S&P Global Ratings

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International Finance Corp.

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International Finance Corp.

Stand-alone credit profile	aaa	+	Extraordinary shareholder support	0	+	Holistic approach	0

Enterprise risk profile

Default	**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

Credit Highlights

Issuer Credit Rating
AAA/Stable/A-1+

Overview

Enterprise risk profile	Financial risk profile
Long record fulfilling International Finance Corp.'s (IFC) private-sector focused mandate	Robust capitalization and very strong funding and liquidity
Shareholders renewed commitment to IFC with the $5.5 billion capital increase approved in 2020	Expected paid-in capital supports larger lending volumes and extremely strong capital adequacy
IFC's 3.0 strategy supports increased lending and market creation in IDA and FCS countries	Loss experience improving as countries recover from COVID-19 pandemic
Diverse and balanced government shareholders and robust risk management practices	Diversified funding base, along with a matched-funding policy, limits risk

International Finance Corp. (IFC) has been making progress on implementing its IFC 3.0 strategy and mobilizing new sources of funds to support private-sector solutions. On April 16, 2020, IFC's Board of Governors approved a $5.5 billion paid-in capital increase, largely to support IFC's 3.0 strategy for a more deliberate approach to creating and opening new private-sector markets, particularly in International Development Association (IDA)-eligible and supporting larger mobilization volumes. IFC has made significant progress re-shaping core elements of its business by establishing new tools and approaches as well as the appropriate operational leadership teams and upstream units. During FY2021, IDA-17 eligible and fragile countries accounted for 25% of IFC's own-account long-term finance commitments, with a FY30 ambition of 40%; and mobilization at 86% of own-account new commitments. We believe as IFC continues this strategy, its enterprise risk profile will strengthen.

We assess IFC's financial risk profile as extremely strong based on a risk-adjusted capital ratio of 34.0% as of FY21, combined with robust liquidity buffers. Over the medium term, we expect the general capital increase to strengthen IFC's capital base, although this will be counterbalanced, in our view, by the strategic increase in lending to IDA-eligible and FCS countries, possibly neutralizing the benefit of the RAC ratio. Asset quality has remained in line with peers, with non-performing loans declining to 4.4% in FY21 from 5.5% in FY20. Non-performing loans are concentrated in Turkey, Lebanon, and Jordan; although we believe IFC will carefully manage risks and new lending, which will keep asset quality in line with peers. Regarding exposure to Russia and Ukraine, both loans and equity is limited at around $600 million. IFC's funding is broadly diversified geographically and by type of investor, given the institution's frequent issuance in many markets and currencies. Our robust funding and liquidity ratios support IFC's financial risk.

Outlook

The stable outlook reflects S&P Global Ratings' expectation that IFC will maintain an extremely strong financial risk profile, underpinned by high capital, strong liquidity, and expected continuity of its robust risk management policies. We further expect IFC will maintain a very strong enterprise risk profile while remaining relevant for its member countries and for the World Bank Group's (WBG) general strategy under the cascade approach.

Downside scenario

We could lower the ratings if in the next two years, and contrary to our expectations, relationships with shareholders deteriorate or IFC's financial indicators slip from currently extremely strong.

Environmental, Social, And Governance

IFC is a key player in setting best practices and standards environmentally and socially. Its environmental and social performance standards, along with its corporate governance methodology, are broadly used as market benchmarks for good international practice. IFC lends globally, reducing its vulnerability to local environmental risks. As a private-sector lender, IFC's mandate is to support market creation. We anticipate that its environmental and social risk exposures will rise as it increases commitments to countries eligible for IDA loans or are classified by the World Bank as fragile and conflict-affected. To counterbalance this, all potential projects are first subject to a comprehensive impact measuring and monitoring analysis to gauge developmental outcomes. IFC has also implemented accountability mechanisms to ensure environmental and social compliance on related projects; we view these as robust and transparent. Of IFC's commitments, 48% are for financial and insurance, and 5% for funds. Remarkably, given its private-sector focus, IFC's approach limits and reduces the indirect environmental exposure that could come from its equity investments. Since 2008, the institution has not invested in direct coal financing. As of 2017, it no longer finances upstream oil and gas projects, except under exceptional circumstances. The World Bank Group's Climate Change Action Plan seeks to increase climate investments to 35% for 2021-2025. IFC is an important issuer in the green bond market, with more than $10 billion issued since 2010. It has also played an important role in establishing the social bond market. IFC's governance and management score support the rating and is based on its very diverse and balanced shareholder structure. It also benefits from conservative and effective financial and risk management.

