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Ratings

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The OPEC Fund For International Development

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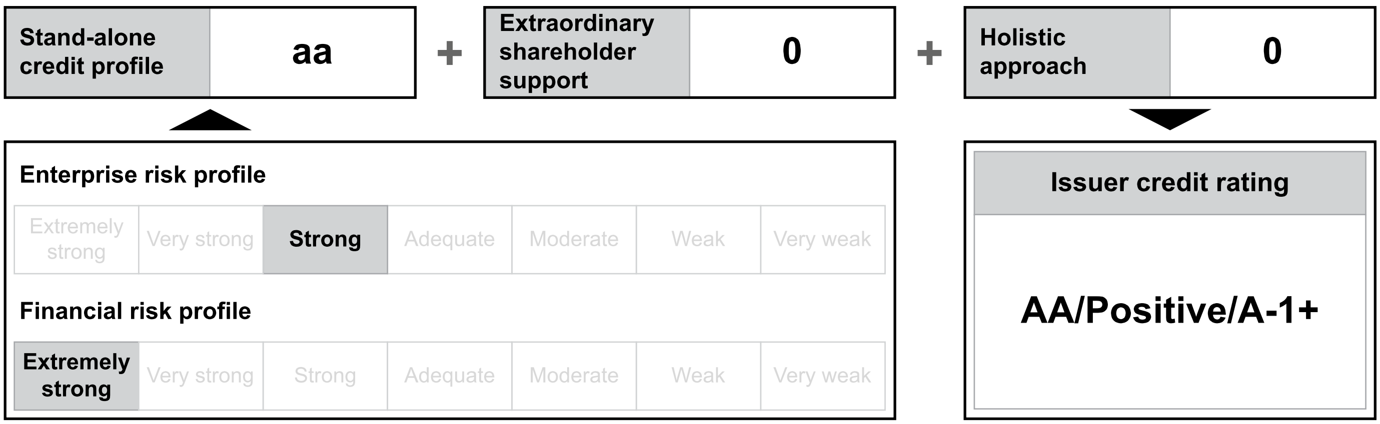
The OPEC Fund For International Development

Ratings Score Snapshot

Issuer Credit Rating

Foreign Currency

AA/Positive/A-1+



Credit Highlights

Overview

Enterprise risk profile	Financial risk profile
--A limited portfolio size constraining policy reach, but planned lending expansion under the new strategic framework could enhance developmental impact.	--Extremely strong capitalization, because equity and retained earnings have been sole avenues of financing the OPEC Fund's loan book.
--A very strong track record of preferred creditor treatment, illustrating a well-established position in global development financing.	--Conservative risk culture keeping nonperforming loans (NPLs) on the nonsovereign portfolio low, comparing well with other multilateral lending institutions (MLIs).
--Meaningful arrears under the recent general capital increase (GCI), weighing on our assessment of shareholder support.	--Lack of a track record of market funding, although there are plans to start issuances from 2022.

S&P Global Ratings believes The OPEC Fund For International Development's planned lending expansion has the potential to extend its developmental relevance and further its policy relevance. While execution risks remain, we assess the OPEC Fund's operational management as sophisticated and well-positioned to execute the heightened ambitions without jeopardizing its conservative risk culture.

A very strong track-record of preferred creditor treatment (PCT), strong asset quality in its nonsovereign portfolio, and an extremely strong capital position provide for a solid financial risk profile. The pandemic's economic repercussions in member countries have so far had a limited impact on the OPEC Fund's financial risk profile. Asset quality within the nonsovereign portfolio has held up throughout the pandemic, keeping NPLs low. The OPEC Fund's risk-adjusted capital (RAC) ratio stood at 78% in 2020, reflecting strong asset quality alongside the institution's unleveraged nature.

The OPEC Fund has a concentrated ownership structure with shareholders, on balance exhibiting low rankings in terms of the World Bank's governance indicators. In addition, meaningful arrears exist under the recent GCI, including from main member countries. While some member countries face special circumstances, the capital payments outstanding ultimately weigh on our assessment of shareholder support. We consider agency risks mitigated because the Fund's Charter prohibits shareholders from borrowing from the Fund.

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.

