Agence Francaise de Developpement

December 1, 2021

This report does not constitute a rating action.

Credit Highlights

Overview

Key strengths

- Crucial role in French foreign policy as the leading development bank.
- Strong history of government capital support.

Key risks

- Exposure to sector concentration risk due to its public-policy role.
- Almost certain likelihood of timely and extraordinary government support from the central government in a potential financial stress scenario.

We expect Agence Francaise de Developpement (AFD) to remain a key player in French foreign policy. AFD fills a critical mission for the French government's development aid policy, with a special focus on sustainable development. As exemplified by the June 2021 capital injection, AFD's ratings will continue to benefit from the strong track record of support from the central government.

We expect the government to maintain tight oversight over AFD. As a public financial institution fully owned and directly controlled by the central government, the state closely monitors AFD's operations. It sets the agency's targets and resources through a well-defined strategic plan (Plan d'orientations stratégiques) and a multi-year agreement (Contrat d'objectifs et de moyens).

Despite the pandemic, asset quality has been resilient so far. With its activities primarily in speculative-grade countries and concentrated on a small number of counterparties given the agency's mission, AFD was particularly exposed to the negative effects of the pandemic.

Outlook

The stable outlook on Agence Francaise de Developpement (AFD) reflects S&P Global Ratings' stable outlook on France (unsolicited; AA/Stable/A-1+). We believe that AFD will retain its critical role for and integral link with the country. We do not expect the upcoming new Orientation and Programming Law on Development and International Solidarity, or the potential integration of French
international technical cooperation agency Expertise France into the AFD group, will have negative implications for AFD. We therefore expect the ratings on AFD will move in line with those on the sovereign.

**Downside scenario**

We could lower our ratings on AFD following a similar rating action on France. We could also lower the ratings if we believe that AFD no longer has an integral link with the government, for example, if it loses its state public industrial and commercial agency (Établissement Public à Caractère Industriel et Commercial d'État; EPIC d'Etat) status; or if AFD's role diminishes, for instance, because the state decided to rely solely on multilateral banks for international aid or concessional loans. However, we view these scenarios as unlikely.

**Upside scenario**

We could raise the rating if France's credit quality improves and the likelihood of support for AFD remains almost certain.

**Rationale**

We regard AFD as a government-related entity that would benefit under stress from an almost certain likelihood of extraordinary support from France, based on our assessment of the agency's:

- Critical role for the French government as the legally mandated agency for its strategic policy of bilateral aid and concessory lending to developing countries and French overseas territories, with a special focus on sustainable development; and
- Integral link with the government as a fully owned, directly controlled public financial institution lending to the public and private sectors through its core subsidiary, Société de Promotion et de Participation pour la Coopération Economique.

We expect AFD to keep its EPIC d'Etat status. Because AFD is an EPIC d'Etat, we view the French government as ultimately responsible for its solvency. This status also prevents it from being subject to bankruptcy proceedings; if it were dissolved, all assets and liabilities would be transferred to the French state or a state-designated body. Moreover, if needed, we understand that the state could intervene swiftly, most likely through its public debt fund (Caisse de la Dette Publique), which can buy AFD's debt. This would provide continued funding if access to capital markets was difficult. We do not expect the agency's EPIC d'Etat status will change within our outlook horizon.

The French government's direct monitoring of AFD, and its strategic, financial, and operational involvement will remain important. The Ministry for Europe and Foreign Affairs, the Ministry of Economy and Finance, and the Ministry for Overseas France provide strong and broad state supervision of the agency. On Feb. 8, 2018, at the request of the French president and for the first time in the current presidential term (2017-2022), France's prime minister convened the Interdepartmental International Cooperation and Development Committee (CICID), gathering eight ministers, including the three supervising ministries of AFD. This CICID defined the main thematic and geographical priorities of France's public development aid, aimed at meeting the target set by the French president in July 2017 to increase public development aid to 0.55% of gross national income by 2022. These priorities include concentrating development aid on implementing the U.N. Sustainable Development Goals (SDGs) and the Paris Agreement, with a particular focus on Africa. Following this CICID, during which AFD was confirmed as a central pillar of France's development aid, the agency formalized its 2018-2022 strategy (Plan d'orientations stratégiques) and signed a multi-year agreement (Contrat d'objectifs et de moyens; COM).

