

# RatingsDirect®

---

**Research Update:**

## FONPLATA Outlook Revised To Positive; 'A-/A-2' Ratings Affirmed Under Revised Criteria

**Primary Credit Analyst:**

Constanza M Perez Aquino, Buenos Aires (54) 544-891-2167; constanza.perez.aquino@spglobal.com

**Secondary Contact:**

Alexis Smith-juvelis, New York + 1 (212) 438 0639; alexis.smith-juvelis@spglobal.com

### Table Of Contents

---

Overview

Rating Action

Rationale

Outlook

Ratings Score Snapshot

Related Criteria

Related Research

Ratings List

## Research Update:

# FONPLATA Outlook Revised To Positive; 'A-/A-2' Ratings Affirmed Under Revised Criteria

## Overview

- Following a review under our revised criteria for multilateral lending institutions, we are affirming our long- and short-term issuer credit ratings on FONPLATA at 'A-/A-2' and removing them from under criteria observation (UCO).
- We view FONPLATA as making steady progress achieving its operational and lending targets, and shareholders continue to support the bank with timely capital payments.
- The stand-alone credit profile for FONPLATA is 'a-', reflecting our assessment of its moderate enterprise risk profile and very strong financial risk profile.
- We are also revising our outlook to positive from stable based on our view that FONPLATA has shown progress in shaping its policies and building up its operational capabilities, which we believe will help it to strengthen its presence in the region and meet its set targets.

## Rating Action

On Feb. 21, 2019, S&P Global Ratings revised its outlook on FONPLATA to positive from stable. We also affirmed our 'A-' long-term and 'A-2' short-term issuer credit ratings on FONPLATA.

At the same time, we removed the ratings from under criteria observation (UCO), where we placed them on Dec. 14, 2018, after publishing the revised criteria.

## Rationale

We revised our outlook on FONPLATA to positive based on its efforts in strengthening multiple aspects of its business, such as its governance and institutional structure and its financial and risk management framework, combined with our expectation that it will continue expanding its presence in the region. This is informed by our view of FONPLATA's steady progress achieving its operational and lending targets.

We base our ratings on FONPLATA on its moderate enterprise risk profile and very strong financial risk profile under our revised criteria, "Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology,"

published Dec. 14, 2018. We assess FONPLATA's stand-alone credit profile at 'a-', the same as the long-term issuer credit rating of 'A-', given that it does not benefit from extraordinary support in the form of callable capital.

Historically, the bank's ability to fulfill its mandate had been constrained by gaps in governance and management as well as uneven shareholder support. However, the institutional overhaul and reform beginning in 2012, followed by the creation of the executive presidency and the first strategic business plan in 2013, have strengthened FONPLATA's capacity to increase the pace of lending and have bolstered shareholder support.

Approval levels and disbursements grew by 3.6% and 34.6%, respectively, in 2017, reaching US\$327 million and US\$171 million, in line with planned targets. FONPLATA plans to double its approval size, in line with its Institutional Strategic Plan 2018-2022, which largely focuses on expanding its lending portfolio and incorporating new members. We believe the bank is well-positioned to fulfill its plan, which will support its enterprise risk profile.

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 \$1.15 billion, of which 30.4% is paid-in capital. As of December 2018, members paid capital contributions on time and in full. Governors approved a second general capital increase in 2016, for \$1.375 billion, including \$550 million of capital paid in over seven yearly installments beginning in 2018.

FONPLATA has benefited from preferred creditor treatment (PCT) from its borrowing members over the past 10 years, which is incorporated in our enterprise risk profile assessment. The calculated arrears ratio is at 0.0%, and no country has gone into arrears with the institution for over 180 days.

Constraining our assessment of FONPLATA's enterprise risk profile is its shareholder concentration and, on average, lower ranking in governance from its five borrowing members. We believe that this presents an agency problem, which, 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 efforts to enhance accountability and transparency in decision-making and strengthen its financial and risk management framework. This includes conservative limits to manage the growth in lending set at 3x equity, as well as exposure limits by country aiming at a more balanced loan portfolio composition. Recently, the bank hired a chief risk officer to separate the planning and risk functions. Moreover, the first executive president of FONPLATA, Juan Notaro, took office in September 2012 and was reelected for a second term from 2017-2022.

Notably, in November 2018, the board of governors approved the modification of

its charter to promote the transition from financial fund to development bank and allow the incorporation of new shareholding members. The participation of the founding members in the capital of FONPLATA may not be less than 51% of the authorized capital. If FONPLATA can further increase its membership, this may support our view of the institution's governance.

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 within the River Plate basin area. As such, FONPLATA is particularly active in local municipalities and subregions on countries' borders, providing mainly loans for small and medium-size projects. Its niche focus favorably positions it to work with other funding organizations.

To strengthen its presence in the region and support larger ticket sizes, FONPLATA has engaged in various partnerships and co-financing arrangements with other multilateral lending institutions (MLIs). We have seen progress on this front as FONPLATA executed its first co-financed projects with Corporacion Andina de Fomento (CAF) and the OPEC Fund for International Development (OFID) in 2017. A memorandum of understanding for strategic cooperation was signed with the New Development Bank (NDB) in 2017 to focus on financing in Brazil.

