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Inter-American Development Bank

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Inter-American Development Bank

Stand-alone credit profile	aaa	+	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

AAA/Stable/A-1+

Issuer Credit Rating

Foreign Currency

AAA/Stable/A-1+

Outlook

The stable outlook reflects our expectation that over the next 24 months Inter-American Development Bank (IADB) will apply sound governance and risk management and prudently manage its capital and liquidity, particularly in light of increased credit stress in the region. At the same time, we expect that IADB will remain the main supplier of developmental financing in the region. We believe that sovereign borrowing members will continue to treat IADB as a preferred creditor.

We could downgrade IADB if other borrowers fall into nonaccrual status, indicating weaker preferred creditor treatment (PCT). A significant deterioration in IADB's funding and liquidity could also have a negative impact on the ratings. That said, significant erosion of the risk-adjusted capital (RAC) ratio would most likely be mitigated by the existing callable capital provided by IADB's highly rated sovereign shareholders.

Rationale

In our view, IADB has an unparalleled role in Latin America, evidenced by its robust response to its borrowing members as a result of COVID-19, and we expect it to provide over $15 billion in funding support during 2021. The institution also has a strong governance and risk management framework, which more than counterbalances the potential agency risk stemming from its borrowing member countries having slightly more than 50% of the voting power on its board.

With countries like Argentina and Ecuador coming out of default in 2020, we saw the overall risk of IADB's lending portfolio ease, reflected in its RAC ratio of 21.2% as of December 2020. However, the Latin American region remains vulnerable to further credit pressures due to the COVID-19 pandemic and a slow economic recovery. That said, we expect IADB to manage the RAC ratio above the 15% threshold, anchored by conservative financial and risk policies. This notwithstanding, callable capital from IADB's highly rated shareholders would enhance our RAC ratio and mitigate the impact on the bank's financial risk profile in the event that its capital adequacy were to deteriorate. At the same time, IADB maintains robust funding and liquidity.

Environmental, Social, And Governance (ESG)

IADB has two overarching objectives: to reduce poverty and inequality and to achieve sustainable growth. It aims to accomplish these by addressing:

- Three critical development challenges (social inclusion and equality, productivity and innovation, and economic integration), and
- Three cross-cutting issues (gender equality and diversity, climate change and environmental sustainability, and institutional capacity and the rule of law).

In 2020, IADB reported that 55% of its lending volumes supported gender equality and diversity, 60% supported productivity and innovation, and 58% supported institutional capacity and rule of law.

As a public-sector lender in Latin America, it is highly exposed to Brazil, Argentina, Mexico, Colombia, and Ecuador, each of which is subject to modest, albeit idiosyncratic, environmental and social risks. A high proportion of IADB's projects are designed to tackle these risks, for example, by creating resilient infrastructure or addressing social challenges in these countries.

The bank approved a new Environmental and Social Policy Framework (ESPF) to help its clients tackle environmental and social issues. The ESPF will be applicable to all IADB-financed operations after one year from its approval date in September 2020.

The institution does not fund coal, although it has financed fossil fuels. In 2020, 29% of its projects had a climate adaptation component, which supports a greener portfolio. IADB expects to keep this around 30% until 2023. IADB has robust mechanisms to identify and address environmental and social challenges arising from its projects and programs. We view its oversight and accountability mechanisms in this area as transparent and robust.

In terms of shareholder diversity, a majority of IADB's borrowers have low rankings in World Bank governance effectiveness indicators. This may expose the bank to potential agency risks. However, it has implemented comprehensive and conservative financial and risk reforms over the past few years and has shown that it can adhere to these during times of stress, which supports the rating.

Enterprise Risk Profile: Long Record Of Fulfilling Policy Mandate Combined With Conservative Risk Management

- In our view, IADB plays a key role in the region, supported by its long track record of fulfilling its policy mandate through the credit cycle.
- This, coupled with the institution's strengthened governance and risk management framework, underpins its extremely strong enterprise risk profile.

