S&P Global
Ratings

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FONPLATA

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FONPLATA

SACP	a-	+	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

A-/Positive/A-2

Issuer Credit Rating
Foreign Currency
A-/Positive/A-2

Outlook

The positive outlook on Fondo Financiero para el Desarrollo de la Cuenca del Plata (FONPLATA) is based on S&P Global Ratings' view that the institution has shown progress in shaping its policies and building its operational capabilities, which will help it to strengthen its presence in Latin America and to meet its lending targets. This could lead to an improvement in enterprise risk over the next 24 months. The positive outlook also incorporates our expectation that over the next two years, FONPLATA will maintain its high level of capitalization. It also reflects our expectation that FONPLATA will continue increasing its lending activity, maintain solid support from shareholders, and remain a preferred creditor among its borrowers.

We could raise the ratings in the next two years if the bank maintains ample liquidity and robust capitalization while enhancing multiple aspects of its enterprise risk. This would include evidence of a stronger presence in the region and sustained shareholder support, including full and timely payment of capital installments due under its approved general capital increase. A solid improvement in credit and risk monitoring would have to accompany these changes.

We could revise the outlook to stable if, in the next two years, FONPLATA loses its momentum and we see weakening support from shareholders, or if the institution struggles to comply with its targets and policies, reflecting limited risk management capabilities or operational bottlenecks. We could also revise the outlook to stable if capitalization and liquidity drop significantly.

We could lower the ratings if any of FONPLATA's borrowing members failed to treat the institution as preferred, although this is not our base case.

Rationale

FONPLATA has been consistently strengthening multiple aspects of its business, such as its governance and institutional structure and its financial and risk management frameworks. While its scope, balance-sheet size, and record of fulfilling its mandate are limited compared with higher-rated peers, the institution has been making steady progress in achieving its operational and lending targets to strengthen its presence in the region.

The rating is supported by FONPLATA's high capitalization and liquidity. Limiting our assessment are recent losses on Argentine bonds held in the amount of $2.03 million as of June 2020, which in our view reflect risk management shortcomings and not Argentina's unwillingness to treat FONPLATA as preferred. Shareholder support has strengthened, and the institution has benefited from preferred creditor treatment from its borrowing members over the past 10 years.

We assess FONPLATA's stand-alone credit profile at 'a-', the same level as the 'A-' long-term issuer credit rating, given that it does not benefit from extraordinary support in the form of callable capital.

Environmental, Social, And Governance

FONPLATA largely finances infrastructure projects in its five member countries: Argentina, Bolivia, Brazil, Paraguay, and Uruguay. These countries are exposed to environmental risks because natural disasters, such as river flooding, wildfire, and deforestation, can damage infrastructure. They also face social challenges, such as inadequate access to basic needs including housing, education, and health care in some areas. Most of FONPLATA's infrastructure projects are in the transportation sector and aim to improve logistics for urban projects or regional integration. Projects such as road paving and maintenance or ports infrastructure may be associated with higher environmental and social risks. FONPLATA also lends to environmental and water sanitation projects, although these make up a smaller share of its lending.

Responding to its mandate to reduce inequalities and promote inclusive development, FONPLATA also finances key social sectors, including education, equity, and social inclusion projects. Compared with other multilateral lending institutions (MLIs), FONPLATA's environmental and social risk policies and functions are not as well developed, nor as embedded into the organizational structure. Largely, this is because it is smaller than many peers. It has recently incorporated these risks as a key pillar in its risk management framework and aims to progress in the field with the support of a European Investment Bank (EIB) three-year technical cooperation plan.

FONPLATA receives technical assistance from larger MLIs, such as the Inter-American Development Bank (IADB), EIB, and Agence Française de Développement (AFD). This helps it align its practices in social and environmental management with best practices. In 2018, FONPLATA introduced a green fund facility to increase funding for climate change mitigation projects and formed partnerships with EIB and AFD for green credit lines to finance projects on energy efficiency and renewable energy.

FONPLATA's governance is limited by shareholder concentration. Its five borrowing members also have relatively low governance indicator rankings. We believe this presents an agency problem that, in an extreme scenario, could pose governance risks; this therefore weighs on our ratings. However, FONPLATA has been improving the sophistication of its policies and processes since its institutional overhaul in 2012, and we consider this to counterbalance the risk.

