

## CREDIT OPINION

13 July 2022

Update

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### RATINGS

#### West African Development Bank (BOAD)

	Rating	Outlook
Long-term Issuer	Baa1	STA
Short-term Issuer	--	--

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# West African Development Bank (The) – Baa1 stable

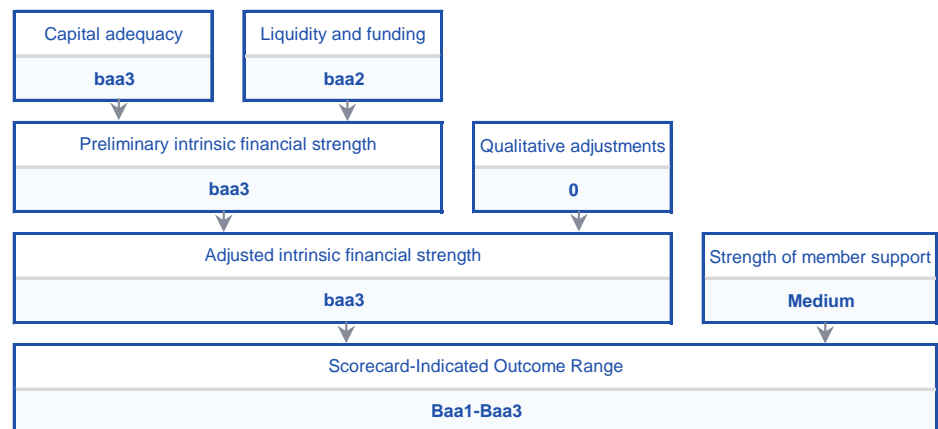
Update following rating confirmation and change in outlook to stable

## Summary

The credit profile of the [West African Development Bank](#) (BOAD) benefits from a robust liquidity assessment supported by its access to the refinancing window of the regional central bank, the BCEAO, and from strong willingness from shareholders to support the bank. BOAD's credit profile is constrained by low borrower quality and a high correlation between the credit quality of its borrowers and the capacity of some of its shareholders to provide support. The bank solely operates in the West African Economic and Monetary Union.

Exhibit 1

### BOAD's credit profile is determined by three factors



Source: Moody's Investors Service

## Credit strengths

- » Robust liquidity position supported by the bank's access to central bank refinancing
- » Strong willingness from members to support the bank

## Credit challenges

- » Relatively weak capital adequacy, driven by weak borrower quality
- » Relatively weak ability of some of its shareholders to provide support if needed

## Rating outlook

The stable outlook reflects balanced risk over the next 12 to 18 months. The potential crystallization of new shocks emanating from the Sahel region with, in particular, the ongoing political transitions in Mali and Burkina Faso or from the consequences of elevated exposures to rising energy and food prices in some WAEMU member countries could affect BOAD's asset performance and lead to losses. Against these risks, the bank is implementing several initiatives to strengthen its credit profile including a capital increase.

## Factors that could lead to an upgrade

Positive pressures would likely develop on BOAD's Baa1 credit rating if the bank managed to significantly strengthen its capital adequacy metrics while maintaining strong levels of asset performance, liquidity and funding.

## Factors that could lead to a downgrade

We would consider downgrading BOAD's rating if 1) the bank's asset performance were to deteriorate significantly, in particular, should the ongoing political crises in the Sahel region deteriorate further pointing to material losses; 2) the bank failed to implement its strategy aimed at strengthening its capital base, which would point to growing susceptibility to asset performance challenges.

