FitchRatings

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Fitch Affirms EBID at 'B', Outlook Stable

Fitch Ratings - Frankfurt am Main - 12 Apr 2024: Fitch Ratings has affirmed ECOWAS Bank for Investment and Development's (EBID) Long-Term Issuer Default Rating (IDR) at 'B' with a Stable Outlook.

A full list of rating actions is at the end of this rating action commentary.

Key Rating Drivers

Strong Capital, High Risk: EBID's Standalone Credit Profile (SCP) of 'b' results from 'bb' solvency and liquidity assessments, and a negative three-notch adjustment to reflect the bank's 'High Risk' business environment. Support from shareholders (ccc-) is not a rating driver.

The affirmation and Stable Outlook balance the risks resulting from the potential withdrawal of three member states (Burkina Faso, Mali and Niger) from Economic Community of West African States (ECOWAS) and the bank against a number of improvements in the bank's risk management policies over recent years that have supported a decline in non-performing loans (NPL). The start of payments of capital under the new capital increase in 2023 should also support the stabilisation of capital ratios over the medium term.

Capital Ratios to Stabilize: EBID's solvency assessment balances 'strong' capitalisation against its 'High' credit risk. After a steep fall in 2022, EBID's capital ratios moderately declined in 2023, with the equity-to-asset ratio falling to 29% as of end-2023 from 31% in 2022 and Fitch's usable capital-to-risk-weighted assets ratio (FRA) down to 26% from 28%, reflecting the growth in loans (17%) as well as a marked increase in treasury assets. Based on guidance by management, Fitch expects growth in the loan book to slow in the coming years and for capital ratios to stabilise at a 'strong'. level.

The bank has started to receive paid-in capital payments from its largest shareholders. In 2023, Ghana paid USD19.8 million. In 1Q24, the bank received USD29.6 million from Ghana and Cote d'Ivoire.

High Credit Risk: The average rating of the loan book was 'B-' at end-2023, unchanged from 2022. About half of the loans are extended to sovereigns, all of which were performing as of end-2023. EBID's preferred creditor status on its sovereign exposures leads to a one-notch uplift over the average rating of the loan book to 'B'.

NPLs were 5.7% of total loans as of end-2023, down from 7.5% in 2022 and 9.8% in 2021 and fully concentrated in the non-sovereign portfolio. Following the resumption of payments of loans that were granted moratoria at the time of the Covid-19 crisis, Fitch's own measure of NPLs is now aligned with that of the bank. In its base case scenario, Fitch expects NPLs to remain 'Moderate' (below 6%) over the medium term.

Improvement in Risk Management: A number of reforms implemented in recent years are starting to bear results, with the introduction of new prudential indicators to monitor capital and liquidity, a limited number of new NPLs, highlighting tighter underwriting criteria, and alignment with other multilateral development banks' (MDB) best practices in terms of reporting NPLs. Risk management is still considered a weakness relative to peers. A record of operations with tighter risk management framework could support a stronger assessment.

Potential Withdrawal Poses Risks: Burkina Faso, Mali and Niger (together accounting for 23% of the bank's total loans, of which a third are to the sovereigns) may decide to withdraw from ECOWAS, which would also result in their departure from EBID. While it is not certain the three countries will follow through with their intention, in Fitch's view this scenario could affect the performance of the exposures to the three countries, leading to an increase of NPLs.

Fitch notes that to contain the impact on capital ratios, the bank could withhold the paid-in capital of these three countries (USD33 million) to cover part of its gross exposures to the three sovereigns (USD124 million). The net exposure would still be USD91million (equivalent to 6% of gross loans as of end-2023).

Weak Treasury Asset Quality: The credit quality of liquidity buffers is a weakness relative to peers. Only a small portion of treasury assets (6%) are considered investment grade. The remaining treasury assets are deposits in local banks that are rated in the 'B' category or lower. Liquid assets as assessed by Fitch covered 92% of short-term debt as of end-2023. In terms of funding, while it remains highly dependent on the credit line extended by the India Exim Bank, EBID has succeeded in reducing the share of the credit line to 33% of borrowings in 2023, down from 37% in 2022 and 42% in 2021. The bank now benefits from new bilateral sources for funding (including with other MDBs or bilateral partners).

