S&P Global Ratings

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International Fund For Agricultural Development

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International Fund For Agricultural Development

Stand-alone credit profile	aa+	+	Extraordinary shareholder support	0	+	Holistic approach	0

Enterprise risk profile

Extremely strong	Very strong	**Strong**	Adequate	Moderate	Weak	Very weak

Financial risk profile

Extremely strong	Very strong	Strong	Adequate	Moderate	Weak	Very weak

Issuer credit rating

AA+/Stable/A-1+

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

Outlook

Our stable outlook on the International Fund for Agricultural Development (IFAD) reflects 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 rating action if we observed member state support waning, implying weaker policy importance. Although unlikely, we could also take a negative rating action if we saw IFAD's risk-adjusted capital (RAC) ratio deteriorating significantly to below 23%, or its liquidity dropping to less than 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 rating action if IFAD strengthened its governance--showing a structural track record of effective implementation of its new borrowing framework, and adherence to other newly developed policies and processes--while maintaining robust support from its members.

Rationale

IFAD is a specialized U.N. agency established by international treaty in 1977. Its sole focus is investing in rural poor communities by transforming agricultural economies and food systems.

Our ratings on IFAD are underpinned by its strong enterprise risk profile and extremely strong financial risk profile. The enterprise risk profile is supported by IFAD's strong mandate, which directs its activities toward the poorest of the poor. The fund provides concessional loans to low- and middle-income countries to bolster their rural economies. Member state support has proven to be robust through the economic cycles, with the states having participated in 11 capital replenishments. IFAD has 177 member countries (91% of the U.N.) and so far, members have contributed up to $9.3 billion. We believe IFAD's governance structure is well diversified--with members' voting rights determined by capital contributions--and limited agency risk, with loans being determined by formula.

IFAD's creditworthiness is underpinned by its extremely strong financial risk profile, largely supported by our assessment of its extremely strong capital adequacy. The fund posted a RAC ratio of 89.8% at year-end 2019 (using Jan. 15, 2021 parameters) and incorporating adjustments specific to multi-lateral institutions (MLIs). Its financial risk profile is also supported by strong liquidity, for which IFAD's cash inflows cover its scheduled disbursements by 1.35x.

IFAD is working on a new borrowing framework, exploring ways to broaden its funding sources. In the process, it has updated its liquidity and capital adequacy policies. As an initial step, in 2015, IFAD introduced its first sovereign loan borrowing; in 2017, IFAD included additional concessional partner loans from member states. We understand any progress in these fields will be gradual and most of IFAD's loans assets will continue to be funded by equity.

Environmental, Social and Governance (ESG)

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 70s. 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 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 to 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 sustainable development goals (SDGs), allowing it to be easily comparable and trackable across peers. Combined with domestic co-financing, IFAD's operations have improved the economic mobility of 62 million people, the agricultural production of 47 million, market access and business opportunities of 50 million, and the resilience of 26 million. IFAD's commitment toward environmental factors is further enhanced through the expansion of its Adaptation for Smallholder Agriculture Programme, which is the only multilateral climate change fund dedicated to small-scale production. Our governance and management assessment of the fund supports its strong enterprise risk profile and is based on a diverse and balanced membership structure. We believe IFAD's new borrowing framework, which will be used to expand its source of resources, will allow the fund to reach other types of investors also interested in SDG goals and sustainable agriculture. The institution is also working on a sustainable development financing framework to attract more ESG investors.

Enterprise Risk Profile: Strong and unique mandate to eradicate poverty and hunger by investing in rural poor economies

- IFAD's mandate is focused on transforming agriculture systems in poor rural areas to improve their economic sustainability.
- The fund boasts very strong support from its members, proved through 11 successful capital replenishment cycles.
- IFAD also enjoys adequate management and government standards, with a diverse and well balanced membership.

Policy importance

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' economic activities.