Enterprise Risk Profile: Consistent Growth And Enhanced Capabilities Since The Institutional Overhaul

- FONPLATA has been consistently achieving its targets and expanding its toolkit to strengthen its role in the region.
- It has a smaller balance sheet and shorter record of fulfilling its public policy mandate than regional peers.

Policy importance

FONPLATA was founded in 1974 by its five member countries--Argentina, Bolivia, Brazil, Paraguay, and Uruguay--through the ratification of the River Plate Treaty. Its mission is to support the integration of member countries and achieve inclusive development. As such, FONPLATA is active in providing loans for small and medium-size projects, including for local municipalities and some of the countries' borders. Its niche focus favorably positions it to work with other funding organizations, and FONPLATA has engaged in various partnerships and co-financing arrangements with other MLIs, such as Corporacion Andina de Fomento (CAF), to strengthen its presence in the region and support larger tickets.

FONPLATA has a limited geographic scope and smaller size compared with other MLIs. However, the bank has strengthened its capacity to increase the pace of lending and has bolstered shareholder support following the institutional overhaul and reform beginning in 2012.

We believe FONPLATA is well positioned for ongoing growth while it develops supporting systems and risk management practices, which supports its enterprise risk. The average annual increase in the loan portfolio over 2015-2019 was 21% (and 15% in the case of loan approvals). Approval size doubled in 2019 relative to 2014, in line with the Institutional Strategic Plan 2018-2022, which largely focuses on expanding the lending portfolio and incorporating new members. The expansion comes from both increasing the average ticket size of the projects and expanding the number of undertakings.

FONPLATA's response to COVID-19 included the approval of an emergency line for $60 million (so far picked up by Uruguay and Argentina) as well as an emergency clause that allows borrowers to use up to 5% of the approved financing through expedited procedures. The institution has also allowed for reassignment of resources. In 2020, amid the pandemic, FONPLATA expects loan disbursements will increase 80% (from 20% growth over 2015-2019) to $394 million, but it expects disbursements to remain flat in 2021. Increases in approvals are also expected to fall to 10% from 15% as the institution's portfolio grows.

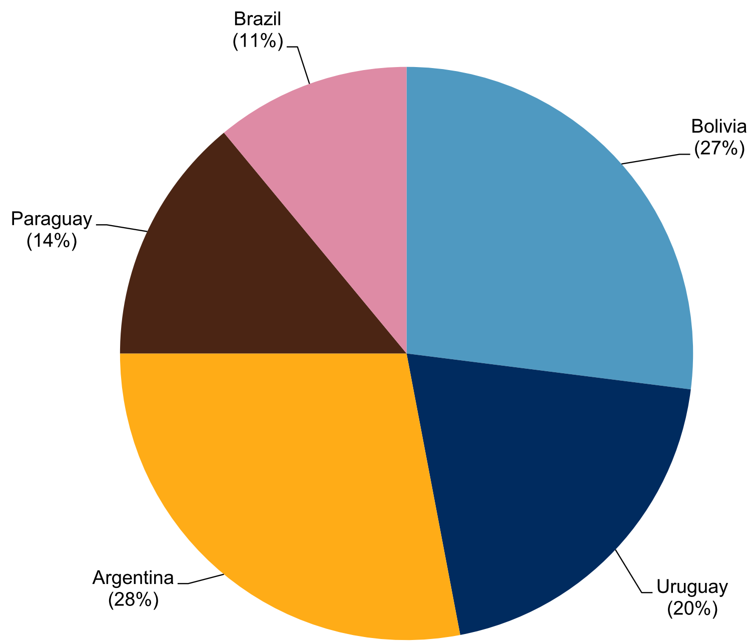
While FONPLATA's portfolio has historically been concentrated in infrastructure, amid the pandemic, the focus is shifting toward socioenvironmental development. This includes investments in hospitals and sanitary response, as well as education, water, and sewage.