Environmental, Social, And Governance

We view the OPEC Fund as having a distinct focus on social and environmental factors throughout its operations. The Fund's founding mission was to foster South-South Partnership with fellow developing countries worldwide with an overarching aim of eradicating poverty. It is the only global development institution that holds this strict south-south perspective. The OPEC Fund's operations have totaled $22 billion in commitments over its existence. The co-financing contribution has effectively garnered a cumulative developmental impact of $187 billion worth of developmental projects.

All developing countries, except for OPEC member countries, are in principle eligible for Fund assistance, with the least developed countries awarded higher priority. Therefore, the institution's financial contribution help particularly the poorer, low-income countries in pursuit of their social and economic development. This focus has been enforced in the OPEC Fund's 2019 strategic framework.

We view the Fund's policy function as well-aligned with the U.N. policy objectives for sustainable development, and its operations aim to assist recipient countries with the targets set under the 2030 Agenda for Sustainable Development.

In particular, the OPEC Fund focuses on a core set of the Sustainable Development Goals (SDGs) pertaining to the strengthening of infrastructure and human capital to promote development within transportation, energy, water, sanitation, education, and job promotion. The OPEC Fund continuously evaluates its impact assessment, mapped to SDGs, allowing its efforts to be comparable and trackable across peers.

The OPEC Fund's recently established borrowing framework could allow it to reach types of investors interested in SDGs and sustainable development. More specifically, the Fund is working to set up a Sustainable Development Goal Bond Framework to attract more ESG investors to its bond issuances.

Rationale

Enterprise risk profile: Strong

Policy importance: OPEC Fund's planned lending expansion could strengthen its developmental reach and solidify its public policy mandate. 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 agreement establishing the Fund, there is no provision for dividend payments, so all earnings are retained. The shareholders cannot extract capital paid in.

As of 2020, the OPEC Fund updated the management of its capital resources by creating a special fund known as Special Capital Resources (SCR). SCR provides long-term, 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 deploying financing to developing countries with greater economic development, and to private-sector clients. These windows are kept separate, and we view OCR as not bearing 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 for 2021-2023, the OPEC Fund plans to increase its loan commitments by close to 20% compared with the previous three-year period, spread across a $3.70 billion expansion under its OCR window, and $1.02 billion 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 NPLs, which are low and centered on private-sector exposure. Also, 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 PCT, but we consider its policy reach and developmental impact constrained by its limited portfolio size. With purpose-related assets of $4.4 billion, it is markedly smaller than other MLIs that share global aid ambitions. Unlike most peers, however, the OPEC Fund has not been authorized until recently to leverage its balance sheet.

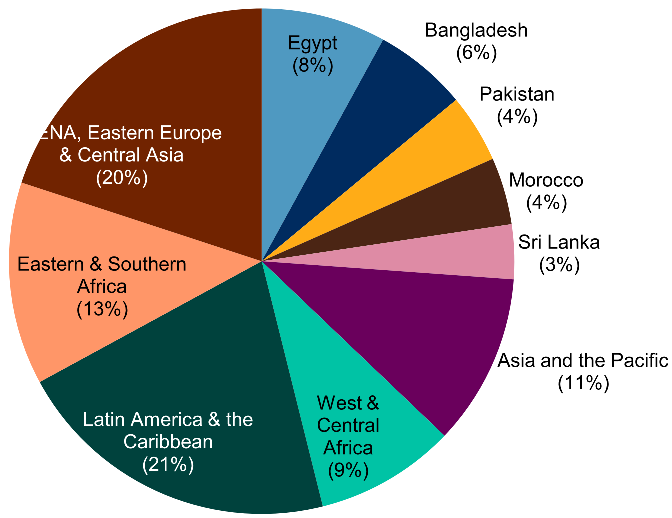
The shareholders have shown their support for the OPEC Fund with four GCIs since inception. All members except Gabon, which did not take part in the fourth capital replenishment, have participated and fully subscribed to each replenishment, resulting in solid capitalization. However, currently 11% of the fourth GCI payments is in arrears. The meaningful level of capital arrears from main 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 Fund, even before their current arrears.

