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CREDIT OPINION
14 June 2024

Update

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RATINGS

[MDB]

	Rating	Outlook
Long-term Issuer	[data]	[data]
Short-term Issuer	[data]	--

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Corporacion Andina de Fomento – Aa3 stable

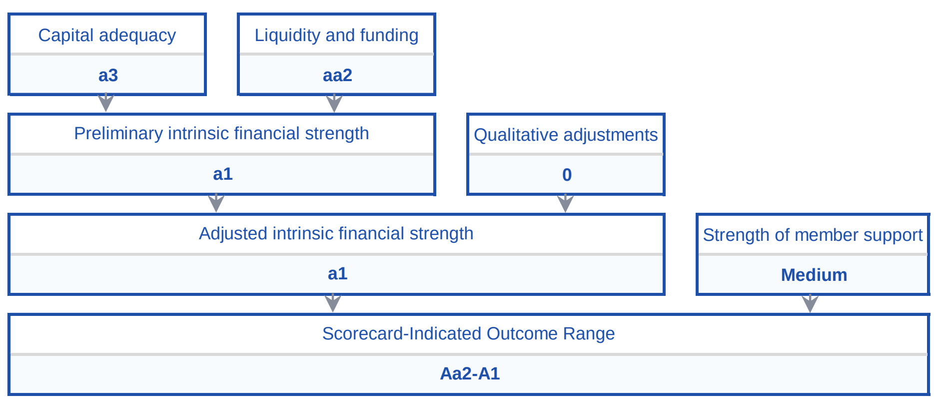
Regular update

Summary

The credit profile of Corporacion Andina de Fomento (CAF) balances the bank's history of strong asset performance and sound growth against its high exposure to low borrower credit quality. CAF's credit profile also incorporates its ample liquidity, underpinned by a robust liquidity risk management policy and prudent financial management. While CAF's loan book remains somewhat concentrated, it continues to diversify its lending portfolio and shareholder base.

Exhibit 1

CAF's credit profile is determined by three factors



Source: Moody's Ratings

Credit strengths

» Strong availability of liquid resources underpinned by a conservative liquidity policy

» Prudent financial management reflected in diversified funding sources

» Record of strong asset performance and very low nonperforming loans (NPLs)

Credit challenges

» Significant, although declining, credit exposure to low-rated countries

» Limited presence of highly rated shareholders

» Although declining, exposure to Venezuela is likely to weigh on future asset performance

Rating outlook

The stable rating outlook reflects our expectation that CAF's capitalization and liquidity levels will remain consistent with its Aa3 rating, as the bank continues to expand its operations, balancing loan growth with adequate liquidity and capitalization buffers, while successfully managing operating and credit risks from its exposure to Venezuela (C senior unsecured).

Factors that could lead to an upgrade

Upward credit pressure on CAF's rating is unlikely, save if CAF were to meaningfully reduce its exposure to its lowest rated borrowers, decreased its leverage, and if its capitalization and liquidity ratios improved significantly. The inclusion of new, highly rated non-borrowing members responsible for a significant amount of capital, which reduced the correlation between members and assets, would also support improved creditworthiness.

Factors that could lead to a downgrade

Downward credit pressure would arise if CAF were to face a strong deterioration in asset quality due to credit events involving borrowers other than Venezuela, or if it were to experience an erosion of its capital and liquidity buffers due to a rapid expansion of its loan book not sufficiently compensated for by additional capital contributions.

