Daiwa Capital Markets

International Fund for Agricultural Development (IFAD)

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	Issuer Rating	Outlook
Moody's	-	-
S&P	AA+	Stable
Fitch	AA+	Stable

Source: Moody's, S&P and Fitch

Background and Ownership

The International Fund for Agricultural Development (IFAD) is a United Nations (UN) agency, specialised in supporting rural economies and food systems. It was established in 1977 and is headquartered in Rome. It counts 177 member countries with a cumulative capital contribution of USD9.4bn. Unlike other supras, IFAD does not have paid-in capital but instead members pledge equity in three-year replenishment cycles. The current cycle running from 2022-2024 counts USD1.2bn in pledges across its members with most significant contributions from the industrialised economies. As of March 2022, members with the largest share of voting rights are the U.S. (6.2%), Sweden (4.7%), Germany (4.5%), Japan (4.08%) and Netherlands (4.0%). The 16 largest contributors account for more than 50% of voting rights.

Main Activities

IFAD has the distinctive mandate to eradicate poverty and hunger by investing in deprived rural people. This is achieved by financial and technical assistance to agriculture and rural development projects in developing member states. These are generally smaller in scope than those of other development agencies, with a few co-investors such as the European Commission, the Global Agriculture and Food Security Programme or the UN's Development Programme, targeting the poorest people in the most rural areas. The work with smallholder farmers gives IFAD a unique knowledge base from which other institutions and project co-financers can benefit, and ultimately displays a high degree of alignment with the social and environmental objectives of its shareholders.

IFAD also maintains effective impact reporting against the UN's Sustainable Development Goals (SDGs) and stated in its 2020 annual report that it has recently become an accredited entity of the Green Climate Fund (GCF). IFAD reports that the proportion of undernourished people worldwide is set to rise from 8.9% in 2019 to 9.8% in 2030. The 2021 Agriculture in Africa Report supports IFAD's mandate and purpose over the coming years as it highlights that Africa holds 60% of the world's uncultivated arable land, suggesting that the continent still has plenty of scope to further develop and transform rural economies.

IFAD (Consolidated) – Key Data

USDm - Balance Sheet	FY20	FY19
Total assets	9,550	9,047
Cash	472	308
Investments	1,241	1,213
Gross loans outstanding	7,136	6,575
Borrowing	1,466	1,040
Total equity	6,949	6,871
USDm – P&L	**FY20**	**FY19**
Total income	205	266
Operating expenses	-188	-182
Other expenses	-311	-371
Net income	-27	-353
% - Financial Ratios (IFAD only)	**FY20**	**FY19**
Liquidity ratio	11.8	10.7
Debt to equity ratio	14.6	9.1
Debt coverage ratio	4.1	n.a.
NPL ratio	2.6	2.6

Source: Investor Reports

Corporate Finance – Provides transparency in reporting, control and accounting of IFAD's financial resources, which ensures the continued confidence in IFAD by its stakeholders. Operational responsibility and real-time analytics with business intelligence tools (in contributions, disbursements, payments and assets, among others) supports informed decision-making and alignment with IFAD's goals.

Financial Management – Project financial management is a key contributor to IFAD's governance structure through risk-based fiduciary assurance (compliance) and the performance of value-added inputs. It also contributes to development effectiveness through supporting improved delivery and achieving higher disbursements. It offers advice, problem solving and training to companies, industries and governments, all aimed at helping private sector enterprises.

Investment Management – Refers to the management of IFAD's liquidity portfolio. This portfolio is predominately invested in investment grade, fixed income securities and is managed actively within the guidelines set forth by the fund's investment policy and governed by control measures set forth in the internal control framework. Risk and return measures are reported in IFAD's investment portfolio report. The investment portfolio is composed of funds received through member contributions and funds raised through borrowing. The fund also determines the amount of resources in the investment portfolio available for commitment.

