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IDB Invest

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IDB Invest

Stand-alone credit profile	aa	+	Extraordinary shareholder support	0	+	Holistic approach	0

Enterprise risk profile

Extremely strong	Very strong	**Strong**	Adequate	Moderate	Weak	Very weak

Financial risk profile

Extremely strong	Very strong	Strong	Adequate	Moderate	Weak	Very weak

Issuer credit rating

AA/Positive/A-1+

Issuer Credit Rating

Foreign Currency

AA/Positive/A-1+

CaVal (Mexico) National Scale

mxAAA/Stable/--

Outlook

The positive outlook reflects our view that over the next 24 months, IDB Invest will maintain its growth momentum as well as support mobilization of funds in line with its strategic targets. We believe that its lending activities will be underpinned by a robust risk framework and solid operational structure and will be directed toward projects with a strong developmental impact. Similarly, we expect that IDB Invest will contain nonperforming assets as risks from COVID-19 rise in the region, supporting a stronger capital position than peers, which would prompt an upgrade.

We could revise the outlook to stable if:

- IDB Invest's business expansion loses significant momentum;
- Its financial profile deteriorates markedly, for example because of insufficient capitalization to absorb new exposures; or
- Large nonperforming assets rapidly build up.

If IDB Invest's expansion outpaces the increase of risk-management capacity, or shareholder support appears to weaken, we could lower the rating.

Rationale

IDB Invest is now in its fifth year implementing its business plan following the approval of the 2015 reorganization and implementation of its expanded mandate to manage all private-sector lending within the Inter-American Development Bank (IADB) group. Several factors underpin our view of its stronger enterprise risk profile, including:

- Developing a pipeline of diversified projects with a strong developmental focus;
- Shifting toward more corporate and infrastructure lending; and
- Upgrading its operational capabilities, risk practices, and systems.

We expect the corporation to continue providing support to its clients following the economic fallout from COVID-19--increasing lending capacity to $7 billion for 2020. At the same time, IDB Invest has ample capital, with a risk-adjusted capital (RAC) ratio of 56% as of year-end 2019, placing the corporation in a position to increase lending significantly in its target countries. Although, COVID-19 and the economic crisis could lead to a deterioration in asset quality.

While IDB Invest's funding needs were limited in the past, it has been increasing its market presence in line with its business growth and has robust liquidity buffers.

Environmental, Social, And Governance

IDB Invest's, a private-sector lender in Latin America, largest exposures are to Brazil, Argentina, Mexico, and Ecuador. These are less vulnerable to natural disaster risk, on average, than other countries and regions.

Of its loans, 38% are to financial intermediaries, which tend to make less use of physical operating infrastructure, but may have material indirect environmental exposure from their lending and investing activities. IDB Invest requires all financial institution borrowers to take mandatory ESG training, while encouraging the rest of its clients to do so. It also invests in agribusiness (16%), energy (15%), and telecommunications and information technology (13%). Some of these borrowers are exposed to higher environmental and social risks, particularly those in the energy sector.

IDB Invest has a development impact framework to assess environmental and social risks before and after the projects being funded. It finances smaller member countries (46%) and targets loans to address climate change (25%) and gender outcomes (24%). The institution has a comprehensive set of tools to measure its performance against key social and environmental objectives. For example, it recently implemented a gender risk management tool.

The institution boasts high ESG standards, supported by a robust management team, although given its rebranding and restructuring in 2016, its track record is not that long. IDB Invest has a diverse ownership structure and robust governance system, though with a slightly higher concentration of borrowing member countries, combined with somewhat lower assessments in governance. We believe this is largely counterbalanced by a strong management team and conservative risk management practices.

Enterprise Risk Profile: Strengthened Operational And Risk Capabilities Support Expanded Mandate

- IDB Invest is growing and diversifying its loan book as it fulfils its expanded mandate to manage all private-sector lending within the Inter-American Development Bank (IADB) group.
- The institution also has strengthened its operational capabilities, which includes a growing presence in the region and upgraded risk practices and systems.
- IDB Invest increased lending as a result of COVID-19, with a strong focus on trade finance and short-term liquidity support to its clients.