We believe its mandate is supported by current poverty indicators, where recent research shows that about 63% of the world's poorest people work in agriculture, and about three quarters live in rural areas of developing countries. For instance, according to the 2019 Agriculture in Africa Report, agriculture still has plenty of scope to develop and help transform rural economies in the continent. The report estimates that two thirds of Africa's arable land still does not have the necessary resources enabling it to be used for agricultural purposes. This, in our view, supports IFAD's strong mandate and purpose over the coming years.

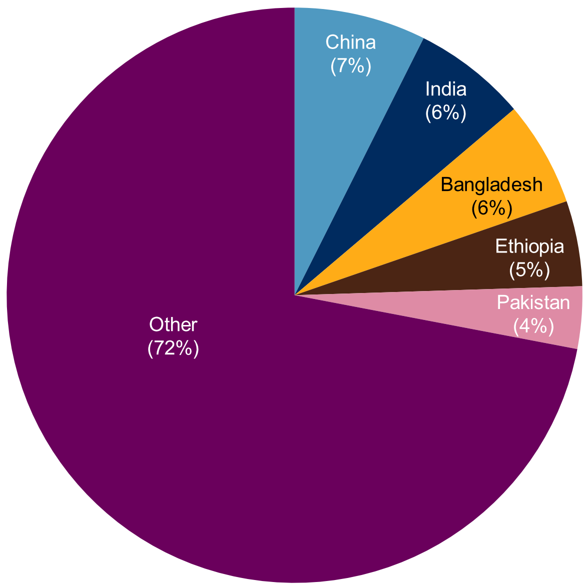
Since its creation, IFAD has provided $22 billion funding and reached 94 countries. The fund has helped 132 million people across the globe, as of 2019. We believe IFAD's policy importance is supported by a mandate focusing on borrowers that are not serviced by private-sector entities or other MLIs. 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 than at other MLIs. For this reason, other institutions look to work with IFAD to benefit from its knowledge and resources in the field. IFAD co-finances projects 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 and through its strong collaboration with the Global Environment Facility and the Green Climate Fund.

The institution currently operates in 45 countries, including sub-regional hubs and country-program offices. IFAD employed 572 staff members at year-end 2019, including staff from other consolidated entities from the fund, this represents a 10% increase compared with 2018. To pursue its mandate, IFAD has been decentralizing its operating model. In doing so, the institution has increased the number of employees based in the field, those working on niche projects in remote locations. In 2019, its staff on the field represented 31% of the total from 18% in 2017. With this, IFAD aims to increase responsiveness to country-specific projects, enhance country-level policy engagement, and strengthen partnerships.

Loans and grants to low income countries and lower-middle income countries represented 90% of IFAD's investments at year-end 2019. The fund's largest exposure is to Asia, where it accumulates 37% of its investments, followed by East and Southern Africa (25%); West and Central Africa (18%); Western Asia, North Africa, and Europe (12%); and Latin America and the Caribbean (8%).

Chart 1

MLI Five Largest Countries Purpose-Related Exposures
As a percentage of gross purpose-related assets plus guarantees



Source: S&P Global Ratings.

Historically, IFAD provides its loans at highly concessional terms, which at year-end 2019 represented 84% of the total. Its eligibility to borrow is based on the same conditions as for the World Bank Group--specifically The International Development Association--based on objective indicators such as Gross National Income per capita thresholds, country classification, and formula.

We believe IFAD has a track record of fulfilling its public policy mandate through the economic cycles, and financial crises, and we expect this will be the case during the following years. Disbursements have been increasing, reaching $855 million at year-end 2019, with 34 more projects than in 2018. In our view, this reinforces IFAD's importance among its member states. The fund also invests in assessing its impact in the field; it provides a full report on 15% of its projects on an annual basis. Data for the previous capital replenishment cycle covering 2017-2019 (IFAD10), demonstrates the fund's capacity to successfully fulfill a mandate, outperforming its targets. For example, its goal on economic mobility stood at $40 million, and IFAD reported $62 million. These assessments are conducted by IFAD staff and external consultants. They allow the institution to ensure its investments reach their specific destination for the intended purpose.

