S&P Global Ratings

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Research Update:

The OPEC Fund for International Development Assigned 'AA/A-1+' Ratings; Outlook Positive

December 1, 2021

Overview

- The OPEC Fund for International Development (the OPEC Fund) was spun out of the OPEC Group in 1976 with the stated goal to reduce poverty and promote cooperation between the OPEC member countries and developing countries.
- We consider the OPEC Fund's enterprise risk profile strong, on the back of its policy importance and very strong track record of preferred creditor treatment.
- We assess the OPEC Fund's financial risk profile as extremely strong based on our risk-adjusted capital (RAC) ratio of 78% and an assessment of strong funding and liquidity positions, which mitigates a lack of track record in tapping the capital markets.
- We consider the OPEC Fund to be entering a transition phase as it is about to kick off an ambitious lending expansion agenda.
- We have assigned our 'AA/A-1+' ratings to the OPEC Fund.
- The outlook is positive.

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Rating Action

On Dec. 1, 2021, S&P Global Ratings assigned its 'AA' long-term and 'A-1+' short-term foreign currency issuer credit ratings to the OPEC Fund for International Development (the OPEC Fund). The outlook is positive.

Outlook

The positive outlook reflects our view that the OPEC Fund's planned lending growth could expand the institution's developmental relevance and further strengthen its policy relationship with shareholders over the next 24 months. We expect the institution's financial risk profile will remain extremely strong, and it will manage financial risks prudently as it begins to leverage its balance sheet and tap the capital markets in 2022.

Upside scenario

We could raise the rating if the OPEC Fund's development impact and public policy role strengthened sustainably. We would expect this scenario to entail dynamic lending growth and enhanced operational capabilities to execute and maintain a conservative risk culture. Confirmed engagements from shareholders, for example a reduction in capital arrears from key members or an expansion of the institution's membership base, would also increase the likelihood of an upgrade.

Downside scenario

We would revise our outlook to stable if the OPEC Fund's expansion agenda underwhelms. Similarly, if capital arrears from shareholders linger beyond the committed payment calendar, this could also lead to an outlook revision to stable. In addition, although unlikely, pressures on its financial risk profile or an erosion of the OPEC Fund's very strong preferred creditor treatment could also weigh on the ratings.

Rationale

The ratings on the OPEC Fund are based on its strong enterprise risk profile and extremely strong financial risk profile, resulting in a stand-alone credit profile (SACP) of 'aa'. the OPEC Fund does not have callable capital and, therefore, we don't give any additional support over the SACP.

The OPEC Fund was established by treaty in 1976 by the member states of the Organization of the Petroleum Exporting Countries (OPEC). Its stated mission is to assist developing countries with the aim of alleviating poverty. It has a track record of operations and a global mandate, resulting in a diversified portfolio with a development footprint that spans more than 125 countries across Africa, Asia, the Middle East, Latin America, the Caribbean, and Europe.

The OPEC Fund's shareholders today include 12 countries, which are mostly OPEC Group members except Ecuador and Indonesia. There is no private sector shareholding. As per the establishment agreement, there is no provision for dividend payments and hence all earnings are retained. The shareholders cannot extract capital paid in.

In 2019, the OPEC Fund amended the management of its capital resources by creating a special fund known as Special Capital Resources (SCR). SCR provides long-term and low-cost loans to the least developed countries. The existing capital resources of the the OPEC Fund, renamed Ordinary Capital Resources (OCR), enable the organization to continue to deploy financing to developing countries with a higher level of economic development, and to private sector clients. These windows are kept entirely separate, and we consider OCR to not bear any liability for SCR's activities. Our ratings are therefore based on the OPEC Fund's OCR only.

The OPEC Fund's new strategic framework was approved in July 2019 and lays out the institution's plans through 2030 to expand its lending. A key part of this expansion is endowing the institution with the ability to leverage its balance sheet. In its business plan 2021-2023, the OPEC Fund plans to increase its loan commitments by close to 20% compared with the previous three-year period, equating to loan book growth of about 8% per annum spread across a $3,695 million expansion under its OCR window and $1,021 million directed to less-developed countries under its SCR. We understand that the largest growth is targeted in the sovereign portfolio, with the nonsovereign portfolio slated to remain below 30% of total loans. In our view, this could mitigate risks from materially increasing nonperforming loans (NPLs), which are low and centered on its private sector exposures. Furthermore, in addition to direct loans extended, we expect the OPEC Fund to scale up its mobilization activities, deepening relationships with regional development institutions, in particular under the auspices of the Arab Coordination Group.

The OPEC Fund has a track record of very strong preferred creditor treatment (PCT), but we consider its policy reach and developmental impact constrained by it limited portfolio size. With purpose-related assets of $4.4 billion, it is markedly smaller than other multilateral lending institutions (MLIs) that share global aid ambitions. Unlike most peers, however, the OPEC Fund has not been authorized (until recently) to leverage its balance sheet.

We consider the OPEC Fund to benefit from adequate shareholder commitment and support of its activities. Ownership is concentrated, with three countries holding 64% of the shares, led by Saudi Arabia at 35.4% at year-end 2020. We note that the OPEC Fund's shareholders rank lower in terms of World Bank transparency and governance indicators than those of peer MLIs. That said, we consider it key that none of the shareholders borrow from the fund, since we believe this set up mitigates some risk of potential political influence over lending decisions.

The shareholders have shown their support toward the OPEC Fund with four general capital increases since inception. All members except Gabon, which did not take part in the fourth capital replenishment, have participated, and fully subscribed to each replenishment resulting in solid capitalization. However, currently 11% of the fourth GCI payments stand in arrears, including from main shareholder countries. The meaningful level of capital arrears from key shareholders weighs on our assessment of shareholder support. In this regard, we also acknowledge a wide discrepancy in financial strength and capacity across the limited group of shareholders. We consider that some shareholders' weak financial positions could constrain their ability to support the OPEC Fund, even before their current arrears.