Policy importance

IDB Invest was founded by international treaty in 1986 as a member of the IADB Group with the mission of promoting economic development of its Latin American and Caribbean member countries through direct and indirect financing to the private sector. Loans are IDB Invest's primary financing vehicle, although it also provides financing through debt securities, guarantees, and makes equity investments--the latter represents a smaller share of assets. Traditionally, the institution provided financing directly or indirectly to small and midsize enterprises, which limited our view of its policy mandate relative to that of larger multilateral institutions (MLIs) that may lend countercyclically to governments during periods of economic recession.

In 2015, IDB Invest embarked on a full-scale reorganization to manage all private-sector lending within the IADB group. The renewed mandate to strengthen the group's private-sector footprint broadens its lending activities to corporate and infrastructure sectors and was accompanied by a US$2.03 billion capital increase to support larger lending volumes. Shareholders committed to US$1.3 billion over seven years (2016-2022) and US$725 million in transfers from IADB on behalf of its shareholders from 2018-2025. This capital increase comes after an uneven track record of shareholder support during the last few decades.

As of December 2019, IDB Invest received 89% of paid-in capital from the first, second, third, and fourth installments for a total of US$955.4 million. Three countries that are in significant financial stress are in arrears on their capital payments to the corporation, totaling US$113 million. One country has agreed to an updated installment plan and has already made payments according to the updated payment schedule. Prepayments from other countries amounting to US$71.5 million, as well as the first three capital transfers from the IADB for US$208 million, counterbalance this stress, in our view.

Three new countries agreed on joining IDB Invest by using proceeds of the IADB transfer to buy IDB Invest shares. Croatia and Slovenia fulfilled all the requirements for membership in April 2019, while the U.K. is still in the process of becoming a member.

Now in its fifth year, IDB Invest has made progress, in our view, and built a consistent track record that underpins a stronger enterprise risk profile. It has consolidated its presence in the region with larger projects, increased its share of financing to the nonfinancial sector, and increased lending toward smaller member countries (C&D countries, by its internal definition). Supporting this expanded mandate is IDB Invest's 10-year strategic framework (2016-2025), which contains business targets and key initiatives.

The institution has largely met its increasing lending targets. The lending portfolio, including equity investments and debt securities, grew by 45% in 2019 to $2.5 billion, supported by IADB Group's private-sector approvals and disbursements of US$4.7 billion and US$3.4 billion. IDB Invest booked 47% of these approvals on its balance sheet. While IDB Invest originates all loans, a portion is funded by IADB until 2022, with IDB Invest progressively assuming a larger share, given the phase-in of capital contributions to leverage lending under IDB Invest.

At the same time, IDB Invest continues to grow its portfolio in its new priority lines of business and sectors, strengthening infrastructure and energy while expanding further into transport. It also created new products, notably the Trade Finance and Facility Program (TFFP); purchased debt securities, guarantees, mezzanine financing; and expanded local bond issuances in Colombia, Dominican Republic, Mexico, and Paraguay. The share of lending to financial institutions decreased to 40% as of December 2019 from 69% as of year-end 2016. The share of loans going to C&D countries was 45% as of year-end 2019, up from 23% as of year-end 2017.

The renewed mandate has largely supported the increase in the sizes of projects, to US$35 million in 2019 ($US22 million just for IDB Invest loans) from an average of US$4 million in 2015.

In the context of COVID-19, IDB Invest increased its lending capacity to $7 billion for 2020, which includes an increase of $1 billion to $3 billion in trade finance operations and an additional $500 million from the new Crisis Mitigation Facility. The remainder is its regular investment program to support its existing clients.

A growing part of IDB Invest's business model is advisory work to unlock new markets, as well as its focus on private-sector mobilization, which we believe points to an important role that cannot be readily fulfilled by other private or domestic public institutions. As of December 2019, core mobilization increased by 37% to $1.44 billion.