Rationale

Enterprise Risk Profile: Wide Geographical Coverage Fulfilling Private Sector Focused Mandate

Policy importance: long record of fulfilling its mandate. Established in 1956, IFC is one of the oldest multilateral lending institutions, one of the largest by number of shareholders and is a member of the World Bank Group (WBG). IFC is a legal entity, separate and distinct from the International Bank for Reconstruction and Development (IBRD), International Development Association (IDA), Multilateral Investment Guarantee Agency (MIGA), and the International Centre for the Settlement of Investment Disputes (ICSID), with its own articles of agreement, share capital, financial structure, management, and staff. IFC's policy importance is supported by its more than six decades of fulfilling its mandate.

IFC's private sector focus is strongly backed by shareholders commitment. We view its private-sector-focused mandate and significant sectoral focus on financial services as being partly fulfilled by other private-sector-focused institutions or domestic public institutions in IFC's operating countries. However, this could be counterbalanced following shareholders renewed commitment to private-sector-led development solutions and IFC's stronger focus on creating and opening new markets. These markets support private-sector mobilization through its advisory services and risk mitigation and credit enhancement products (known as maximizing finance for development). This is in line with the WBG's forward-looking vision introduced in 2016.

The capital increase will intensify IFC's focus on FCS and IDA-eligible countries and mobilization efforts. On April 16, 2020, the Board of Governors approved a US$5.5 billion capital increase for IFC as part of a US$13 billion paid-in capital increase package for the IBRD and IFC. The additional capital is to strengthen IFC's ability to take on greater risks and bring innovative private-sector solutions at scale--particularly in FCS and IDA-eligible countries--given the WBG's increased focus in these areas. In return, IFC has agreed to increase its commitments to IDA and FCS countries. As of FY21, IFC received $1.2 billion in capital payments from 40 countries.

In our view, IFC's business model with the adoption of the IFC 3.0 long-term strategy represents a more deliberate and systematic operating model to support market creation. Under this strategy IFC introduced a new operations team and workforce planning to align staffing and strategy that's more focused on the regional and country level. The strategy also enables IFC to integrate the WBG's development solutions. We think the successful implementation of this strategy--evidenced by an increase in exposure to FCS and IDA-eligible countries, growing use of IFC's advisory services, and co-lending platforms, combined with increased risk mitigating and credit enhancement products--would lead to a stronger enterprise risk profile over the medium term.

We believe IFC is making progress on developing a robust lending pipeline in IDA and FCS countries. During FY2021, IDA-17 eligible and fragile countries accounted for 25% of IFC's own-account long-term finance commitments. Additionally, IFC extended $8.2 billion in trade and supply chain finance, out of which more than half was towards IDA and FCS countries. We believe IFC's advisory work on upstream projects will continue to support a robust pipeline of projects in these countries over time.

At the same time, we believe IFC has been successful in its mobilization efforts. In fiscal year 2021, IFC's total core mobilization was $10.8 billion. The institution primarily mobilizes private-sector capital through loan participations or parallel loans, where it can act as lead arranger or lender of record and its advisory support. IFC's Asset Management Company (AMC) invests third-party capital along with IFC capital in its equity investments, having raised a total of $10.1 billion funds since inception, in which $7.1 billion has been committed. Its Managed Co-Lending Portfolio Program (MCPP) is another mobilization platform where investors pledge capital upfront and IFC identifies eligible loan investments. As of fiscal-year 2021, 11 global investors have pledged about US$10 billion, of which US$6.3 billion has been committed.

IFC's ability to act as a countercyclical lender was evidenced by its response to the COVID-19 crisis. Of the estimated support of $47 billion through June 2021, IFC had delivered $43 billion (91%) by that date. This is part of the WBG's COVID-19 response package of $160 billion. While the planned volumes are largely consistent with the pre-pandemic approval levels, IFC also repositioned its pipeline to represent more short-term financing through financial institutions and its global trade finance program. During FY21, IFC committed $12.5 billion in long-term investments for its Own Account, combined with $10.8 billion in Core Mobilization, which totaled $23.3 billion in long-term finance, 6% higher than the previous fiscal year. As of the first quarter of FY2022, COVID-19 response commitments totaled $971 million, of which $325 million were Own Account and $646 million were Core Mobilization. IFC disbursed $11.4 billion for its own account in fiscal year 2021, as compared with $10.5 billion in the previous fiscal year.