We assess the OPEC Fund's operational management as competent and sophisticated, with a conservative financial risk appetite. In our view, the OPEC Fund holds strong risk mitigation frameworks, together with comprehensive prudential guidelines and limits through board approved policies. That said, we acknowledge an element of implementation risk because the institution is about to gear up its loan book and expand its funding activities. We anticipate this context will take time to develop, including the likely need to increase staffing for project initiation and surveillance.

We similarly expect some of the OPEC Fund's financial policies and processes to be fine-tuned alongside its gradual introduction to capital market funding in 2022. We assess the institution to have developed a conservative risk culture as it faces no pressure from shareholders to commit. In tandem with our assessment of prudent financial policy limits, we believe the foundations for continued solid operational management are well in place.

Our assessment of the OPEC Fund's strong enterprise risk profile is anchored by our PCT assessment. By policy, the OPEC Fund does not write off or reschedule sovereign loans. Myanmar was the only sovereign with arrears in the past decade, corresponding to less than 0.4% of outstanding sovereign exposures. We consider the OPEC Fund's PCT status to be well-tested. Over 2011-2020, eight sovereigns defaulted to commercial lenders while continuing to pay the OPEC Fund, reflecting its established role and position in the global development finance architecture.

The OPEC Fund's business model is based on co-financing, which represents about 70% of the overall portfolio. This model has allowed the OPEC Fund to maintain its global reach while leveraging the best practices used by other MLIs. All projects are individually screened and assessed prior to appraisal. Its risk department engages in project screening at an early stage, and we understand that about one-third of non-sovereign projects are rejected in the early screening stage. In line with the OPEC Fund's longer-term strategic framework to 2030, the fund intends to increase the proportion of directly financed loans to about 40% of loan commitments.

The OPEC Fund's creditworthiness is underpinned by its extremely strong financial risk profile, largely supported by our assessment of its extremely strong capital. At year-end 2020, the OPEC Fund's RAC ratio stood at 78% (using rating parameters as of Sept. 2, 2021), incorporating adjustments specific to MLIs. the OPEC Fund's RAC ratio is higher than that of most other MLIs and benefits from geographical and sectoral diversification as well as the PCT adjustments. Capitalization is supported by very high levels of equity considering that the OPEC Fund does not hold any debt liabilities on its books.

In our view, the OPEC Fund's risk management policies are very conservative and currently there are no NPLs on the sovereign portfolio. The nonsovereign portfolio has $92.1 million of NPLs but, at 2.2% of total loans, this compares well with other MLI peers. Any involvement in debt-relief initiatives, including the Heavily Indebted Poor Countries initiative that the OPEC Fund previously took part in, would be conducted within the SCR window and compensated by contributions from its members, which, in our view, mitigates capital deterioration.

We expect the OPEC Fund to start tapping the markets in 2022. The Fund has an approved borrowing program 2020-2022 of $1.0 billion and is in the process of establishing a global medium-term note program. It also has approval to put a euro-denominated commercial paper program in place, when required, for bridge financing purposes. We anticipate the build-up of debt to be gradual and debt to equity remaining substantially below the 150% policy limit over the medium term. We assess that $1 billion of debt would bring the OPEC Fund's debt to equity to about 15% at year-end 2022, which is well within the policy limit. We forecast the RAC ratio will remain comfortably above our 23% threshold based on the current expansion plans, suggesting that the capital position will remain a pillar of the institution's financial risk profile.

The OPEC Fund currently has no funding gap, with assets outnumbering liabilities by 56x. This reflects that the OPEC Fund's funding structure so far consists only of capital contributions and retained earnings Although a very conservative financing structure, the institution lacks a track record of market funding, which will require effort to establish.

We expect the OPEC Fund's liquidity to remain solid as it expands the liability side of its balance sheet over the coming two years. Today its, six- and 12-month liquidity ratios surpass our threshold for a strong liquidity assessment, at 3.13x and 1.69x, respectively, proving that its current cash inflows and securities holdings (after 'AAA' stress scenario haircuts) comfortably exceed its scheduled disbursements. We consider the OPEC Fund's current liquidity policy conservative, since it stipulates prudential minimum liquidity at 125% of the higher of: 60% of the next three years' net cash requirements, or 250% of short-term debt. We expect the OPEC Fund to calibrate its financial policies as it expands its capital market activity over the next two years. However, we anticipate that it will remain conservative, reflecting what we consider a cautious approach to risk within the institution's culture.

We believe the OPEC Fund has solid investment policies. The fund's liquid assets are held in highly rated, fixed-income instruments, predominantly invested in sovereigns, supranationals and agencies (SSA). It has minimum rating requirements of 'AA' for sovereigns, 'AA-' for corporates, 'AAA' for structured transactions, and 'A' for banks.

Ratings Support Snapshot

The OPEC Fund for International Development Ratings Score Snapshot

Issuer credit rating	AA/Positive/A-1+

The OPEC Fund for International Development Ratings Score Snapshot (cont.)

SACP	aa
Enterprise Risk Profile	Strong
Policy importance	Strong
Governance and management	Adequate
Financial risk profile	Extremely strong
Capital adequacy	Extremely strong
Funding and liquidity	Strong
Extraordinary support	0
Callable capital	0
Group Support	0
Holistic approach	0

SACP--Stand-alone credit profile.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- 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

Ratings List

New Rating /Outlook Action	
The OPEC Fund For International Development	
Sovereign Credit Rating	
Foreign Currency	AA/Positive/A-1+

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 for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support

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