Key indicators

Exhibit 2

Corporacion Andina de Fomento (CAF)	2018	2019	2020	2021	2022	2023
Total Assets (USD million)	40,014.2	42,293.6	46,845.9	47,592.4	50,376.7	53,814.3
Development-related Assets (DRA) / Usable Equity [1]	215.5	210.9	219.7	225.8	226.0	230.0
Non-Performing Assets / DRA	0.5	0.3	0.3	0.4	0.4	0.2
Return on Average Assets	0.5	0.8	0.6	0.2	0.4	1.6
Liquid Assets / ST Debt + CMLTD	418.5	266.1	295.6	232.4	160.4	193.5
Liquid Assets / Total Assets	32.6	32.8	31.4	33.9	30.5	30.3
Callable Capital / Gross Debt	6.8	6.2	5.6	5.5	5.8	5.8

[1] Usable equity is total shareholder's equity and excludes callable capital

Source: Moody's Ratings

Profile

Corporacion Andina de Fomento's (CAF) mission is to support sustainable development and economic integration among its shareholder countries by helping them diversify their economies, making them competitive and more responsive to social needs. CAF seeks to encourage foreign investment and capital market development, promote the expansion of regional trade and exports, and support the development of small and medium-sized enterprises. However, its principal activity is to provide loans to finance economic and social infrastructure projects, as well as working capital and trade activities in its shareholder countries. Available products include short-, medium- and long-term loans, co-financing arrangements, guarantees and select equity investments. While the large majority of its loan operations are to the public sector, CAF offers its products to both member states, and the public and private financial institutions and corporations that operate within them.

Detailed credit considerations

Our determination of a supranational's rating is based on three rating factors: capital adequacy, liquidity and funding and strength of member support. For Multilateral Development Banks, the first two factors combine to form the assessment of intrinsic financial strength, as shown on the cover page graphic. Additional factors can affect the intrinsic financial strength, such as risks stemming from the operating environment or the quality of management. The strength of member support is then incorporated to yield a rating range. For more information please see our Supranational Rating Methodology.

FACTOR 1: Capital adequacy score: a3

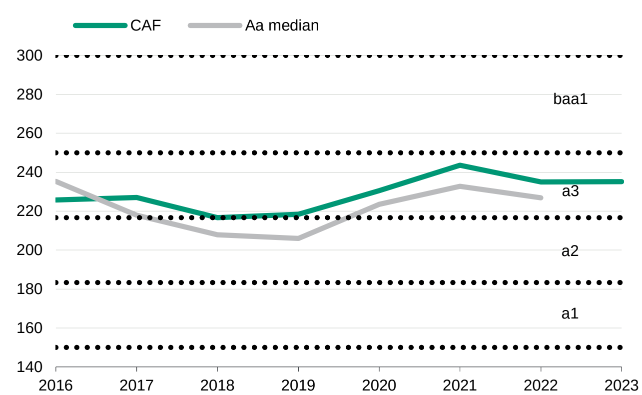
We assess CAF's capital adequacy to be "a3", which incorporates the institution's modestly leveraged capital position and "b" development asset credit quality (DACQ), the latter of which reflects CAF's moderate portfolio concentration and low borrower quality (as measured by the weighted average borrower rating). Portfolio concentration and low borrower quality reflect CAF's development mandate and, as a result, are unlikely to change significantly over the medium term. Nevertheless, prudent financial and risk management has resulted in strong portfolio performance that is underpinned by a track record of very low nonperforming assets (NPA), even during severe credit stress among some of the institution's largest borrowers.

Capital position reflects modest leverage

CAF's capital position incorporates the coverage of development-related assets (DRA) in relation to its available capital. An institution's leverage ratio is measured as, (Liquid Assets Rated A3 or Lower + DRA) / Usable Equity. CAF's leverage remained level at 235.2% in 2023 from 235.0% as of year-end 2022, remaining well in line with the Aa median (see Exhibits 3 & 4).

Exhibit 3

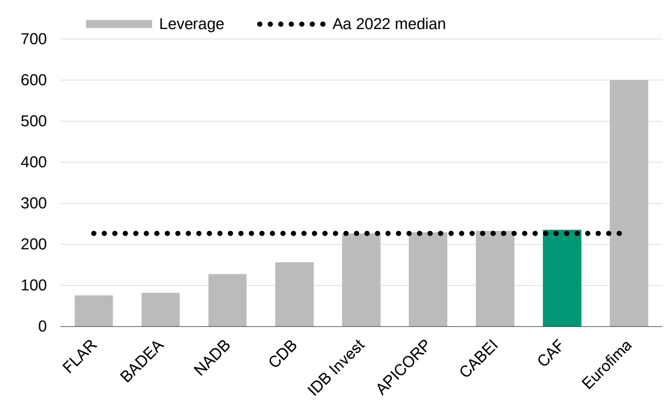
Leverage has increased slightly since 2019...
(Liquid Assets Rated A3 or Lower + DRA) / Usable Equity (%)