As a fully specialized private-sector lender, IFC does not benefit from preferred creditor treatment (PCT)--which we only apply to sovereign exposures. Consequently, we do not incorporate PCT in our assessment of IFC's enterprise risk. However, IFC generally benefits from preferential treatment by the governments of countries it operates in, and we expect this will continue and incorporate it into IFC's financial risk profile assessment. IFC has been exempt from exchange controls, whereas some commercial debtors have not.

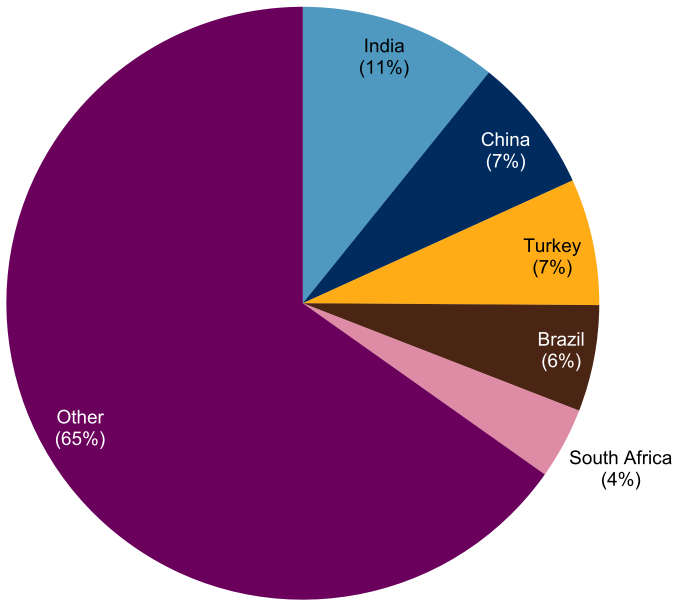
Governance and management expertise: A diverse shareholder base with on average high-ranking governance based on the World Bank's Governance Indicators. IFC is owned by 185 member countries, the U.S. being the largest shareholder with 19.8% of the voting rights, followed by Japan (7.%) and Germany (5.0%). We view IFC's shareholder diversity with, on average, countries with high-ranking governance as supportive of its governance assessment based on the World Bank's Governance Indicators--further enhanced by its robust management expertise and risk practices. IFC has no private-sector shareholding, and shareholders allow MLI earnings to be retained, which further supports its assessment.

We view IFC's management as robust given its strategic implementation record, particularly as it aligns to its IFC 3.0 strategy. Beginning in 2017, the institution had important organizational changes, which extended to workforce planning, a reorganization in managers and directors, and changes to its processes, frameworks, and methodologies. In fiscal year 2019, IFC completed the restructuring of its operations leadership team, with 15 new directors appointed during the year. In February 2021 IFC appointed Makhtar Diop as its new managing director and executive vice president.

IFC's financial and risk management policies, limits, and methodologies are robust and conservative. We believe the institution has a strong credit and equity culture, supported by its four regional chief risk officers, specialized equity risk officers, and the chief risk officer. We think IFC is well-positioned to manage higher risks associated with its growing exposure to IDA-eligible and FCS countries.

