S&P Global
Ratings

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Agence Francaise de Developpement

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This report does not constitute a rating action.

Credit Highlights

Overview

Key strengths	Key risks
--Crucial role in French foreign policy as the leading development bank.	--Exposure to geographic concentration risk due to its public-policy role.
--Strong history of government capital support.	
--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 successive capital injection from 2021, we expect AFD 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 and a multiyear agreement.

Following the pandemic and the Russia-Ukraine war, asset quality has moderately deteriorated. 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 negative outlook on AFD mirrors that on France. We expect that AFD will retain its critical role for and integral link with the French government, and therefore we expect our ratings on the entity to move in line with those on the sovereign.

Downside scenario

We would lower our rating on AFD within the next 18-24 months if we took a similar rating action on France or perceived a weakening of the group's link with or role for the French government.

Upside scenario

We would revise our outlook on AFD to stable if we took the same action on France and we expected no change in the likelihood of extraordinary support for the group, which we view as almost certain.

Rationale

We regard AFD as a government-related entity that would receive support from France in the event of financial stress with an almost certain likelihood. We base this 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 concessionary 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 Cooperation Economique.

We expect AFD to keep its EPIC d'Etat status (établissements publics à caractère industriel et commercial). 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 in place, in our opinion. 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. Following the 2018 Interdepartmental International Cooperation and Development Committee; AFD's position as a central player in French development aid was confirmed as the government's commitments to international development aid were upscaled to 0.55% of gross national income by 2022 and 0.7% by 2025. In our view, AFD will continue to be the reference point for most of France's initiatives for international development aid. The integration of Expertise France that started in 2021exemplifies the build-up of France's development capabilities under the umbrella of the AFD. This turning point is accompanied by the delivery of a new head office in 2026 and the consolidation of AFD, Proparco, and Expertise France staff into one single building to foster synergies within the group.

The preparation of the 2023-2025 multi-year agreement (Contrat d'objectifs et de moyens) and agency's strategic plan for 2023-2027 (Plan d'orientations stratégiques; POS) are still underway but we expect those will reiterate AFD's current thematic, geographic--with an important focus on Africa, and budgetary objectives. In line with the objectives of the 2018-2022 POS, AFD has significantly increased its financing commitments to more than €12 billion in 2021 and 2022 compared with about €8 billion in 2015. We anticipate that annual commitments will remain high in the coming years at about €12 billion annually. In line with AFD's objectives, at least 50% of those commitments will be for climate change-related projects as AFD's goal to help achieve the sustainable development goals 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 must undergo an ESG evaluation. On the liability side, AFD has established a climate bond framework that is fully aligned with the green bond principles and recently unveiled a new bond framework related to the United Nations' sustainable development goals.

We anticipate the state's ongoing and extraordinary support will be granted in case of need, as proven by a strong track record of capital increases. 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 capital. More recently, France renewed its support in 2020 by deciding a €500 million capital injection in 2021 and the conversion of €900 million 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. In 2023, AFD will benefit from an additional payment of €150 million from the government to convert a portion of the proceeds of the French Treasury loans ("Ressources à Conditions Spéciales") into equity capital (tier 1), supporting AFD's increasing activity and new risks. Total capital ratio stood at 16% on Dec. 31, 2021, still well above the minimum regulatory requirements. AFD's activity is, and will remain, primarily in countries we rate speculative grade (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 when this becomes necessary. The asset quality of the non-sovereign portfolio--which, excluding French overseas territories, represents 32% of total exposures--was affected by the deteriorating economic situations in Sahel, Sri Lanka, Pakistan, Sub-Saharan Africa, and the Russia-Ukraine war. On the non-sovereign portfolio, the nonperforming loans ratio improved to 6.8% by the end of 2021, down from 7.4% as of year-end 2020, although we expect asset quality to deteriorate in 2022 and 2023 on the back of a volatile macroeconomic environment, rising inflation and monetary tightening.

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 funding at favorable rates.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- 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
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Sovereign Ratings List, Feb. 16, 2023
- Sovereign Ratings History, Feb. 16, 2023
- Sovereign Ratings Score Snapshot, Feb. 2, 2023
- Sovereign Risk Indicators, Dec. 12, 2022
- France Outlook Revised To Negative On Rising Budgetary Risks; 'AA/A-1+' Ratings Affirmed, Dec. 2, 2022
- Outlooks On Seven French Government-Related Entities Revised To Negative From Stable After Similar Action On France, Dec. 6, 2022

Ratings Detail (as of February 17, 2023)*

Agence Francaise de Developpement	
Issuer Credit Rating	AA/Negative/A-1+
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	
06-Dec-2022	AA/Negative/A-1+
25-Oct-2016	AA/Stable/A-1+
14-Oct-2014	AA/Negative/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.