To broaden its institutional reach and toolkit, FONPLATA recently proposed nonsovereign lending to public banks as a new product (until 2019, all lending was to sovereigns or with sovereign guarantee). These loans do not have sovereign guarantee, and FONPLATA made adjustments to the financial policy of the bank. An increase in nonsovereign loans would be only gradual, and there are concentration limits in addition to current lending limits and financial policies. This would be a supplementary channel to reach a broader scope of projects, which would anyway have to be eligible. In 2020, the nonsovereign risk (NSR) portfolio will consist of loans with Minas Gerais development bank BDMG and potentially Paraguayan Banco Fomento. The NSR portfolio is estimated to represent 3.8% of outstanding loans (the limit is 10%).

In July 2020, FONPLATA started to manage the Fund for the Structural Convergence of Mercosur (FOCEM) $100 million tranche on a fiduciary basis, following the same policies and procedures used in its own operations for liquid asset management. The establishment of an institutional relationship could lead to joint financing of projects by FONPLATA and FOCEM, with the goal of ultimately expanding the scale of the projects. We believe the arrangement could enhance FONPLATA's role in the region as the scale and size of these projects improve.

Chart 1

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



Data as of June 30, 2020. Source: S&P Global Ratings.

Equally important, shareholders have increased their support for the bank following FONPLATA's 2012 reform, with a first general capital increase approved in 2013 for US$1.15 billion, of which 30.4% is paid-in capital. Governors approved a second general capital increase in 2016, for US$1.375 billion, including US$550 million of capital paid in over seven yearly installments beginning in 2018. As of Sept. 28, 2020, members' paid capital contributions for 2020 are on time and in full. FONPLATA's earnings are exempt from corporate income tax, which contributes to higher net income. Thus, FONPLATA has traditionally maintained high earnings retention as shareholders have typically forgone dividend payouts, as with other MLIs.

FONPLATA has benefited from preferred creditor treatment from its borrowing members over the past 10 years, which we incorporate in our enterprise risk assessment. The calculated arrears ratio is zero, and no country has gone into arrears with the institution for over 180 days.

Governance and management expertise

Constraining our assessment of FONPLATA's enterprise risk are its shareholder concentration and, on average, lower governance rankings of its five borrowing members. We believe this presents an agency problem that, in an extreme scenario, could pose governance risks. Argentina and Brazil are FONPLATA's two largest shareholders (holding 66% of the capital participation combined). However, each member country has equal voting rights, with all approvals and policies requiring four out of five votes in favor.

This is partially counterbalanced by FONPLATA's ongoing efforts to enhance accountability and transparency in decision-making and to strengthen its financial and risk management frameworks. This includes conservative limits to manage the growth in lending, set at 3x equity, as well as exposure limits by country equal to 25% of lending capacity and maximum loans outstanding per country equal to 30% of total assets, aiming at a more balanced loan portfolio. Market risk stems from fluctuations in LIBOR (the interest rate at which FONPLATA grants its loans), but movements in LIBOR are not expected to significantly affect its net income.

Following a March 2019 market issuance in Swiss francs, FONPLATA began using derivative agreements to mitigate market volatility. The bank also entered into two additional interest rate swaps in May 2020 to exchange the semiannual fixed interest payments to be made to the Central Bank of Uruguay, related to its two time deposits. Transactions are held only with counterparties with high credit ratings and by signing ISDA master netting agreements with derivative counterparties.