Chart 1

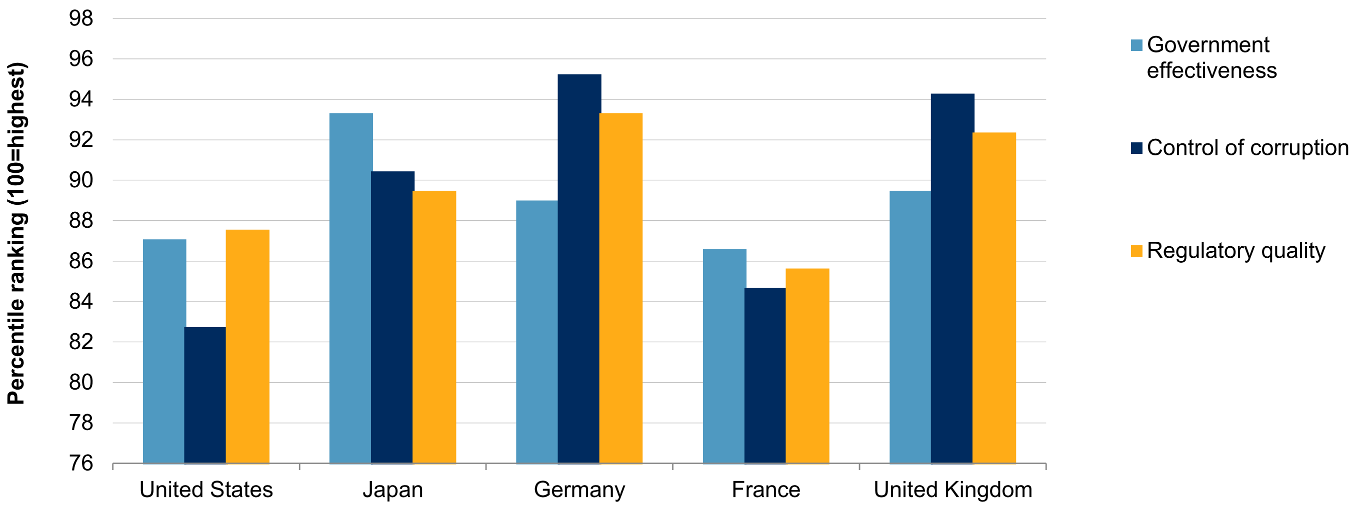
MLI Five Largest Countries Purpose-Related Exposures
As A Percentage Of Gross Purpose-Related Assets Plus Guarantees



Source: S&P Global Ratings.

Chart 2

Five Largest Shareholders
Selected World Bank Governance Indicators



Source: S&P Global Ratings.

Financial Risk Profile: Robust Capitalization, And Very Strong Funding and Liquidity

Capital adequacy: IFC's RAC ratio of 34% reflects its substantial capitalization. IFC's RAC ratio is 34% as of fiscal-year 2021 (ending June), incorporating all the rating parameters as of Feb.9, 2022. The ratio marginally dropped from 34.6% as of fiscal-year 2020, mainly driven by a significant increase in corporate exposures during the period. The capital base increased to US$31.2 billion on June 30, 2021, from US$25.2 billion on June 30, 2020, as valuations in its equity portfolios improved and provisions were released following global recoveries from the pandemic.

IFC transfers to IDA (after IDA18) have been suspended as part of IFC's capital increase package. IFC's capital position was also supported in part by its change in methodology for calculating designations--which are allocations of retained earnings used for grants, its advisory services, and other funds--now linked to its capital adequacy framework. In fiscal-year 2019 and 2020, no transfers to IDA were made. US$213 million of designations approved in fiscal-year 2018 and 2019 was paid and expensed during fiscal 2021. On Oct. 14, 2021, the Board of Governors approved a designation of $89 million of IFC's retained earnings for the Creating Markets Advisory Window (CMAW) and a designation of $72 million for Advisory Services.

We expect a steady increase in IFC's disbursed investment portfolio. The disbursed investment portfolio increased to US$45.3 billion at the end of September 2021, from US$44.8 billion at the end of fiscal year 2021. This is in line with our expectations that the portfolio will increase in upcoming years, supported by the organizational changes incorporated earlier, as well as the capital injection expected to finalize by April 2025 (with the possibility of an additional one-year extension).

IFC has a well-diversified portfolio by country, region, and sector. The 10 largest country exposures account for 49.5% of the disbursed portfolio, with the largest share of the disbursed portfolio (45%) going to the finance and insurance sector. India has been IFC's largest country of exposure since 2010, accounting for about 10% of its committed portfolio. Its disbursed investment portfolio indicates that no particular region will amount to more than 25% of the portfolio: 18% in East Asia and the Pacific, 21.1% in Latin America and the Caribbean, 17% in Sub-Saharan Africa, 15.8% in South Asia, 15.7% in Europe and Central Asia, and 5.7% in the Middle East and North Africa.