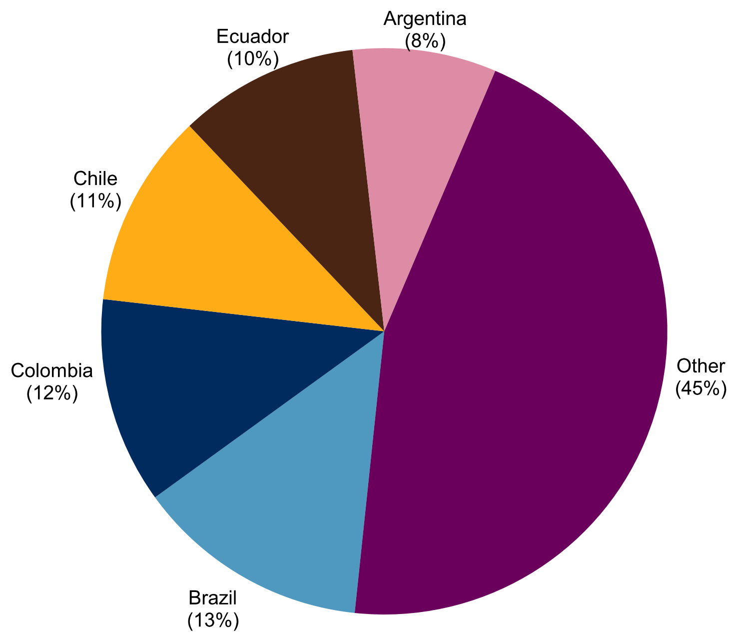
IDB Invest's ability to leverage the resources and expertise of its sister organization, IADB, supports the successful execution of its mandate. The two institutions share the same country representatives.

IDB Invest has also taken over the entire management of IADB's private-sector assets, and its assets under management were US$13.5 billion as of year-end 2019 (including US$5 billion in third-party trust funds, including treasury assets and B loans). We believe IDB Invest has created a solid framework including the organization's structure, incentives, and systems to support larger mobilization volumes.

Central to IDB Invest's expanded mandate is increasing its presence in the region. The number of offices in regional member countries rose to 25 (25.5% of the overall workforce) from 15 (14% of the workforce) at the beginning of 2016. All of the four regional hubs in Argentina, Colombia, Panama, and Jamaica are fully operational. IDB Invest has also expanded into Guatemala, Guyana, Suriname, Belize, and Trinidad and Tobago, where it was not present previously.

Chart 1

IDB Invest--Five Largest Countries Purpose-Related Exposures
As a percentage of gross purpose-related assets plus guarantees



Source: S&P Global Ratings.

As a fully specialized private-sector lender, IDB Invest does not benefit from preferred creditor treatment (PCT), which we only apply to sovereign exposures. Consequently, we do not incorporate PCT in our assessment of IDB Invest's enterprise risk profile. However, there is a track record of member governments affording preferential treatment by not restricting borrowers' access to foreign exchange for debt service or dividend payments to IDB Invest. We expect that as capital controls become more restrictive in Argentina, the government will continue to allow IDB Invest borrowers access to foreign exchange.