Financial Indicators

Profitability – As with other multilateral development banks, IFAD does not aim to maximise profits. IFAD is in fact inherently loss-making, which it offsets by the paid-in contributions received from members. As per the latest FY20 annual report, net losses amounted to USD27.4m (FY19: -USD353.1m) as total revenues declined 22.8% yoy to USD205m mostly due to lower income from contributions. Grants and expenses of the debt sustainability framework weigh on bottom-line results, despite overall expenses falling, offsetting the stable income from interest-bearing loans. Total expenses stood at USD499m (-9.7% yoy) but far outweigh income generated. In 2020, IFAD compensated for much of the shortfall by benefitting from positive currency exchange movements as well as fair value adjustments.

Asset quality – IFAD had total assets of USD9.5bn at FY20, of which development-related investments (loans, equity & debt investments) represented the vast majority (93% of the total). IFAD's outstanding USD7.1bn loan portfolio comprises solely of sovereign borrowers with an average rating of ‘B+’, in line with peers. Concentration risk is deemed moderate despite being extended to over 100 sovereigns. IFAD has a diverse lending portfolio. However, the top 10 borrowers amount to 43% of the total outstanding loans, with China, India, Bangladesh and Ethiopia accounting for more than one fifth. Non-performing loans (NPL) represented 2.6% of total loans outstanding, unchanged from 2019. However, this figure could rise, as the 2020 annual report does not take into account the adverse economic effects of the pandemic. As of June 2021, IFAD classified four sovereigns as NPLs (North Korea, Somalia, Venezuela and Yemen), unchanged from the previous year.

Funding & Liquidity – IFAD has historically not accessed capital markets for funding and has mostly funded itself from replenishment contributions from members. However, in order to adequately fulfil its mandate, IFAD members have considered access to other forms of funding and have worked on a borrowing framework that would allow for funding diversification. This has led to updates to its liquidity and capital adequacy policies while most loan assets will continue to be funded by equity. IFAD’s 2022-2024 funding strategy is guided by its integrated borrowing framework from December 2020 that, among other things, highlights the need for additional borrowing to maximise support of its 2030 agenda for sustainable development. IFAD charts a prudent approach to borrowing and proposes not to raise key metrics such as debt to equity above the 35% threshold established in 2015 throughout the new 2022-2024 funding cycle. As at FY20 debt/equity was 14.6% (FY19: 9.8%).

IFAD’s liquidity position is strong with its 2020 liquidity ratio at 11.8%, well above the 5% threshold. The ratio is defined as *(Cash in hand and in banks + investments)/ Total assets*. According to Fitch, the quality of IFAD's treasury asset portfolio has improved over the past 12 months, with an increased share of 'AAA' to 'AA' rated treasury assets (2020: 72% vs. 2019: 68%). To date, IFAD has not tapped international capital markets, but the fund's Executive Board in September-2021 approved its inaugural EMTN Programme, with the first issuance under this programme expected in 2022. IFAD will look to raise some USD1bn-1.3bn through longe- dated notes over the course of its current replenishment cycle.

In January 2022, IFAD released a statement, signalling its intent on significantly strengthening its commitment to ethical investments, shifting the fund’s treasury investments to green bonds and other ESG investments, in addition to IFAD’s already established socially responsible investment strategy, which mirrors the UN’s global compact principles. Alongside its updated investment policy statement, IFAD will also publish a list of industries excluded from its investments. As at September 2021 IFAD had USD1.35bn invested in financial instruments, derived from member contributions, borrowed funds and loan repayments, which are then committed to developing countries under IFAD’s regular programme of loans and grants. It is looking to increase its investment into ESG labelled securities, including those of SSAs, corporates and ABS.