Our assessment of the OPEC Fund's strong enterprise risk profile is anchored by our PCT assessment. By policy, the 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 sovereign exposure outstanding. We consider the OPEC Fund's PCT status well tested. From 2011-2020, eight sovereigns defaulted to commercial lenders while continuing to pay the OPEC Fund, reflecting the Fund's 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 Fund to maintain its global reach while leveraging best practices from other MLIs. All projects are individually screened and assessed before appraisal. Its risk department engages in project screening at an early stage, and we understand that about one-third of nonsovereign projects are rejected in the early screening stage. In line with the OPEC Fund's long-term strategic framework to 2030, the fund intends to increase the proportion of directly financed loans to about 40% of loan commitments.

Chart 1

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



Source: S&P Global Ratings.

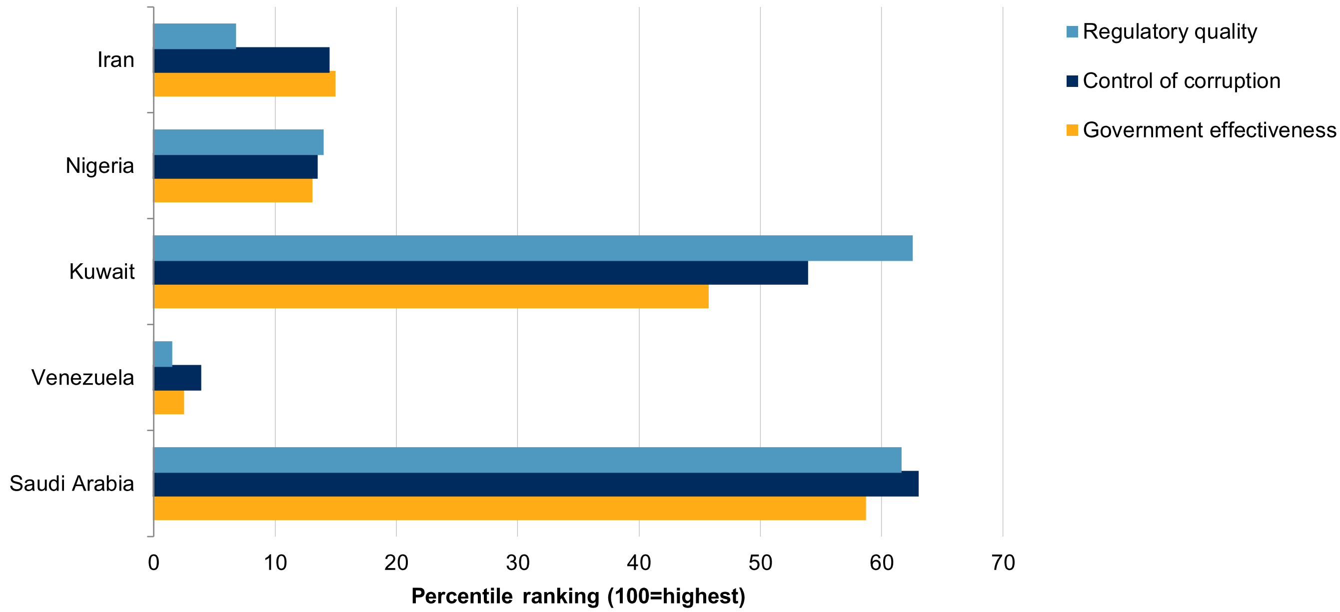
Governance and management expertise: Absence of political influence on lending decisions compensates for the concentrated shareholder structure and lower governance ranking. We consider the OPEC Fund to benefit from adequate shareholder commitment and support for its activities. Ownership is concentrated, with three countries holding 64% of the shares, led by Saudi Arabia at 35.4% at year-end 2020. The OPEC Fund's shareholders rank lower in terms of the World Bank's transparency and governance indicators than those of peer MLIs. Still, no shareholder borrows from the fund, and we believe this mitigates some risk of potential political influence over lending decisions.

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. However, we see 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 as having developed a conservative risk culture, since 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.

Chart 2

Five Largest Shareholders
Selected World Bank governance indicators



Source: S&P Global Ratings.

Financial risk profile: Extremely strong

Capital adequacy: Extremely strong capital position underpins the OPEC Fund's financial risk profile. The profile is largely supported by our assessment of its extremely strong capital. At year-end 2020, the OPEC Fund's risk-adjusted capital (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 geographic 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 on its books. 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.