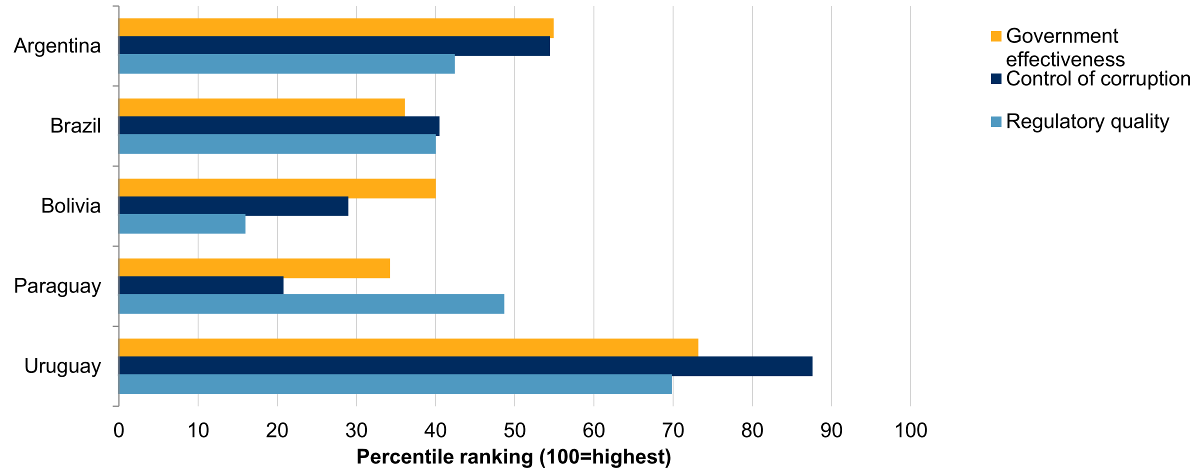
Investment policies set a minimum rating of 'BBB-' (in June 2020, 75% of the investment portfolio was rated 'A+' or higher), diversification by asset class and issuer, and a duration of less than two years.

In mid-2018, the bank hired a chief risk officer to separate the planning and risk functions, and initial signs of a more robust risk framework are emerging. Moreover, the first executive president of FONPLATA, Juan Notaro, took office in September 2012 and was reelected for a second term from 2017-2022. FONPLATA currently has offices in Santa Cruz (central offices), Asunción, Montevideo, and Argentina, with plans for a potential new office in Brazil. By opening new offices, FONPLATA aims to better monitor the projects and operations in member countries, improving efficiency in execution.

Shareholding is currently limited to founding members, although the bank has an interest in incorporating new shareholders, including nonregional members. If FONPLATA can increase its membership, this may support our view of the institution's governance. Notably, in November 2018, the board of governors approved the modification of its charter to promote the transition to development bank from financial fund and allow the incorporation of new shareholding members. However, the participation of the founding members in the capital of FONPLATA may not be less than 51% of the authorized capital.

Chart 2

Five Largest Shareholders
Selected World Bank governance indicators



Source: S&P Global Ratings.

Financial Risk Profile: High Capital And Liquidity, Limited By Risk Management Oversight

- The rating on FONPLATA is supported by its high capitalization and liquidity.
- In our view, recent losses on Argentine bond holdings reflect risk management shortcomings, and not Argentina's unwillingness to treat FONPLATA as preferred.

Capital adequacy

FONPLATA's risk-adjusted capital (RAC) ratio after MLI adjustments was 26% as of June 30, 2020, down from 31% as of June 30, 2019. The ramp-up of FONPLATA's lending activity mainly explains the declining trend. The lower RAC ratio mostly reflects changes in exposure and rating actions related to Argentina and Bolivia, which represent 28% and 27% of the portfolio, respectively. In particular, the strong increase in exposure to these two countries, as well as the downgrade of Bolivia to 'B+' on April 17, counterbalanced improvements from equity growth and the upgrade of Argentina to 'CCC+' following the completion of its debt exchange on Sept. 4, 2020.

We expect a gradually declining trend in the RAC ratio as FONPLATA continues to ramp up its lending activities to its five borrowing member countries. Our base case assumes capital adequacy will remain extremely strong. As of June 2020, the loan distribution was 28% Argentina, 27% Bolivia, 20% Uruguay, 14% Paraguay, and 11% Brazil, reflecting a high concentration due to the limited number of borrowers. However, we assume management will manage the loan book prudently, in line with its conservative financial limits, to maintain its capital adequacy.

At the same time, the capital assessment is limited by our view of risk management shortcomings compared with peers, in light of the recent loss on FONPLATA's holdings of Argentine bonds. Within its investment portfolio, FONPLATA held Argentine par and discount bonds issued under local law for a small amount ($2.03 million) as of June 2020, which were included in the most recent sovereign debt restructuring. These holdings were received by the institution in exchange for holdings of bonds BONTE-04 in 2005 (under the previous debt exchange).