## Key indicators

Exhibit 2

West African Development Bank - (BOAD)	2016	2017	2018	2019	2020	2021
Total Assets (USD million)	3,496.4	4,705.2	4,482.9	5,327.0	5,999.8	5,682.9
Development-related Assets (DRA) / Usable Equity [1]	262.4	307.2	304.9	269.0	265.0	272.5
Non-Performing Assets / DRA	2.1	2.1	2.0	2.6	2.5	2.7
Return on Average Assets	0.5	0.6	0.7	4.1	1.0	0.9
Liquid Assets / ST Debt + CMLTD	202.0	348.2	328.1	469.3	125.5	449.5
Liquid Assets / Total Assets	21.0	22.0	20.7	27.8	25.3	19.0
Callable Capital / Gross Debt	55.2	44.8	46.6	37.1	37.6	37.3

[1] Usable equity is total shareholder's equity and excludes callable capital

Source: Moody's Investors Service

### Profile

BOAD was founded in 1973 as a development finance institution promoting, in conjunction with the BCEAO, balanced development and economic integration in the eight WAEMU member countries: [Benin](#) (B1 stable), [Burkina Faso](#), [Côte d'Ivoire](#) (Ba3 positive), [Guinea Bissau](#), [Mali](#) (Caa2 negative), [Niger](#) (B3 stable), [Senegal](#) (Ba3 stable) and [Togo](#) (B3 stable). The bank's shareholders comprise the WAEMU member countries and the BCEAO (47%) and non-regional members (6%). The latter comprise [France](#) (Aa2 stable), [Germany](#) (Aaa stable), [Belgium](#) (Aa3 stable), the [European Investment Bank](#) (EIB, Aaa stable), [African Development Bank](#) (AfDB, Aaa stable), [Export-Import Bank of India](#) (Baa3 stable), [China](#) (A1 stable) and [Morocco](#) (Ba1 stable). BOAD benefits from paid-in capital, which shareholders pay according to a predefined schedule, and callable capital.

Most of BOAD's outstanding development portfolio consists of loans to sovereigns, public companies and the private sector. The public sector accounts for 71% of the loan portfolio, and the private sector accounts for the rest mainly to financial institutions and corporates in the water, energy and industry sector.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody.com> for the most updated credit rating action information and rating history.

## Detailed credit considerations

Our determination of a supranational's rating is based on three rating factors: capital adequacy, liquidity and funding and strength of member support. For Multilateral Development Banks, the first two factors combine to form the assessment of intrinsic financial strength, as shown on the cover page graphic. Additional factors can affect the intrinsic financial strength, such as risks stemming from the operating environment or the quality of management. The strength of member support is then incorporated to yield a rating range. For more information please see our [Supranational Rating Methodology](#).

### FACTOR 1: Capital adequacy score: baa3

We assess BOAD's capital adequacy as "baa3", in line with [African Export-Import Bank](#) (Afrexim, Baa1 stable). Our assessment mainly reflects the weak credit quality of its development assets, set against the relatively strong performance of its loans and the relatively healthy structure of its balance sheet.

BOAD's relatively healthy balance sheet structure and improving risk management temper credit risks. Under our definition, the leverage ratio<sup>1</sup> at the end of 2021 was 3.55%. We expect leverage to be stronger in the coming years thanks to initiatives to strengthen the bank's capitalisation and under the assumption that BOAD will only execute the loan portfolio expansion outlined in its strategic plan following its capital increase.

#### Low development asset credit quality is a key credit constraint

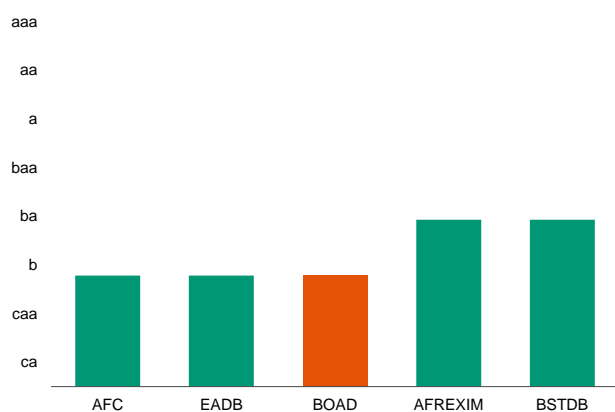
We assess BOAD's development asset credit quality (DACQ) as "b", in line with [Africa Finance Corporation](#) (AFC, A3 stable) and [East African Development Bank](#) (EADB, Baa3 stable).

