Moody’s

Rating Action: Moody’s changes the outlook on BOAD to negative, affirms the rating at Baa1

22 Sep 2023

New York, September 22, 2023 – Moody's Investors Service (Moody’s) has today changed the outlook to negative from stable 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 decision to change the outlook to negative from stable reflects Moody's view that the deterioration of BOAD's operating environment in the West African Economic and Monetary Union (WAEMU) — evidenced by a coup d'état in Niger, after Mali and Burkina Faso — creates significant risks to the Bank's balance sheet. Not only the economic and financial sanctions on Niger result in accumulation of arrears which will negatively affect BOAD’s asset performance and ultimately its capital adequacy, but lasting tensions between the military juntas and the rest of the Economic Community of West African States (ECOWAS) and heightened insecurity in various countries in the region may significantly affect BOAD's balance sheet, given its large exposure to these countries.

The affirmation of the Baa1 rating reflects Moody's view that the risk of a regional conflict remains low at this stage despite the increase in political instability in the Sahel region. Against this, ongoing initiatives launched by BOAD to strengthen its balance sheet continue, including a general capital increase, the use of credit enhancement tools and an innovative approach to balance sheet optimization. The ongoing strengthening of BOAD's balance sheet is likely to offset the deterioration of the Bank's asset performance linked to the sanctions imposed on Niger. If an agreement is found between the ECOWAS and Niger that defines a roadmap for the return to civilian rule, similar to what happened in Mali, Moody's anticipates that BOAD would not bear any direct loss.

RATING RATIONALE

RATIONALE FOR NEGATIVE OUTLOOK

BOAD'S OPERATING ENVIRONMENT IS INCREASINGLY CHALLENGING

The first driver supporting Moody's decision to change the outlook on BOAD to negative is the increasingly challenging operating environment in the WAEMU. The coup d'état in Niger at the end of July 2023 pushed the ECOWAS into a deeper political crisis. It follows a decade-long of fight against violent extremism in the Sahel region which ultimately contributed to successive coups d'état in Mali and Burkina Faso. Political instability and security challenges in the WAEMU region, and by extension in the ECOWAS, indicate potential severe economic and financial instability that could result in significant losses on BOAD's balance sheet beyond Moody's current assessment. In particular, the risk of an escalation of the tensions opposing the military juntas on one side and the rest of the ECOWAS on the other side — with a full-blown conflict still considered a low probability at this stage by Moody’s — will potentially be detrimental to the region and BOAD in particular. Under such a scenario, the functioning of WAEMU’s institutions, including BOAD, is likely to be severely weakened with the suspension of three of its members.

BOAD'S ASSET PERFORMANCE AND CAPITAL ADEQUACY ARE DETERIORATING DUE TO ECOWAS SANCTIONS IMPOSED TO NIGER

The second driver supporting the negative outlook is the likely deterioration of BOAD’s asset performance in particular due to the imposition of economic and financial sanctions on Niger by the ECOWAS and the WAEMU. Because its
treasury account is frozen at the regional central bank, the Banque Centrale des États de l'Afrique de l'Ouest (BCEAO), the government of Niger is accumulating arrears on all its lenders, including BOAD. Additionally, all Niger-based private borrowers may have difficulty to repay BOAD, given the ongoing moratorium on cross-border financial transfers issued from Niger. BOAD's exposure to Niger accounted for 12.9% of its total portfolio (equivalent to 29% of equity) at the end of 2022, which is significant. The longer the duration of these sanctions, the weaker Niger-based borrowers will become and the more arrears' payments BOAD will accumulate. By the end of 2023, Moody's estimates arrears payments to BOAD will accumulate to around CFA 26 billion from outstanding loans to the government of Niger as well as the bank's exposure to Niger via its treasury assets holdings. While Moody's will consider as non-performing loans any loan that has been in arrears for more than 90 days, the Bank is likely to consider Niger's exposure as past due but not impaired and will expect a resolution of the arrears to occur as soon as the sanctions are lifted, similarly to the case of Mali in 2022. BOAD has also stopped all disbursements and approvals of new loans to Niger-based borrowers, including the sovereign.

RATIONALE FOR THE AFFIRMATION OF BOAD'S RATING AT Baa1

The affirmation of BOAD's rating at Baa1 reflects Moody's view that the risk of a regional conflict remains low at this stage and that BOAD's credit metrics will remain consistent with its rating despite heightened uncertainty. While BOAD's asset performance is deteriorating, several initiatives launched by the Bank to strengthen its capital position are likely to offset the deterioration of its capital adequacy, bar a regional escalation of the conflict. In effect, the ongoing general capital increase will result in capital payments averaging $126 million each year between 2023 and 2027. Additionally, the Bank has been innovative concerning the optimization of its balance sheet, using securitization and credit enhancement tools, such as the use of portfolio insurance and the attempt to issue hybrid capital instruments. Moody's expects that BOAD's liquidity position — currently in the excess of 20 months of net cash outflows at the end of June 2023 — will remain strong despite the situation in Niger. The Bank has no large maturities due before 2027, when BOAD's $850 million eurobond issued in 2017 will mature. With the capital increase and the arrival of highly rated non-regional shareholders, BOAD's member support will strengthen over time. For example, the concurrent increase in callable capital will reinforce the existing contractual support for the Bank.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE CONSIDERATIONS

BOAD's credit impact score is neutral to low (CIS-2), reflecting sound governance and strong shareholder support, including from the central bank of the WAEMU, notwithstanding moderate exposure to environmental risks.

BOAD's moderate environmental exposure (E-3) is driven by its 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 exposure to social risks is limited (S-2). Customer relationships are strong given the bank's role and importance as the strategic promoter of economic development and second largest financier in the WAEMU region.

The governance issuer profile score is neutral-to-low (G-2), supported by a prudent risk management framework in line with sector best practices. BOAD also benefits from the technical support of its strategic shareholder, the BCEAO, and by its non-regional shareholders.

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

An upgrade of BOAD's credit rating is unlikely given the negative outlook. Moody's would consider changing the outlook to stable if the Bank looks likely to avoid the deterioration of its asset performance following the increase in political instability in the Sahel region and in particular the default of Niger. Under this scenario, the Bank will have preserved its capital adequacy metrics while maintaining strong levels of liquidity and funding.
Moody’s would consider downgrading BOAD’s rating if it were to see a significant deterioration in the Bank’s capital adequacy as a result of 1) a significant deterioration of the bank’s asset performance beyond Moody’s expectation pointing towards material losses in relation to the ongoing political crisis in the Sahel region; 2) the bank failed to implement its strategy aimed at strengthening its capital base, which would point to growing susceptibility to asset performance challenges.

The principal methodology used in these ratings was Multilateral Development Banks and Other Supranational Entities Methodology published in October 2020 and available at https://ratings.moodys.com/rmc-documents/69182. 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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