We expect that the capital injection will translate to a stronger focus on lower-rated IDA and FCS countries--possibly neutralizing the benefit on the RAC ratio. We expect that as IFC increasingly shifts more of its portfolio to higher-risk IDA and FCS countries, this could generate an increase in losses. However, we believe this will be largely mitigated by generally higher recovery prospects given that IFC tends to be a key stakeholder in these areas with strong ties at the government and project level, supporting working with countries that typically have difficult legal environments.

We expect non-accruing loans to gradually stabilize as the impact of the COVID-19 pandemic subsides in the borrowing countries. IFC's non-accruing loans dropped to 4.4% of average loans as of fiscal year 2021, from 5.5% in 2020, mainly owing to positive developments on account of cash collection during the period. In the first quarter of fiscal year 2022 non-accrual loans further declined by US$11 million to US$1.48 billion. IFC loan and equity exposure to Russia and Ukraine is limited and amounts to about $600 million. Even in the case of severe losses, this will be manageable given its extremely strong capital position. Total loss reserves were 4.9% of the portfolio at the end of fiscal-year 2021, down from 6.3% at the end of 2020. The decrease in reserve against loan losses were because of release of provisions, net write-offs, and foreign exchange losses.

Table 1

IFC RACF (Risk-Adjusted Capital Framework) Data: June 2021)

(USD mil.)	Exposure	S&P Global Ratings RWA	Average S&P Global Ratings RW (%)
Credit risk			
Government and central banks	24,862	2,665	11
Institutions	40,082	25,531	64
Corporate	22,321	31,577	141
Retail	0	0	0
Securitization	6,115	2,031	33
Other assets	4,960	8,558	173
Total credit risk	98,340	70,362	72
Credit valuation adjustment			
Total credit valuation adjustment			
Market risk			
Equity in the banking book	12,750	32,457	255
Trading book market risk		0	
Total market risk		32,457	
Operational risk			
Total operational risk		12,639	
Risk transfer mechanisms			
Risk transfer mechanisms RWA			
RWA before MLI Adjustments		115,458	100

Table 1

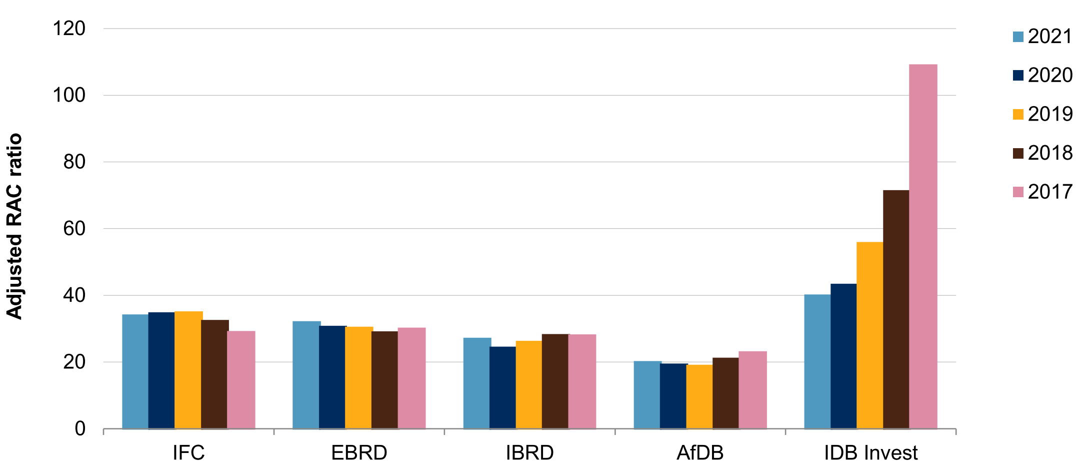
IFC RACF (Risk-Adjusted Capital Framework) Data: June 2021) (cont.)

(USD mil.)	Exposure	S&P Global Ratings RWA	Average S&P Global Ratings RW (%)
MLI adjustments			
Single name (on corporate exposures)		736	2
Sector (on corporate portfolio)		-3,206	-10
Geographic		-19,714	-20
Preferred creditor treatment (on sovereign exposures)		0	0
Preferential treatment (on FI and corporate exposures)		-6,799	-12
Single name (on sovereign exposures)		0	0
Total MLI adjustments		-28,983	-25
RWA after MLI adjustments		86,476	75
		Total adjusted capital	S&P Global Ratings RAC Ratio (%)
Capital ratio before adjustments		29,419	25.5
Capital ratio after adjustments		29,419	34.0

