S&P Global Ratings

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FONPLATA

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FONPLATA

Rationale

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

S&P Global Ratings bases its ratings on FONPLATA on the fund's very strong financial profile and moderate business profile. We do not incorporate any uplift, from callable capital, above the 'a-' stand-alone credit profile in deriving the 'A-' long-term issuer credit rating 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 development within the geographical boundaries of the River Plate basin. Although some of this could be executed by private-sector institutions or national development banks, we find that multilateral lending institutions (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--and this will further increase its presence in the region.

FONPLATA has a lower cost base, and it aims to increase cofinancing projects with other MLIs, which, in our view, could further strengthen its presence in the region. Thus far, FONPLATA executed its first cofinanced project with Corporacion Andina de Fomento (CAF) in Paraguay, and it plans to cofinance projects with other MLIs, focused on 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 working with the New Development Bank and the European Investment Bank, which boosts FONPLATA's project size.

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

Shareholders currently are limited to founding members, all of which are borrowing members and have equal voting rights and board representation. Following FONPLATA's 2012 reform, shareholders have supported 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, though 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%, down 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 as of December 2016, FONPLATA was structurally able to cover its scheduled loan disbursements at one year without recourse to debt issuance. FONPLATA has only an uncommitted contingent line of credit from CAF of $75 million (the outstanding amount was US$16 million as of December 2016). The fund'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 as of December 2016 were sufficient to service its debt and maintain operations for one year without capital market access. Its liquidity ratio for 2016, at one year with scheduled loans, was 1.1x. 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 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 deteriorate or its financial indicators slip.

Stand-Alone Credit Profile

We assess FONPLATA's SACP at 'a-', reflecting our assessment of its moderate business profile and its very strong financial profile.

FONPLATA's SACP mainly reflects a high level of capitalization, which began improving after 2013 and would further strengthen the fund's presence in the region even when, in our opinion, it could be partially fulfilled by another private or domestic public institution. We believe that despite the fund's short track record of fulfilling its public policy mandate, it is now well-positioned to do so.

Table 1

Selected Comparative Statistics For FONPLATA And Peers

As Of Year-End 2016

	Fondo Financiero para el Desarrollo de la Cuenca del Plata	African Development Bank	Black Sea Trade and Development Bank	Caribbean Development Bank	Central American Bank for Economic Integration	Corporación Andina de Fomento	Eurasian Development Bank
	(FONPLATA)	(AFDB)	(BSTDB)	(CDB)	(CABEI)	(CAF)	(EDB)
Total adjusted assets (Mil. US$)	759	39,960	1,753	1,541	9,194	35,669	3,255
RAC ratio after adjustments (%)*	45	20	33	32	10	17	22
Purpose-related assets (gross)/adjusted total assets (%)	73	56	71	66	71	62	50
Liquid assets/adjusted total assets (%)	26	40	29	28	30	34	51
Static funding gap at one year (x)	12.6	1.4	6.2	38.2	1.7	2.0	2.6
ACE/adjusted total assets (%)	97	22	45	54	30	29	51
Gross debt/adjusted common equity (x)	0.02	3.1	1.2	0.8	2	1.9	0.69

*Risk-adjusted capital (RAC) was calculated with rating parameters as of Aug. 31, 2017, using year-end 2016 data. Source: Supranationals Special Edition 2017.

Business Profile

FONPLATA's moderate business profile reflects the fund's role, public policy mandate, and governance.

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Policy Importance Assessment

The fund was founded as "El Fondo Financiero para el Desarrollo de la Cuenca del Plata" in October 1974 and has the objective to contribute to the reduction of socioeconomic differences. The fund prioritizes collaboration with local development agencies and other multilateral institutions complementing small and medium-size projects mainly focused on enhancing infrastructure in its member countries.

The fund is located in the region, which leads to competitive advantages, such as providing members easier access and agile funding. Additionally, because the fund has a lower cost base, it cofinances projects with other MLIs, which, in our view, will further strength its presence in the region.