On June 18, 2018, FONPLATA signed an agreement with Mercosur to provide technical and financial assistance to the Fund for the Structural Convergence of Mercosur (FOCEM). The goal of the agreement is to optimize and enhance aspects of FOCEM's management and establish a co-financing framework for infrastructure projects in smaller, less developed countries. This arrangement could support increased scale for FONPLATA's project size.

The other main factor we consider in our rating on FONPLATA is its very strong financial profile, reflecting its high capitalization and liquidity.

FONPLATA's risk-adjusted capital (RAC) ratio after MLI adjustments was 38%, as of Dec. 31, 2017, down from 43% under the former criteria because of changes in the way we compute the single-name concentration, which was partially offset by our incorporation of PCT. We expect the RAC ratio to deteriorate as FONPLATA picks up the pace of lending activities to its five borrowing member countries, which will also weigh on the single-name concentration adjustment. At the end of 2017, the loan distribution was Uruguay (28%), Bolivia (26%), Paraguay (18%), Argentina (17%), and Brazil (11%). However, we assume that management will manage the bank prudently, in line with its conservative financial limits, and remain above the 23% threshold over the next two years.

At the same time, we view FONPLATA's track record of nonperforming loans as somewhat weaker than peers in the region given its focus on local and regional governments in Brazil, which are prone to debt servicing strains. While all of FONPLATA's subnational loans are guaranteed by the respective sovereign, we have seen some arrears with Brazilian municipalities over the past three

years, even though these were paid within the 90-day period.

FONPLATA is mainly equity funded, with total adjusted equity to adjusted total assets at 96% as of December 2017. We estimate that FONPLATA is structurally able to cover its scheduled loan disbursements without recourse to debt issuance.

Since the bank has no significant debt liabilities, by definition its funding profile is undiversified. However, we have seen some positive developments in terms of funding sources. In February 2019, FONPLATA launched its first issuance in the international capital markets for Swiss franc (CHF) 150 million. It also registered with the Paraguay stock exchange for an issuance of \$100 million last year. Funding sources in 2018 were primarily development bank financing, such as CAF with a contingent line for US\$75 million, followed by a line of credit for US\$100 million with the Inter-American Development Bank (IADB), as well as with the European Investment Bank (EIB) for US\$60 million, the French Development Agency for US\$20 million, and Instituto de Crédito Oficial E.P.E. (ICO) for US\$15 million.

FONPLATA could also further diversify funding sources with other MLIs (Asian Infrastructure Investment Bank and KfW Development Bank), 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.

FONPLATA follows a conservative liquidity policy, under which it's 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, which complies with its investment guidelines.

Our calculations of FONPLATA's liquidity incorporate stressed market conditions and assume no market access. For year-end 2017 data and incorporating our updated liquidity haircuts, our 12-month liquidity ratio considering the netted derivatives position was 1.1x with scheduled loans disbursements, while the six-month ratio was 2.3x. However, we estimate that the bank would need to slow down planned disbursements under a stress scenario.

## **Outlook**

The positive outlook is based on our view that FONPLATA has shown progress in shaping its policies and building up its operational capabilities, which we believe will help it to strengthen its presence in the region and to meet its set targets. This could lead to an improvement in the enterprise risk profile 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. We expect its RAC ratio after MLI adjustments to remain well above 23%, even if the asset quality of the loan book weakens. It also incorporates 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 levels while enhancing multiple aspects of its enterprise risk profile. This includes evidence of a stronger presence in the region; robust track record of shareholder support, including full and timely payment of capital installments due under its approved general capital increase and the incorporation of new members potentially; and growing lending and disbursement in line with its targets. We could also raise the ratings if we see better loss experience as well as improved credit and risk monitoring.

We could revise the outlook to stable if, in the next two years, FONPLATA loses its positive momentum and there is evidence of weakening capital support from shareholders, or if the institution struggles to comply with its set targets, reflecting limited risk management capabilities or operational bottlenecks.

We could lower the ratings if there is evidence of significant deterioration in creditworthiness of member countries and shareholder support, including signs of weakening PCT. We could also lower the ratings if FONPLATA's capital adequacy or liquidity deteriorates and the RAC ratio falls below 23%.

## **Ratings Score Snapshot**

Issuer credit rating	A-/Positive/A-2
SACP	a-
Enterprise risk profile	Moderate
Policy importance	Adequate
Governance and management	Weak
Financial risk profile	Very strong
Capital adequacy	Very strong
Funding and liquidity	Strong
Extraordinary support	0
Callable capital	0
Group support	0
Holistic approach	0

## **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: Use Of CreditWatch And Outlooks, Sept. 14, 2009

## **Related Research**

- Guidance: Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology, Dec. 14, 2018
- Supranationals Special Edition, Oct. 11, 2018

## **Ratings List**

Ratings Affirmed; Outlook Action

	To	From
FONPLATA		
Sovereign Credit Rating		
Foreign Currency	A-/Positive/A-2	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](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

Copyright © 2018 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) and [www.globalcreditportal.com](http://www.globalcreditportal.com) (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.