

# MOODY'S

## RATINGS

### **Rating Action: Moody's Ratings changes the outlook on BOAD to stable, affirms the ratings at Baa1**

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30 Sep 2024

New York, September 30, 2024 -- Moody's Ratings (Moody's) has today changed the outlook to stable from negative on The West African Development Bank (BOAD) and affirmed the foreign currency long-term issuer and the foreign currency senior unsecured ratings at Baa1.

The change in outlook to stable from negative reflects our expectation that the strengthening of the bank's balance sheet and recent improvement in asset performance will be preserved, bolstering its capacity to navigate a still challenging operating environment. The ongoing enhancement of BOAD's balance sheet effectively mitigates potential downside pressures on asset performance, supported by the bank's effective use of portfolio credit enhancement tools, sound governance principles and risk management framework. The removal of sanctions by the Economic Community of West African States (ECOWAS) on the Alliance of Sahel States (AES countries) and the subsequent resolution of outstanding arrears by Niger have supported BOAD's asset performance.

The affirmation of the Baa1 rating reflects BOAD's strong capital support from shareholders, both on an ongoing basis and on an extraordinary basis, and its strong liquidity and funding profile, of which central bank refinancing access is a feature. These strengths mitigate heightened political and insecurity challenges in the Sahel region, which create a particularly challenging operating environment for the bank. The bank's role as a development institution committed to member countries of the West African Economic and Monetary Union (WAEMU) secures strong commitment from sovereign borrowers for repayment, reinforcing its preferred creditor status. However, this characteristic also subjects it to risks uniquely correlated with and specific to the region as membership and credit exposures are concentrated in this area affecting credit risk, operational risk and liquidity risk.

#### RATINGS RATIONALE

#### RATIONALE FOR THE CHANGE IN OUTLOOK TO STABLE

## BOAD CONTINUES STRENGTHENING ITS CAPITAL STRUCTURE AND ITS LIQUIDITY POSITION

The change in outlook to stable reflects our expectation that the bank's efforts to continue to improve its capital adequacy in the face of a challenging operating environment will largely be successful. The bank is supporting its capital adequacy thanks to the implementation of the general capital increase as well as the issuance of hybrid capital instruments and the addition of new highly rated non-regional shareholders. The ongoing implementation of the capital increase will result in capital payments averaging \$120 million each year between 2024 and 2027, or 18% of the paid-in capital available at end of 2023. \$222 million worth of new class-B shares are reserved to new highly rated non-regional shareholders, of which a first \$30 million stake was provided by the Arab Bank for Economic Development in Africa (Aa1 stable) in 2023. Overall, we expect our leverage ratio – defined as the sum of development-related asset and treasury assets rated A3 or below divided by useable equity – which we use to measure the capital position of the bank, to continue to significantly improve stabilizing at around 250% by the end of 2027 from 304% in 2023 and 337% in 2021.

Continued improvement in BOAD's asset performance, as evidenced by a decline in the non-performing loan (NPL) ratio to 2.4% in 2023 (which excludes the arrears accumulated by the government of Niger as per the bank's audited account) from 2.7% in 2022. The bank's NPL ratio has remained relatively stable over the past four years, demonstrating resilience in the face of various challenges, including the pandemic, global inflationary pressures, and recent political instability in West Africa. We expect NPLs will continue to decline by end-2024, given the resolution of exposures and the expansion of the bank's portfolio.

While BOAD's weighted average borrower rating remains very weak at "caa" and a long term credit constraint on the rating, the bank has been increasingly using credit enhancement tools such as non-payment insurance and securitisation to support the overall credit quality of its portfolio. The bank's management is committed to pursue this trend of further protecting and optimising its balance sheet. The initiatives aimed at strengthening the bank's capital, along with innovative and proactive risk management strategies for its portfolio, demonstrate robust governance principles and a comprehensive risk management framework. These initiatives will help the bank navigate potential, renewed pressure on asset performance amid a still challenging operating environment linked to the ongoing political crisis in the Sahel.

BOAD's liquidity has also strengthened over the last few years. Availability of liquid resources, which we define as liquid assets readily available to net cash outflows for the next 18 months, has significantly improved, reaching 144% in 2023 against 90.4% in 2022, in line with MDB Baa-rated peers.

## REMOVAL OF ECOWAS SANCTIONS ON AES COUNTRIES REDUCES RISKS FOR THE BANK

The second driver supporting the change in outlook is the removal of ECOWAS sanctions on AES countries in February 2024, facilitating the clearance of payments in arrears by the Niger, which, along with Mali and Burkina Faso, the two other AES countries, constituted approximately 32% of BOAD's loan portfolio at the end of 2023.