IFAD's policy importance is supported by its very strong support from its member states, proved by 11 successful capital replenishment cycles, which typically occur 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, whereby it analyzes IFAD's available resources and commitments for the following years. During the last consultation process, members agreed to expand the program of loans and grants up to $3.5 billion, by increasing replenishment contributions to $1.2 billion for IFAD11. In 2019, 94 countries had contributed, already reaching 84% of this target.

Discussions continue for IFAD12, for which the institution plans to expand members' capital replenishment, with a greater focus on low- and lower-middle income countries. In doing so, they plan to widen their resources through their new borrowing framework by introducing other sources of funding such as private placements.

IFAD has 177 member countries (91% of the U.N. nations), of which Poland was the last country to join in June 2020; 12 members have signed up during the past decade. All G20 countries are IFAD members except Australia, the only member to withdraw from the institution. Generally, when a supporting member decides to leave an MLI, we consider it negative for the MLI. However, Australia withdrew from IFAD almost two decades ago, in 2003, and it was not among the top 20 contributors at the time. In our view, this reduces the impact of the withdrawal. Since then, IFAD has supported the rural economies of 36 countries in Asia and the Pacific. Furthermore, Australia has also contributed resources to IFAD via a supplementary contribution for the Global Agriculture and Food Security Program, as well as the Global Donor Platform for Rural Development.

There is no private sector holding in the institution, and members are keen to maintain its ownership among sovereigns only, which are the main source of capital for investments. Members also prove their support throughout their compensation to 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.

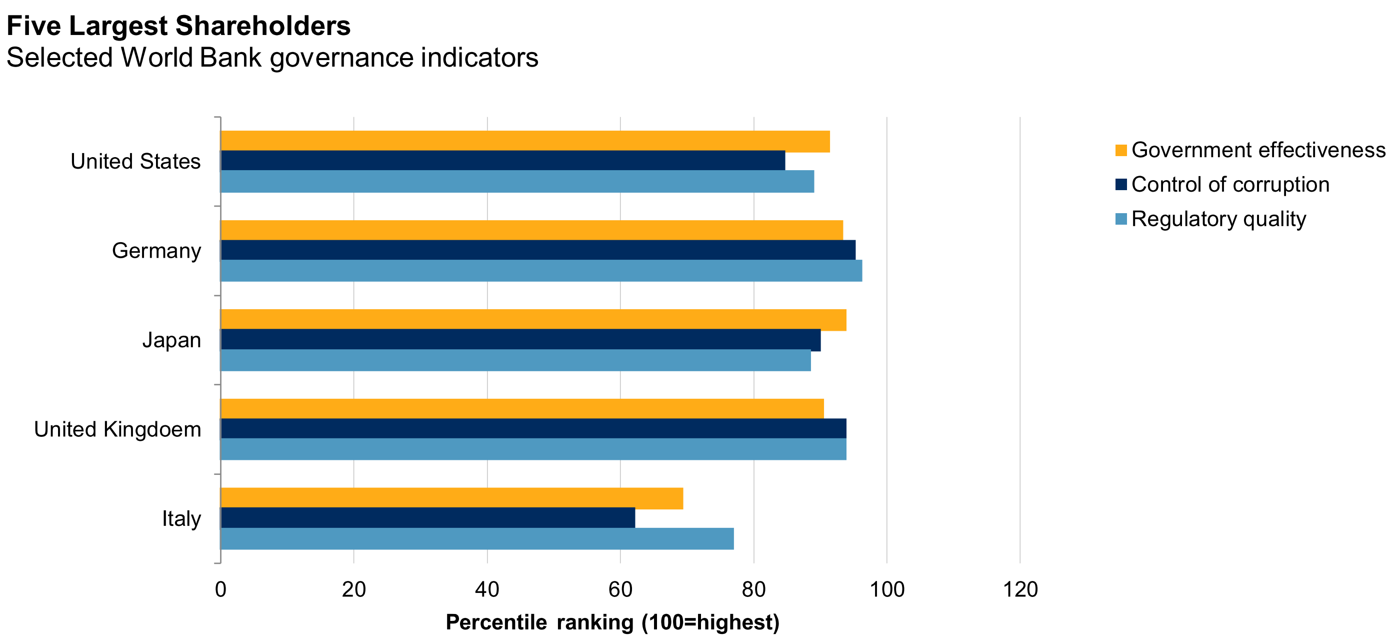
The top 10 donors of the institution include all members of the G7, as well as the Netherlands, Sweden, and Saudi Arabia. Members can also support IFAD through complementary contributions and nonmembers can voluntarily contribute to IFAD's resources or specific programs. Cumulative contributions in 2019 stood at $576 million, of which 37% corresponds to the U.K., 15% to Belgium, 15% to the Netherlands, and 7% to Germany. Members and other institutions can also make supplementary contributions to support specific programs, and co-finance projects. We believe this underpins our strong policy importance assessment. As an initial response to the COVID-19 pandemic, IFAD put implemented 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, Germany, and Sweden--have contributed up to $52 million.