High-Risk Business Environment: EBID's countries of operations are low and lower-middle income countries and are exposed to a high degree of political instability. EBID's policy importance is affected by its limited size relative to peers and remaining paid-in capital arrears. The high-risk assessment also captures the rapid expansion of the bank's operations. The enhancement of the approach to manage risk could support our assessment of the strategy if it led to a meaningful reduction in NPLs in the medium term.

Weak Shareholder Support Assessment: The low average rating of key shareholders of 'CCC+' as of end-2023 weights on our assessment of shareholders' capacity to support, with no changes from end-2022. Fitch's assessment of shareholders' propensity to support is affected by the arrears on paid-in capital payments. Our assessment of propensity to support could benefit from continued payments related to the third tranche of capital increase approved in 2022, which highlight the commitment to support the bank by its largest shareholders.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to negative rating action/ downgrade:

Solvency (Risk): Increase in the NPL ratio above 6%, for example, if one large sovereign exposure was becoming non-performing.

Solvency (Risk): Member states' withdrawal from ECOWAS if it led to a significant deterioration in NPLs and capital ratios.

Solvency (Capital): Failure to stabilise capital ratios, which could stem from continued high lending growth or the materialisation of large loan losses. This would be the case if the FRA ratio was falling below the 25% threshold for 'moderate'.

Liquidity: Deterioration in the credit quality and/or size of the bank's treasury assets, and/or increase in the projected levels of short-term debt.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

Given that EBID's SCP (the anchor for the IDR) is underpinned by both the solvency and liquidity at 'bb', any positive rating action would require an improvement in our assessment of both EBID's solvency and liquidity assessments

Solvency (Risk): An improvement in the bank's risk profile supported by maintenance of the NPL ratio below 6% and continued enforcement of new risk management framework.

Solvency (Capitalisation): Continued payment under the 2023 capital increase and management of the bank's balance sheet that supports a stabilisation in the bank's capital ratios.

Liquidity: Continued diversification in funding sources, improvement in the credit quality of the bank's liquidity buffer and stronger record of operations with higher liquidity buffers.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG Considerations

EBID has an ESG Relevance Score of '4' for 'Management Strategy' to reflect execution risks related to the bank's strategy. This has a negative impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

EBID has an ESG Relevance Score of '4' for 'Governance Structure'. The high share of borrowing member countries in the capital structure influences the bank's lending strategy towards shareholders with weak credit fundamentals at the expense of prudent lending growth. This has a negative impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

EBID has an ESG Relevance Score of '4' for 'Rule of Law, Institutional and Regulatory Quality'. All supranationals attract a score of '4'. Supranationals are neither subject to bank regulation nor supervised by an external authority. Instead, supranationals comply with their own set of rules. Fitch pays particular attention to internal prudential policies, including compliance with these policies. This has a negative impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

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Rating Actions

ENTITY/DEBT	RATING			RECOVERY	PRIOR
ECOWAS	LT IDR	B	Affirmed		B

ENTITY/DEBT	RATING			RECOVERY	PRIOR
Bank for Investment and Development (EBID)					
	ST IDR	B	Affirmed		B

RATINGS KEY	OUTLOOK	WATCH
POSITIVE	⊕	⬘
NEGATIVE	⊖	⬙
EVOLVING	◉	◆
STABLE	◎	

Applicable Criteria

Supranationals Rating Criteria (pub.11 Apr 2023) (including rating assumption sensitivity)

Additional Disclosures

Solicitation Status

Endorsement Status

ECOWAS Bank for Investment and Development (EBID)	EU Issued, UK Endorsed

DISCLAIMER & DISCLOSURES

Parliament and of the Council of 16 September 2009 and The Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019 respectively.

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The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. For more details on sector-specific best- and worst-case scenario credit ratings, please see Best- and Worst-Case Measures under the Rating Performance page on Fitch's website.

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