Policy importance

Established in 1959, IADB's purpose is to accelerate economic and social development in Latin American and the Caribbean, with an emphasis on poverty reduction and social equality, modernization and sector reform, economic integration, and the environment.

The bank was initially established by 19 Latin American and Caribbean countries and the U.S., and between 1976 and 1993, it grew to encompass an additional 18 nonregional member countries. In 2005, the Republic of Korea joined, followed by the People's Republic of China in 2009, bringing the total number of member countries to 48. No major shareholder has withdrawn from IADB, and we do not expect any to do so in the medium term.

IADB lends mainly to the public sector, and its main financing instruments include investment loans and policy-based financing, while also providing emergency financing.

During 2020, in response to the COVID-19 pandemic, IADB repurposed a significant portion of its lending portfolio, with total approvals close to $14.2 billion, while disbursements reached a record $14.8 billion. Recently, IADB announced that it would be approving approximately $14.3 billion in approvals during 2021, of which $3.2 billion of the pipeline will finance operations directly related to COVID-19, including immediate public health response, safety nets for vulnerable populations, economic productivity and employment, and fiscal policies. We expect an increase in the share of policy-based lending in 2021.

We view IADB's role in Latin America as unparalleled, supported by continued growth in its outstanding loan portfolio, which reached $105 billion as of year-end 2020. We don't believe IADB can be replaced by another multilateral lending institution (MLI) or by a commercial bank. The institution has looked at ways to continue to add value to its members, notably by introducing features in its lending products to cover financial risk caused by natural disasters.

Aside from lending activities, IADB is a key provider of technical assistance and research to the region, as well as an important provider of concessional funds to its eligible members. In 2017, net assets from its concessional financing window--the Fund for Special Operations (FSO)--were transferred to the bank's ordinary capital.

All private-sector lending activities have been consolidated in IDB Invest, which is part of the IADB Group, following the March 2015 approval of "Delivering the Renewed Vision: Organizational and Capitalization Proposal for the IDB Group Private Sector Merge-out." The consolidation plan became effective Jan. 1, 2016, including transferring administrative supervision of IADB's NSG loan portfolio to IDB Invest, even while this portfolio remains on IADB's balance sheet. All new private-sector lending operations are originated by IDB Invest, though they will be partially cross-booked on IADB's balance sheet until 2022.

Furthermore, IADB will transfer $725 million to IDB Invest from its net income between 2018 and 2025, subject to annual approval and conditional upon compliance with its capital adequacy policy, among others.

The performance of its sovereign loan portfolio has been excellent compared with commercial creditors', as is generally the case for MLIs. Borrowing member sovereigns that have defaulted on their commercial foreign currency debt in the past 18 years (Argentina, Belize, Dominican Republic, Ecuador, Jamaica, Paraguay, and Uruguay) have not gone into arrears with IADB.

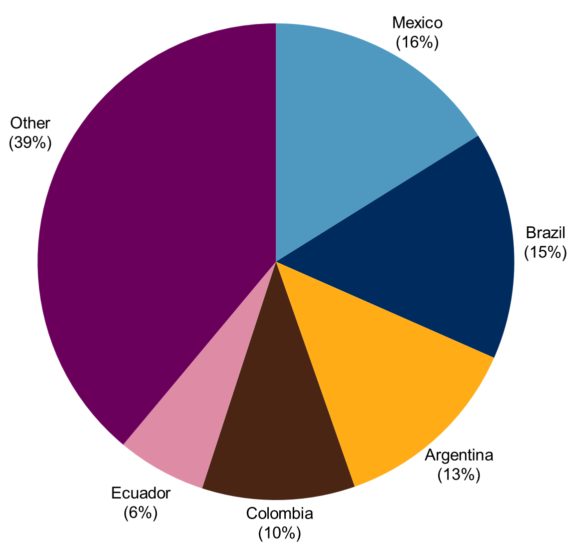
However, on May 14, 2018, Venezuela entered into nonaccrual status with IADB. By Dec. 31, 2020, US$863 million in principal and interest was due and unpaid that reached 180 days. The country defaulted on its commercial obligations in November 2017. Our calculated PCT ratio of 2.0% reflects Venezuela's payment arrears with IADB, in which the total loan balance of US$2.01 billion has been placed in nonaccrual status.

