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Ratings

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Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.

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This report does not constitute a rating action.

Credit Highlights

Overview

Key strengths	Key risks
Almost certain likelihood of Dutch government support in the event of financial distress.	Activity primarily in speculative-grade economies.
Key Dutch government vehicle for promoting private-sector growth in developing economies.	Sensitivity to currency rates movements, because a large part of private equity portfolio is denominated in U.S. dollars.
Formal agreement with the Dutch government, which has a maintenance obligation on operations and a financial security obligation on commitments.	

Dutch development bank Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO) promotes private-sector growth in developing economies, a public-policy goal in the Netherlands. FMO provides private-sector institutions in developing and emerging countries with financial support, capital, and skills. This forms part of the general policy of the Netherlands' Ministry of Development Cooperation, and therefore qualifies as a strategically important activity. FMO arranges loans, equity investments, guarantees, and other investment promotion activities. It also manages several off-balance-sheet development funds on behalf of, and at the risk of, the Dutch government.

The Netherlands' long-term commitment to, and support of FMO is demonstrated by the sovereign's obligation to safeguard the company's solvency. Under Article 7 (Maintenance Obligation) of the agreement between the Dutch state and FMO, the government is committed to covering all losses from operations that cannot be covered by provisioning and reserves. Under Article 8 (Financial Security Obligation), the government will prevent situations in which FMO is unable to meet its commitments on time. Commitments include funding raised in capital markets.

We expect FMO will report a net profit in 2021, following its net loss in 2020. The economic recovery and U.S.-dollar appreciation led to significant gains in the entity's private equity portfolio this year. Three-quarters of FMO's portfolio are dollar-denominated. The entity booked a net profit of €198 million in first-half 2021. For the same period in 2020, the global decline in emerging market equity valuations due to the pandemic led to a net loss of €280 million.

Outlook

The stable outlook on FMO mirrors that on the Netherlands (unsolicited; AAA/Stable/A-1+). This reflects S&P Global Ratings' expectation that the formal agreement with the Dutch government regarding state support of the entity will continue.

Downside scenario

We would lower our ratings on FMO following a similar rating action on the Netherlands. In the unlikely event that we were to reassess the entity's integral link with and critical role for the Dutch government, and therefore see a lower probability of extraordinary government support, we could lower our ratings on FMO to below those on the Netherlands.

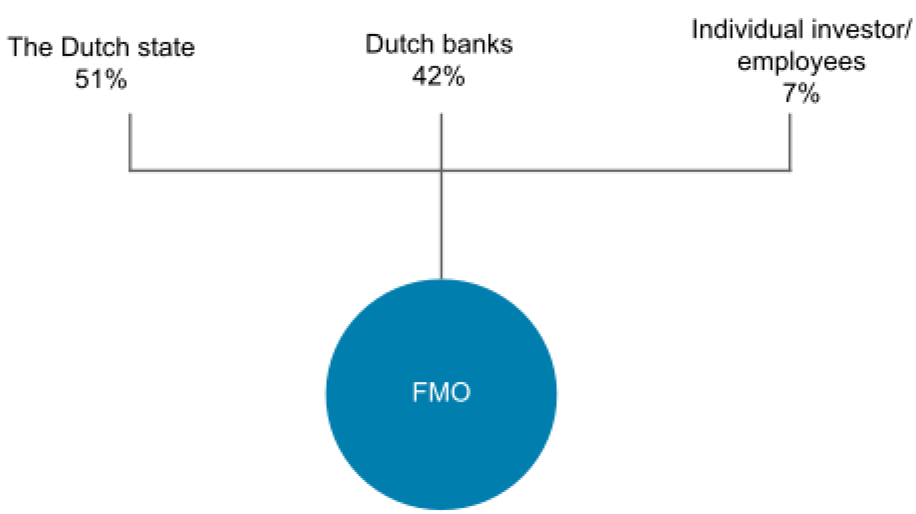
Rationale

We equalize our ratings on FMO with those on the Netherlands. Based on our view of the entity's critical role for and integral link with the Dutch government, we consider that there is an almost certain likelihood that the government would provide timely and sufficient extraordinary support to FMO in the event of financial distress.

