S&P Global
Market Intelligence

Benefits of Leveraging a Comprehensive Project Finance Credit Assessment Scorecard

Client: A leading large Multilateral Latin American Development Bank (bank)

Users: Latin American credit risk teams located in five major countries

This large, Latin America Multilateral Development Bank finances projects related to new infrastructure or improvement of existing regional systems to promote the economic integration and the balanced economic and social development of the Latin American region. S&P Global Market Intelligence ("Market Intelligence") worked with the bank's credit risk teams that focus on monitoring their Project Finance Portfolio and making decisions about new financing opportunities. The bank wanted to establish and formalize a credit scoring approach for the entire organization.

Pain Points

The credit risk teams needed to estimate Probability of Default (PD) for Project Finance transactions, but did not have the extensive internal default data necessary for the construction of statistical models that could be robustly calibrated and validated. The bank wanted to introduce a methodology that would consistently assess creditworthiness and also enable credit analysts to evaluate the credit impact of the Environmental, Social and Governance (ESG) factors. The bank was looking for an approach that would provide detailing and visualization of the impact from ESG factors on creditworthiness and ultimately quantification of the contribution of ESG factors to resultant credit risk score.

The Solution

Market Intelligence suggested that the bank leverage the proprietary ESG Enhanced Project Finance Scorecard solution. This tool would provide the bank with a comprehensive evaluation model that could help the credit risk teams to identify issues with Project Finance portfolios as well as understand the various factors affecting their creditworthiness.

The ESG enhanced Project Finance Scorecard solution includes:

- **Microsoft Excel based model** that provides a consistent framework for calculating credit risk
- **Identification of Default Risk** through a granular 20-point rating scale. Users can generate PD values for Project Finance portfolio(s) and perform sensitivity analyses, scenario analyses, and stress tests
- **Scores that are designed to broadly align with S&P Global Ratings**[1] supported by historical default data dating back to 1981
- **ESG factors' impact on creditworthiness,** which is part of a holistic approach to assessing credit risk. ESG credit factors are considered in detail, enabling the bank to assess their impact on credit risk while working through the regular credit assessment process
- **Technical documentation** describing the analytical/statistical processes used to develop the model, identifying the data used in the construction, and providing testing performance results
- **Scorecard implementation and application training workshops** in your preferred/native language
- **Ongoing analytical and operational support**

[1] S&P Global Ratings does not contribute to or participate in the creation of credit scores generated by S&P Global Market Intelligence. Lowercase nomenclature is used to differentiate S&P Global Market Intelligence PD credit model scores from the credit ratings issued by S&P Global Ratings.

Key Benefits

Market Intelligence provided a methodology and an efficient model to evaluate Project Finance credit risk.

Credit risk teams value having:

- **An efficient and easy-to-use approach** for scoring portfolios of Project Finance that provides broad coverage
- **Market Intelligence's annual review process,** which validates its models to maintain performance and reflect updates in the User Guide

To learn more about how we help Development Banks of all sizes optimize Project Finance risk assessment, contact our team at pages.marketintelligence.spglobal.com/pf-casestudy for a personalized tour of our offerings.

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