While the average creditworthiness of BOAD's borrowers remains very low in our assessment, its DACQ is supported by the predominance of sovereign exposures in its loan portfolio (71% at the end of 2021). Côte d'Ivoire and Senegal account for a combined 35% of loans, and Benin, Mali, Niger and Togo 48%. Moody's highest-rated WAEMU sovereigns are Côte d'Ivoire (Ba3 positive) and Senegal (Ba3 stable), then followed by Benin (B1 stable), Niger (B3 stable), Togo (B3 stable), and Mali (Caa2 negative), while Burkina Faso and Guinea-Bissau are unrated.

BOAD revised its own assessment of the credit quality of its portfolio in 2020, resulting in corresponding provisioning and is increasingly using credit enhancement tools to support its portfolio credit quality. Our assessment of BOAD's average weighted borrower quality remained "Caa1" in 2021. We based our assessment on a conservative mapping of BOAD's rating scale on to ours, and it consequently incorporates BOAD's internal rating downgrades.

Exhibit 3

#### Borrower quality is a key credit constraint but in line with peers Development asset credit quality (DACQ)

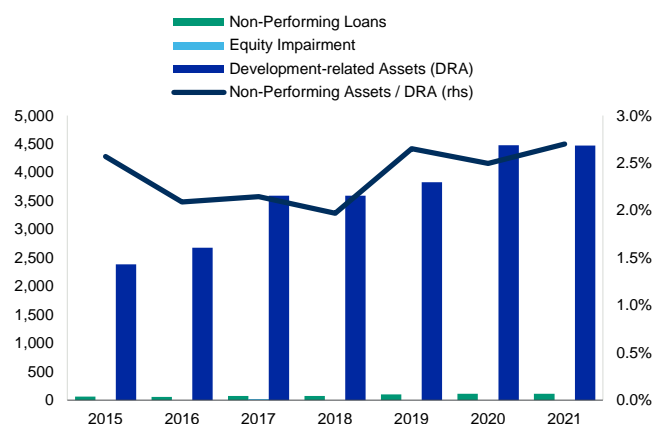


AFC: Africa Finance Corporation; EADB: East African Development Bank; BSTDB: Black Sea Trade and Development Bank

Source: Moody's Investors Service

Exhibit 4

#### Loan growth more than offset an increase in NPLs in 2020 \$ million



Source: Moody's Investors Service

**Asset performance held up during the pandemic but too early to conclude it is resilient to the political instability in the Bank's operating environment**

We assess BOAD's asset performance as "a3" before any adjustments, in line with African Development Bank and the [Trade Development Bank](#) (TDB, Baa3 stable). We apply a "-1" adjustment to account for our expectation that non-performing loans (NPLs) are likely to pick up, as a result of political instability and security challenges in the WAEMU region, including in Mali and Burkina Faso. These two countries put together accounted for 23.7% of BOAD's loans portfolio at the end of 2021. There is also the potential impact of rising energy and food prices within the region that can ultimately affect asset performance.

BOAD asset performance held up well during the pandemic. Although the stock of NPLs increased by 0.8% in 2020 because of difficulties relating to a hotel that predated the pandemic, a 10.5% increase in the loan portfolio more than compensated for this (see Exhibit 4).

Following [economic and financial sanctions imposed on Mali by the ECOWAS](#) on 9 January, the sovereign portion of BOAD's Malian exposure became not performing. The sovereign exposure which is currently in arrears accounted for 8% of the gross loan portfolio (CFA 196 billion out of CFA 2417 billion) at the end of 2021. However, with the [ECOWAS decision to lift economic and financial sanctions on Mali](#) on 3 July, we expect the government to resume payment to BOAD shortly. This would have otherwise led to a significant deterioration in BOAD's asset performance: NPLs accounted for 2.73% of the loan portfolio as at end-2021.

**Loan portfolio is diversified across sectors but regionally concentrated**

Although the regional concentration of BOAD's loan portfolio is inherently high, country and sector concentrations remain low. The bank lends to a variety of sectors and balances its portfolio among member countries. BOAD maintains exposure rules in respect of both sector and country participation, and no single transaction can exceed 5% of equity. For private-sector transactions, the share of a project that BOAD finances cannot exceed 50% of the project or transaction's total cost. While the top 10 exposures account for 68% of the total loan portfolio, this mostly reflects the large share of sovereign lending.