As part of FONPLATA's strategies to complement projects with other MLIs to enable much larger development, in the first half of 2017 the fund stablished the following alliances:

- On April 25, 2017, FONPLATA and the New Development Bank (NDB) formalized a memorandum of understanding for strategic cooperation and commitment in working together in line with their policy mandates. This alliance would boost project size to US$150 million from FONPLATA's capacity of US$50 million.
- On June 1, 2017, FONPLATA and the European Investment Bank (EIB) signed a memorandum of understanding for formalizing their commitment to work in specific areas where there can be strategic cooperation, in line with their mandates.
- FONPLATA is confinancing projects with Corporacion Andina de Fomento (CAF) in Paraguay, where FONPLATA provides up to US$50 million.
- In November 2017, the Inter-American Development Bank (IADB) approved a US$100 million loan allocated through FONPLATA on eligible projects with the goal to reduce integration and development asymmetries in the river plate basin region and its adjacent areas.

Although FONPLATA's role could be partially fulfilled by another private or domestic public institution (for instance, local development agencies with whom the fund partners for funding projects), we find that MLIs are often best placed to undertake projects whose benefits extend beyond their direct profitability.

FONPLATA has a shorter track record of fulfilling its public policy mandate than all its regional peers. This is partly explained by the institutional overhauls the fund has undergone since its creation. Even in 2009-2010, FONPLATA did not approve any loans. In 2010, there was a new business plan for providing a complete institutional overhaul, in 2011 a reform that created the executive president's position, and in 2013 the first strategic business plan.

The fund's pipeline for 2017-2019 is US$1.4 billion in disbursements on identified projects. In our view, FONPLATA is positioned to fulfill its plan, as the continuous ramp-up in disbursements and approvals demonstrates, which will further increase its presence in the region. Over the last four years, gross loan growth averaged 20%, up from a very low 2% loan growth reported in 2012. As of June 30, 2017, the loan portfolio was US$585.5 million, mainly because of increased lending to Uruguay and Bolivia.

Table 2

Principle Business Activities					
	--As of Dec. 31--				
	2016	**2015**	**2014**	**2013**	**2012**
Liquid assets/adjusted total assets (%)	26.0	26.3	31.6	24.5	29.5
Purpose-related assets (gross)/adjusted total assets (%)	73.4	73.6	68.2	75.6	70.4
Net loans/adjusted total assets (%)	71.1	71.3	63.6	59.1	51.2
Public-sector (including sovereign-guaranteed) loans/total loans (%)	100.0	100.0	100.0	100.0	100.0
Private-sector loans/total loans (%)	0.0	0.0	0.0	0.0	0.0

Shareholder support has been weaker than higher-rated peers. No shareholder has withdrawn from the fund, but in 2008, Uruguay blocked most activity to press for reform. There are signs of shareholders increasing their support of the fund's public policy mandate. Brazil, which was late on its second and third installments on the fund's GCI, became current on its capital contributions. Currently, all members are in full compliance with their first capital increase contributions.

Initial funding in 1974 was US$100 million, which increased in 1979 to $200 million (including $40 million of callable capital). Afterwards, the fund has had yearly capitalization of 90% of retained earnings accumulated through 2007, and two capital increases were approved:

- The first capital increase--from $489 million to $1,639 million (with 49% paid-in)--was approved in 2013.
- The second capital increase to $3,014 million was approved in January 2016. Payments will start in 2018 and will be completed over six years. As of August 2017, the fund's five member countries had fully authorized and subscribed their participation in the capital increase and committed their callable capital increase.

Callable capital was approved with an irrevocable notification that, if needed, countries will not require additional Congressional approval.

Table 3

History Of FONPLATA's Capital Increases And Initial Funding	
Date of capital increase	**Paid-in capital subscriptions approved including callable capital (mill. US$)**
2016	1,375
2013	1,150
1979	100
Initial funding 1974	100

Our assessment of FONPLATA's business profile incorporates the track record of borrowing members not treating the fund as a preferred creditor in periods of economic, external, and fiscal stress. This supported by the following events:

- In 2002-2004, Argentina, Brazil, and Paraguay went over 90 days overdue (about 450 days);
- Bolivia was granted debt relief through the Heavily Indebted Poor Countries (HIPC) initiative in the mid-2000s;
- FONPLATA held Argentine government bonds in its liquidity portfolio that were rescheduled in 2005; and
- Loans outstanding to Brazil markedly became off due since 2008, but payment delays did not exceed 90 days.