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: Diversified Funding Profile With Strong Access To Markets

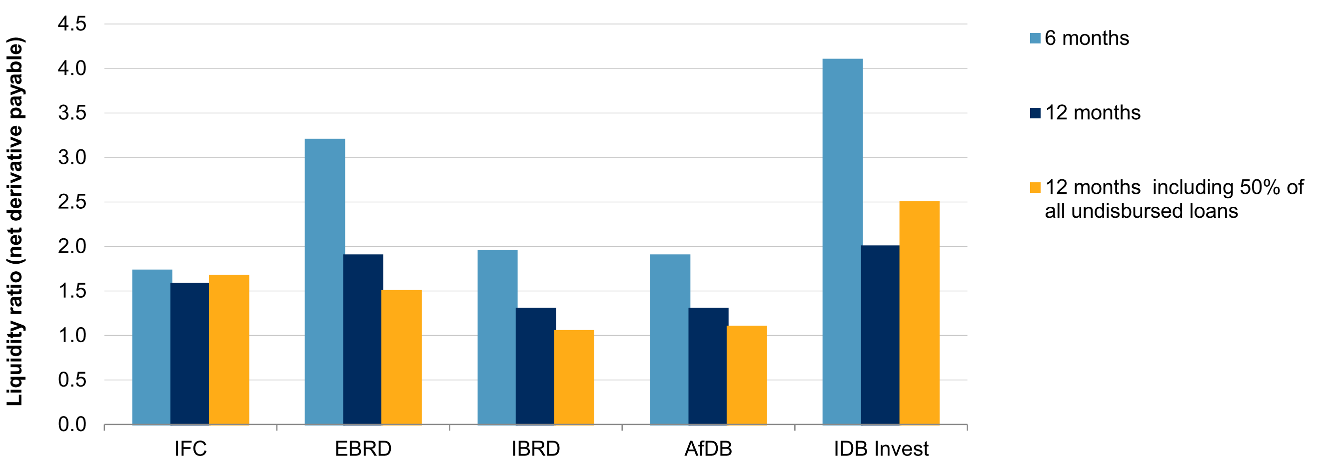
IFC's funding program is broadly diversified by geography and investor type, given the institution's frequent issuance in many markets and currencies. In fiscal-year 2021, IFC raised US$18.2 billion, including discount notes, across 26 currencies, although the U.S. dollar remains its primary funding currency. IFC follows a matched-funding policy under which loan assets are funded by liabilities with similar characteristics in interest rate basis, currency, and maturity, except for new products, approved by the Board of Directors, involving asset-liability mismatches. Use of derivatives allows borrowings and investments in various currencies and interest rate schemes.

Liquidity: Robust Liquidity Indicators

IFC maintains a strong liquid asset cushion, accounting for 48.9% of total adjusted assets and 92.4% of gross debt as of June 30, 2021. Our liquidity ratios indicate IFC would be able to fulfill its mandate as planned for at least one year, even under stressed market conditions, without access to the capital markets. For fiscal-year 2021 data and incorporating our updated liquidity haircuts, our 12-month liquidity ratio considering the netted derivatives position was 1.6x, with scheduled loan disbursements, while the six-month ratio was 1.7x. We estimate that IFC would not need to slow down disbursements under a stress scenario, which considers 50% of all undisbursed loans, regardless of the planned disbursement date, as if they were coming due in the next 12 months.

Chart 4

Liquidity Stress Test Ratios Peer Comparison



Source: S&P Global Ratings.

Extraordinary shareholder support

IFC has no callable capital, so the long-term issuer credit rating reflects our assessment of IFC's stand-alone credit profile at 'aaa'.