Current investment policies do not allow the institution to hold speculative-grade bonds (rated 'BB+' or lower), and due to the credit rating, these Argentine bonds are not considered liquid assets. Nonetheless, they have historically remained on the institution's balance sheet. While FONPLATA did not receive special treatment on these bonds, we expect it will reach a resolution with the Argentine government, similar to what occurred under the previous exchange. We consider this event reflective of a somewhat higher risk tolerance due to the maintaining of the bonds in the institution's portfolio, and in our view, this does not indicate an unwillingness of the Argentine government to treat FONPLATA as preferred. Argentina has continued to repay its loans and capital installments normally.

Table 1

FONPLATA Risk-Adjusted Capital Framework As Of June 30, 2020

($)	Exposure	S&P Global Ratings RWA	Average S&P Global Ratings RW (%)
Credit risk			
Government and central banks	1,971,123,15	2,412,060,003	122
Institutions	73,088,335	26,400,167	36
Corporate	0	0	0
Retail	0	0	0
Securitization	0	0	0
Other assets	6,622,034	19,298,499	291
Total credit risk	2,050,833,524	2,457,758,669	120
Credit valuation adjustment			
Total credit valuation adjustment	--	0	--
Market risk			
Equity in the banking book	0	0	0
Trading book market risk	--	0	--
Total market risk	0	0	--
Operational risk			
Total operational risk	--	102,035,625	--
Risk transfer mechanisms			
Risk transfer mechanisms RWA	--	0	--
RWA before MLI adjustments	0	2,559,794,294	100
MLI adjustments			
Single name (on corporate exposures)	--	0	0
Sector (on corporate portfolio)	--	0	0
Geographic	--	(188,769,944)	(8)
Preferred creditor treatment (on sovereign exposures)	--	(1,399,923,409)	(58)

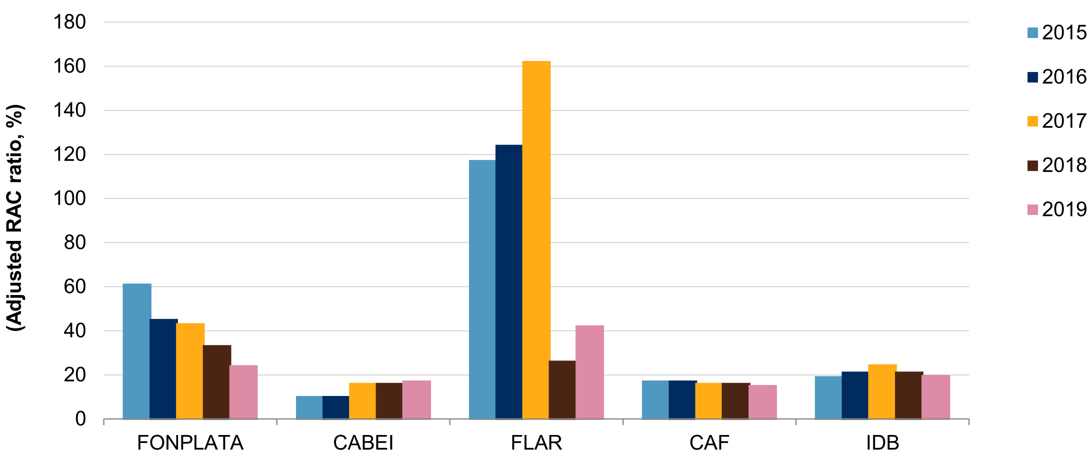
Table 1

FONPLATA Risk-Adjusted Capital Framework As Of June 30, 2020 (cont.)			
Preferential treatment (on FI and corporate exposures)	--	(3,466,198)	(13)
Single name (on sovereign exposures)	--	3,761,776,635	127
Total MLI adjustments		2,169,617,085	57
RWA after diversification	0	4,729,411,379	157
		Adjusted common equity	**S&P Global Ratings RAC ratio (%)**
Capital ratio before adjustments	1,043,506,000	1,043,506,000	40.8
Capital ratio after adjustments	1,043,506,000	1,043,506,000	25.9

MLI--Multilateral lending institution. RWA--Risk-weighted assets. RW--Risk weight.

Chart 3

Risk-Adjusted Capital Ratio Peer Comparison



Source: S&P Global Ratings.