Governance And Management Expertise

Our appraisal of FONPLATA's governance is constrained by shareholding being limited to founding members and the absence of nonborrowing member countries. As a consequence, FONPLATA is not predominantly controlled by one or two shareholders. Nevertheless, borrowing member countries have control and a significant influence over decision-making.

Argentina and Brazil are FONPLATA's two larger shareholders (holding a combined 66% of the capital participation), but in the constitutive agreement, each member country has equal voting rights (one vote per country) in the board of governors regardless of the country's capital participation in the total capital of the fund.

Table 4

Shareholder Concentrations: FONPLATA's Membership, Capital, And Voting Shares

Share Of Votes Controlled By Borrowing Member Countries (%)

Member countries	% of votes	Paid-in capital	Callable capital
Argentina	20	449.7	555.0
Bolivia	20	149.9	185.0
Brazil	20	449.7	555.0
Paraguay	20	88.8	93.3
Uruguay	20	149.9	185.0
Total		1,288.1	1,573.3

Note: Data as of June 2017.

Following the approval of the modernization process, the president's term extended for over two years, voting rules changed to majority from unanimity, and governance issues were addressed to avoid duel governance of ministry of finance and foreign ministry.

The executive president is in charge of leading the institutional transformation of FONPLATA. The first executive president took office in September 2012 with a five-year term. The new management framework consists of:

- Redesign of the efficiency in the projects cycle;
- Framework for budget assignation based on results;
- Enhanced accountability, transparency, and decision-making process; and
- Stronger bonds for working and cooperating with other MLIs.

As a result of the implementation of this framework, FONPLATA has new alliances with larger MLIs, increasing the pace of loan approvals and leading to performance indicators being measured on a results-based budgeting system (i.e., measuring results attained relative to their related costs). As of December 2016, the fund reached an 88% of execution of its administrative budget.

Along with this, new offices were created to manage operational, financial, and administrative functions. The Strategical Planning Division and Risk Management and the positions of internal auditor and compliance officer were created.

However, FONPLATA is committed to remaining nimble and maintaining low transactional costs to better serve the needs of its member countries, and its organizational structure and staffing levels reflect these core principles. In our opinion, FONPLATA relies on one or a small number of managers, and the loss of key personnel could affect the organization's operations.

Financial Profile

In our opinion, FONPLATA has a very strong financial profile, reflecting our assessment of its capital adequacy as well as its funding and liquidity.

Capital And Earnings

FONPLATA maintains high levels of capitalization. As of year-end 2016 (and with rating parameters as of Nov. 8, 2017), its RAC ratio before adjustments was 102% while its RAC ratio after adjustments was 42%. MLI adjustments primarily stem from significant sovereign loan portfolio concentration on its five member countries and the geographic and economic correlation of the fund's loans, which our expectation of PCT partially offsets.

The quality of FONPLATA's cash capital, what we call adjusted common equity (ACE), is robust. It is composed primarily of paid-in capital and retained earnings. In the next two years, we expect FONPLATA's capital adequacy to remain very strong by fairly matching the growth of its net loans to the growth of its ACE.

In our view, the institution employs prudent financial and risk-management policies relative to its operations.

Earnings

Akin to other MLIs, FONPLATA's public policy mandate leads to a lower rate of profitability than a commercial bank would sustain.

FONPLATA's comprehensive and net income remained stable, and in 2016 net income as a percentage of its average adjusted assets almost doubled to 2.13% from 1.2% the year before, mainly because of broader lending activity. As of June 2017, FONPLATA had robust profitability and positive growth in its lending portfolio.