Venezuela continued making payments to other MLIs, which gave it further loans, whereas IADB did not grant any additional financing. In our view, Venezuela has demonstrated its willingness to repay IADB but has run out of capacity to keep its payments up to date. U.S. sanctions and mounting pressure from the international community contribute to very tough conditions in Venezuela, but we don't believe they are the main reason for the nonaccruals with IADB.

We think this event is relatively contained given that Venezuela accounts for about 1.9% of IADB's lending book and 1.3% of its total assets. We also expect the rest of IADB's sovereign borrowers to continue to afford it PCT.

Chart 1

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



Source: S&P Global Ratings.

Governance and management expertise

The agreement establishing IADB, as amended, stipulates that the voting power of regional developing country members will not be less than 50.005% of the total. In addition, the voting power of the U.S. is no less than 30% and that of Canada no less than 4%.

As of year-end 2020, the largest nonborrowing shareholders were the U.S. (30.01% voting share), Japan (5.00%), and Canada (4.00%). The largest regional voteholders were Argentina and Brazil, with 11.35% each; Mexico, with 7.29%; and Venezuela, with 3.40%.

Half of IADB's voting members are borrowing members and, as such, have important influence over decision-making. We consider this a limiting factor because the interests of borrowing members could diverge from those of creditors.

IADB scores somewhat lower in terms of its members' governance standards compared with 'AAA' rated peers that have more diversified shareholder composition.

That said, the institution has built a track record following the implementation of updated financial and risk measures, which has translated in a more conscious risk-based culture. In our view, this more than counterbalances the potential agency risk stemming from the IADB's borrowing member countries having slightly more than 50% of the voting power on the bank's board.

In 2013, IADB started to strengthen its governance and risk management framework, underpinned by its capital adequacy mandate that reaffirmed the bank's commitment to preserving the 'AAA' rating. Central to its mandate was the establishment of capital buffers to facilitate countercyclical lending in times of need.

The bank implemented measures to support the rapid buildup of capital buffers, including a change to its policy on disbursing grant funds to Haiti, the transfer of its FSO assets and liabilities to its ordinary capital balance sheet, and two exposure exchange agreements to improve sovereign diversification.

In addition, IADB updated its income management model (IMM) in 2015, which integrates income allocation and budgeting decisions (transfers to the grant facility, administrative expenses, and loan charges) with capital accumulation and lending/approval decisions. This has created a more consistent and comprehensive capital management framework and includes clear action plans if capital falls below specified levels.

IADB has demonstrated its willingness to take corrective actions to prevent capital erosion in line with its capital adequacy and IMM policies. In 2015, the bank applied a 30-basis-points retroactive increase on its sovereign loan charges given heightened uncertainty about credit quality in the region. IADB, unlike many other MLIs, can adjust charges on its entire non-concessional sovereign-guaranteed loan book, which enabled it to generate additional interest revenue to counterbalance rising risks.

We think the bank demonstrated its strengthened governance and risk management framework in its approach to the situation in Venezuela. Unlike some regional MLIs, IADB did not grant any emergency financing to the country, in line with its established risk and governance principles, although Venezuela is a borrowing member.