Sources: CAF and Moody's Ratings

Exhibit 4

...but remains in line with the Aa median
(Liquid Assets Rated A3 or Lower + DRA) / Usable Equity (%), 2023 or latest available



Sources: CAF and Moody's Ratings

CAF's debt rose to $31.5 billion in 2023 from $27.9 billion a year earlier. The increase was driven largely by the stock of outstanding bonds, which grew to $24.8 billion, up from $21.3 billion in 2022. With this increase, bonds comprised 79% of total debt (relative to 76% in 2022) and commercial paper 14% (17% in 2022). This reflects a return to larger issuances in global markets despite the relatively high interest rate environment. CAF prudently opted for longer duration issuances to maintain its presence in global markets and was able to absorb the higher interest costs without affecting financial performance.

Usable equity, the denominator for the leverage ratio, rose to $14.7 billion in 2023 from $13.7 billion in 2022, reflecting the continued increase in the bank's member base and capital contributions. CAF's capital adequacy and leverage are bolstered by high levels of paid-in capital, given that, in 2023 paid in capital represented 67.7% of total equity, and 12.4% was callable[1].

CAF's modest leverage reflects regular capital injections from members. CAF is currently in its 10th and largest general capital increase to date, with a fresh injection of $7 billion in paid-in capital that will facilitate an expansion in lending activities. The compound annual growth rate of CAF's total portfolio from 2012 to 2023 was 6.8%. In 2023, loan growth increased to 9.4%, from 3.5% in 2022.

Net income grew to a record $810 million in 2023 from $169 million in 2022 after declining between 2020 and 2021. The increase was driven by income from interest on interest-bearing securities and loans, reflecting the still-high interest rate environment and tight financing conditions in international capital markets.

DACQ is constrained by low ratings of sovereign borrowers and portfolio concentration

Our assessment of CAF's DACQ is constrained by low borrower quality (which, by design, is consistent with the institution's mandate) including its exposure to Venezuela, which is mitigated by a strong track record of PCS, and a moderate degree of portfolio concentration, which are the two main credit challenges for CAF. Portfolio concentration is reflected by the fact that most (69%) outstanding loans were to non-investment-grade countries in 2023, and this percentage has remained relatively steady over the last five years. Consequently, the weighted average borrower rating remains below investment grade. CAF has made great strides in diversifying country exposure within its portfolio, but the top five geographic exposures — Argentina (Ca stable), Ecuador (Caa3 stable), Colombia (Baa2 stable), Brazil (Ba2 positive) and Bolivia (Caa3 stable) — account for 58% of the portfolio. In particular, CAF has actively managed the credit risk from exposure to Venezuela (see Exhibit 7). Efforts began before the sovereign defaulted on its external debt in 2017 and have continued through its lengthy, ongoing crises without compressing CAF's balance sheet.

The vast majority of CAF's loans are to sovereigns (92%)[2], with nonsovereign loans[3] making up 8% of the portfolio. The most significant concentration risk for the bank relates to the fact that its top 10 country exposures made up 65.6% of the loan portfolio at the end of 2023; the top five exposures amounted to 58% of the portfolio, including a short-term loan to Argentina that was disbursed in December 2023, but was repaid very quickly in February 2024. These traits are common in regional MDBs and although they signal some degree of concentration, CAF has steadily diversified its loans to members such that concentration is gradually decreasing.

Strong asset performance is a key credit strength

Per our methodology, we measure asset performance through the ratio of NPA to total DRA, which includes the performance of loans, guarantees and equity investments. However, because CAF has relatively minimal equity exposure ($392 million in 2023), its asset performance largely reflects the strength of its lending operations.