Table 5

Profitability					
	--As of Dec. 31--				
	2016	**2015**	**2014**	**2013**	**2012**
Net income/average adjusted assets (%)	2.1	1.2	1.4	1.5	1.7
Net income/average adjusted common equity (%)	2.2	1.2	1.4	1.5	1.7
Comprehensive income/average adjusted assets (%)	2.1	1.1	1.4	1.5	1.7
Comprehensive income/average adjusted common equity (%)	2.2	1.1	1.4	1.5	1.7
Net interest income/average net loans (%)	3.4	3.0	3.1	3.5	4.8
Administrative expense/average adjusted common equity (%)	0.9	0.9	0.9	0.9	0.8
Memo:					
Net income (mil. US$)	14.8	7.0	7.7	7.6	8.7

Table 5

Profitability (cont.)					
	--As of Dec. 31--				
	2016	**2015**	**2014**	**2013**	**2012**
Net increase (decrease) in cash and cash equivalents during the year (mil. US$)	13.4	(27.6)	12.0	(84.4)	7.2

Treasury risk

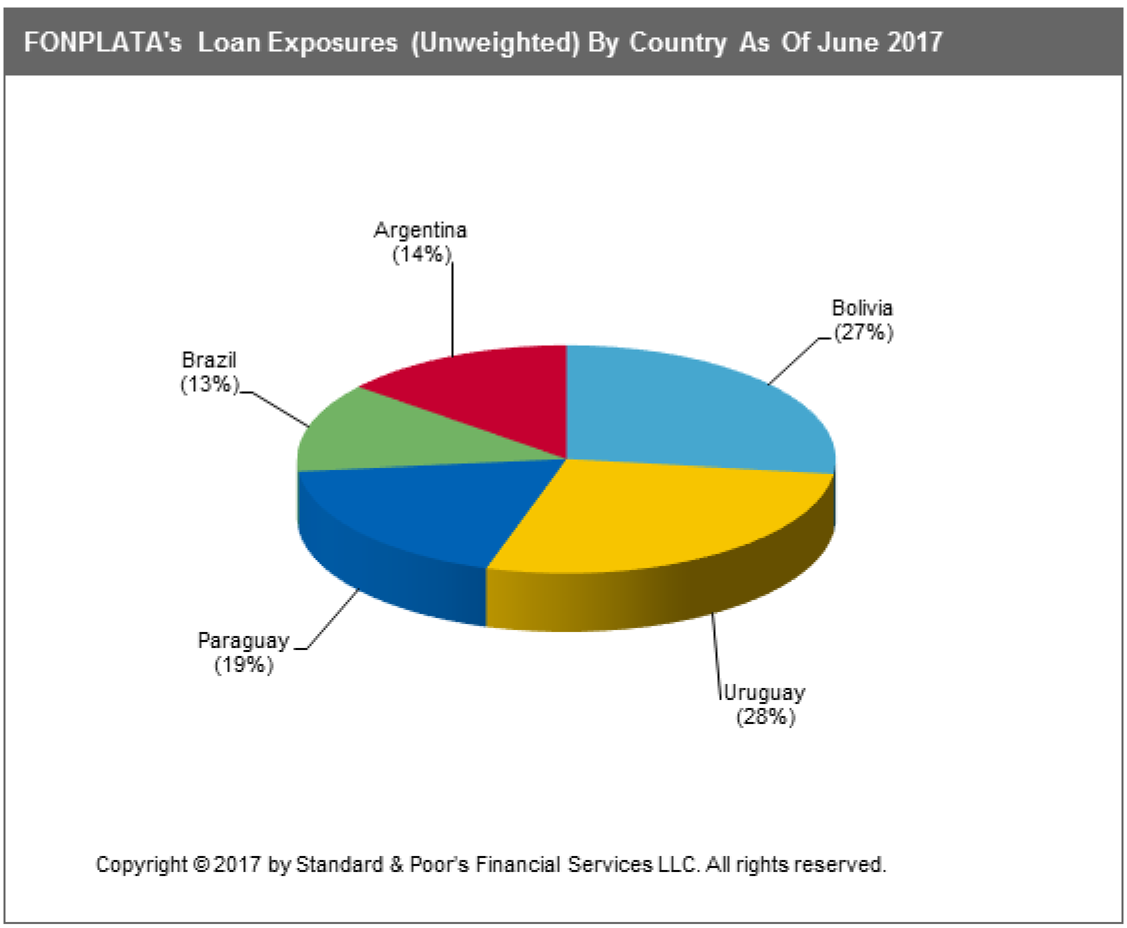
Exchange rate risk. FONPLATA denominates all its loan assets and debt service receivable in U.S. dollars and reports its financial position in the same. Its most recent general capital increase installments are also payable in dollars.