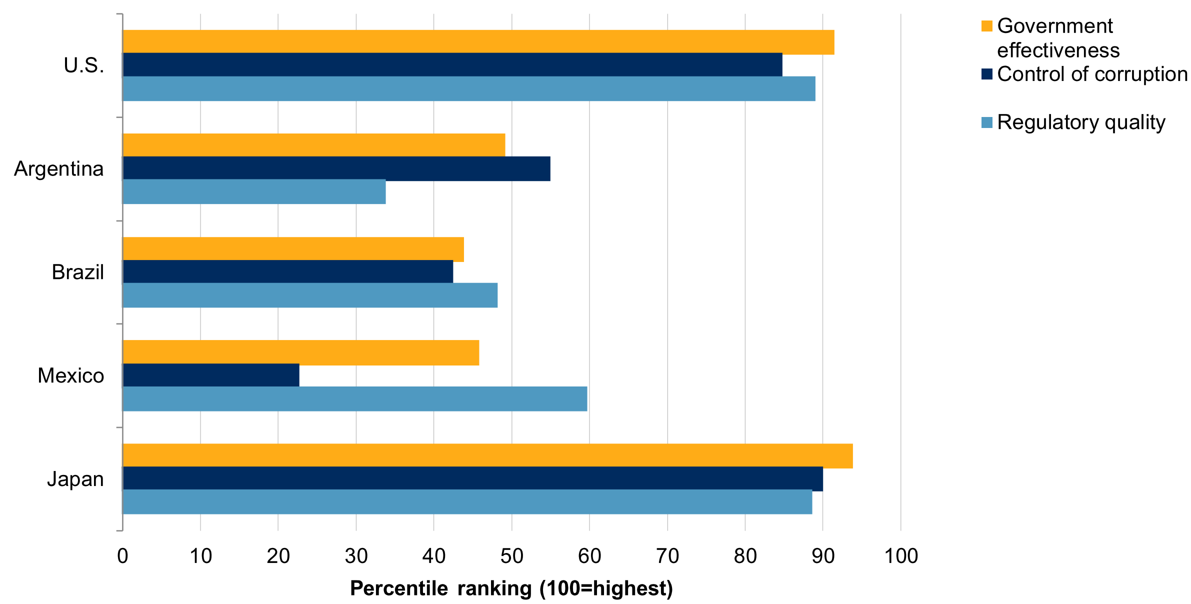
More recently, IADB strengthened its capital by increasing the sovereign-guaranteed lending spread on its non-concessional loans by 10 basis points and setting its lending target for 2021-2022 below its sustainable lending capacity given the uncertainty in the region.

In September 2020, the U.S. candidate Mauricio Claver-Carone was elected president of IADB, despite the unwritten tradition of the bank being run by a Latin American. We believe IADB has the institutional depth to counterbalance potential political agendas inherent in the shareholder base of any multilateral organization.

Together, senior staff possesses considerable expertise and experience.

Chart 2

IADB--Five Largest Shareholders
Selected World Bank governance indicators



Source: S&P Global Ratings.

Financial Risk Profile: Strong Levels Of Capital And Robust Liquidity

- In our view, IADB maintains robust capital, which can support additional lending and counterbalance increased risk in the region.
- IADB also has solid liquidity, combined with a diverse and active funding program.

Capital adequacy

The upgrades last year of sovereigns that previously defaulted, like Argentina and Ecuador, improved the risk-weighted assets of the bank and, thus, resulted in an improvement in the RAC ratio to 21.2% as of year-end 2020, from 19.5% as of year-end 2019. We, however, do not expect the ratio to improve beyond the 23% threshold given that Latin America still faces risks related to the slow recovery of these economies, combined with IADB's target of managing the RAC ratio above 15%.

Callable capital from IADB's highly rated shareholders would enhance our RAC ratio and mitigate the impact on the bank's financial risk profile in the event that its capital adequacy were to deteriorate.

The bank has a high single-name concentration because of the limited number of borrowing member countries and the distribution of economic activity in the region. IADB's lending is heavily skewed toward Brazil, Mexico, Argentina, Colombia, and Ecuador--which are 61% of the total lending exposure as of 2020, although the bank has made efforts to diversify its lending book.