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 members and other sources, which, in our view, would mitigate capital deterioration.

Table 1

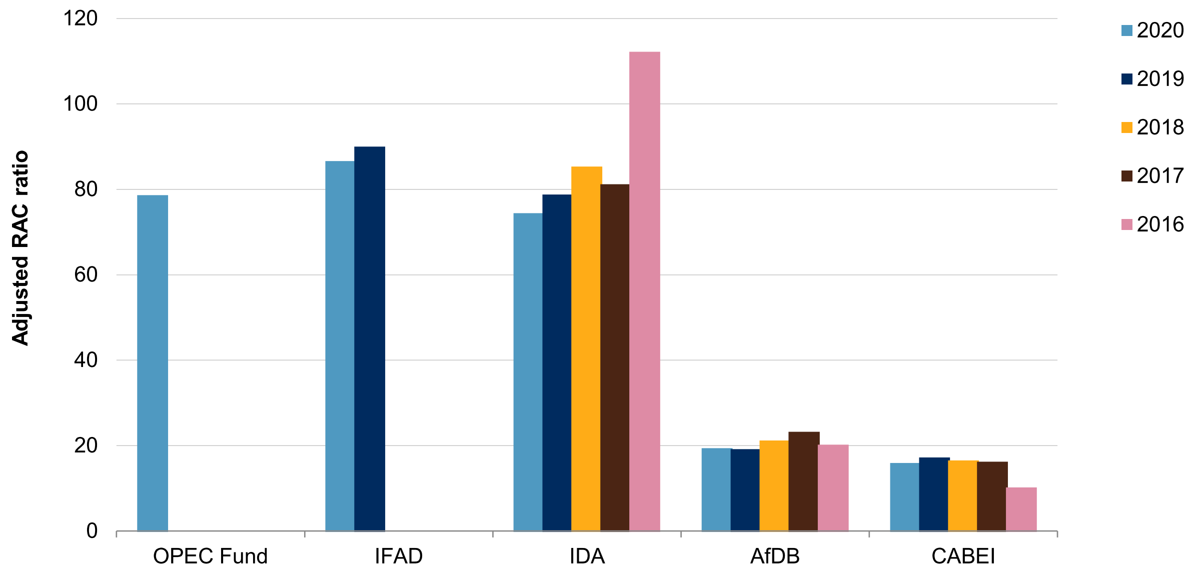
OPEC Fund--Risk-Adjusted Capital Framework Data: December 2020

(Mil. $)	Exposure	S&P Global Ratings RWA	Average S&P Global Ratings RW (%)
Credit risk			
Government and central banks	4,854	4,844	99.8
Institutions	1,234	784	63.6
Corporate	691	873	126.4
Retail			
Securitization	33	42	127.5
Other assets	236	238	100.9
Total credit risk	7,048	6,782	96.2
Credit valuation adjustment			
Total credit valuation adjustment			
Market risk			
Equity in the banking book	108	137	127.5
Trading book market risk		0	
Total market risk		137	
Operational risk			
Total operational risk		832	
Risk transfer mechanisms			
Risk transfer mechanisms RWA			
RWA before MLI Adjustments		7,751	100.0
MLI adjustments			
Single name (on corporate exposures)		169	19.3
Sector (on corporate portfolio)		(106)	(10.2)
Geographic		(956)	(13.7)
Preferred creditor treatment (on sovereign exposures)		(1,840)	(38.0)
Preferential treatment (on FI and corporate exposures)		(44)	(2.7)
Single name (on sovereign exposures)		1,307	27.0
Total MLI adjustments		(1,471)	(19.0)
RWA after MLI adjustments		6,280	81.0
		Total adjusted capital	**S&P Global Ratings RAC Ratio (%)**
Capital ratio before adjustments		4,925.1	63.5
Capital ratio after adjustments		4,925.1	78.4

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

Chart 3

Risk-Adjusted Capital Ratio Peer Comparison



Source: S&P Global Ratings.

Funding and liquidity: The OPEC Fund will start tapping markets from 2022. The Fund has a borrowing program of up to $1.0 billion for 2020-2022 and is establishing a global medium-term note program. It also has approval to establish a euro commercial paper program, when required, for bridge-financing purposes. We anticipate that the buildup of debt will be gradual, with 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.