Our view of almost certain government support for majority state-owned FMO hinges on the bank's:

- Critical role as the key government vehicle for promoting private-sector growth in developing countries, a public-policy goal in the Netherlands; and
- Integral link with the Dutch government, which exercises control of and strong support for FMO, despite partial ownership. We base this on the government's formal obligation to maintain FMO's operations, its liquidity injections, and commitment to preserve FMO's solvency.

FMO (Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.) Ownership Structure



Source: FMO

The 1998 agreement with the government formally codifies sovereign support to FMO. Established in 1970, FMO is a public-private development bank. Its majority shareholder is the Dutch government (51%), with the remaining shares held by large Dutch banks (42%), alongside employers' associations, trade unions, and individual investors (7%). The Netherlands' long-term commitment to, and support of, FMO is demonstrated by the sovereign's obligation in most circumstances to safeguard the company's solvency. Under Article 7 of the agreement (Maintenance Obligation) of the agreement, the Dutch state is committed to covering all losses from operations that cannot be covered by general or specific provisioning and reserves. Under Article 8 (Financial Security Obligation), the Dutch state will prevent situations in which FMO is unable to meet its commitments on time. Commitments include funding raised in capital markets. However, FMO's creditors have no direct recourse to the Dutch government. Instead, the government has an obligation to FMO. We understand that, although the state does not explicitly guarantee FMO's individual obligations, it views its maintenance and financial obligations as equivalent to a statutory guarantee. The agreement's termination by either party requires 12 years' notice.

FMO supports private sector business and financial institutions in emerging markets. FMO provides private-sector institutions in developing and emerging countries with capital and skills, focusing on energy, financial institutions, and agribusiness, food and water industries. This forms part of the general policy of the Netherlands' Ministry of Development Cooperation, and therefore qualifies as a strategically important activity. FMO arranges loans, equity investments, guarantees, and other investment promotion activities. In addition, it manages several off-balance-sheet development funds on behalf of, and at the risk of, the Dutch government. FMO manages the following government funds that finance high-risk projects in developing countries, such as:

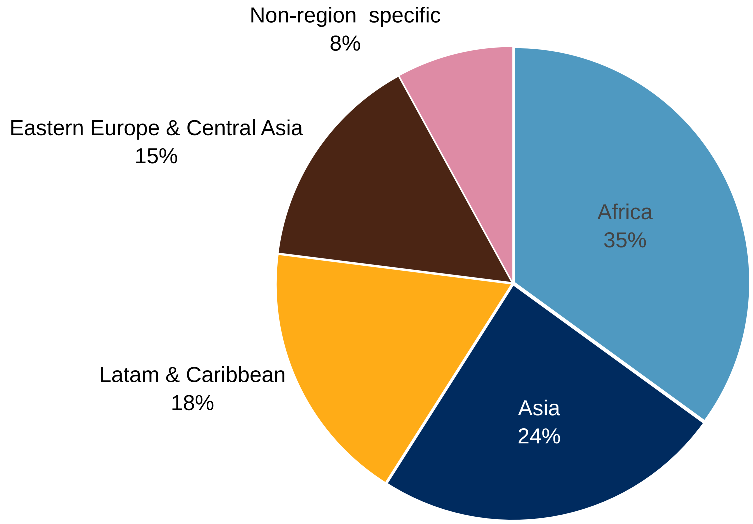
- MASSIF: A fund aiding the development of micro, small, and midsize enterprises via financial institutions;
- Building Prospects: The long-term financing of funds earmarked for infrastructure projects in low-income countries;
- AEF: A fund financing energy projects; and
- The Dutch Fund for Climate and Development.