In 2015, the bank entered into an exposure exchange agreement (EEA) with other MLIs to reduce portfolio concentration by simultaneously exchanging coverage for potential nonaccrual events for exposures from borrowing countries. It executed two bilateral EEA transactions (with IBRD and AfDB), but these remain within 10% of the outstanding loan balance of the sovereign portfolio, and individual country exposures do not exceed the bank's 10th largest sovereign exposure. IADB executed an additional EEA transaction for $1 billion in December 2020 with the ADB.

We expect asset quality to hold up and remain in line with peers. As of Dec. 31, 2020, the bank's sovereign- and non-sovereign-guaranteed loans classified as impaired totaled $2.011 billion and $528 million, respectively. (In 2019, they were $2.011 billion and $315 million, respectively.) The sovereign-guaranteed loans impaired are related to Venezuela, and no other sovereign-guaranteed loans were 180 days or more past due, impaired or in nonaccrual status as of December 2020. The increase in the impairment in the non-sovereign guaranteed loans is mainly due to impairment in one project finance transaction during the year.

Table 1

IADB--RACF (Risk-Adjusted Capital Framework) Data: December 2020

(Mil. US$)	Exposure	S&P Global Ratings RWA	Average S&P Global Ratings RW (%)
Credit risk			
Government and central banks	137,448	153,049	111
Institutions	21,904	5,898	27
Corporate	4,169	6,238	150
Retail			
Securitization	497	200	40
Other assets	820	922	113
Total credit risk	164,838	166,308	101
Credit valuation adjustment			
Total credit valuation adjustment			
Market risk			
Equity in the banking book			
Trading book market risk			

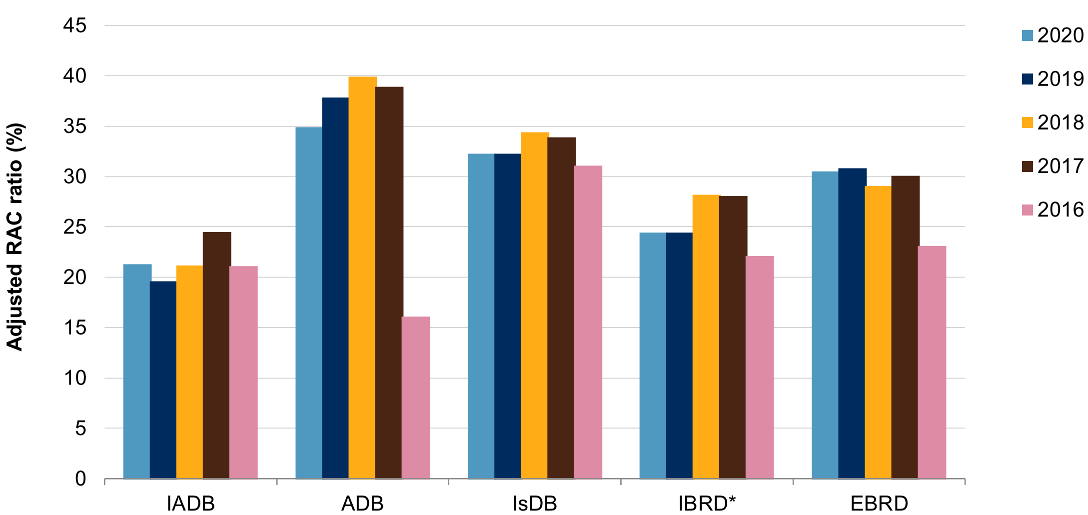
Table 1

IADB--RACF (Risk-Adjusted Capital Framework) Data: December 2020 (cont.)		
Total market risk		
Operational risk		
Total operational risk	8,411	
Risk transfer mechanisms		
Risk transfer mechanisms RWA		
RWA before MLI Adjustments	174,718	100
MLI adjustments		
Single name (on corporate exposures)	1,175	19
Sector (on corporate portfolio)	(379)	(5)
Geographic	(16,125)	(10)
Preferred creditor treatment (on sovereign exposures)	(88,830)	(58)
Preferential treatment (on FI and corporate exposures)	(909)	(7)
Single name (on sovereign exposures)	88,119	58
Total MLI adjustments	(16,949)	(10)
RWA after MLI adjustments	157,769	90
	Total adjusted capital	**S&P Global Ratings RAC Ratio (%)**
Capital ratio before adjustments	33,508	19.2
Capital ratio after adjustments	33,508	21.2