We expect the new COM with the central government to be signed in the coming months to maintain AFD's current thematic, geographic, and budgetary objectives. AFD's 2018-2022 plan and most recent COM clearly outline its objectives. The agency has rapidly increased its annual commitments, exceeding €14 billion in 2019 (versus €10.3 billion in 2017) and reaching €12.1 billion at year-end 2020. We anticipate that annual commitments will remain high in the coming years at about €12 billion annually. We believe at least 50% of those commitments will be for nonsovereign entities, and 50% for climate change projects. AFD’s goal to help achieve the SDGs and the Paris Agreement make environmental, social, and governance (ESG) objectives an integral part of both its internal and external strategy. The latter means that 100% of the agency’s operations on the asset side go through an ESG evaluation. On the
liability side, AFD has a climate bond framework that is fully aligned with the Green Bond Principles and recently unveiled a new bond framework related to the UN SDGs.

We anticipate the state’s ongoing and extraordinary support will be granted in case of need, as proven by the strong track record. The French government has provided extraordinary support to AFD before, via its direct takeover of debt cancellations for African countries under the IMF and World Bank’s Heavily Indebted Poor Countries initiatives. Moreover, the agency benefits from a reserve account financed by the French government to cover sovereign risks. The French state also demonstrated its ongoing support to AFD in December 2016, when it converted €2.4 billion of subordinated loans (tier 2) into common equity tier 1 (CET1) capital. More recently, France renewed its support in 2020 by deciding a €0.5 billion capital injection in 2021 and the conversion of €0.9 billion of subordinated loans into Tier 2 capital to abide by regulatory capital rules, while supporting AFD’s increasing activity. This €1.4 billion capital increases should ease pressure on capital requirements in relation to AFD’s large exposure limit, given its lending concentration on a few sovereign borrowers. Therefore, total capital ratio stood at 16.73% at end-June 2021, still well above the minimum regulatory requirements.

AFD’s activity is, and will remain, primarily in speculative-grade countries (rated ‘BB+’ and lower) and concentrated on a small number of counterparties, as stipulated by its mission. Foreign-exchange and interest-rate risk are almost fully hedged, but concentration risk appears material. On sovereign exposure, we understand the French state carries the credit risk of loans because the French treasury directly negotiates restructuring with sovereign creditors. The asset quality of the nonsovereign portfolio—-that, excluding French overseas territories, represents 33% of total exposures—-was affected by the deteriorating economic situations in Lebanon and Argentina, and the COVID-19 pandemic. Asset-quality deterioration related to the pandemic is lagging and will become more visible in 2021 as credit transition crystalizes for some of the post-moratorium portfolio. On the nonsovereign portfolio, the nonperforming loans ratio reached 7.4% up from 6.7% as of year-end 2019. Still, recoveries from the sovereign portfolio led nonperforming loans to improve slightly to 3.2% of total loans at Dec. 31, 2020, from 3.7% at year-end 2019, while cost of risk rose to about 84 basis points (bps) compared with 52 bps. In addition, the G20’s decision to delay debt repayment for the least developed countries (LDCs) will further delay recognition of asset-quality deterioration on the sovereign portfolio. In June 2021, the AFD signed an extension of this agreement with 25 eligible countries. In the first semester 2021, cost of risk was down to minus €19 million from €101 million in the first semester 2020 that was heavily affected by additional pandemic-related provisioning, boosting the net profit to €220 million against minus €55 million over the same period in 2020. Lacking a deposit base, AFD relies mostly on wholesale funding. However, we believe that funding is well matched to assets overall, and the state’s ultimate responsibility for the agency’s solvency allows access to cheap funding.

Related Criteria

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

Research Update: France 'AA/A-1+' Ratings Affirmed; Outlook Stable, Published Oct. 1, 2021

Ratings Detail (as of December 01, 2021)*

Agence Francaise de Developpement
Issuer Credit Rating AA/Stable/A-1+

www.spglobal.com/ratingsdirect December 1, 2021 3
Ratings Detail (as of December 01, 2021)*

Certificate Of Deposit

  Local Currency  AA/A-1+

Commercial Paper

  Local Currency  AA/A-1+

Senior Unsecured  AA

Short-Term Debt  A-1+

Issuer Credit Ratings History

25-Oct-2016  AA/Stable/A-1+
14-Oct-2014  AA/Negative/A-1+
12-Nov-2013  AA/Stable/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.