Table 2

MLI Selected Indicators					
	2021	2020	2019	2018	2017

Table 2

ENTERPRISE PROFILE					
Policy importance					
Total purpose-related exposure (loans, equity, etc.) (mil. $)	49,888	46,686	47,552	47,653	45,530
Public-sector (including sovereign-guaranteed) loans/purpose-related exposure (%)	0.0	0.0	0.0	0.0	0.0
Private-sector loans/purpose-related exposures (%)	75.9	76.0	71.0	70.0	68.0
Gross loan growth (%)	5.8	2.8	3.3	7.1	7.4
Preferred creditor treatment ratio (%)	N.A	N.A	N.A	N.A	N.A
Governance and management expertise					
Share of votes controlled by eligible borrower member countries (%)	76.9	76.9	76.9	76.9	76.9
Concentration of top two shareholders (%)	29.2	27.0	27.0	27.0	27.0
Eligible callable capital (mil. curr)	N.A.	N.A.	N.A.	N.A.	N.A.
FINANCIAL RISK PROFILE					
Capital and earnings					
RAC ratio (%)	34.0	34.4	34.9	32.3	29.0
Net interest income/average net loans (%)	4.0	4.1	4.0	4.3	5.0
Net income/average shareholders' equity (%)	14.9	-6.3	0.4	5.0	5.9
Impaired loans and advances/total loans (%)	6.5	5.4	3.9	4.1	5.9
Liquidity ratios					
Liquid assets/adjusted total assets (%)	48.9	48.2	49.5	48.1	49.6
Liquid assets/gross debt (%)	92.4	83.3	90.7	85.3	84.7
Liquidity coverage ratio (with planned disbursements):					
Six months (net derivate payables) (x)	1.7	1.6	1.6	1.5	1.9
12 months (net derivate payables) (x)	1.6	1.4	1.5	1.3	1.4
12 months (net derivate payables) including 50% of all undisbursed loans (x)	1.7	1.4	1.5	1.1	1.1
Funding ratios					
Gross debt/adjusted total assets (%)	52.9	57.9	54.5	56.3	58.7
Short-term debt (by remaining maturity)/gross debt (%)	20.5	25.2	20.5	23.5	25.7
Static funding gap (with planned disbursements)					
12 months (net derivate payables) (x)	1.5	1.3	1.2	1.5	1.4
SUMMARY BALANCE SHEET					
Total assets (mil. $)	105,264	95,800	99,257	94,272	92,254
Total liabilities (mil. $)	74,020	70,618	71,651	68,136	67,201
Shareholders' equity (mil. $)	31,244	25,182	27,606	26,136	25,053

Source: S&P Global Ratings.

Table 3

MLI Peer Comparison

	International Finance Corp.	European Bank for Reconstruction and Development	International Bank for Reconstruction and Development	African Development Bank	IDB Invest
Issuer credit ratings	AAA/Stable/A-1+	AAA/Stable/A-1+	AAA/Stable/A-1+	AAA/Stable/A-1+	AA/Positive/A-1+

Table 3

MLI Peer Comparison (cont.)

	International Finance Corp.	European Bank for Reconstruction and Development	International Bank for Reconstruction and Development	African Development Bank	IDB Invest
Total purpose-related exposure (mil.$)	49,888	41,110	227,269	34,079	4,465
Preferred creditor treatment ratio (%)	N.M	N.M	0.2	1.2	N.M
Risk adjusted capital ratio (%)	34	31.6	27.0	20.4	39.5
Liquidity ratio 12 months (net derivative payables; %)	1.6	1.9	1.3	1.3	2.0
Funding gap 12 months (net derivative payables; %)	1.5	2.4	1.4	1.3	3.9

Source: S&P Global Ratings. Fiscal year end for IFC and IBRD is June.

This report does not constitute a rating action.

Related Criteria

- Criteria | Governments | General: Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology, Jan. 31, 2022
- 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: Methodology For Rating Sukuk, Jan. 19, 2015
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Introduction To Supranationals Special Edition 2021, Oct. 27, 2021.
- Supranationals Edition 2021: Comparative Data For Multilateral Lending Institutions, Oct. 27, 2021.
- Supranationals Special Edition 2021, Oct. 27, 2021.
- 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
- ESG Industry Report Card: Supranationals, Feb. 11, 2020

Ratings Detail (As Of March 14, 2022)*		
International Finance Corp.		
Issuer Credit Rating		AAA/Stable/A-1+
Senior Unsecured		A-1+
Senior Unsecured		AAA
Short-Term Debt		A-1+
Issuer Credit Ratings History		
09-Dec-1997	*Foreign Currency*	AAA/Stable/A-1+
05-Apr-1990		AAA/Stable/--
16-Jun-1989		AAA/--/--
27-Dec-2017	*Local Currency*	AAA/Stable/A-1+
09-Nov-1998		--/--/NR
09-Dec-1997		--/--/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.