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

Chart 3

IADB--Risk-Adjusted Capital Ratio Peer Comparison



*IBRD ratios for 2020 are as of end of June. Source: S&P Global Ratings.

Funding and liquidity

Funding. We estimate that IADB is structurally able to cover its scheduled short-term debt liabilities without recourse to new issuance. Our static funding gap ratio, excluding loan disbursements, was 1.5x at the one-year time horizon as of year-end 2020, improved from 1.3x at year-end 2019. The five-year funding gap was 1.27x. With the inclusion of scheduled loan disbursements, the one-year funding ratio drops to 1.2x.

Qualitatively, we view IADB's funding as well-diversified by both geographic market and type of investor, reflecting IADB's frequent issuance in multiple markets and currencies. The bank regularly raises funds in the international capital markets through the issuance of debt securities, with currently 28 U.S. dollar benchmarks outstanding. While 78% of the total debt stock as of year-end 2020 is denominated in U.S. dollars, the bank has borrowings, before swaps, outstanding denominated in 17 different currencies, supporting our view that it has a global investor base.

The bank has been very active in the capital markets in 2021 and has successfully raised around 60% of its borrowing program in the first six months of 2021.

Liquidity. Under our liquidity stress scenario, IADB would fully cover its balance-sheet liabilities without market access for one year.

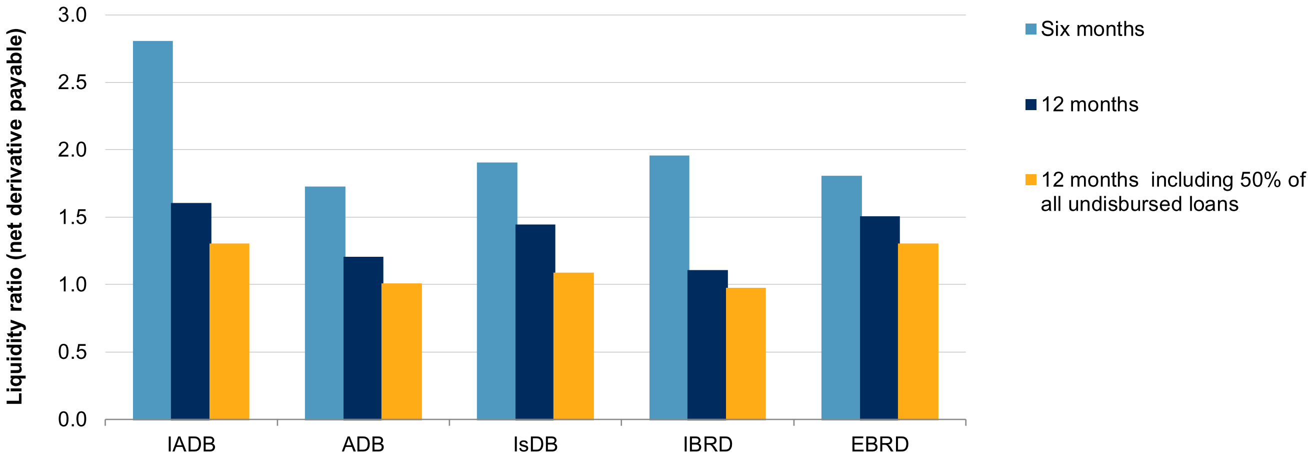
Using year-end 2020 data, our 12-month liquidity coverage ratio is 1.55x, including scheduled loan disbursements, while the six-month ratio is 2.80x. IADB's liquidity has recently been higher, as measured by our additional stress scenario, which takes into account 50% of all undisbursed loans coming due in the next 12 months. But we believe these higher liquidity buffers will likely decline and that it may need to spread out potential disbursements in a stress scenario.

