



PRESS RELEASE

WARA once again affirmed the African Solidarity Fund's rating at 'AA+' in September 2021. The outlook remains 'Positive'.

Dakar, 19 October 2021

West Africa Rating Agency (WARA) affirmed in September 2021 the long-term rating of the African Solidarity Fund (ASF) at 'AA+' in the investment-grade category, and the short-term rating at 'w-2'. The outlook attached to these ratings remains 'Positive'.

Simultaneously, on its international scale, WARA affirmed the ASF's following ratings and outlook: iBB+/Stable/iw-5.

These ratings reflect: (i) the Fund's robust capitalization (despite the uneasy process of called capital paying in); (ii) a very high level of liquidity characterizing its assets, while debt is inexistent; (iii) a good level of geographic and sector diversification of its portfolio of exposures; (iv) its sound governance supported by a solid management team and thoroughly implemented control mechanisms, which considerably limits operational risks; and (v) the astute institution's strategic positioning as it meets the high funding needs of SMEs, in a market with very few active players and where the strategic objectives of the ASF appear clear, relevant, and realistic at the same time.

On the other hand, the ASF's rating is constrained by: (i) an excessive concentration on a limited number of large exposures, given the still modest size of its portfolio of commitments notwithstanding the institution's long history (WARA, however, highlights the efforts made since the arrival of the new management team to significantly increase the institution's business volume); (ii) risk management that could be perfected, among others, by acquiring scoring and rating tools already tested by other institutions, and improving the underlying assets quality. WARA notes that the risk management framework is indeed given special attention and its strengthening is ongoing; and points out (iii) a low level of profitability, as the institution is not profit-oriented. At the same time, operational efficiency has been increasing for two years, while the improvement in portfolio quality allows the ASF to better control the cost of risk. The ASF's counterparty rating (AA+)

benefits from 4 notches of external support, added by WARA considering the Fund's sovereign shareholding and its status of a multilateral development financial institution.

An upgrade of the ASF's rating is contingent

on: (i) its Member States structural improvement; (ii) the full payment of the called capital and the contribution to the Special Bonus Fund; (iii) enhancement of its human resources; (iv) incrementally curbing the counterparty concentration level, and more generally, upgrading of its risk management framework; and (v) the improvement and stabilization of its structural profitability, resulting from the successful implementation of the new medium-term strategic plan, (vi) strengthening of its standards in terms of governance and operations thanks to the partnerships with the ADB, the EU, the KfW, and also with the BDEAC.

A downgrade of the ASF's rating would be the

consequence of: (i) concentration risks materializing, i.e. increased losses on large exposures; (ii) higher macroeconomic volatility in one or more economic communities where the ASF operates, which may result in quality deterioration of exposures; (iii) a strategy that WARA would consider excessive in terms of financial leverage, likely to weaken the institution's capital or liquidity positions; (iv) calling into question the capital support from Member States; or (v) governance that WARA would view becoming more lenient, especially in case of less rigorous audit, compliance and operating expenses management checks.

The outlook attached to the rating on the ASF remains positive. WARA justifies this positive outlook by the fact that the ASF's medium-term equity and liquidity indicators are expected to remain at a high level, which is a corollary of sound and transparent governance. Moreover, the strengthening of human resources, scoring tools, and file scrutiny processes supports improvement in asset quality, while the expected volume growth should allow the institution to significantly increase

its structural profitability. In addition, the institution was ISO 9001:2015 certified in January 2021. Finally, its status of a guarantor, approved by COSUMAF and CMA (Rwanda) in 2019, will enable the ASF to broaden its field of activity to the CEMAC and Rwanda markets. That said, the MTSDP valid up to 2025, which took over from the 2016-2020 MTSDP, should make it possible for the ASF to gain momentum with the first noticeable results expected as soon as the end of 2022.

With regards to its methodological criteria, WARA considers the ASF to be both a Multilateral Development Bank/Institution (MDB) and a Guarantee Fund (GarFund). Therefore, the applicable methodology is that of banks, while considering peculiarities pertaining to MDBs and GarFunds, including the rules of parental external support factors calibration. The methodology for rating banks was first published on 12 July 2012, then updated in January 2021, and is available on WARA's website: www.wara-ratings.com.

The information sourced and used by WARA when assigning credit ratings to the ASF mainly consisted of the private information obtained during discussions with the Fund's management team in July 2021. This information, coupled with publicly available sources, was considered by WARA to be satisfactory for rating the ASF.

Finally, WARA specifies that the ASF's credit rating was solicited and established on a participatory basis, meaning the credit rating process was performed upon a request by the ASF and the Fund's management actively participated in discussions with WARA's teams of analysts. The comprehensive credit rating report is available on WARA's website: www.wara-ratings.com.

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