Credit risk. FONPLATA sets exposure limits by country with the aim of a more balanced loan portfolio.

The fund's top three loan exposures represented 70% of total loans at the end of 2016. Exposure concentration has dropped over the past three years--its top three loan exposures represented 83% of the 2012 total loan portfolio. The fund is aiming for an equally distributed portfolio among its members.

As of June 2017, Bolivia and Uruguay remain the fund's largest borrowers, representing more than half of the total portfolio.

Chart 1



Purpose-related exposure as of December 2016 was 78% transportation, communications, energy, and logistics infrastructure; 21% productive development; and 1% infrastructure for socioeconomic development.

Investment policies set a minimum rating of 'BBB-' (the institution achieved an average portfolio rating equal to or higher than 'AA-' as of December 2016), diversification by asset class and issuer, and a duration of less than two years.

Interest rate risk. Market risk comes from fluctuations in LIBOR (interest rate at which FONPLATA grants its loans), but movements in LIBOR are not expected to significantly affect its net income.

Risk Position

Regarding financial management, FONPLATA has prudent policies and risk tolerance. It currently has no derivative agreements, investments are not subject to market volatility, and it has gradually diversified its loan concentration.

Table 6

FONPLATA's Risk-Adjusted Capital Framework As Of Dec 31, 2016

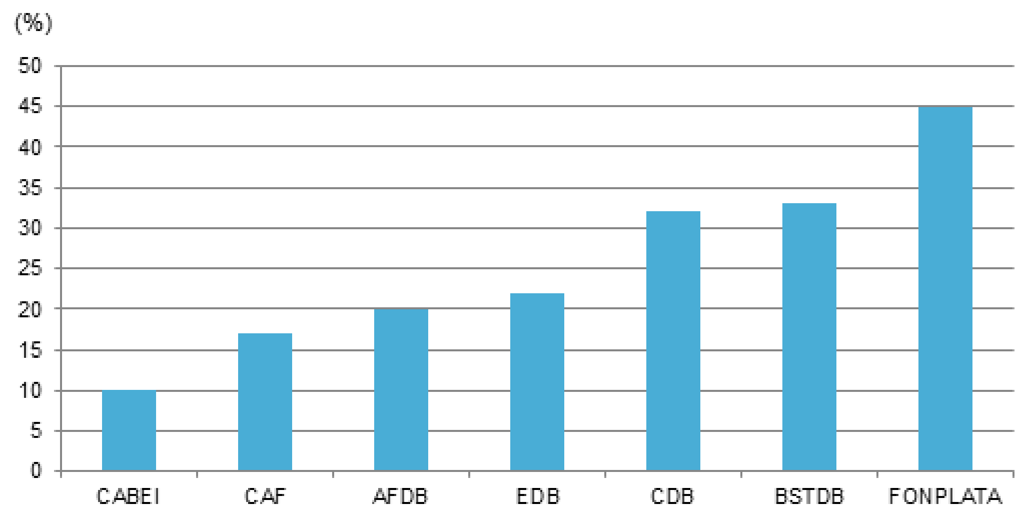
(US$000s)	Exposure	S&P Global Ratings RWA	Average S&P Global Ratings RW (%)
Credit risk			
Government and central banks	965,289	640,811	66
Institutions	60,053	27,062	45
Corporate	-	-	-
Securitization	-	-	-
Other assets	-	-	-
Total credit risk	-	-	-
Market risk	3,571	8,928	250
Equity in the banking book	1,028,913	676,801	66
Trading book market risk	0	0	0
Total market risk	--	0	--
Operational risk		0	--
Total operational risk	--	38,396	--
RWA before MLI adjustments	--	715,198	100
MLI adjustments			
Industry and geographic diversification	--	(51,327)	(7)
Preferred creditor treatment	--	(169,156)	(24)
Single-name concentration	--	1,230,866	172
High-risk exposure cap	--	0	0
Total MLI adjustments	--	1,010,383	141
RWA after MLI adjustments	--	1,725,581	241
		Adjusted common equity	**S&P Global Ratings RAC ratio (%)**
Capital ratio before adjustments		733,018	102
Capital ratio after adjustments			42

Note: Ratings parameters as of Nov. 8, 2017. 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. MLI--Multilateral lending institutions. RW--Risk weighting. RWA--Risk-weighted assets. ACE--Adjusted common equity. RAC ratio--Defined as ACE divided by RWA.

