

# Agence Française de Développement

February 18, 2025

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 on top of the French government financed reserve account to compensate for sovereign credit risk.	Prolonged lower budgetary allocation to development aid from the French government.
Almost certain likelihood of timely and extraordinary government support from the central government in a potential financial stress scenario.	

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**Agence Française de Développement (AFD, AA-/Stable/A-1+) will remain a key player in French foreign policy.** AFD fills a crucial role for the French government's development aid policy, with a special focus on sustainable development. We expect the group will benefit from the strong track record of support from the central government.

**We expect the government will maintain tight oversight over AFD.** The state closely monitors AFD's operations because it is a public financial institution fully owned and directly controlled by the central government. It sets the agency's targets and resources through a well-defined strategic plan (Plan d'orientations stratégiques) and a multiyear agreement (Contrat d'objectifs et de moyens).

**The government's lower budgetary allocation to international development aid will affect the AFD.** In a context of deteriorated public finances, France's 2025 budget lowers materially the amounts allocated for international aid by 35% (from almost €6 billion in 2024 to €3,8 billion in 2025). We think that an annual commitment of €12 billion in 2025 is feasible but will require the AFD to adapt its means of intervention. Should budget allocations remain materially lower in the coming years, it would likely affect its business plan and objectives.

## Outlook

The stable outlook on AFD mirrors that on France (unsolicited; AA-/Stable/A-1+). We think that AFD will retain its crucial role for and integral link with the French government, and therefore we expect our ratings on the entity to continue to move in line with those on the sovereign.

### Downside scenario

We would lower our rating on AFD 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 raise our rating on AFD if we took the same action on France and we expected no change in the likelihood of the government's 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.** 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 Coopération Economique.

**We anticipate that AFD will keep its EPIC d'Etat status** (établissements publics à caractère industriel et commercial) **and view the French government as ultimately responsible for its solvency because AFD is an EPIC d'Etat.** 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. The state could intervene swiftly if needed 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. It is not likely that 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 AFD. The agency's position as a central player in French development aid was confirmed following the 2018 Interdepartmental International Cooperation and Development Committee, this is because the government's commitments to international development aid were upscaled 0.7% by 2025, postponed in 2023 to 2027. However, the recent decision to cut materially official development aid in the 2025 budget could make reaching this objective challenging.

**Lower budgetary allocation to international development aid in the government's 2025 budget will affect the AFD's way of doing business to reach its targets.** Given France's budgetary consolidation efforts following consecutive fiscal slippages, the 2025 budget cut

overall development aid allocation by about 35% from approximately €6 billion allocated in 2024 to €3.8 billion. To be able to stabilize its annual commitments at about €12 billion in 2025, the AFD will have to adapt its strategy and the mix of instruments used, in favor of loans instead of grants. While challenging, we think reaching this objective is doable. Nevertheless, uncertainty remains and visibility for the following years is low. Subsequent cuts in budgetary allocation would likely affect overall objectives and lead to a downsize in the AFD's activity instead of the current stabilization we expect.

**Despite the challenging operating environment and lower allocation, we anticipate that AFD will continue to be the reference point for most of France's initiatives for international development aid.** The first year of the AFD group was 2023, including AFD (financing the public sector and nongovernmental organizations), its subsidiary Proparco (dedicated to private sector financing), and Expertise France (the technical cooperation agency). The delivery of a new head office and the consolidation of AFD, Proparco, and Expertise France staff into a single building is still expected at the end of 2026. It is anticipated to foster synergies within the group, accompanying the internal restructuring. Reinforcing links between the three entities is a strategic priority for the group and exemplifies AFD's capabilities build-up.

**We think that the state's ongoing and extraordinary support will be granted if needed, 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. The agency also benefits from a reserve account financed by the French government to cover sovereign risks.

**As of Dec. 31, 2023, the total capital ratio stood at 14.95% (down from 14.98% as of Dec. 31, 2022), still well above the minimum regulatory requirements of 11.75%.** 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. That said, the French state carries the credit risk on sovereign exposure (60% of AFD's exposure), because the French treasury directly negotiates restructuring with sovereign creditors when this becomes necessary. Therefore, the group's risk exposure is mainly driven by Proparco. AFD benefits from a conservative market risk policy, all issues and loans being swapped into euro floating rate to mitigate foreign-exchange and interest-rate risks.

**Lacking a deposit base, AFD relies mostly on wholesale funding.** However, we think 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, 2024
- Sovereign Ratings History, Feb. 16, 2024
- Sovereign Ratings Score Snapshot, Feb. 13, 2024
- Sovereign Risk Indicators, Dec. 11, 2023
- France, Dec. 1, 2023
- 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, 2025)\*

Agence Francaise de Developpement	
Issuer Credit Rating	AA-/Stable/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	
04-Jun-2024	AA-/Stable/A-1+
06-Dec-2022	AA/Negative/A-1+
25-Oct-2016	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.

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