In our view, IFAD's policy importance is also strengthened by our preferred creditor treatment (PCT) assessment. IFAD's arrears ratio stood at 2.9% of outstanding loans at year-end 2019, with only four countries being currently in arrears. The institution has never written off a loan due to its strong enforcement measures to pay. When a country is in arrears for more than 75 days, all loans and grants are immediately suspended. IFAD participates in the HIPC initiative. Nevertheless, IFAD receives contributions from its members and the HIPC Trust Fund in compensation, which, in our view, mitigates capital deterioration.

Governance and management expertise

IFAD's governance structure is diversified by its large membership, with no private sector holdings. Members' voting powers are determined by their capital contributions, which have not varied significantly over the past year, with the U.S. being the largest contributor (7%). Members with the highest voting power also have a larger say during the replenishment consultation process, typically presented 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 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.

Chart 2



Source: S&P Global Ratings.

We understand that members have discussed at length whether the resources available to IFAD are enough to fulfill its 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.

As an initial step, in 2015, IFAD introduced its first sovereign loan borrowing: a bilateral funding instrument provided to IFAD on favorable terms. In 2017, IFAD included additional concessional partner loans from member states. More recently, in December 2020, IFAD included supranationals and private institutional investors in its borrowing framework in the eligible lenders list, which we understand might be tested during IFAD12.

In any case, we believe IFAD's management will implement this new framework in a gradual and prudent way, and most of IFAD's loan assets will continue to be funded by equity. Nevertheless, we view this as progress 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 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.

Our governance and management assessment is also supported by sound risk management policies, which limits potential risks to its financial and enterprise risk profile. During 2020, the institution developed a new liquidity, capital, and investment policy, which we view as more conservative. In our view, this will allow the institution to have the necessary instruments to maintain its robust capital structure and strong liquidity position.

Financial Risk Profile: Extremely strong capitalization supported by capital replenishment cycles every three years

- Capitalization is supported by high levels of equity, raised through members' recurrent contributions.
- Strong liquidity, buttressed by a well-managed liquidity policy.
- No track record of market access, hence funding is mainly from its members.

Capital adequacy

IFAD's creditworthiness is underpinned by its extremely strong capital adequacy assessment. At year-end 2019, the fund's RAC ratio stood at 89.8% (using parameters as of Jan.15, 2021), 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 PCT.

Capitalization is supported by very high levels of equity, with total adjusted capital standing at €7.5 billion at year-end 2019. Equity has been increasing since its inception, with total contributions reaching $9.1 billion until 2019, thanks to the successful capital replenishments occurring typically every three years. We also see its strong equity as proof of members' commitment toward capital adequacy and the institution's unique mission.