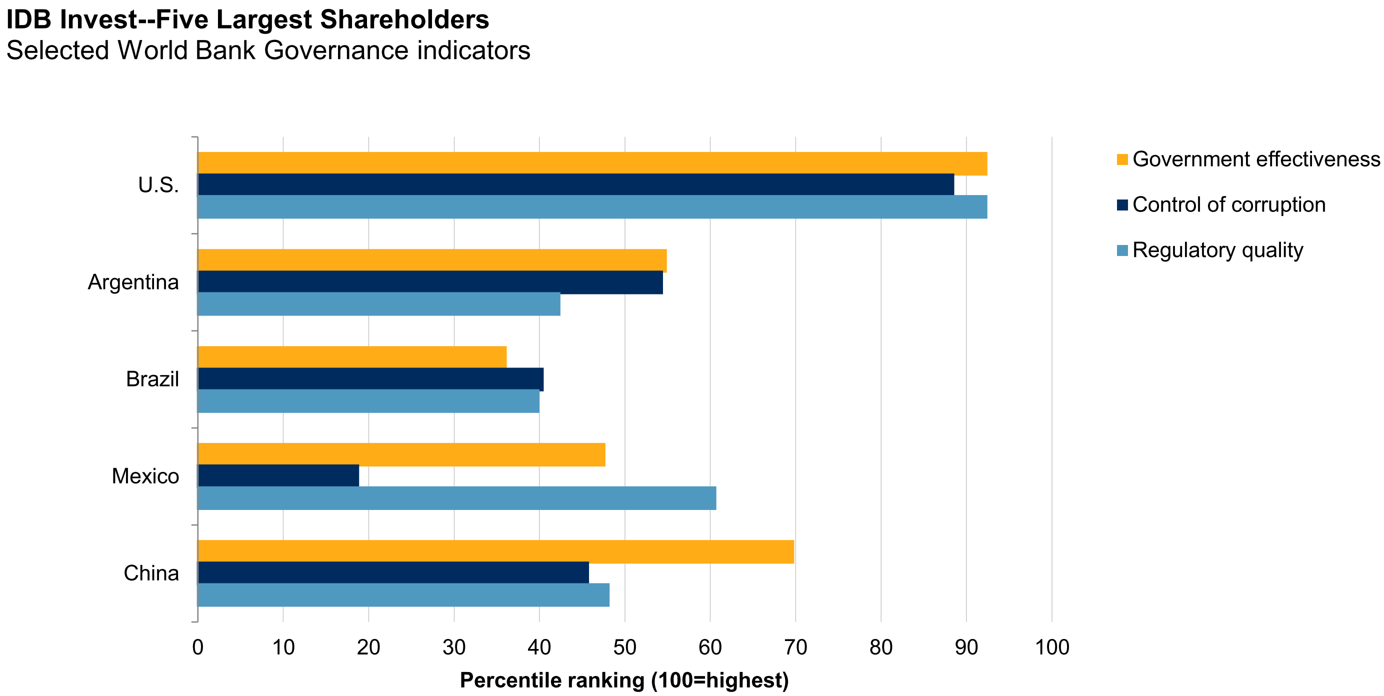
Governance and management expertise

IDB Invest has a diverse ownership structure with 47 government shareholders and no private-sector shareholders. Following IDB Invest's 2015 restructuring, shareholder concentration has been declining, although the voting power of regional borrowing members represents 54%, which is the minimum established by the Busan Resolution adopted by the board of governors.

The U.S. is the largest shareholder (13%), followed by Argentina (12%), Brazil (11%), Mexico (8%), and China (6%). The capital increase resulted in a redistribution of voting shares. U.S. shares were diluted, which was counterbalanced by other non-borrowing members (China, South Korea, and Spain) increasing their participation in the institution.

Generally, we believe the institution has a robust governance system. Although, the slightly larger concentration of regional member countries, combined with somewhat lower assessments in governance effectiveness, control of corruption, and regulatory quality, can be a source of agency risk.

Chart 2



Source: S&P Global Ratings.

IDB Invest does not pay dividends or make contributions to special off-balance-sheet funds; therefore, it has a high earnings retention ratio.

To support the large growth in its lending activities, IDB Invest has retooled and upgraded its operational capabilities, risk practices, and systems. We believe IDB Invest has been successful implementing its business plans defined by its 10-year strategic framework.

In December 2017, IDB Invest approved its enhanced financial risk management framework, which encompasses the risk appetite statement and its capital adequacy and liquidity policies. More recently, the corporation operationalized its internal economic capital model to improve the allocation of capital and the pricing of its loan book.

To support its mandate, IDB Invest continues to strengthen its entire executive team. Key hires were completed in 2018, including the appointment of a new chief risk officer, the treasury division chief, and other critical roles throughout the organization.

By year-end 2019, IDB Invest had 458 employees (up from 307 as of January 2016) and is looking to grow significantly in the next two years, many of which will be located in the regional offices.

The resources it can draw from IADB are also a key strength and, in our view, support IDB Invest's management expertise in its major business lines and institutional continuity.

Financial Risk Profile: Extremely Strong Capital And Robust Liquidity Buffers

- As IDB Invest continues to execute its expanded mandate, we expect its RAC ratio will decline, although we believe it will remain above our 23% threshold for the extremely strong assessment.
- The increased stress in the region may put pressure on asset quality, although we believe the extremely strong capitalization provides some buffer.
- IDB Invest has strong liquidity, with sufficient buffers to support increased disbursements.