IADB's liquidity policy calls for the maintenance of liquidity sufficient to cover at least 12 months of debt repayments and loan disbursements with no access to capital markets, although it allows for prefunding to support generally stable funding.

Liquidity, as defined by IADB, for this purpose is nonborrowing countries' convertible currency cash and investments, excluding the assets that the discount note program funds and assets with limited or restricted availability. As of Dec. 31, 2020, the liquid asset portfolio totaled $35.8 billion.

Chart 4

IADB--Liquidity Stress Test Ratios Peer Comparison



Note: IsDB and IBRD ratios are as of June 2020. Source: S&P Global Ratings.

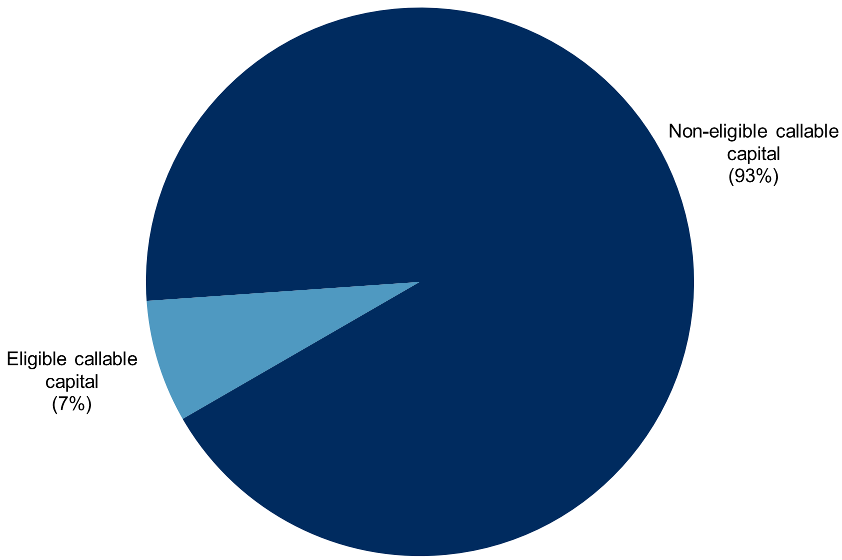
Extraordinary Shareholder Support

We don't factor extraordinary support in the form of callable capital into the rating because IADB, on its own, can achieve our highest assessment. This notwithstanding, callable capital from IADB's highly rated shareholders would enhance our RAC ratio and mitigate the impact on the bank's financial profile in the event that its capital adequacy were to deteriorate.

IADB's largest 'AAA' and 'AA+' rated shareholders include the U.S., Canada, Germany, and the Nordic countries. Our measure of eligible callable capital includes sovereigns rated at least equal to an MLI's stand-alone credit profile. For IADB, this would include shareholders rated 'AAA'.

Chart 5

IADB--Callable Capital
As a percentage of total callable capital



Source: S&P Global Ratings.

Table 2

IADB--Selected Indicators					
	2020	**2019**	**2018**	**2017**	**2016**
ENTERPRISE PROFILE					
Policy importance					
Total purpose-related exposure (loans, equity, etc.) (mil. $)	105,549	97,221	93,831	89,435	82,182
Public-sector (including sovereign-guaranteed) loans/purpose-related exposure (%)	95.0	94.3	93.9	93.4	92.8
Private-sector loans/purpose-related exposures (%)	5.0	5.7	6.1	6.6	7.2
Gross loan growth (%)	8.3	3.6	4.8	8.7	4.1
Preferred creditor treatment ratio (%)	2.0	2.2	2.3	2.4	N.A
Governance and management expertise					
Share of votes controlled by eligible borrower member countries (%)	50.0	50.0	50.0	50.0	50.0
Concentration of top two shareholders (%)	41.0	41.4	41.4	41.4	41.4
Eligible callable capital (mil. curr)	11,925	11,925	11,925	11,925	11,925
FINANCIAL RISK PROFILE					
Capital and earnings					
RAC ratio (%)	21.2	19.5	23.3	24.4	21.0

Table 2

IADB--Selected Indicators (cont.)

