion as of June 2023 (or about 78% of IFAD's outstanding debt), includIng a loan with the EIB for €150 million (part of a framework agreement totaling €500 million). The remaining outstanding debt relates to concessional partner loans with member states.

Liquidity: We view IFAD's liquidity as strong. Its six- and 12-month liquidity ratios stood at 2.93x and 1.81x, respectively, at end-June 2023, providing that its current cash inflows comfortably exceed its scheduled outflows, mainly disbursements to borrowers. We therefore expect that IFAD will not need to modify its planned disbursements for the following year. As per its liquidity policy, the institution targets to cover 100% of gross disbursements, which we view as prudent.

IFAD has adequate investment policies, which support our strong funding and liquidity assessments. Its liquid assets are held in highly rated, fixed-income instruments. At June 30, 2023, 33% of the investments portfolio were rated 'AAA', 44% were in the 'AA' category, and 20% in the 'A' category.

Liquidity Stress Test Ratios Peer Comparison



Source: S&P Global Ratings. Data as of June 2023

Table 2

MLI Selected Indicators

	2022	2021	2020	2019	2018	2017	2016
ENTERPRISE PROFILE							
Policy importance							
Total purpose-related exposure (loans, equity, etc.) (mil. $)	8,258	8,234	8,177	7,614	7,313	7,140	6,377
Public-sector (including sovereign-guaranteed) loans/purpose-related exposure (%)	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Private-sector loans/purpose-related exposures (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross loan growth (%)							
Preferred creditor treatment ratio (%)	1.7	2.0	2.1	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 (%)	11.1	11.0	11.5	11.1	N.A	N.A	N.A
Eligible callable capital (mil. curr)	N.A	N.A	N.A	N.A	N.A	N.A	N.A
FINANCIAL RISK PROFILE							
Capital and earnings							
RAC ratio (%)	78.1	82.7	86.2	89.8	N.A	N.A	N.A
Net interest income/average net loans (%)	1.2	1.4	1.4	1.7	1.6	2.0	1.9
Net income/average shareholders' equity (%)	-5.1	-4.2	-3.8	-3.6	-3.5	-3.1	-3.2
Impaired loans and advances/total loans (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Liquidity ratios							
Liquid assets/adjusted total assets (%)	14.9	14.4	12.3	11.4	12.3	15.8	17.1
Liquid assets/gross debt (%)	76.7	92.0	100.9	135.4	181.8	281.6	506.1
Liquidity coverage ratio (with planned disbursements):							
Six months (net derivate payables) (x)	2.7	2.5	2.4	2.1	N.A	N.A	N.A
12 months (net derivate payables) (x)	1.5	1.4	1.4	1.4	N.A	N.A	N.A
12 months (net derivate payables) including 50% of all undisbursed loans (x)	0.7	0.6	0.5	0.4	N.A	N.A	N.A
Funding ratios							
Gross debt/adjusted total assets (%)	19.4	15.7	12.2	8.4	6.8	5.6	3.4
Short-term debt (by remaining maturity)/gross debt (%)	2.5	2.4	3.1	2.0	0.0	0.0	0.0
Static funding gap (with planned disbursements)							
12 months (net derivate payables) (x)	16.2	11.4	14.8	8.6	N.A	N.A	N.A
SUMMARY BALANCE SHEET							
Total assets (mil. $)	10,240	10,596	9,883	9,400	9,286	8,940	8,384
Total liabilities (mil. $)	2,274	2,012	1,681	1,273	959	872	617
Shareholders' equity (mil. $)	7,966	8,584	8,203	8,126	8,327	8,068	7,767

Source: S&P Global Ratings.

Table 3

MLI Peer Comparison

	International Fund For Agricultural Development (IFAD)	The International Development Association (IDA)	African Development Bank (AfDB)	Central American Bank for Economic Integration (CABEI)	Caribbean Development Bank (CDB)
Issuer credit ratings	AA+/Stable/A-1+	AAA/Stable/A-1+	AAA/Stable/A-1+	AA/Stable/A-1+	AA+/Stable/A-1+

MLI Peer Comparison

	International Fund For Agricultural Development (IFAD)	The International Development Association (IDA)	African Development Bank (AfDB)	Central American Bank for Economic Integration (CABEI)	Caribbean Development Bank (CDB)
Total purpose-related exposure (mil.$)	8,258	180,580	31,276	9,310	1,344
Preferred creditor treatment ratio (%)	2.1	0.8	1.8	0	0.7
Risk adjusted capital ratio (%)	78.1	68.8	27.9	13.8	23.8
Liquidity ratio 12 months (net derivative payables; %)	1.54	1.6	1.8	1.3	1.9
Funding gap 12 months (net derivative payables; %)	16.21	2.7	1.5	1.4	3.3

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 Special Edition, October 2023

Ratings Detail (as of November 29, 2023)*

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.