Table 1

IFAD Risk-Adjusted Capital Framework Data: December 2019)

(Mil. $)	Exposure	S&P Global Ratings RWA	Average S&P Global Ratings RW (%)
Credit risk			
Government and central banks	9,767	8,560	88
Institutions	340	99	29
Corporate	11	10	92
Retail	-	-	-
Securitization	-	-	-
Other assets	284		

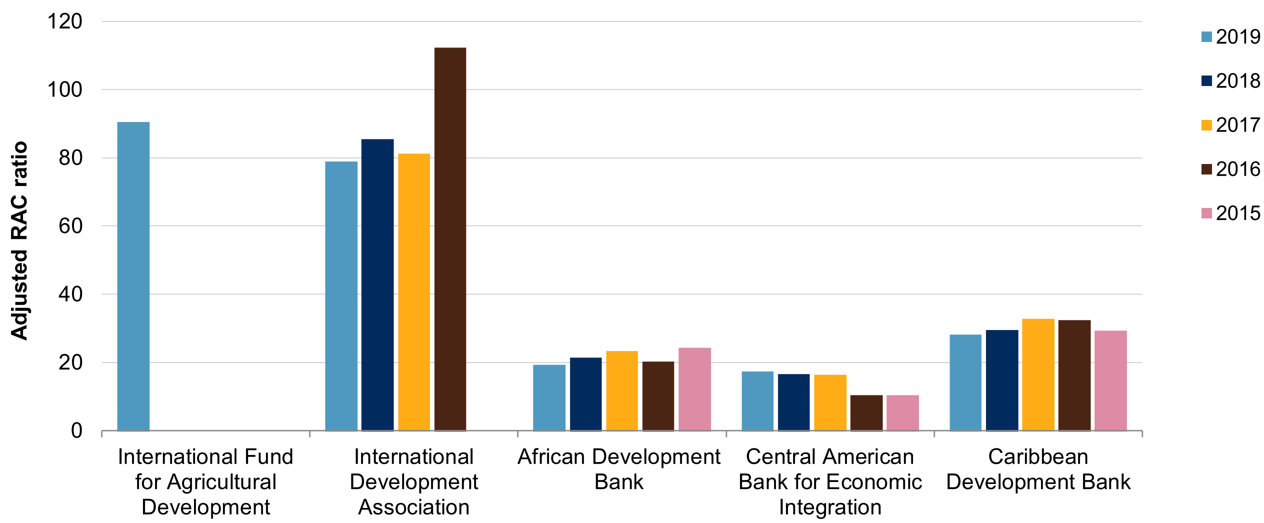
Table 1

IFAD Risk-Adjusted Capital Framework Data: December 2019) (cont.)			
Total credit risk	10,403	316	111
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	-	845	-
Risk transfer mechanisms			
Risk transfer mechanisms RWA	-	-	-
RWA before MLI Adjustments	-	9,830	100
MLI adjustments			
Single name (on corporate exposures)	-	20	197
Sector (on corporate portfolio)	-	2	5
Geographic	-	(717)	(8)
Preferred creditor treatment (on sovereign exposures)	-	(2,801)	(33)
Preferential treatment (on FI and corporate exposures)	-	(12)	(11)
Single name (on sovereign exposures)	-	2,030	24
Total MLI adjustments	-	(1,478)	(15)
RWA after MLI adjustments	-	8,353	85
		Total adjusted capital	**S&P Global Ratings RAC Ratio (%)**
Capital ratio before adjustments	-	7,503	76.3
Capital ratio after adjustments	-	7,503	89.8

MLI--Multilateral lending institutions. RW--Risk weight. RWA--Risk-weighted assets. Parameters as of Jan. 15, 2021

Chart 3

Risk-Adjusted Capital Ratio Peer Comparison



Source: S&P Global Ratings.