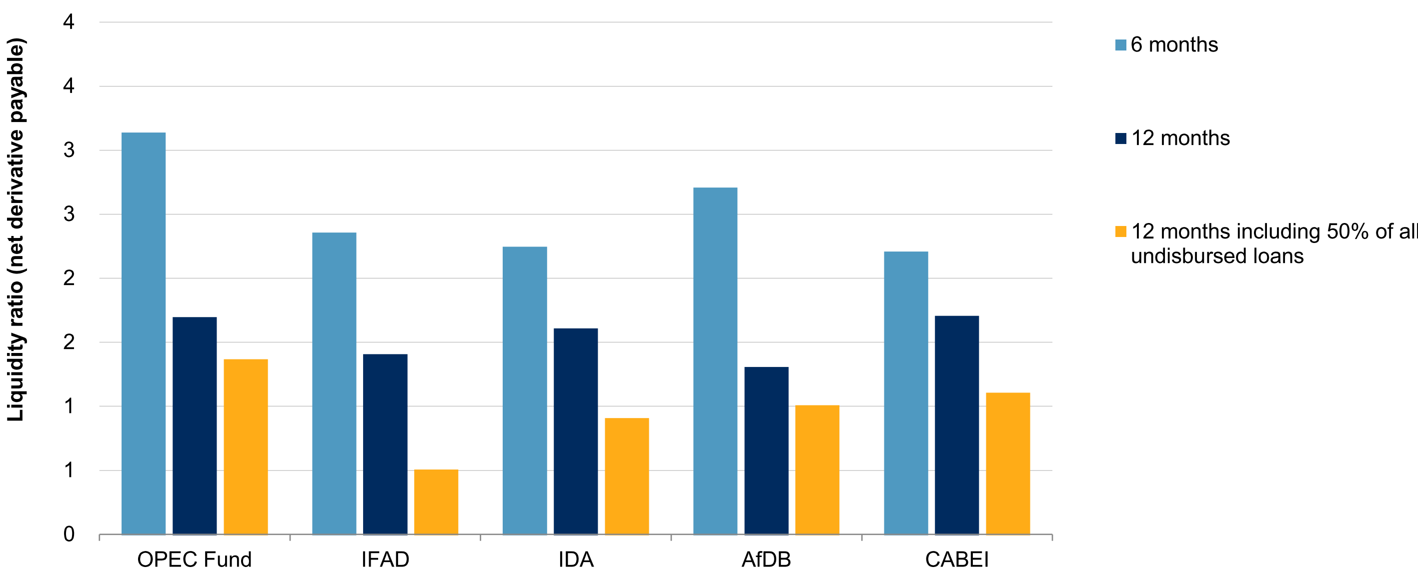
The OPEC Fund has no funding gap, with the value of assets surpassing that of liabilities 56x. This reflects the Fund's funding structure, which so far consists only of capital contributions and retained earnings. Although the Fund has a very conservative financing structure, it lacks a track record 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 cash inflows and securities holdings (after 'AAA' stress scenario haircuts) comfortably exceed its scheduled disbursements. We consider the OPEC Fund's 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 in highly rated, fixed-income instruments, predominantly invested in sovereigns, supranationals, and agencies. It has minimum rating requirements of 'AA' for sovereigns, 'AA-' for corporates, 'AAA' for structured transactions, and 'A' for banks.

Chart 4

Liquidity Stress Test Ratios Peer Comparison



Source: S&P Global Ratings.

Extraordinary shareholder support

The ratings on OPEC Fund do not include any uplift for potential extraordinary support from shareholders, since the Fund does not have any callable capital.

Table 2

MLI Selected Indicators					
	2020*	**2019**	**2018**	**2017**	**2016**
ENTERPRISE PROFILE					
Policy importance					
Total purpose-related exposure (loans, equity, etc.) (mil. $)	4,441	5,645	5,386	5,101	4,631
Public-sector (including sovereign-guaranteed) loans/purpose-related exposure (%)	68.0	78.5	78.8	75.7	76.9
Private-sector loans/purpose-related exposures (%)	32.0	21.5	21.2	24.3	23.1
Gross loan growth (%)	(22.5)	5.1	6.3	9.7	N.A
Preferred creditor treatment ratio (%)	0.1	N.A	N.A	N.A	N.A
Governance and management expertise					
Share of votes controlled by eligible borrower member countries (%)	0.0	0.0	0.0	0.0	0.0

Table 2

MLI Selected Indicators (cont.)