CAF's asset performance is very strong, reflected by our initial score of "aaa". However, in anticipation of the potential incurrence of NPLs from Venezuela, we have assigned a "-3" trend adjustment, resulting in the "aa3" score for this metric. Equity impairments rose slightly for the second straight year to $1.3 million in 2023 from $1 million in 2022 however, NPLs fell by over half to $50 million in 2023 from $108 million in 2022, leading CAF's NPA ratio (relative to DRA) to fall to 0.2% in 2023 from 0.4% in 2022. Since its inception, CAF has had virtually no NPLs despite sustained growth of its portfolio and the low credit quality of some of its public-sector borrowers. Repayment capacity from lower-quality nonsovereign borrowers has been impaired in the past, mainly because of currency depreciation, but NPA have not yet exceeded 1% of DRA.

FACTOR 2: Liquidity and funding score: aa2

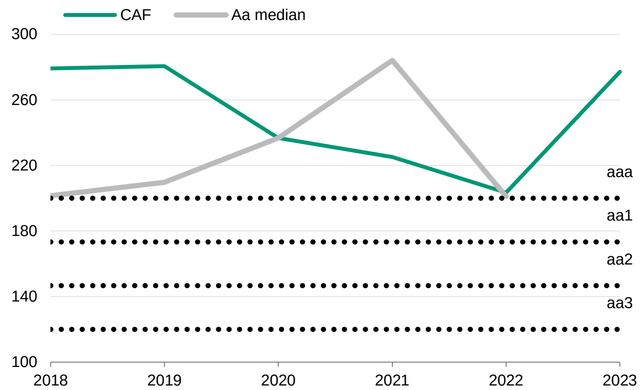
CAF's "aa2" liquidity and funding score is supported by strong liquidity coverage of "aaa" and a quality of funding assessment of "aa". The "aa2" liquidity and funding score is in line with that of APICORP (Aa2 stable) and Eurofima (Aa2 stable).

CAF's highly liquid position provides strong coverage of debt and operations

Since most MDBs are not eligible to access emergency lines offered by central banks, we assign a high value to strong liquidity positions in the credit assessment of MDBs. CAF's availability of liquid resources ratio, measured as high-quality liquid assets/net outflows from uninterrupted net loan disbursements, debt repayment and administrative costs, scores "aaa" and shows that the bank holds enough liquid assets to sustain operations for more than 18 months. After falling for two years in a row, CAF's availability of liquid resources increased to 277% in 2023 from 203% in 2022, remaining in line with the median for Aa-rated MDBs (see Exhibit 5).

Exhibit 5

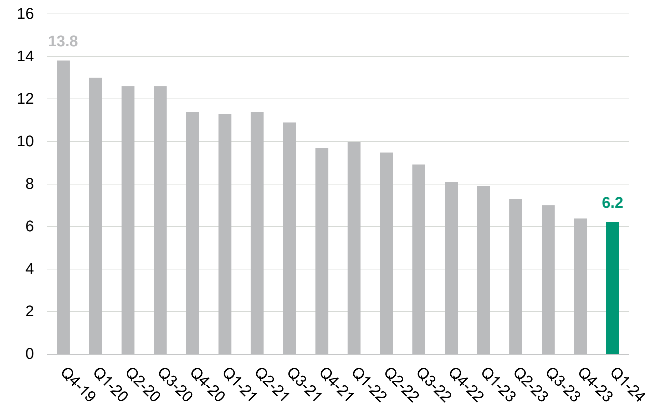
CAF continues to maintain strong liquidity...
Availability of liquid resources (ALR) = Net outflows/discounted liquid assets, %



Sources: CAF and Moody's Ratings

Exhibit 6

...and reduce its exposure to Venezuela
Venezuela as a percentage of the loan portfolio



Sources: CAF and Moody's Ratings

CAF's strong liquidity position is the result of its conservative liquidity policy, which was updated in September 2014 to bring it more in line with the bank's established practice of over-compliance with its previously more relaxed minimum liquidity requirements. The policy requires CAF to maintain sufficient liquid assets to cover at least 12 months of net cash requirements.