**FACTOR 2: Liquidity and funding score: baa2**

We assess BOAD's liquidity and funding as "baa2", in line with AFC. BOAD's access to the BCEAO refinancing window is critical to our assessment, which we reflect in a "+2" adjustment for "Access to Extraordinary Liquidity".

The European Investment Bank is the only other Multilateral Development Bank (MDB) we rate to benefit from such access and receives a "+3" adjustment for "Access to Extraordinary Liquidity", providing greater credit support than in the case of BOAD given the relative strength of the arrangement.

**Access to the central bank's refinancing window boots liquidity**

The BCEAO, one of BOAD's largest shareholders is a key source of liquidity supporting the bank. BOAD has the statutory right to access a BCEAO refinancing window under Article 38 of its Establishment Agreement. In addition, paid-in capital from member states entail an arrangement with the BCEAO to pay BOAD in priority. The BCEAO levies a tax on non-regional financial transfers on behalf of member countries. The funds are deposited in the accounts of member countries at the BCEAO, and cover any scheduled capital payment to BOAD before the sovereigns themselves can access them. Any dividends the BCEAO may pay to its member countries are treated in a similar manner. BOAD and the BCEAO estimate that eligible assets are within the order of magnitude of BOAD's current bank deposits. However, the institutions have never tested the window, considering the usage of such facility as a very last resort.

**Available liquid assets are improving**

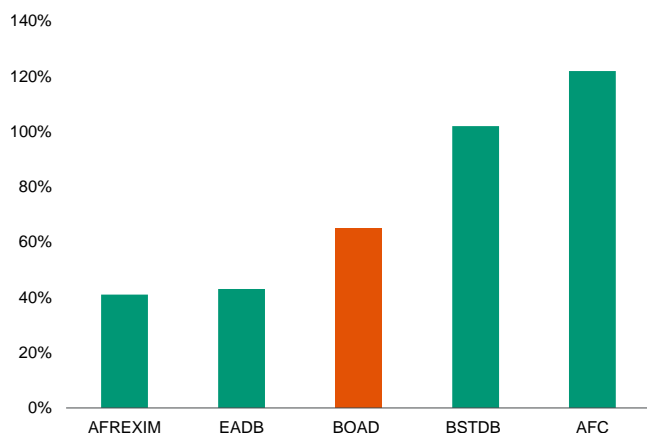
We measure the adequacy of an MDB's liquidity by comparing 18-month net outflows, assuming no market access, to available liquid assets. In BOAD's case, we only consider deposits with the BCEAO and commercial banks (excluding Treasury notes), which stood at 85% of total deposits at the end of 2021 from 55% in 2020. This increase is explained by the CFA453 bn eurobond arriving at maturity in the second quarter of 2021. We expect BOAD's available liquid assets to remain steady around 80% until 2027 considering there is no large maturing debt instrument before 2027. Relative to total assets, the bank maintains a large amount of liquid assets, which accounted for 19% in 2021 (see Exhibit 6).

The bank's risk management framework monitored through liquidity committees among others mitigates liquidity risks. Prudential norms include liquidity rules, asset liability management with very low interest-rate and foreign-exchange risk, as well as stress-

testing practices. The first liquidity rule states that liquidity should cover at least 9 to 12 months of expected net outflows related to lending activity (loan disbursement - loan reimbursement) and debt repayments. At the end of 2021, liquidity covered 22 months of net outflows, from 9 months at year-end 2020, reflecting the maturing eurobond due in May 2021. The bank also defines liquidity adequacy over the short term under a stress scenario. The ratio is defined as liquid assets of high credit quality over the higher of the two following amounts: net outflows over nine months, or 25% of outflows under stressed conditions. In addition a stronger coverage ratio of 12 months, internal controls and proactive liquidity management ensure that the bank meets its internal coverage rules.