Funding and liquidity

Funding. IFAD's funding structure comprises capital contribution from its members, and more recently, the introduction of sovereign loans and concessional partner loans, but it lacks a track record of market funding. However, IFAD has recorded a strong one-year funding gap where assets are 8.63x its liabilities.

At the end of 2020, IFAD introduced private investors and supranationals to its list of lenders, broadening its options for funding. While we believe this will be done gradually throughout the year, we think IFAD might consider private placements during its next replenishment cycle. This will also allow the fund to reach investors with a strong focus on sustainable investments.

In any case, we believe IFAD's management will maintain its current leverage thresholds, with debt to equity not exceeding 35%.

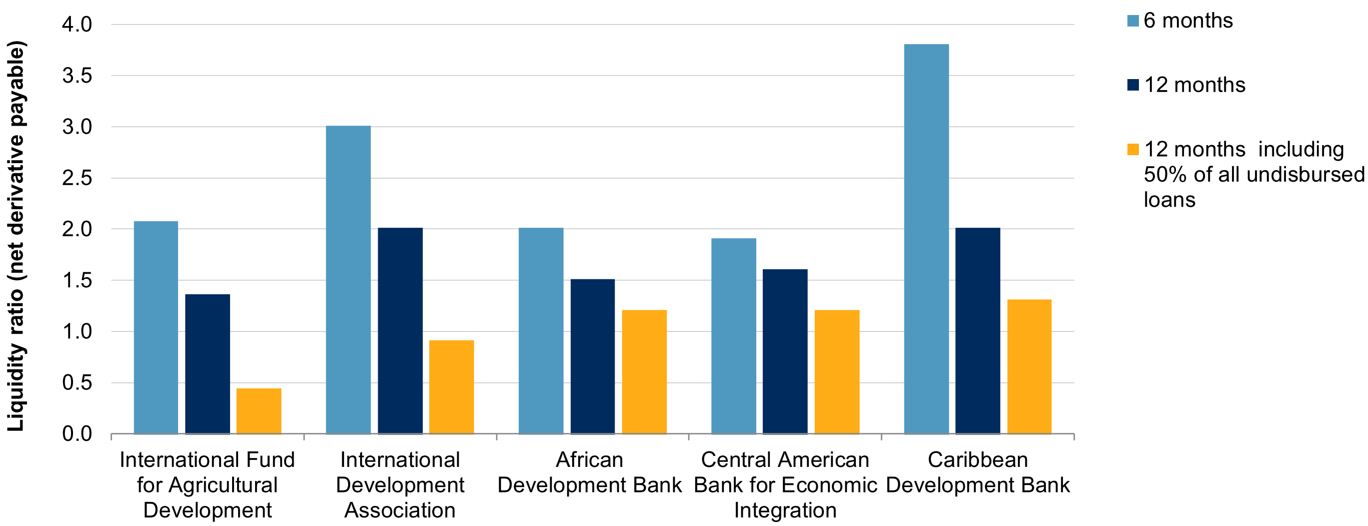
Liquidity. We assess IFAD's liquidity as strong; its six- and 12-month liquidity ratios stood at 2.07x and 1.35x, respectively, proving that its current cash inflows comfortably exceed its scheduled disbursements. We therefore expect IFAD will not need to modify its already planned disbursements for the following year.

Through its new borrowing framework strategy, IFAD recently made its liquidity policy more conservative, which we believe will continue to support our strong liquidity assessment. The new policy suggests that its liquidity coverage ratio should be 100% of gross disbursements, from a previous 60% threshold.

In our view, IFAD also enjoys adequate investment policies, which support our funding and liquidity assessments. IFAD's liquid assets are held in highly rated, fixed-income instruments; at year-end 2019, all its investments were investment grade, with 50% in S%P Global Ratings' 'AA' rating category or above. IFAD's investment policy statement stipulates that at least 60% of fixed-income securities must be rated at a 'AA-' or above, according to IFAD's internal rating.