Capital adequacy

IDB Invest's RAC ratio was 56% as of Dec. 31, 2019, with ratings parameters as of June 1, 2020. This is a decrease from the 2018 RAC ratio of 72%, which we largely expected given growth in business volumes as it executes its expanded mandate.

We believe the corporation is in a position to increase lending significantly in its target countries as a result of COVID-19, and we expect the ratio to remain comfortably above our 23% threshold for the extremely strong capital adequacy assessment.

On the other hand, the economic crisis could lead to a deterioration in the institution's asset quality. This could, in turn, lead to a capital position that would not significantly stand out as positively compared with peers, though we would need to see a very meaningful and unexpected deterioration, which is not our base case. We expect an increase in provisioning in 2020 due to the economic impact of COVID-19, which can weigh on earnings. We do not expect IDB Invest to provide broad relief to its clients, in line with the calls for debt standstills. That said, IDB Invest will evaluate debt standstills, covenant changes, or debt reprofiling in the short term to clients that are performing and on a case-by-case basis.

Nonaccrual loans that are also past due decreased to 1.5% in 2019 from 1.9% in 2018. At year-end 2019, IDB Invest's allowance for loan losses ($98 million) covered nonaccrual loans by 3.1x. As IDB Invest approves larger volumes of loans and books on its balance sheet, we expect the absolute share of nonperforming loans to increase but to remain in line with peers.

IDB Invest's country exposures are diversified, with no single country representing more than 15% of the economic capital assigned to the business. The top three and top five countries represented 36% and 54% of the total outstanding portfolio, respectively, as of year-end 2019. While Brazil, Colombia, and Chile account for the largest exposures, the expanded mandate includes increasing lending to C&D countries.

As of year-end 2019, IDB Invest had 40% of its exposure in financial institutions, followed by telecom/IT (15%), agribusiness (13%), and energy (12%).

Unlike IADB, IDB Invest does not have callable capital--although it maintains a high level of shareholders' equity, which as of Dec. 31, 2019, totaled $2.03 billion, up from $857 million in 2015.

IDB Invest has a record of benefiting from preferential treatment granted by the governments of countries in which it operates. We expect this will continue, and we incorporate this into its financial risk profile by adjusting the risk weights on IDB Invest's exposures to financial institutions and corporate entities.

Table 1

IDB Invest RACF (Risk-Adjusted Capital Framework) Data: December 2019

(Mil. US$)	Exposure	S&P Global Ratings RWA	Average S&P Global Ratings RW (%)
Credit risk			
Government and central banks	290	12	4
Institutions	2,105	1,465	70
Corporate	1,851	2,547	138
Retail			
Securitization			
Other assets			
Total credit risk	4,246	4,024	95
Credit valuation adjustment			
Total credit valuation adjustment			
Market risk			
Equity in the banking book	97	174	179
Trading book market risk		0	--
Total market risk		174	--
Operational risk			
Total operational risk		423	
Risk transfer mechanisms			
Risk transfer mechanisms RWA			
RWA before MLI adjustments		4,621	100
MLI adjustments			
Single name (on corporate exposures)		425	17
Sector (on corporate portfolio)		(297)	(10)
Geographic		(792)	(18)
Preferred creditor treatment (on sovereign exposures)		0	0
Preferential treatment (on FI and corporate exposures)		(315)	(8)
Single name (on sovereign exposures)		0	0
Total MLI adjustments		(978)	(21)
RWA after MLI adjustments		3,643	79
		Total adjusted capital	**S&P Global Ratings RAC Ratio (%)**
Capital ratio before adjustments		2,033	44.0