Exhibit 5

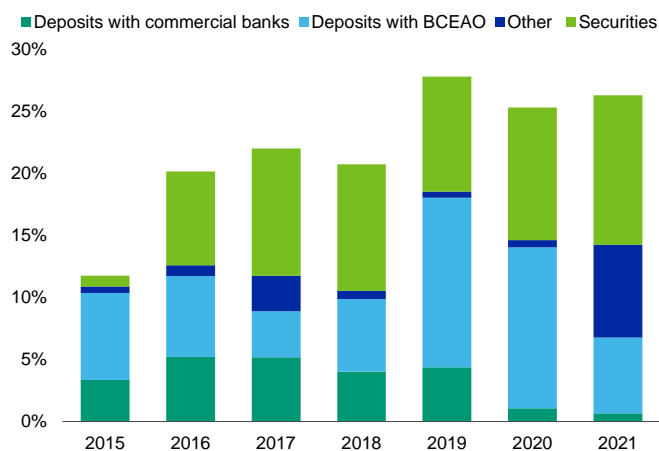
#### Availability of liquid resources is weaker than peers ... Liquid asset/net cash outflow (2019-2021 average)



Sources: BOAD and Moody's Investors Service

Exhibit 6

#### But relative to total assets, BOAD maintains a large amount of liquid assets Liquid assets (% total assets)



Sources: BOAD and Moody's Investors Service

### Quality of funding : ba

We assess BOAD's quality of funding as "ba", a score it shares with EADB. The bank has a long track record of accessing the WAEMU regional markets, though it has not issued new debt on these markets since 2016. International markets have become BOAD's main source of funding since it issued its inaugural bond in May 2016, and we expect BOAD to increasingly rely on the international markets to fund its operations.

The bank has demonstrated its ability to access international markets with three subsequent issuances, broadening its funding base by geography, product and currency. In January 2021, BOAD issued its first euro-denominated bond with a sustainable development objective. The bond was oversubscribed six times and had a record low coupon of 2.75%. This was also the first time BOAD had refinanced a eurobond maturity. BOAD has a second outstanding bond of \$850 million, which it issued in July 2017, with a 10-year maturity and 5% coupon. It issued a third US dollar-denominated eurobond in October 2019 with a coupon of 4.7% and a maturity of 12 years. Finally, the bank is also contemplating the issuance of hybrid capital instrument to support its capitalisation when market conditions will allow it.

### Qualitative adjustments to intrinsic financial strength

#### Operating environment

We do not apply an adjustment for the operating environment. The operating environment is increasingly challenging with the ongoing political crisis in Mali and Burkina Faso and the impact of the surge in global commodity and energy prices, but not beyond what we already capture in our capital adequacy assessment. BOAD's capital adequacy has proven resilient until now and strength of member support remains intact.

**Quality of management**

We do not apply an adjustment for the quality of management. The quality of management is similar to that of peers and well aligned with BOAD's traditional business model of a regional multilateral development bank.

**FACTOR 3: Strength of member support score: Medium**

Our "Medium" assessment of BOAD's strength of member support balances members' high willingness to support the bank in case of need against their limited capacity to do so, as illustrated by a weighted average shareholder rating (WASR) of "Ba2". BOAD has a strong track record of financial support from WAEMU countries and the BCEAO, including through the presence of callable capital (no joint and several support in place).

**Shareholders and borrowers' shared exposure to systemic risks is a constraint; Ability to support is limited although there is room for improvement**

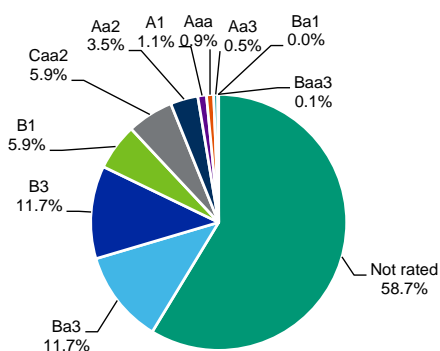
We assess shareholders' ability to provide support based on BOAD's WASR, which stood at "Ba2" at the end of 2021. We have published ratings for 14 of BOAD's 17 shareholders representing 41% of its subscribed capital. The bank's capital base, excluding non-rated entities, mainly consists of non-investment grade entities (see Exhibit 7). For unrated shareholders, we assume that their credit quality is equivalent to a Caa1 rating per our general practice, but we consider the quality of BCEAO to be much higher given its importance as a shareholder.