	2020*	2019	2018	2017	2016
Concentration of top two shareholders (%)	51.0	51.0	51.0	51.0	51.0
Eligible callable capital (mil. curr)	N.A	N.A	N.A	N.A	N.A
FINANCIAL RISK PROFILE					
Capital and earnings					
RAC ratio (%)	78.4	N.A	N.A	N.A	N.A
Net interest income/average net loans (%)	3.6	4.0	4.2	3.9	N.A
Net income/average shareholders' equity (%)	2.6	3.7	1.3	2.4	N.A
Impaired loans and advances/total loans (%)	2.2	2.1	2.7	2.7	3.6
Liquidity ratios					
Liquid assets/adjusted total assets (%)	24.3	25.4	24.6	26.2	27.8
Liquid assets/gross debt (%)	N.M.	N.M.	N.M.	N.M.	N.M.
Liquidity coverage ratio (with planned disbursements):					
Six months (net derivate payables) (x)	3.1	N.A.	N.A.	N.A.	N.A.
12 months (net derivate payables) (x)	1.7	N.A.	N.A.	N.A.	N.A.
12 months (net derivate payables) including 50% of all undisbursed loans (x)	1.4	N.A.	N.A.	N.A.	N.A.
Funding ratios					
Gross debt/adjusted total assets (%)	N.M.	N.M.	N.M.	N.M.	N.M.
Short-term debt (by remaining maturity)/gross debt (%)	N.M.	N.M.	N.M.	N.M.	N.M.
Static funding gap (with planned disbursements)					
12 months (net derivate payables) (x)	56.7	N.A.	N.A.	N.A.	N.A.
SUMMARY BALANCE SHEET					
Total assets (mil. $)	5,919	7,224	7,380	7,318	7,168
Total liabilities (mil. $)	270	1,785	177	189	165
Shareholders' equity (mil. $)	5,649	5,438	7,203	7,129	7,003

*Figures for 2020 reflect the segregation of Special Capital Resources from Ordinary Capital Resources. Source: S&P Global Ratings.

Table 3

MLI Peer Comparison

	The OPEC Fund for International Development	International Fund for Agricultural Development	International Development Association	African Development Bank	Central American Bank for Economic Integration
Issuer credit ratings	AA/Positive/A-1+	AA+/Stable/A-1+	AAA/Stable/A-1+	AAA/Stable/A-1+	AA/Stable/A-1+
Total purpose-related exposure (mil. $)	4,390	8,177	167,743	34,079	8,306
Preferred creditor treatment ratio (%)	0.1	2.1	1.6	1.5	0.0
Risk adjusted capital ratio (%)	78.4	86.4	74.2	19.2	15.7
Liquidity ratio 12 months (net derivative payables; %)	1.69	1.36	1.58	1.25	1.68

Table 3

MLI Peer Comparison (cont.)

	The OPEC Fund for International Development	International Fund for Agricultural Development	International Development Association	African Development Bank	Central American Bank for Economic Integration
Funding gap 12 months (net derivative payables; %)	56.7	14.81	2.69	1.04	2.00

Source: S&P Global Ratings.

Rating Component Scores

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

- 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
- Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Supranationals Special Edition 2021 Says Boost in Multilateral Lending Support May Not Last, Oct. 28, 2021
- Comparative Data For Multilateral Lending Institutions, Oct. 28, 2021

- Introduction to Supranationals Special Edition 2021, Oct. 28, 2021
- ESG Industry Report Card: Supranationals, Feb. 11, 2020

Ratings Detail (As Of January 28, 2022)*		
The OPEC Fund For International Development		
Issuer Credit Rating		
Foreign Currency		AA/Positive/A-1+
Issuer Credit Ratings History		
01-Dec-2021	*Foreign Currency*	AA/Positive/A-1+

*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.