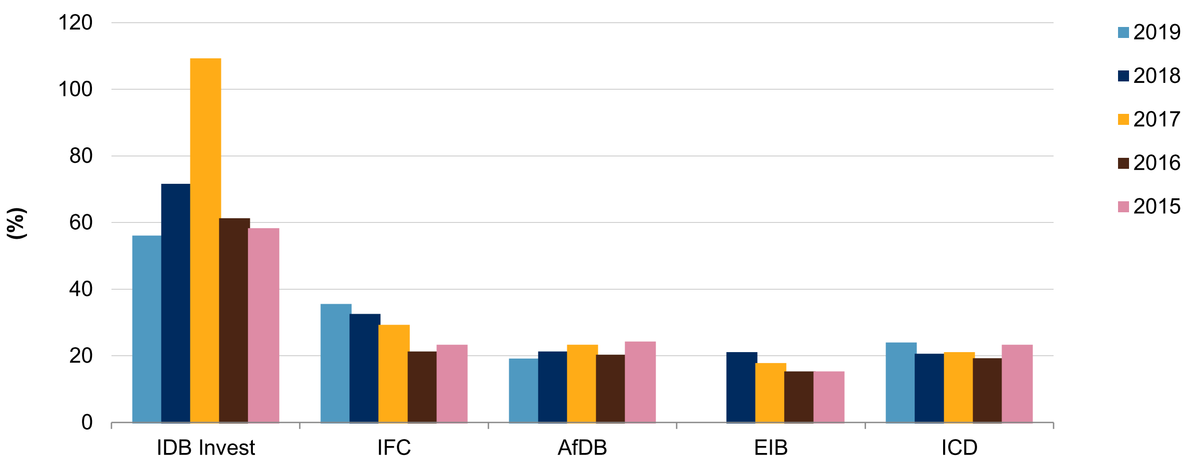
Table 1

IDB Invest RACF (Risk-Adjusted Capital Framework) Data: December 2019 (cont.)		
Capital ratio after adjustments	2,033	55.8

MLI--Multilateral lending institutions. RW--Risk weight. RWA--Risk-weighted assets.

Chart 3

IDB Invest--Risk-Adjusted Capital Ratio Peer Comparison



Source: S&P Global Ratings.

Funding and liquidity

Funding. IDB Invest maintains a conservative funding profile, in our view. The institution's charter sets its leverage limit at 3x debt to the sum of its subscribed capital, earned surplus, and reserves. IDB Invest has not approached this limit during the past 10 years.

While historically IDB Invest's funding needs were limited, with its expanded mandate the corporation will begin to increase its market presence. To support larger volumes of issuances, IDB Invest has rebuilt its treasury operations. During 2018, IDB Invest created an asset-liability group, as well as a treasury solutions group.

In fiscal-year 2019, IDB Invest tapped capital markets four times in three different currencies, with approximately one-third of funding in local currency to support its lending activities. The 2020 funding plan was increased to $2.3 billion from $1.8 billion to accommodate an increase in commitments from COVID-19.

IDB Invest does not rely on short-term financing vehicles and does not issue certificates of deposit or commercial paper. We expect that IDB Invest will begin to issue commercial paper in 2020 to finance short-term assets, and to optimize its liquidity management.

Because of the institution's small size and infrequency of borrowing, its annual debt amortization profile can be uneven, and we expect it will remain so until the institution can issue more frequently, increase its assets, and thereby build a stronger and more diversified global investor base.