Chart 4

Liquidity Stress Test Ratios Peer Comparison



Source: S&P Global Ratings.

Table 2

MLI Selected Indicators					
	2019	**2018**	**2017**	**2016**	**2015**
ENTERPRISE PROFILE					
Policy importance					
Total purpose-related exposure (loans, equity, etc.) (mil. $)	7,614	7,313	7,140	6,377	6,270
Public-sector (including sovereign-guaranteed) loans/purpose-related exposure (%)	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
Gross loan growth (%)					
Preferred creditor treatment ratio (%)	2.9	N.A.	N.A.	N.A.	N.A.
Governance and management expertise					
Share of votes controlled by eligible borrower member countries (%)	51.0	N.A.	N.A.	N.A.	N.A.
Concentration of top two shareholders (%)	11.1	N.A.	N.A.	N.A.	N.A.
Eligible callable capital (mil. curr)	N.A.	N.A.	N.A.	N.A.	N.A.
FINANCIAL RISK PROFILE					
Capital and earnings					
RAC ratio (%)	89.8	N.A.	N.A.	N.A.	N.A.

Table 2

MLI Selected Indicators (cont.)

	2019	2018	2017	2016	2015
Net interest income/average net loans (%)	1.7	1.6	2.0	1.9	N.A.
Net income/average shareholders' equity (%)	(3.6)	(3.5)	(3.1)	(3.2)	N.A.
Impaired loans and advances/total loans (%)	0.0	0.0	0.0	0.0	0.0
Liquidity ratios					
Liquid assets/adjusted total assets (%)	11.4	12.3	15.8	17.1	19.3
Liquid assets/gross debt (%)	135.4	181.8	281.6	506.1	936.0
Liquidity coverage ratio (with planned disbursements):					
Six months (net derivate payables) (x)	2.1	N.A.	N.A.	N.A.	N.A.
12 months (net derivate payables) (x)	1.4	N.A.	N.A.	N.A.	N.A.
12 months (net derivate payables) including 50% of all undisbursed loans (x)	0.4	N.A.	N.A.	N.A.	N.A.
Funding ratios					
Gross debt/adjusted total assets (%)	8.4	6.8	5.6	3.4	2.1
Short-term debt (by remaining maturity)/gross debt (%)	2.0	0.0	0.0	0.0	0.0
Static funding gap (with planned disbursements)					
12 months (net derivate payables) (x)	8.6	N.A.	N.A.	N.A.	N.A.
SUMMARY BALANCE SHEET					
Total assets (mil. $)	9,400	9,286	8,940	8,384	8,558
Total liabilities (mil. $)	1,273	959	872	617	476
Shareholders' equity (mil. $)	8,126	8,327	8,068	7,767	8,082

Source: S&P Global Ratings. N.A.--Not available.

Table 3

MLI 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.$)	7,614	158,759	31,384	7,801	1,274
Preferred creditor treatment ratio (%)	2.14	1.7	1.7	0	0.8
Risk adjusted capital ratio (%)	89.8	78.6	18.9	17	27.8
Liquidity ratio 12 months (net derivative payables; %)	1.35	2	1.5	1.62	2.01
Funding gap 12 months (net derivative payables; %)	8.63	2.6	1.4	1.93	7.10

Source: S&P Global Ratings.

Ratings Score Snapshot

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

- Research Update: International Fund for Agricultural Development Assigned 'AA+/A-1+' Ratings; Outlook Stable; November 19, 2020.
- Supranationals Edition 2020: Comparative Data For Multilateral Lending Institutions, Oct. 20, 2020

Ratings Detail (As Of January 28, 2021)*		
International Fund For Agricultural Development		
Issuer Credit Rating		
Foreign Currency		AA+/Stable/A-1+
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.