In comparison with peers, FONPLATA is well-capitalized for its risk position. As of year-end 2016, FONPLATA maintained higher capital adequacy than all peers.

Chart 2

Risk-Adjusted Capital Adequacy Ratios (After Adjustments) For FONPLATA And Peers



FONPLATA--Fondo Financiero para el Desarrollo de la Cuenca del Plata. AFDB--African Development Bank. BSTDB--Black Sea Trade and Development Bank. CDB--Caribbean Development Bank. CABEI--Central American Bank for Economic Integration. CAF--Corporación Andina de Fomento. EDB--Eurasian Development Bank. RAC--Risk-adjusted capital (RAC) was calculated with rating parameters as of Aug. 31, 2017, using year-end 2016 data. Source: Supranationals Special Edition 2017.

Exposure concentrations

Loans as of June 30, 2017, totaled $590 million, up from $543 million reported as of year-end 2016.

FONPLATA has diversified its exposure concentration, but still the fund's two largest borrowers (Uruguay and Bolivia) represented more than half of its loans as of December 2016. The sovereign single-name concentration adjustment for the potential loss on these exposures and our expectation of preferred creditor treatment explain the difference between the 102% RAC ratio before MLI-specific adjustments and the 42% RAC ratio after as of December 2016.

Asset quality

We view FONPLATA as having higher losses than regional peers such as CAF, CABEI, and CDB. Loans in arrears for over 90 days have activated, in the past, the sovereign guarantee on Brazil, and this country has honored its payments. As of December 2016, three loans to Brazilian local and regional governments were in arrears. None of these loans have had a delay over 90 days, so FONPLATA has not stopped disbursements to Brazil and has not written off any of these loans to Brazil.

Loans outstanding to Brazil in 2014-2015 markedly fell off more because of administrative problems in Brazil than FONPLATA's unwillingness to lend. (FONPLATA's Brazilian exposure consists mostly of loans to municipalities, and the federal government restricted municipality access to external debt in 2014-2015.)

As of June 2017, FONPLATA has not reported arrears on payments from any of its members.

Funding And Liquidity

Funding

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.

Despite this, FONPLATA has limited access to external sources of liquidity and inadequate available market access relative to current or future funding needs, as reflected in the fund being an infrequent issuer (it has not issued debt). Funding as of mid-2017 added up to $26 million, including a deposit from the Central Bank of Bolivia.

Liquidity

Under our liquidity stress scenario, the fund would be able to continue fulfilling its mandate. FONPLATA no longer buys bonds issued by member countries.

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 our calculated liquidity ratio for 2016, at one year with scheduled loans, of 1.1x demonstrates.

Likelihood Of Extraordinary Shareholder Support

The 'A-' long-term foreign-currency issuer credit rating on FONPLATA does not incorporate extraordinary shareholder support from its callable capital because we rate all its member shareholders lower than the fund.

Related Criteria

- Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology, Nov. 26, 2012
- Bank Capital Methodology And Assumptions, Dec. 6, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Introduction To Supranationals Special Edition 2017, Oct. 20, 2017
- How Much Can Multilateral Lending Institutions Up The Ante?, April 12, 2016
- How An Erosion Of Preferred Creditor Treatment Could Lead To Lower Ratings On Multilateral Lending

Institutions, Aug. 26, 2013

Ratings Detail (As Of November 28, 2017)		
FONPLATA		
Issuer Credit Rating		
Foreign Currency		A-/Stable/A-2
Issuer Credit Ratings History		
27-Sep-2016	*Foreign Currency*	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.