Total liquidity as of December 2023 covers over 24 months of net cash requirements, with liquidity more than twice the minimum liquidity required under its stringent liquidity policy. This suggests that CAF could stay out of funding markets for two years and still fulfill all its debt servicing commitments during that time.

Consistent and diversified access to capital markets and private funding

CAF's credit profile is supported by a relatively high quality of funding, which we score “aa”, reflected by its regular access to the capital markets across a wide range of currencies.

CAF has an established and recognized presence in the international capital markets, and has demonstrated its ability to raise funds in difficult market conditions. The bank benefits from significant diversification in the financial markets that it accesses. As of 31 March 2024, CAF had $26.7 billion in bonds outstanding across 19 different currencies. The top three currencies in which CAF issues debt (US dollar, euro and Swiss franc) represent about 77% of outstanding bond debt. Furthermore, CAF established a green bond program in 2018 and has issued $4.3 billion in bonds as of end-March 2024.

Qualitative adjustments to intrinsic financial strength

Operating environment

We do not apply any negative adjustments to CAF's intrinsic financial strength because of its operating environment. Although we expect some shareholder countries to likely face macroeconomic challenges in the near term, considering higher for longer interest rates in 2023-24, these factors will not significantly weigh on CAF's credit metrics beyond what the intrinsic financial strength ratios already capture.

Quality of management

As discussed in the above sections, CAF has strong liquidity management policies and effective risk management practices exemplified by the prudent management of its lending exposure to Venezuela. We make no adjustment for the quality of management.

FACTOR 3: Strength of member support score: Medium

We assess CAF's strength of member support as “Medium”. The ability of the bank's membership to provide support — as measured by the weighted average shareholder rating (WASR) — is low, reflecting the relatively low credit quality and limited fiscal space of the bank's largest shareholders. At the same time, because most of CAF's capital is paid-in, it has limited callable capital, further constraining contractual member support. However, limited shareholder ability to provide extraordinary support is offset by a strong and demonstrated willingness to support the institution, as illustrated by its PCS and regular capital contributions from its membership base.

Ability to provide support is moderate

We measure ability to provide support using the WASR, which in the case of CAF is “b1”, down from “ba3” in 2017. One factor that has particularly weighed on this metric in the past few years has been the volatility in the ratings of Argentina and Venezuela, which led to a decline in the WASR given their high shares of 11.5% and 4.2% of total subscribed capital, respectively. Despite rating downgrades for Argentina, Ecuador and Bolivia in recent years, these governments have made their paid-in capital payments on time, demonstrating their ability to support CAF despite their own macroeconomic challenges.

Contractual support from members is low...

In our assessment of strength of member support, we also consider the members' willingness to provide contractual support, as measured by callable capital coverage of the debt stock. Because most of CAF’s capital is paid-in, it has limited callable capital. CAF's callable capital stood at $1.8 billion at the end of 2023 or 12.4% of total equity. As a result, callable capital only covers 5.8% of CAF's outstanding stock of debt, resulting in a very low level of contractual support.