FMO plays a key role in the government's sustainable development initiatives. In October 2021, the entity's new joint venture with the government, Invest International, became fully operational. FMO holds 49% of shares in Invest International, with the Dutch state holding the remaining majority. Invest International assumes FMO’s NL Business team, activities, and portfolio with the purpose of financing Dutch-based companies’ international activities abroad, and ultimately carrying out the government’s sustainable development goals. Invest International offers financing from its own share capital but also from government funds that are accessible to Dutch start-ups, SMEs and public infrastructure projects. We view this partnership as renewed evidence of the crucial role FMO plays in the government’s domestic and international policy objectives.

In 2019, FMO won the tender to manage the €160 million Dutch Fund for Climate and Development on behalf of the Dutch Ministry of Foreign Affairs. It will do so in a consortium with SNV Netherlands Development Organization, the World Wide Fund for Nature, and Climate Fund Managers. We believe this is further evidence of the critical public-policy role FMO plays with respect to wider national policy objectives and its direct partnership with the government. In first-half 2021, in line with the Dutch government’s policy objectives toward the U.N.'s sustainable development goals (SDGs), the entity's total committed portfolio reached €12 billion for decent work (labor market conditions that respect fundamental workers’ rights and safety) and economic growth (SDG 8), €3.8 billion for reducing inequalities (SDG 10), and €3.8 billion for supporting climate action (SDG 13).

The economic recovery and U.S.-dollar appreciation led to significant gains in FMO’s private equity portfolio in 2021, following a net loss in 2020. We expect the entity will report a net profit in the next few years, supported by the global economic recovery. We are projecting growth of 5.3% in emerging markets in Europe, the Middle East, and Africa this year, and 2.7% on average in 2022-2024. However, the resurgence of COVID-19 and low vaccination rates in some emerging economies represent significant risks to our forecasts. In first-half 2021, FMO booked a net profit of €198 million. The economic recovery and U.S. dollar's appreciation led to significant gains in the entity's private equity portfolio. Three-quarters of the portfolio is dollar-denominated, which makes it sensitive to exchange rate movements. In 2020, the global decline in emerging market equity valuations following the pandemic led to a net loss of €205 million, FMO’s first since 1991. The pandemic's enduring impact on credit quality has been limited so far; the nonperforming loan ratio increased moderately to 9.8% from 9.1% in 2020, largely due to the February 2021 military coup in Myanmar and deterioration in South Africa. FMO remains well-capitalized with a total capital ratio of 25% representing a 100 basis-point increase from 2020 due to both an increase in shareholder’s equity and a reduction in risk-weighted assets.

FMO's Total Committed Portfolio By Region



Latam--Latin America. As per Dec. 31, 2020. Source: FMO.

FMO's full banking license enhances its access to the international capital markets and widens its financing options. A fully licensed bank since 2014, FMO can benefit from any emergency monetary policy measures that the European Central Bank (ECB) adopts. Moreover, within the ECB's public-sector purchase programs (PSPP), securities issued by FMO remain eligible for the Eurosystem's expanded asset purchases. Although the inclusion of FMO's securities does not have a significant impact on its already-favorable borrowing conditions, partly because only slightly more than one-third of the funding portfolio is denominated in euros, we think that including FMO's securities in the ECB's PSPP benefits FMO's funding options. FMO is subject to the EU's Bank Recovery and Resolution Directive, as implemented under Dutch law, with the competent resolution authority being the Dutch central bank.

Related 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
- Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Netherlands, Nov. 15, 2021

Ratings Detail (as of December 21, 2021)*

Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.	
Issuer Credit Rating	AAA/Stable/A-1+
Commercial Paper	
Foreign Currency	A-1+
Senior Unsecured	AAA
Issuer Credit Ratings History	
25-Nov-2015	AAA/Stable/A-1+
26-May-2015	AA+/Positive/A-1+
29-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.