Our assessment also incorporates risks stemming from the high correlation between BOAD's shareholders and its development assets. A marked deterioration of BOAD's assets would necessarily indicate that sovereigns themselves are facing economic and financial difficulties. In a highly stressed scenario, this could constrain the capacity of WAEMU shareholders (47% of subscribed capital) to fulfill their callable capital commitments.

Looking forward, BOAD is working on a capital increase to support its development actions in the WAEMU region and ultimately improve its shareholders' ability to support. The anticipated arrival of non-regional shareholders with a high credit quality will also support the quality of callable capital. The share of regional shareholders will be diluted by the arrival of these new shareholders but specifically without impacting the organization and the interactions between BOAD and the BCEAO.

Exhibit 7

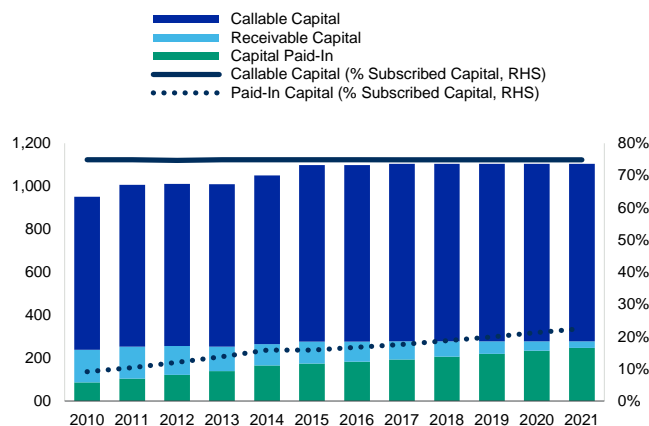
**Large share of non-investment grade shareholders**  
Subscribed capital by rating (2021)



Source: BOAD, Moody's Investors Service

Exhibit 8

**Stable injection of capital by shareholders**  
FCFA billion



Source: BOAD, Moody's Investors Service

**Large callable capital and capital payment mechanism underpin our assessment of contractual support**

Callable capital covered 37% of BOAD's debt at the end of 2021. Taking into account only the share of callable capital from the BCEAO and investment-grade shareholders, for which we have confidence a capital call would be paid on time, the coverage ratio falls to 20%. BOAD's callable capital to total debt ratio, our key measure of contractual strength of member support, is weaker than most peers.

Capital contributions are based on a predetermined payment schedule through 2024. Although BOAD has faced limited capital payment arrears from Guinea-Bissau and Mali, we do not consider this a sign of weakness in respect of shareholders' commitment to support its mandate. A special mechanism for scheduled capital payments from WAEMU member states created at the BCEAO ensures BOAD's priority position in the region, as we outline above.