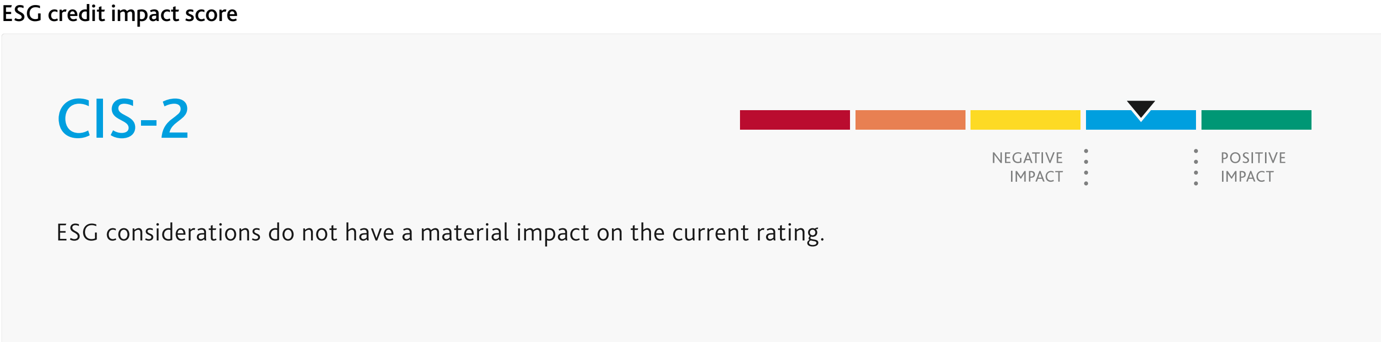
...but members have strong willingness to provide extraordinary, non-contractual support

CAF’s greatest credit weaknesses, the absence of highly rated non-borrowing members from outside the region and low levels of callable capital, are arguably also one of its key strengths. CAF is a development institution in which its borrowers are also its shareholders. This results in members’ very strong willingness to support the institution. Although not counted as “contractual support” in our Supranational Rating Methodology, the bank’s high level of paid-in capital reflects this commitment, as do the significant capital increases to which members have subscribed over the last few years. Without recent capital increases, relatively high levels of capital contributions through 2023 would have shortened the distance to the limit of authorized capital, eventually curtailing lending growth. The continued capital increase programs underscore members’ commitment to CAF and afford the institution more room to boost its future operations and fulfill its countercyclical mandate.

ESG considerations

Corporacion Andina de Fomento's ESG credit impact score is CIS-2

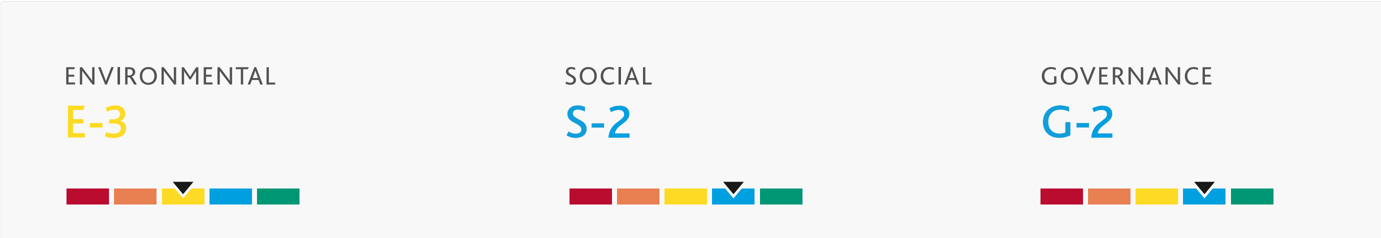
Exhibit 7
ESG credit impact score



Source: Moody’s Ratings

CAF's credit impact score is neutral to low (**CIS-2**) reflecting a moderately negative environmental risk exposure as well neutral-to-low exposures to social and governance risks. Low support by member states could weigh on the entity's resilience.

Exhibit 8
ESG issuer profile scores



Source: Moody's Ratings

Environmental
CAF's environmental issuer profile score is moderately negative (**E-3**) as a result of carbon transition risks through its lending exposure within hydrocarbon-producing countries in Latin America. These risks affect CAF's balance sheet indirectly given that CAF has had a longstanding commitment to developing sustainable projects, including hydroelectric generation and clean energy. Exposure to other environmental risks is neutral-to-low, reflecting CAF's diversified lending exposures throughout Latin America.

Social
CAF's social issuer profile score is neutral-to-low (**S-2**) reflecting a strong track record of customer relations that has helped the institution grow its member base and lending portfolio substantially. CAF's public consultation processes are an integral part of its lending decision and include affected communities and key stakeholders, which supports our assessment of responsible production.

