

RatingsDirect®

Summary:

FONPLATA

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Summary:

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**Credit
Rating:**

A-/Stable/A-2

Rationale

The ratings on Fondo Financiero para el Desarrollo de la Cuenca del Plata (FONPLATA) reflect S&P Global Ratings assessment of a very strong financial profile and a moderate business profile. Together, these assessments result in FONPLATA's 'a-' stand-alone credit profile (SACP). The issuer credit rating does not incorporate extraordinary shareholder support from callable capital because we rate all of FONPLATA's members shareholders lower than the institution.

The institution's mission is to support the integration and development of member countries through loans and grants within the geographical boundaries of the River Plate watershed and its surrounding regions. Our assessment of FONPLATA's moderate business profile is mostly based on our forward-looking view that the institution is now well placed in achieving its mission. In particular, it has developed a market niche in acting as an ancillary lender with other multilateral lending institutions (MLI) focusing on smaller aspects of larger projects, which it can deliver more effectively due to its proximity and to lower cost base. Whereas some of this role could be executed by private-sector institutions or national development banks, we find that MLIs are often best placed to undertake projects whose benefits extend beyond their direct profitability. Although our assessment of FONPLATA's business profile is mostly forward-looking, we do take into account its shareholders past uneven treatment of FONPLATA as a preferred creditor and their at times patchy record in making capital contributions on time.

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

FONPLATA's risk-adjusted capital (RAC) ratio after adjustments was 61% in 2015. Following the 2012 reform, shareholders approved two capital increases. In 2013, shareholders voted to raise \$1,150 million in five installments beginning in 2014 and ending 2018. In 2016, they voted to raise an additional \$1,375 million in seven installments beginning in 2017 and ending 2024. These general capital increases will raise FONPLATA's equity by about 6x and they demonstrate shareholder support for the institution.

During the first half of 2016 FONPLATA was profitable and with robust loan portfolio growth. All other credit metrics remained broadly unchanged.

We estimate that FONPLATA is structurally able to cover its scheduled loan disbursements without recourse to debt issuance. FONPLATA currently has no debt. It has only an uncommitted undrawn line of credit from another MLI, although it is negotiating additional facilities. Due to its free capital, FONPLATA's liquidity on its balance sheet is ample to fund its scheduled obligations for up to one year without capital market access under a stress scenario.

FONPLATA was founded in 1974 by its five member countries: Argentina, Bolivia, Brazil, Paraguay, and Uruguay. They established the institution by ratifying the Tratado de la Cuenca del Plata. The treaty is governed by the Vienna Convention. Shareholding currently is limited to founding members. Brazil and Argentina hold one-third of the share capital, but all members have equal voting rights and board representation. All members borrow from the institution, and FONPLATA's \$447 million outstanding loans, as of December 2015, is broadly balanced among them.

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. In 2012, shareholders reformed the institution's governance. It centered managerial authority in an executive president, reduced accountability to a single ministry per shareholder, and relaxed rules on unanimity. With new management in place, the institution approved a strategic business plan in 2013 and created several new offices in operational, financial, and administrative functions along the lines of modern banking.

Outlook

Our stable outlook signals that we see upward and downward pressure on the institution's rating as being balanced over the next two years. As FONPLATA successfully lengthens its track record since its 2012 reform, its business profile could strengthen, which in turn could lead us to raise the rating.

On the other hand, should the performance of its lending disappoint, its financial indicators slip, or the institution experience further delays in the payment of its general capital increases, we could lower the ratings.

Related Criteria And Research

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

- 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
- Introduction To Supranationals Special Edition 2016, Sept. 29, 2016

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