**Regional role reinforces non-contractual support from shareholders**

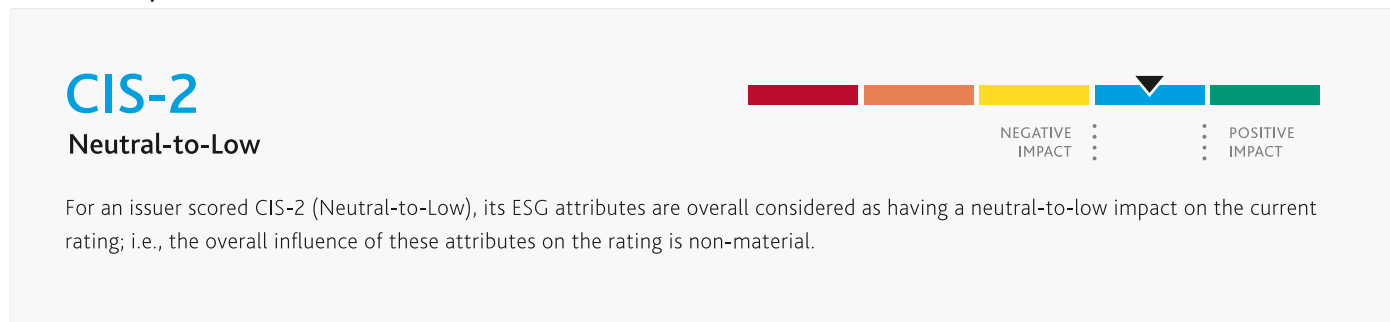
We assess non-contractual support from shareholders as "High". BOAD's mandate to finance the integration and economic development of the WAEMU region, particularly important infrastructure, water and energy related projects, reinforces shareholders' strong incentive to provide support in case of need. BOAD is the second-largest financier in the region after the AfDB and first financier of infrastructure. Our assessment also reflects BOAD's track record of extraordinary support from shareholders. For example, shareholder contributions compensated for losses incurred following the CFA franc's devaluation in 1994.

## ESG considerations

### West African Development Bank's (The) ESG Credit Impact Score is Neutral-to-Low CIS-2

Exhibit 9

#### ESG Credit Impact Score



Source: Moody's Investors Service

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

Exhibit 10

#### ESG Issuer Profile Scores



Source: Moody's Investors Service

#### Environmental

BOAD's environmental issuer profile score is moderately negative (**E-3**), 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.

#### Social

BOAD's social issuer profile score is neutral to low (**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.

#### Governance

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.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moody's.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

All of these considerations are further discussed in the "Detailed credit considerations" section above. Our approach to ESG is explained in our cross-sector methodology [General Principles for Assessing ESG Risks](#). Additional information about our rating approach is provided in our [Supranational Rating Methodology](#).



## Recent developments

### The risk of a severe deterioration of asset performance is significantly reduced with the ECOWAS decision to lift sanctions on Mali

On 3 July 2022, the ECOWAS's head of states lifted the financial and economic sanctions that they had imposed on Mali since 9 January as well as the sanctions imposed on Burkina Faso since 25 March of this year.

This decision came after Mali announced a transition for a return to civilian rule which converges towards the last position of the ECOWAS. The Malian authorities also announced the first round of Presidential elections on the 4 February 2024. The sanctions previously imposed on Mali prevented the government from accessing its treasury account and to perform any cross-border payment leading the government to default on its debt instruments issued on the regional capital market and to accumulate arrears towards all the MDBs including BOAD.

We estimate the Malian stock of arrears to BOAD reached almost CFA26.5 billion (\$42 million) between the direct loans to the government and the Malian debt held by the bank at the end of June 2022. With the economic and financial sanctions lifted the risk of a very significant deterioration of BOAD asset performance is significantly reduced. The sovereign exposure accounted for 8% of the gross loan portfolio at the end of 2021 which could have severely impacted asset performance under protracted sanctions. However, the situation in the Sahel region still remains a source of potentially large shocks for the bank with the ongoing political transitions in Mali and Burkina Faso.

### Several initiatives will support BOAD's credit profile and boost its shock-absorption capacity

BOAD has launched a set of initiatives aiming at strengthening its credit profile to mitigate the deterioration of its asset performance and better cope with future large shocks.

The "Peninsula" capital increase is anticipated to be formally approved by BOAD's board of shareholders in September 2022 and will result in an increase in the bank's capital position of \$897 million, of which \$651 million will be paid-in over the next five years. BOAD anticipates an acceleration of payments that start in the fourth quarter. The bank is also undertaking a change in its shareholder structure, with the expected arrival of additional non regional shareholders. The share of regional shareholders (Category A) will be diluted and compensated by the arrival of new shareholders in the category B, with a better overall credit quality. The arrival of new shareholders will help to boost the quality of callable capital.