Governance
CAF's governance issuer profile score is neutral-to-low (**G-2**) reflecting its prudent risk management and the pro-active approach to dealing with problematic loan exposures.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

All of these considerations are further discussed in the “Detailed credit considerations” section above. Our approach to ESG is explained in our cross-sector methodology General Principles for Assessing Environmental, Social and Governance Risks. Additional information about our rating approach is provided in our Supranational Rating Methodology.

Recent developments

CAF leverages designation as prescribed holder of Special Drawing Rights (SDRs) to provide Argentina liquidity
In February 2023, CAF became the 20th entity to receive Prescribed SDR Holder status from the International Monetary Fund (IMF), allowing CAF to lend and receive payments from members in special drawing rights (SDRs) and strengthening its role as preferred creditor in the region. As a result of this designation, CAF granted two short-term loans to Argentina and was repaid in SDR. The first was a $1 billion loan disbursed in July 2023 that was prepaid by Argentina in September 2023, and the second was a $960 million loan disbursed also to Argentina in December 2023 and prepaid in February 2024. A similar $800 million loan was granted to Ecuador in April 2024 and was prepaid shortly thereafter, in US dollars.

The designation has helped CAF to expand its available services to members, particularly those with IMF programs. It allows for greater flexibility in disbursing and receiving payment for loans while minimizing risk to CAF given its close collaboration with the IMF on the timing of disbursements and repayments. It is likely that members' use of this facility will continue to grow in future years.

CAF continues to grow its membership base, expanding into the Caribbean, and diversifying its lending portfolio
In 2023, three countries became full members: Chile, the Dominican Republic and Honduras with capital subscriptions of $1.5 billion, $310 million and $460 million, respectively, expanding the membership to 21 countries. The capital contributions from these members helped further increase total equity alongside the capital payments from the 2022 general capital increase and the record profitability in 2023.

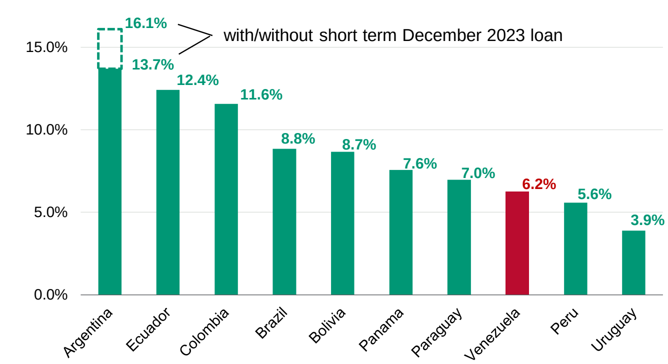
On 7 March 2024, CAF's Board approved the allocation of Series “C” shares (associated members) for The Bahamas, Dominica and Grenada, who have formally expressed their interest in joining the bank. This will help catalyze greater support for green and sustainable development projects in the Caribbean, and will help CAF continue to diversify the lending portfolio.

CAF's largest country exposure at the end of 2023 was to Argentina, at 13.9% of total loans excluding the short-term SDR loan (the exposure has further declined to 13.2% of total loans as of end-March 2024), followed by Ecuador, Colombia, Brazil, and Bolivia (see Exhibit 9). Despite some of these sovereign borrowers facing macroeconomic and financial challenges in recent years, they continue to repay CAF on time, supporting the bank's preferred creditor status. CAF's loan exposure to Venezuela at the end of 2023 represented 6.3% of the total lending portfolio, a strong decrease from 2019 when it represented 13.8% of the portfolio. In anticipation of the potential incurrence of NPLs from Venezuela, CAF devised a so-called Support Program for Liquidity Management in Exceptional Situations. The program allows CAF to repurchase Venezuela's shares in the corporation and apply those proceeds toward debt service owed by the sovereign to CAF. By the end of 2023 the plan had reduced Venezuela's shareholding in CAF to 1.9% from just under 16% in 2019 (see Exhibit 10). The Program has since been closed and is not available to any other borrowers. Despite implementing the unconventional mechanism that reduces Venezuela's capital and loans, CAF's balance sheet has not compressed. This reflects CAF's continued profitability, inflow of fresh capital from its general capital increase programs and the expansion of the membership base.