The economic and financial sanctions previously in place, especially those imposed on Niger by ECOWAS on August 2, 2023, had led to significant commercial debt service arrears, amounting to more than CFA 300 billion (over \$500 million or 3.1% of GDP), primarily owed to banks within the WAEMU. For BOAD, these arrears had reached CFA 34.2 billion by April 2024 or 2.9% of its useable equity and 1.2% of its outstanding development assets. Following the sanctions being lifted in February this year, Niger cleared 50% of its arrears with BOAD and established a repayment plan for the remainder, which has been since successful.

The probability of ECOWAS reinstating these sanctions is low because of their ineffectiveness in forcing the organization of democratic election in the AES countries. This substantially reduces the likelihood of sanctions being imposed on key members causing lasting default in future which would be detrimental to the bank's credit profile.

#### RATIONALE FOR THE AFFIRMATION OF BOAD'S RATING AT Baa1

The affirmation of the Baa1 rating reflects BOAD's strong capital commitment from shareholders and its strong liquidity and funding profile, of which central bank refinancing access is a credit-positive feature. The bank's robust intrinsic financial strength will ultimately support the bank in expanding its activities and delivering on its mandate while still deleveraging. Meanwhile, we expect that BOAD's liquidity position as defined by the bank— in excess of 25 months of net cash outflows at the end of 2023 – will remain robust in the coming years. The Bank has no large maturities due before 2027, when BOAD's \$850 million eurobond issued in 2017 will mature.

Heightened risks from the Sahel region amid persisting insecurity and political volatility represent a still-challenging operating environment, even after the removal of the sanctions. The AES countries represented 32% of the bank's loan portfolio, which means that the bank will remain inherently exposed to these risks. Moreover, while the bank initiated a move toward a more diversified source of capital, the bank's risk exposure, whether for credit risk, operational risk, liquidity risk, remains mostly concentrated on risks to the WAEMU.

#### ENVIRONMENTAL, SOCIAL AND GOVERNANCE CONSIDERATIONS

BOAD's credit impact score (CIS-2) indicates that ESG considerations are not material to the rating. This reflects sound governance and strong shareholder support, including from the central bank of the WAEMU, that offset moderate exposures to environmental and social risks to a large extent. This assessment also reflects BOAD's pro-active use of credit enhancement tools to increase the resilience of its

portfolio from a challenging operating environment.

BOAD's environmental risk profile score of E-3 reflects the bank's moderate exposure to physical climate risks. Many of BOAD's borrowers in Sub-Saharan Africa are exposed to environmental risks, mostly because of their reliance on large agricultural sectors and thus exposure to extreme weather conditions and natural disasters.

BOAD's social risk issuer profile score of S-3 indicates moderate social exposure driven by some deterioration in customer relations in recent years. This is due in part to heightened political tensions within the WAEMU with the creation of the AES regrouping Burkina Faso, Mali, and Niger, even though the bank remains a strategic promoter of economic development in the WAEMU region.

The governance risk issuer profile score of G-2 reflects BOAD's sound governance principles and prudent risk management framework in line with sector best practices. This is evidenced by the bank's management of a deteriorating operating environment using credit enhancement tools which reflects its ability to innovate to mitigate shocks. BOAD also benefits from the technical support of its strategic shareholder, the central bank of the WAEMU and by its non-regional shareholders.

#### FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

We would consider upgrading BOAD's rating if the bank continues to improve its asset performance and leverage ratio despite increased political instability in the Sahel region as well as a challenging operating environment in West Africa. Moreover, a significant increase in liquidity and funding capacity could also support a higher rating.

Negative pressure would materialize on BOAD's rating in case of a significant deterioration in the bank's capital adequacy as a result of 1) a significant deterioration of the bank's asset performance, for example arising from material losses in relation to the ongoing political crisis in the Sahel region and the increased political tensions between West African countries; 2) the bank's failure to implement its strategy aimed at strengthening its capital base, indicating greater vulnerability to shocks than expected.

The principal methodology used in these ratings was Multilateral Development Banks and Other Supranational Entities published in February 2024 and available at <https://ratings.moodys.com/rmc-documents/414557>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

The local market analyst for this rating is Aurelien Mali, +971 (423) 795-37.

#### REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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At least one ESG consideration was material to the credit rating action(s) announced and described above.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at [https://ratings.moodys.com/documents/PBC\\_1355824](https://ratings.moodys.com/documents/PBC_1355824).

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