FMO

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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 focused on emerging markets.
Key government vehicle for promoting private-sector growth in emerging economies.	Sensitivity to foreign-currency movements as the majority of its private equity portfolio is denominated in U.S. dollars.
Formal agreement with the state, which has a maintenance obligation on its operations and a financial security obligation on its commitments.	Climate risk due to FMO's investments' exposure to physical and transition risks, which necessitate robust integration into the investment process.

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

FMO and the Dutch government entered into an agreement on April 21, 2023, amending the 1998 Keep-Well Agreement. The financial security obligation under Article 5 assigns the state the irrevocable and unconditional responsibility for ensuring FMO meets its financial obligations--including servicing debt raised in the capital markets--on time and under all circumstances, notably by providing liquidity. The maintenance obligation under Article 4 ensures the government will make sufficient financial resources available to FMO if FMO begins to show signs of financial stress.

S&P Global Ratings expects FMO to report a higher net profit this year than in 2023. The appreciation of the U.S. dollar against the euro has boosted FMO's financial performance, resulting in an upward adjustment in private equity portfolio valuations, while regular income declined as of first-half 2024 due to lower net interest income in comparison to last year. FMO booked a net profit of €134 million in the first half of this year.

Outlook

The stable outlook on FMO mirrors that on the Netherlands (unsolicited; AAA/Stable/A-1+). This reflects our expectation that the formal agreement regarding the Dutch government's support of FMO will remain in place.

Downside scenario

We would lower our ratings on FMO following a similar rating action on the Netherlands. We could also lower our ratings on FMO to below those on the Netherlands in the unlikely event that we revised down our assessment of FMO's role for and link with the Dutch government, and therefore saw a lower probability of extraordinary state support.

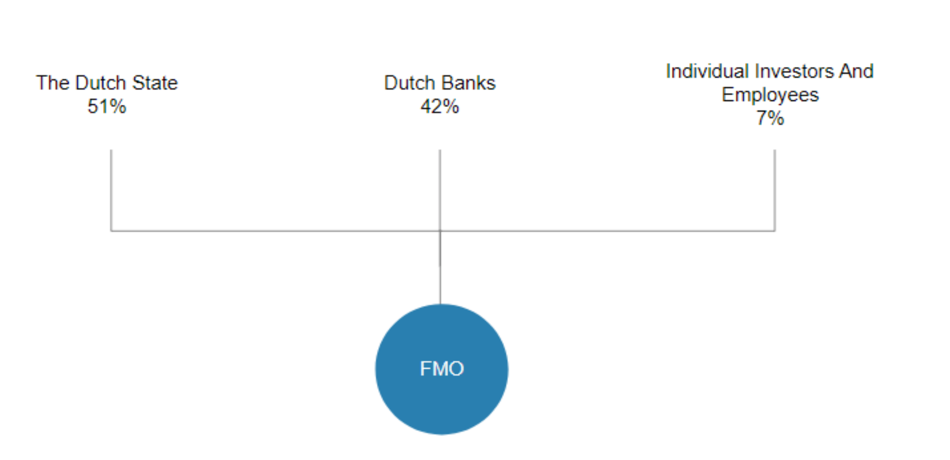
Rationale

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 reflects the bank's:

- Critical role for the Dutch government as the key vehicle for promoting the state's public-policy goal of fostering private-sector growth in developing countries; and
- Integral link with the government, which exercises control of and strong support for FMO, a majority state-owned company.

The ownership structure for Nederlandse Financierings-Maatschappij voor Ontwikkekingslanden N.V (FMO) is as follows:



Source: Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.

The new 2023 agreement with the government amends the 1998 Keep-Well Agreement. 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%). On April 21, 2023, FMO and the Dutch government entered into an agreement amending that of 1998. The updated agreement formally codifies extraordinary sovereign support to FMO, particularly with respect to the state's financial security obligation and maintenance obligation. Article 5 (formerly article 7 in the 1998 version on financial security obligation) assigns the state the irrevocable and unconditional responsibility for ensuring FMO meets its financial obligations--including servicing debt raised in the capital markets--on time and under all circumstances, notably by providing liquidity. Article 4 of the agreement (formerly article 7 in the 1998 version on maintenance obligation) ensures the government will make sufficient financial resources available to FMO, if FMO begins to show signs of financial stress. 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 financial security (and maintenance) obligation as equivalent to a statutory guarantee. The agreement has an indefinite term and its termination by either party requires 12 years' notice. The new 2023 agreement introduces a debt ceiling and the payment of a premium to the state. In our view, these do not weaken the likelihood of government support for FMO. The debt ceiling is significantly higher than FMO's current outstanding debt and provides FMO with sufficient capacity to expand its balance sheet over the next 10 years. We understand that the premium has a minimal impact on FMO's financials.

FMO supports private-sector business and financial institutions in developing markets by providing financial support, capital, and skills. It focuses on the energy sector, financial institutions, and the 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 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.