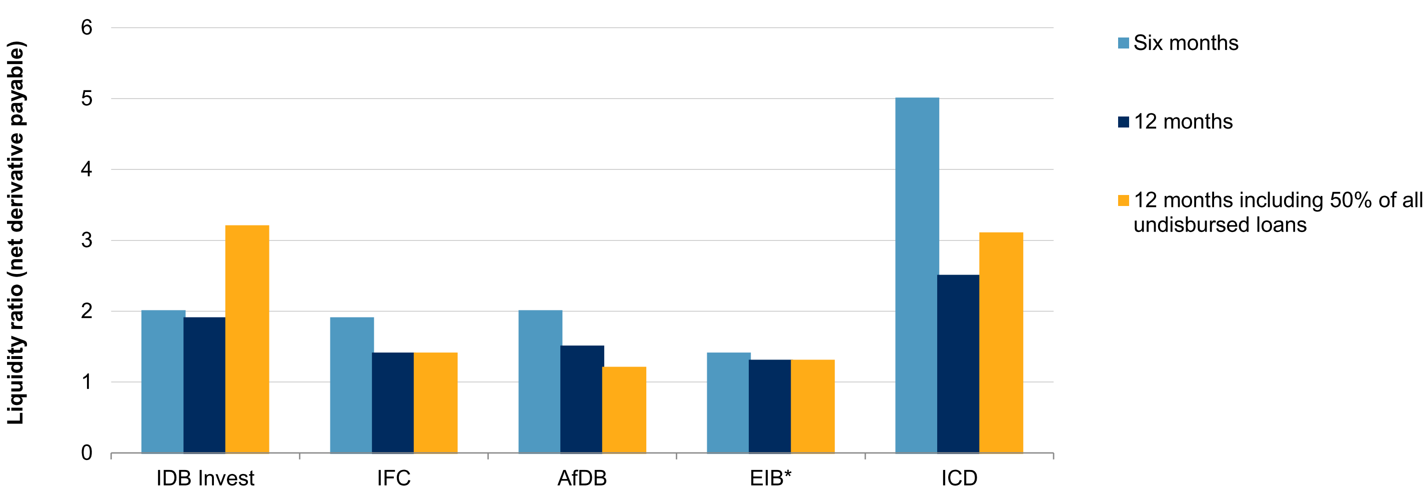
Notwithstanding, our funding ratios indicate that IDB Invest would be able to fund its scheduled loan disbursements under normal market conditions. The 2019 one-year static funding gap, calculated as maturing assets divided by maturing liabilities, was 1.9x with scheduled loan disbursements and 61.6x without scheduled loan disbursements.

Liquidity. IDB Invest maintains a high level of liquidity on its balance sheet, accounting for 35% of adjusted total assets at year-end 2019. Its US$1.4 billion in liquid assets is invested in highly rated securities, with a weighted average rating of 'AA-'.

Our 12-month and six-month liquidity coverage ratios using year-end 2019 data of 1.9x and 2.0x, respectively, signal that IDB Invest would be able to finance its expansion mandate, disburse scheduled loans, and service its debt obligations without capital market access for at least one year. In addition, we believe that IDB Invest would have room to accelerate disbursements as measured by our stress scenario, which takes into account 50% of all undisbursed loans, regardless of planned disbursement date, as if they were coming due in the next 12 months.

Chart 4

IDB Invest--Liquidity Stress Test Ratios Peer Comparison



*Data for EIB is as of December 2018 since 2019 data is not available. Source: S&P Global Ratings.

Extraordinary Shareholder Support

IDB Invest's sovereign shareholders have not provided the institution with callable capital. We therefore do not incorporate any uplift to our issuer credit rating for the likelihood of extraordinary shareholder support.

Table 2

IDB Invest Selected Indicators

	2019	2018	2017	2016	2015
ENTERPRISE PROFILE					
Policy importance					
Total purpose-related exposure (loans, equity, etc.) (mil. $)	2,543	1,756	1,014	887	991
Public-sector (including sovereign-guaranteed) loans/purpose-related exposure (%)	0.0	0.0	0.0	0.0	0.0
Private-sector loans/purpose-related exposures (%)	96.2	96.2	95.2	96.4	97.0
Gross loan growth (%)	44.8	75.1	12.9	(11.1)	(6.4)
Preferred creditor treatment ratio (%)	N.A	N.A	N.A	N.A	N.A
Governance and management expertise					
Share of votes controlled by eligible borrower member countries (%)	50.0	50.0	50.2	54.0	54.0
Concentration of top two shareholders (%)	25.4	26.5	27.1	27.6	27.6
Eligible callable capital (mil. curr)	0	0	0	0	0
FINANCIAL RISK PROFILE					
Capital and earnings					
RAC ratio (%)	55.8	71.3	109.0	61.0	58.0
Net interest income/average net loans (%)	6.4	5.8	6.0	5.0	4.7
Net income/average shareholders' equity (%)	2.3	1.5	1.4	1.9	0.4
Impaired loans and advances/total loans (%)	1.3	1.8	2.8	1.0	1.0
Liquidity ratios					
Liquid assets/adjusted total assets (%)	34.9	45.8	54.6	59.4	35.1
Liquid assets/gross debt (%)	82.5	114.2	184.4	120.0	88.3
Liquidity coverage ratio (with planned disbursements):					
Six months (net derivate payables) (x)	2.0	2.0	22.9	23.0	2.9
12 months (net derivate payables) (x)	1.9	1.7	12.9	2.4	2.2
12 months (net derivate payables) including 50% of all undisbursed loans (x)	3.2	1.7	6.6	2.3	2.6
Funding ratios					
Gross debt/adjusted total assets (%)	42.3	40.1	29.6	49.5	39.8
Short-term debt (by remaining maturity)/gross debt (%)	N.M.	38.9	3.2	40.4	9.7
Static funding gap (with planned disbursements)					
12 months (net derivate payables) (x)	61.6	2.2	29.0	2.0	3.7
SUMMARY BALANCE SHEET					
Total assets (mil. $)	3,900	3,209	2,185	2,147	1,505
Total liabilities (mil. $)	1,867	1,390	741	1,125	648
Shareholders' equity (mil. $)	2,033	1,819	1,445	1,022	857