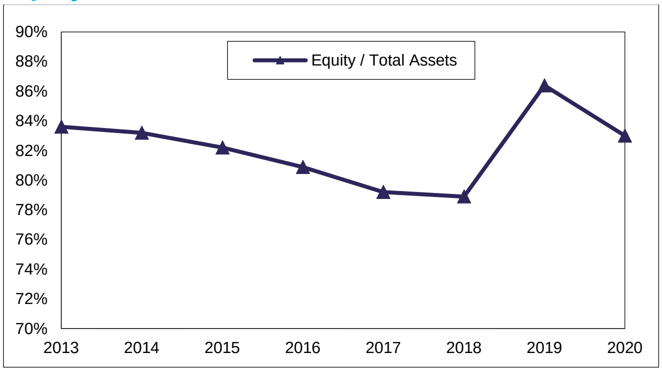
Capitalisation – As at FY20, total equity stood at USD6.9bn, largely unchanged against the previous year. The agency’s capital position is considered strong. Despite the gradual introduction of debt, equity still represented 83% of IFAD’s total assets. There are several measures in place to prevent capital erosion and ensure efficient utilisation of funds. The deployable capital (DC) ratio is the main measure to assess capital utilisation and the availability of resources to support future commitments. It takes into consideration total available capital less total capital requirements less a capital buffer amount. The ratio stood at 39% (FY19: 40%), above the prudential limit of 0%. IFAD also measures the ratio of its capital to expected and unexpected losses from core and non-core risks embedded within the fund’s operations. Core and non-core risk capital consumption is required to remain below 80% and 10% respectively. As at FY20 IFAD comfortably met its own requirements with metrics at 48.5% (FY19: 47.1%) and 2.1% (FY19: 2.6%) respectively.

Rating agencies’ views

Fitch – In September 2021, Fitch affirmed IFAD’s credit profile, stating that it considers the 'excellent' capitalisation as a key rating strength, primarily driven by the view that IFAD's equity/assets ratio will continue to far exceed the 25% 'excellent' threshold over the medium term. As of end-2020, this ratio was around 83%. Fitch’s assessment is also supported by the fund's usable capital/risk-weighted assets (FRA) ratio, which also far exceeds the 35% 'excellent' threshold (YE20: 72%). IFAD is inherently loss-making, owing to its business model, but this is offset by the paid-in contributions it receives from its member states. The agency expects both ratios to remain well above the 'excellent' thresholds in the medium term, despite the fund gradually increasing its leverage.

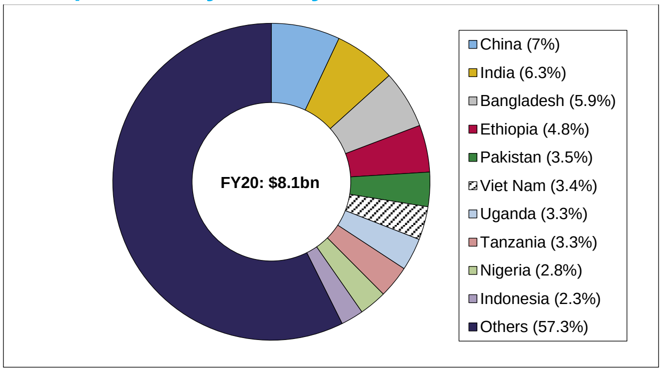
S&P – In January 2021, S&P assigned IFAD an issuer rating (AA+/Stable), underpinned by its strong enterprise risk profile and extremely strong financial risk profile. The enterprise risk profile is supported by IFAD's strong mandate, which directs its activities toward the poorest of the poor. The fund 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 USD9.3bn. S&P 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 further underpinned by its extremely strong financial risk profile, largely supported by the agency's 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.

Equity to total assets ratio



Source: Issuer reports

Loan portfolio by country at FY20



Source: Issuer reports

This is an issuer profile and contains factual statements only. All statements are sourced from IFAD's financial reports, which can be found at https://www.ifad.org/en/investors

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4: Underperform TOPIX/benchmark index by 5-15% over the next 12 months.
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** The ratio of margin requirements etc. to the amount of the transaction cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.

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