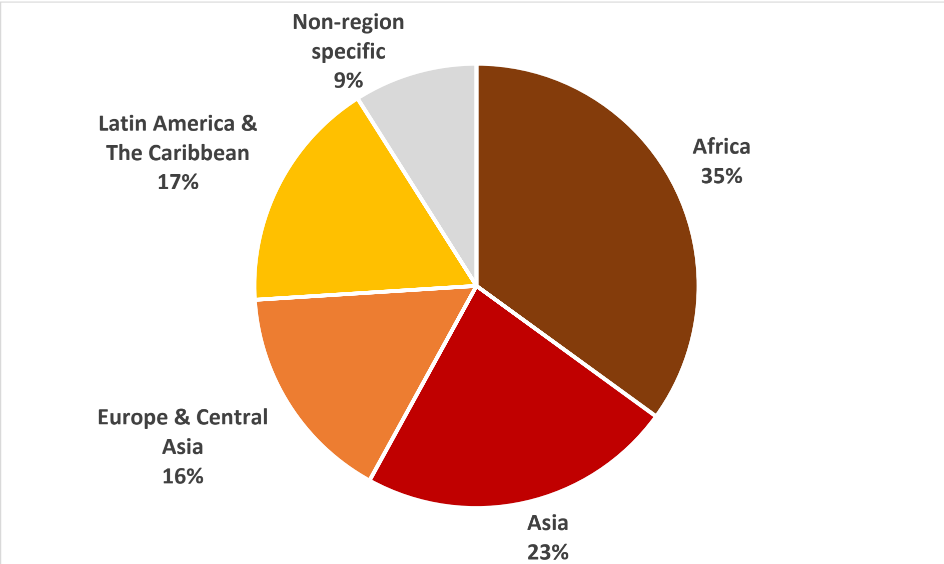
FMO continues to play a key role in the government's sustainable development initiatives. For example, recently FMO and TDB, the Eastern and Southern African Trade & Development Bank, announced the signing of a $394 million sustainability-linked loan to boost African agriculture. The loan financed eight small hydro projects in Kenya, providing over 10,000 people and local businesses with reliable, affordable electricity. FMO also signed the first-ever green bond in Madagascar with the IFC and Proparco for $37 million to boost renewable energy in the country. In September, in collaboration with the U.K. government, FMO announced a $55 million commitment to reforestation in Latin America.

FMO is the lead organization that manages the DFCD on behalf of the Dutch Ministry of Foreign Affairs. It works in partnership with SNV Netherlands Development Organization, World Wide Fund for Nature, and Climate Fund Managers. DFCD enables private sector investment in projects aimed at climate adaptation and mitigation in developing countries. We see this as further evidence of the key public-policy role FMO plays with respect to wider national policy objectives and its direct partnership with the government. In the first half of 2024, 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 €13.5 billion for decent work (labor market conditions that respect workers' fundamental rights and their safety) and economic growth (SDG 8), including €4.5 billion for reducing inequalities (SDG 10), and €4.9 billion for supporting climate action (SDG 13) from €13 billion, €4.35 billion and €4.4 billion respectively a year before. FMO’s three largest country exposures, amounting to about 25% of the entire loan portfolio, are India, Turkiye, and Georgia.

In recent years, interest rate tightening triggered by monetary policy decisions amid high inflation has led to downward adjustments in FMO’s private-equity portfolio valuations. However, the ongoing monetary easing by the Fed and ECB will have positive effects on FMO’s balance sheet. In the first half of 2024, FMO booked a net profit of €134 million, compared with €44 million in the same period in 2023, due to the U.S. dollar strengthening against the euro and the devaluation of local currencies against the dollar. More than three quarters of the portfolio is U.S.-dollar-denominated, and local currency is ultimately swapped to dollars, which makes it sensitive to exchange rate movements and places FMO in a favorable position given the current currency market context. Despite its current strength, the U.S. dollar might not maintain its performance into 2025. Nonperforming loans decreased during the first half of 2024 to 9.5%; from 9.8% in 2023. This follows an even steeper decline in 2023, from 11.9% at year-end 2022, primarily reflecting the reclassification of the Sri Lanka portfolio to performing status after the Sri Lankan government’s agreement with the IMF. We consider FMO's exposure to economies where political tensions are significant, such as Ukraine, Sri Lanka, and Myanmar, to be a source of additional risks.

Overall, FMO appears to be well-capitalized and had a total capital ratio of 22.7% at mid-2024. This represents a decrease in the total capital ratio of 0.3 percentage point from end-2023, with the decline resulting mainly from higher risk-weighted assets and lower own funds.

FMO’s Total Committed Portfolio by Region



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 were eligible for the Eurosystem's expanded asset purchases. Although the inclusion of FMO's securities did not have a significant impact on its already-favorable borrowing conditions, partly because only slightly over one-third of the funding portfolio is denominated in euros, we believe that FMO's full banking license benefits its 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

- 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 Risk Indicators, Dec 11, 2023
- Netherlands, Oct.20, 2023

Ratings Detail (as of December 04, 2024)*	
Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.	
Issuer Credit Rating	AAA/Stable/A-1+

Ratings Detail (as of December 04, 2024)*	
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.