In addition, the WAEMU Council of Ministers approved the partial transfer of the interest subsidy fund for about \$150 million to reserves and an additional \$50 million from the allocation of 2021 net income that would both improve BOAD's financial position. The bank has also stated its intention to issue a hybrid capital instrument to support its capitalisation, when market conditions allow.

Finally, a first insurance policy has been implemented by the bank in November 2021 to cover the credit risk of several loans, as part of an active management policy of its balance sheet. Following the same approach employed by other MDBs such as AfDB, Afrexim, TDB and AFC, the use of these payment insurances allows BOAD to rely on the ratings of specialized insurers with high ratings, between "A1" and "Aa", to improve its risk profile.

## Rating methodology and scorecard factors

Rating factor grid - West African Development Bank	Initial score	Adjusted score	Assigned score
<b>Factor 1: Capital adequacy (50%)</b>		<b>baa3</b>	<b>baa3</b>
<b>Capital position (20%)</b>		<b>baa3</b>	
Leverage ratio	<b>baa3</b>		
Trend	0		
Impact of profit and loss on leverage	0		
<b>Development asset credit quality (10%)</b>		<b>b</b>	
DACQ assessment	<b>b</b>		
Trend	0		
<b>Asset performance (20%)</b>		<b>baa1</b>	
Non-performing assets	<b>a3</b>		
Trend	-1		
Excessive development asset growth	0		
<b>Factor 2: Liquidity and funding (50%)</b>		<b>baa2</b>	<b>baa2</b>
<b>Liquid resources (20%)</b>		<b>a1</b>	
Availability of liquid resources	<b>a3</b>		
Trend in coverage outflow	0		
Access to extraordinary liquidity	+2		
<b>Quality of funding (30%)</b>		<b>ba</b>	
<b>Preliminary intrinsic financial strength</b>			<b>baa3</b>
<b>Other adjustments</b>			<b>0</b>
Operating environment	0		
Quality of management	0		
<b>Adjusted intrinsic financial strength</b>			<b>baa3</b>
<b>Factor 3: Strength of member support (+3,+2,+1,0)</b>		<b>Medium</b>	<b>Medium</b>
<b>Ability to support - weighted average shareholder rating (50%)</b>		<b>ba2</b>	
<b>Willingness to support (50%)</b>			
Contractual support (25%)	<b>baa3</b>	<b>baa3</b>	
Strong enforcement mechanism	0		
Payment enhancements	0		
Non-contractual support (25%)		<b>High</b>	
<b>Scorecard-Indicated Outcome Range</b>			<b>Baa1-Baa3</b>
<b>Rating Assigned</b>			<b>Baa1</b>

Note: Our ratings are forward-looking and reflect our expectations for future financial and operating performance. However, historical results are helpful in understanding patterns and trends of an issuer's performance as well as for peer comparisons. Additional considerations that may not be captured when historical metrics are used in the scorecard may be reflected in differences between the adjusted and assigned factor scores. Furthermore, in our ratings we often incorporate directional views of risks and mitigants in a qualitative way. For more information please see our Multilateral Development Banks and Other Supranational Entities rating methodology.

Source: Moody's Investors Service

## Moody's related publications

- » **Sector Comment:** [Supranational - Africa : Adequate capital and liquidity will preserve most African MDBs' credit quality amid challenging operating conditions](#), 26 April 2022
- » **Outlook:** [Multilateral Development Banks – Global: 2022 outlook is stable given resilience to challenging economic and financial conditions in emerging markets](#), 31 January 2022
- » **Sector In-Depth:** [Multilateral Development Banks – Global: ESG credit impact is neutral for most, positive for many MDBs](#), 18 January 2022
- » **Issuer In-Depth:** [West African Development Bank – Baa1 negative: Annual credit analysis](#), 11 May 2021
- » **Rating Methodology:** [Multilateral Development Banks and Other Supranational Entities](#), 28 October 2020

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

## Related websites and information sources

- » [Moody's Supranational web page](#)
- » [Moody's Sovereign and supranational rating list](#)

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## Endnotes

- 1 (Development-related assets + Treasury assets rated A3 and below) / useable equity.

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