Exhibit 9

New SDR Holder designation will help continued diversification

Loans by geography, % of total development-related assets (loans + equity investments)

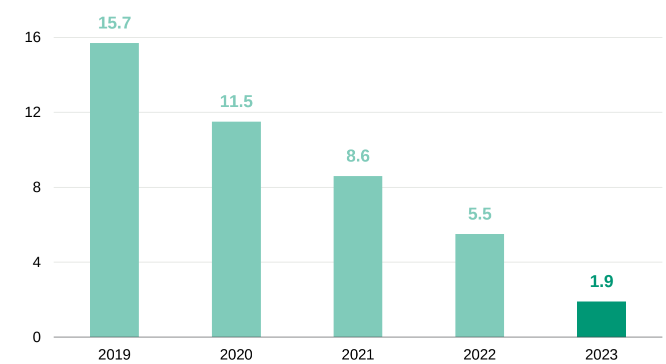


Sources: CAF Financial Statements and Moody's Ratings

Exhibit 10

Venezuela's equity stake will be exhausted in 2024

Venezuela equity, % of total equity



Sources: CAF Financial Statements and Moody's Ratings

Rating methodology and scorecard factors: CAF - Aa3 Stable

Factor / Subfactor	Metric	Initial score	Adjusted score	Assigned score
Factor 1: Capital adequacy (50%)			a3	a3
Capital position (20%)			a3	
	Leverage ratio	a3		
	Trend	0		
	Impact of profit and loss on leverage	0		
Development asset credit quality (10%)			ba	
	DACQ assessment	ba		
	Trend	0		
Asset performance (20%)			aa3	
	Non-performing assets	aaa		
	Trend	-3		
	Excessive development asset growth	0		
Factor 2: Liquidity and funding (50%)			aa2	aa2
Liquid resources (10%)			aaa	
	Availability of liquid resources	aaa		
	Trend in coverage outflow	0		
	Access to extraordinary liquidity	0		
Quality of funding (40%)			aa	
Preliminary intrinsic financial strength				a1
Other adjustments				0
Operating environment		0		
Quality of management		0		
Adjusted intrinsic financial strength				a1
Factor 3: Strength of member support (+3,+2,+1,0)			Low	Medium
Ability to support (50%)			b1	
	Weighted average shareholder rating	b1		
Willingness to support (50%)				
	Contractual support (25%)	caa3	caa3	
	Strong enforcement mechanism	0		
	Payment enhancements	0		
	Non-contractual support (25%)		Very High	
Scorecard-Indicated Outcome Range				Aa2-A1
Rating Assigned				Aa3

Note: Our ratings are forward-looking and reflect our expectations for future financial and operating performance. However, historical results are helpful in understanding patterns and trends of an issuer's performance as well as for peer comparisons. Additional considerations that may not be captured when historical metrics are used in the scorecard may be reflected in differences between the adjusted and assigned factor scores. Furthermore, in our ratings we often incorporate directional views of risks and mitigants in a qualitative way. For more information please see our Multilateral Development Banks and Other Supranational Entities rating methodology.

Source: Moody's Ratings

Related websites and information sources

» Moody's Supranational web page

» Moody's Sovereign and supranational rating list

» Corporacion Andina de Fomento webpage

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Endnotes

1 As with most MDBs, CAF has a share of its capital that is callable — an unconditional and full-faith obligation of each member country to provide additional capital for the sole purpose of servicing debt, the fulfillment of which is independent of the action of other shareholders.

2 Sovereign loans include those granted to national, regional, or local governments or decentralised institutions and other loans fully guaranteed by national governments.

3 Nonsovereign loans include those granted to corporate and financial sectors, among others, which are not guaranteed by national governments (for both public and private sectors).

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