Funding and liquidity

Funding. FONPLATA's total adjusted equity to adjusted total assets was 67% as of June 2020. FONPLATA's static funding gap with loan disbursements at one year fell to 0.77x as of June 2020 from 1.52x as of June 2019, due to increases in planned disbursements and the longer maturity of liquid assets available for sale. We expect no significant funding gaps over the next two years.

Because the bank has no significant debt liabilities, by definition its funding is undiversified. However, we have seen some positive developments in funding sources. In March 2019, FONPLATA issued its first bond in the international capital markets for 150 million Swiss francs.

Aside from its recent debt issuance, FONPLATA's main funding source in the past years has been credit lines from multilaterals, and particularly with the IADB, CAF, and EIB. More recently, funding almost doubled over the first half of 2020, to $502 million from $260 million in outstanding borrowings, mainly explained by promissory notes contracted with the central banks of Uruguay ($130 million) and Bolivia ($50 million).

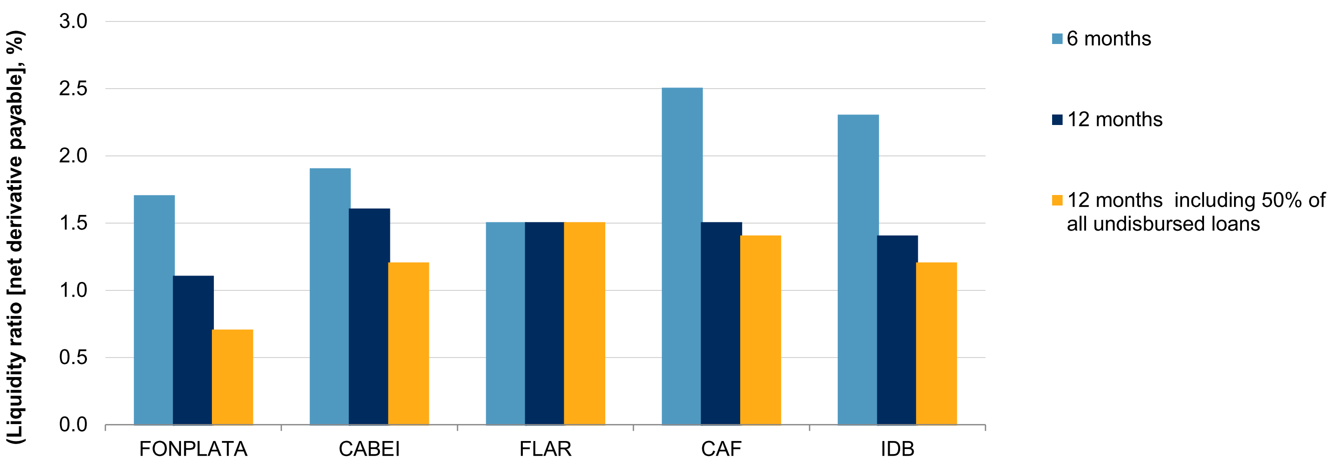
FONPLATA could also diversify funding sources with other MLIs (KfW Development Bank and others), central banks, and new bond issuances. The bank has indicated a goal to diversify as much as possible and, in the process, obtain better borrowing conditions.

Liquidity. FONPLATA follows a conservative liquidity policy, under which it is required to maintain a minimum level of liquidity sufficient to cover all liability payments and disbursements over the next 12 months. It holds high-quality liquid assets, in compliance with its investment guidelines.

Our calculations of FONPLATA's liquidity incorporate stressed market conditions and assume no market access. For June 2020 data, our 12-month liquidity ratio considering the netted derivatives position was 1.1x with scheduled loans disbursements, while the six-month ratio was 1.8x. However, we estimate the bank would need to slow its planned disbursements under a stress scenario.

Chart 4

Liquidity Stress Test Ratios Peer Comparison (As Of December 2019)



Source: S&P Global Ratings.

Extraordinary Shareholder Support

FONPLATA's shareholders are rated below the institution's stand-alone credit profile of 'a-', and therefore it does not benefit from eligible callable capital.

