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Research Update:

FONPLATA 'A-/A-2' Ratings Affirmed; Outlook Remains Stable

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Table Of Contents

Overview

Rating Action

Rationale

Outlook

Related Criteria

Related Research

Ratings List

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Overview

- Fondo Financiero para el Desarrollo de la Cuenca del Plata (FONPLATA) has a very strong financial profile and a moderate business profile.
- We are affirming our 'A-/A-2' long- and short-term issuer credit ratings on FONPLATA.
- The stable outlook reflects our view that the fund will continue expanding its lending activity while maintaining a very strong financial profile.

Rating Action

On July 17, 2017, S&P Global Ratings affirmed its 'A-/A-2' long- and short-term issuer credit ratings on Fondo Financiero para el Desarrollo de la Cuenca del Plata (FONPLATA). The outlook remains stable.

Rationale

We base our ratings on FONPLATA's very strong financial profile and moderate business profile. We do not incorporate any uplift above the 'a-' stand-alone credit profile in deriving the 'A-' long-term issuer credit rating from callable capital because we rate all of FONPLATA's members shareholders lower than the institution.

FONPLATA was founded in 1974 by its five member countries Argentina, Bolivia, Brazil, Paraguay, and Uruguay. The fund was established by ratifying the River Plate Treaty. Its mission is to support the integration of member countries through loan transactions and grants to achieve an inclusive development within the geographical boundaries of the River Plate basin. Whereas some of this role could be executed by private-sector institutions or national development banks, we find that multilateral lending institution (MLIs) are often best placed to undertake projects whose benefits extend beyond their direct profitability.

Although FONPLATA has a shorter track record of fulfilling its public policy mandate than its regional peers, as a result of implementing its 2013 first strategic business plan, the fund's disbursement pipeline for 2017-2019 is \$1.4 billion on identified projects. In our view, FONPLATA is positioned to fulfill its plan, as the recent ramp up in disbursements and approvals demonstrates; this will further increase its presence in the region.

As FONPLATA has a lower cost base, the fund aims to increase co-financing projects with other MLIs, which in our view could further strength its presence in the region. Thus far, FONPLATA executed its first co-financed projects with Corporacion Andina de Fomento (CAF) in Paraguay, and plans to co-finance projects with other MLIs, focused in regional integration efforts and infrastructure projects.

As part of this strategy and in line with its business plan, in 2017 FONPLATA has formalized memorandums of understanding for strategic cooperation and commitment in working together with the New Development Bank and the European Investment Bank, which boosts FONPLATA's project size.

The implementation of the enhanced management framework is also evident in new alliances with larger multilateral development banks and a faster pace of loans approvals. In addition, as a result of the budgeting system including performance indicators for measuring results, as of December 2016 the fund reached an 88% of execution of its administrative budget.

Shareholding currently is limited to its founding members, all of which are borrowing members and which have equal voting rights and board representation. Following FONPLATA's 2012 reform, shareholders have shown support to the fund by approving two general capital increases (GCI)--the most recent one was in January 2016. Moreover, all members are in full compliance with their first capital increase contributions, including Brazil, which was late on its second and third installments. Our assessment of FONPLATA's business profile is mostly forward-looking; however, we do take into account its shareholders past treatment of FONPLATA as a preferred creditor, which includes their uneven record in making capital contributions on time.

For the first 38 years of FONPLATA's history, the institution was not effective in achieving its mandate, in part because accountability was diffused, management reported to more than one line ministry of shareholders, and major decisions required unanimity. After the 2012 reform, the rule that approvals and policies required unanimity was rescinded. In 2011 FONPLATA created the position of executive presidency. The executive president has a five-year term and is in charge of leading the institutional transformation of FONPLATA. The first executive president of FONPLATA, Juan Notaro, took office in September 2012 and has been reelected for a second term from 2017-2022.

FONPLATA's very strong financial profile reflects its high capitalization and liquidity. The institution has no significant debt, thus its funding by definition is undiversified.

FONPLATA's risk-adjusted capital (RAC) ratio before adjustments was 98% in 2016, with rating parameters as of July 11, 2017. After applying MLI adjustments, FONPLATA's RAC ratio was 45%, declining from last year's 61% mainly because of our MLI adjustments for single-name concentration. (The RAC ratio after diversification does not reflect the criteria correction published on July 11, 2017. We believe the impact of the correction on the ratio is not material to the rating.) As the fund increases its lending activity to its

five borrowing member countries, the penalization for this single-name concentration weighs more heavily on the adjusted RAC ratio.

As of December 2016, 100% of FONPLATA's loan portfolio (US\$544 million) is with public-sector borrowers. Over time, the fund aims to even out diversification in its loan portfolio. At the end of 2016 its distribution was Bolivia (26%), Uruguay (26%), Paraguay (18%), Argentina (15%), and Brazil (15%).

We estimate that FONPLATA is structurally able to cover its scheduled loan disbursements without recourse to debt issuance. FONPLATA has only an uncommitted contingent line of credit from CAF of \$75 million with an outstanding amount of US\$16 million as of December 2016. FONPLATA's static funding gap in December 2016, with scheduled loan disbursements at one year, was 1.1x.

Under our extreme capital markets and economic conditions stress test, FONPLATA's liquid assets are sufficient to service its debt and maintain operations for one year without capital market access, which a calculated liquidity ratio for 2016 at one year with scheduled loans at 1.1x demonstrates. The fund would, however, have to defer a significant portion of all its scheduled loan disbursements under such conditions, similar to many other MLIs.

Outlook

The stable outlook is mainly based on our view that over the next two years, FONPLATA will manage to continue expanding its lending activity while maintaining a very strong financial profile. We could raise the ratings in the next two years if the fund enhances aspects of its business profile with evidence of a stronger presence in the region and a robust track record of shareholder support with full and timely payment of capital installments due under recently approved GCIs or preferred creditor treatment. We could lower the ratings if, in the next two years, relationships with shareholders were to deteriorate or its financial indicators slip.

Related Criteria

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- Criteria - Governments - General: Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology, Nov. 26, 2012
- Criteria - Financial Institutions - Banks: Bank Capital Methodology And Assumptions, Dec. 6, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Sovereign Ratings History, July 12, 2017
- How Brexit Could Impact Ratings On Supranational Institutions, April 10, 2017
- 2016 Annual Sovereign Default Study And Rating Transitions, April 3, 2017
- Introduction To Supranationals Special Edition 2016, Sept. 29, 2016
- How Much Can Multilateral Lending Institutions Up The Ante?, April 12, 2016
- The Heat Is On: How Climate Change Can Impact Sovereign Ratings, Nov. 25, 2015
- How An Erosion Of Preferred Creditor Treatment Could Lead To Lower Ratings On Multilateral Lending Institutions, Aug. 26, 2013

Ratings List

Ratings Affirmed

FONPLATA

Sovereign Credit Rating

A-/Stable/A-2

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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