	2020	2019	2018	2017	2016
Net interest income/average net loans (%)	1.6	2.0	1.9	2.2	2.4
Net income/average shareholders' equity (%)	1.8	4.2	2.6	2.1	3.3
Impaired loans and advances/total loans (%)	2.4	2.4	2.6	0.5	0.6
Liquidity ratios					
Liquid assets/adjusted total assets (%)	26.2	26.2	25.4	27.1	24.7
Liquid assets/gross debt (%)	36.2	36.8	36.4	38.5	34.7
Liquidity coverage ratio (with planned disbursements):					
Six months (net derivate payables) (x)	2.8	2.3	3.0	2.9	3.6
12 months (net derivate payables) (x)	1.6	1.4	1.4	1.4	1.5
12 months (net derivate payables) including 50% of all undisbursed loans (x)	1.3	1.2	1.2	1.2	1.2
Funding ratios					
Gross debt/adjusted total assets (%)	72.6	71.2	69.7	70.3	71.0
Short-term debt (by remaining maturity)/gross debt (%)	16.1	18.9	18.2	19.8	15.3
Static funding gap (with planned disbursements)					
12 months (net derivate payables) (x)	1.5	1.3	1.3	1.3	1.4
SUMMARY BALANCE SHEET					
Total assets (mil. $)	151,737	136,358	129,459	126,240	113,325
Total liabilities (mil. $)	118,060	102,487	96,530	93,993	86,865
Shareholders' equity (mil. $)	33,677	33,871	32,929	32,247	26,460

Source: S&P Global Ratings.

Table 3

IADB--Peer Comparison

	Inter-American Development Bank	Asian Development Bank	Islamic Development Bank*	International Bank for Reconstruction and Development§	European Bank for Reconstruction and Development
Issuer credit ratings	AAA/Stable/A-1+	AAA/Stable/A-1+	AAA/Stable/A-1+	AAA/Stable/A-1+	AAA/Stable/A-1+
Total purpose-related exposure (mil. $)	105,549	132,818	23,163	211,129	41,110
Preferred creditor treatment ratio (%)	2.0	0.2	4.4	0.2	0.0
Risk adjusted capital ratio (%)	21.2	34.8	33.3	24.3	30.4
Liquidity ratio 12 months (net derivative payables; %)	1.6	1.2	1.4	1.1	1.5
Funding gap 12 months (net derivative payables; %)	1.5	1.1	3.8	1.3	1.9

*For IsDB, purpose-related exposures and preferred creditor treatment ratio are as of year-end 2019; all other data is as of end of June 2020. §For IBRD, RAC ratio and liquidity ratio are as of end of June 2020, all other data is as of end of December 2020. 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
- 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: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Abridged Supranationals Interim Edition 2021: Comparative Data For Multilateral Lending Institutions, May 11, 2021
- Supranationals Edition 2020: Comparative Data For Multilateral Lending Institutions, Oct. 21, 2020
- 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

Ratings Detail (As Of July 26, 2021)*		
Inter-American Development Bank		
Issuer Credit Rating		
Foreign Currency		AAA/Stable/A-1+
Senior Unsecured		AAA
Short-Term Debt		A-1+
Issuer Credit Ratings History		
22-Sep-1997	*Foreign Currency*	AAA/Stable/A-1+
27-Apr-1990		AAA/Stable/--
28-Nov-1962		AAA/--/--

*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.