Table 2

FONPLATA Selected Indicators

	2019	2018	2017	2016	2015
ENTERPRISE PROFILE					
Policy importance					
Total purpose-related exposure (loans, equity, etc.) (mil. curr)	977	807	680	557	462
Public-sector (including sovereign-guaranteed) loans/purpose-related exposure (%)	100	100	100	100	100
Private-sector loans/purpose-related exposures (%)	0	0	0	0	0
Gross loan growth (%)	17	21	22	20	23
Preferred creditor treatment ratio (%)	0	0	0	0	0
Governance and management expertise					
Share of votes controlled by eligible borrower member countries (%)	100	100	100	100	100
Concentration of top two shareholders (%)	67	67	67	67	67
Eligible callable capital (mil. curr)	N.A.	N.A.	N.A.	N.A.	N.A.
FINANCIAL RISK PROFILE					
Capital and earnings					
RAC ratio (%)	24	33	43	45	61
Net interest income/average net loans (%)	4.6	4.6	3.8	3.4	3
Net income/average shareholders' equity (%)	2.9	3	2.6	2.2	1.2
Impaired loans and advances/total loans (%)	0	0	0	0	0
Liquidity ratios					
Liquid assets/adjusted total assets (%)	25	22	19	26	26
Liquid assets/gross debt (%)	124	288	636	1,235	N.A.
Liquidity coverage ratio (with planned disbursements):					
Six months (net derivate payables) (x)	1.7	2.3	2.3	2.3	25.2
12 months (net derivate payables) (x)	1.1	1.3	1.1	1.2	1.4
12 months (net derivate payables) including 50% of all undisbursed loans (x)	0.7	0.8	0.7	0.7	6.5
Funding ratios					
Gross debt/adjusted total assets (%)	20.2	7.6	3.1	2.1	N.M.
Short-term debt (by remaining maturity)/gross debt (%)	2	6.8	38.5	N.M.	N.M.
Static funding gap (with planned disbursements)					
12 months (net derivate payables) (x)	29.6	21.1	12.6	>100	N.A.
SUMMARY BALANCE SHEET					
Total assets (mil. curr)	1,308.0	1,043.0	852.0	759.0	628.0
Total liabilities (mil. curr)	280.0	90.0	36.0	26.0	10.0
Shareholders' equity (mil. curr)	1,028.0	953.0	816.0	733.0	618.0

Source: S&P Global Ratings.

Table 3

FONPLATA Peer Comparison

	FONPLATA	CABEI	FLAR	CAF	IDB
Issuer credit ratings	A-/Positive	AA/Stable	AA-/Stable	A+/Stable	AAA/Stable
	--Fiscal year ended Dec. 31, 2019--				
Total purpose-related exposure (mil. curr)	976.7	7,800.6	1,354.0	27,024.0	97,221.0
Preferred creditor treatment ratio (%)	0.0	0.0	0.0	4.3	2.2
Risk adjusted capital ratio (%)	24.0	17.0	42.1	15.0	19.5
Liquidity ratio 12 months (net derivative payables; %)	1.1	1.6	1.5	1.5	1.4
Funding gap 12 months (net derivative payables; %)	29.6	1.9	1.4	2.3	1.3

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 Expertise	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

- S&P Global Ratings Definitions, Aug. 7, 2020
- Can Multilateral Lenders' Capital Bases Hold Up Against COVID-19?, June 9, 2020
- How Multilateral Lending Institutions Are Responding To The COVID-19 Pandemic, June 9, 2020
- Abridged Supranationals Interim Edition 2020: Comparative Data For Multilateral Lending Institutions, May 8, 2020
- ESG Industry Report Card: Supranationals, Feb. 11, 2020
- Supranationals Special Edition 2019: Report Says MLIs Are Focusing On Sustainable Development Goals, Oct. 25, 2019
- Introduction To Supranationals Special Edition 2019, Oct. 16, 2019
- Supranationals Special Edition 2019: Comparative Data For Multilateral Lending Institutions, Oct. 16, 2019

Ratings Detail (As Of September 30, 2020)*		
FONPLATA		
Issuer Credit Rating		
Foreign Currency		A-/Positive/A-2
Senior Unsecured		A-
Issuer Credit Ratings History		
21-Feb-2019	*Foreign Currency*	A-/Positive/A-2
27-Sep-2016		A-/Stable/A-2

*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.