Source: S&P Global Ratings.

Table 3

IDB Invest Peer Comparison

	IDB Invest	African Development Bank	International Finance Corporation	European Investment Bank*	Islamic Corporation for the Development of the Private Sector
Issuer credit ratings		AAA/Stable	AAA/Stable	AAA/Stable	A/Negative
Total purpose-related exposure (mil. $)	2,543	31,384	47,552	512,206	1,311
Preferred creditor treatment ratio (%)	N.A	1.7	N.A.	0.1	N.A
Risk adjusted capital ratio (%)	55.8	18.9	35.3	20.8	23.7
Liquidity ratio 12 months (net derivative payables; %)	1.9	1.5	1.4	1.3	2.5
Funding gap 12 months (net derivative payables; %)	61.6	1.4	1.2	1.2	2.8

*EIB is as of December 2018 since we do not have 2019 figures. Source: S&P Global Ratings.

Ratings Score Snapshot

Enterprise Risk Profile	Extremely strong	Very strong	**Strong**	Adequate	Moderate	Weak	Very weak
Policy Importance	Very strong	**Strong**	Adequate	Moderate	Weak		
Governance and Management	Strong	**Adequate**	Weak				
Financial Risk Profile	**Extremely strong**	Very strong	Strong	Adequate	Moderate	Weak	Very weak
Capital Adequacy	**Extremely strong**	Very strong	Strong	Adequate	Moderate	Weak	Very weak
Funding and Liquidity	Very strong	**Strong**	Adequate	Moderate	Weak	Very weak	

Related Criteria

- Criteria | Governments | General: Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology, Dec. 14, 2018
- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 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

- How Multilateral Lending Institutions Are Responding To The COVID-19 Pandemic, June 9, 2020
- Can Multilateral Lenders' Capital Bases Hold Up Against COVID-19?, June 9, 2020
- Abridged Supranationals Interim Edition 2020: Comparative Data For Multilateral Lending Institutions, May 8, 2020
- ESG Industry Report Card: Supranationals, Feb. 11, 2020
- Supranationals Special Edition 2019: Report Says MLIs Are Focusing On Sustainable Development Goals, Oct. 25, 2019
- Supranationals Special Edition 2019: Comparative Data For Multilateral Lending Institutions, Oct. 17, 2019
- Introduction To Supranationals Special Edition 2019, Oct. 17, 2019

Ratings Detail (As Of August 27, 2020)*		
IDB Invest		
Issuer Credit Rating		
Foreign Currency		AA/Positive/A-1+
CaVal (Mexico) National Scale		mxAAA/Stable/--
Senior Unsecured *CaVal (Mexico) National Scale*		mxAAA
Senior Unsecured		AA
Issuer Credit Ratings History		
30-Apr-2018	*Foreign Currency*	AA/Positive/A-1+
29-Jul-2010		AA/Stable/A-1+
15-Jul-2008		AA-/Positive/A-1+
12-Feb-2018	*CaVal (Mexico) National Scale*	mxAAA/Stable/--
02-Apr-2014		NR/--/--
11-Dec-2012		mxAAA/Stable/--

*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.