

## Research Update:

# Arab Bank for Economic Development in Africa Upgraded To 'AA+' On Enhanced Role And Policy Importance; Outlook Stable

May 15, 2025

## Overview

- We have revised our enterprise risk profile assessment for the Arab Bank for Economic Development in Africa (BADEA) to strong, reflecting a sharp increase in lending activities in recent years, the bank's growing importance as chair of the Arab Coordination Group (ACG) of lenders, and the central role it will play in deploying the ACG's planned \$50 billion investment into sub-Saharan Africa in 2025-2030. The revision also reflects our view of strong shareholder support in case of need.
- The bank's financial risk profile remains extremely strong thanks to one of the highest RAC ratios of all MLIs that we rate, while asset quality has stayed relatively strong (despite its exposure to low-rated sovereigns).
- We therefore raised our long-term rating on BADEA to 'AA+' from 'AA'. The outlook is stable.

## Rating Action

On May 15, 2025, S&P Global Ratings raised its long-term issuer credit rating on the Arab Bank For Economic Development in Africa (BADEA) to 'AA+' from 'AA'. At the same time, S&P Global Ratings affirmed its 'A-1+' short-term rating on the bank. The outlook is stable.

## Outlook

The stable outlook reflects our expectation that BADEA will sustain sound capitalization, as seen with a high risk-adjusted capital (RAC) ratio, and maintain solid liquidity through conservative lending and a low, albeit increasing, reliance on debt. The outlook also balances our expectation that the bank's asset quality will remain strong, bolstered by diversified exposures and its rising role as a countercyclical lender in sub-Saharan Africa (SSA), against the risks associated with relatively low-rated sovereigns in the region.

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## **Downside scenario**

We could lower the rating in the next 24 months if BADEA's role and public policy mandate weakens, for instance through a sustained slowdown in lending.

We could also lower the ratings if asset quality or liquidity ratios deteriorate. This could stem from greater financial risk in less creditworthy sovereigns to which the bank is exposed, indicating a weakening in its preferred creditor treatment (PCT).

## **Upside scenario**

We assess the likelihood of an upgrade to BADEA over the next two years as low. However, we could consider raising the ratings if there are substantial improvements in risk management and governance along with an evolution in the bank's enterprise profile with characteristics more in line with 'AAA' rated peers.

## **Rationale**

The upgrade to BADEA reflects our revised assessment of its enterprise risk profile to strong from adequate. This improvement stems from BADEA demonstrating a strong track record of implementing its plans and its strong role and importance in coordinating the \$50 billion in pledges from the Arab Coordination Group (ACG). Additionally, total disbursements of purpose-related loans amounted to \$2.78 billion in 2022-2024 compared with \$2.44 billion in 2009-2021, marking a step-up in its lending footprint across the continent. It has also improved its operational capacity to manage an increased disbursement profile through 2029 by expanding staffing (particularly in risk management) and streamlining its organizational structure and board approval processes.

The rising disbursements to SSA sovereigns underpin the increasingly important role BADEA plays as the leading Arab institution focused on African lending and engagement and the member states' greater foreign policy ambitions in the region. The bank provides concessional financing and technical assistance to SSA countries to foster economic development and enhance relations between the League of Arab States and SSA. It focuses lending on SSA sovereigns, government-related entities, and multilateral development banks, while having minimal private sector exposure of about 5% of purpose-related loans.

We expect lending growth to continue increasing given shareholders' support of a stronger and larger balance sheet. This was shown by the approval of BADEA's ninth five-year plan (2025-2029) with a substantial allocation of \$18.38 billion, underscoring the commitment of both the bank and its shareholders to propelling economic development across Africa. We expect a strong supportive stance toward BADEA from its owners and especially in case of need.

Furthermore, the bank plays a leading role in coordinating broader Arab development funding into Africa, increasing the overall impact of lending into the continent. There is significant cofinancing among BADEA, Arab funds, and Arab states, with an estimated \$4-\$5 of additional financing made available from partners for each dollar the bank provides. In recent years, BADEA has also ramped up the provision of trade loans at concessional rates across the continent.

The bank has a strong relationship with its shareholders, and is viewed as a critical institution in advancing SSA developmental finance and improving relations between the two economic blocs. Shareholders have been supportive; they increased BADEA's capital base to \$5 billion of paid-in

capital and added callable capital worth \$5 billion in April 2022. Additionally, shareholders aided in the relocation of the bank's headquarters in 2023 to avoid the negative effects of the conflict in Sudan. No shareholders have withdrawn from BADEA since its inception.

We assess the bank's PCT as strong, although its exposure to increasing sovereign risk across SSA poses risk to asset quality. BADEA's arrears ratio stands at 4.33%, slightly up from 2023's 3.9% following rising payment challenges faced by a sovereign that underwent a coup d'etat in 2023. Nevertheless, as of March 2025 all arrears over 180 days have been resolved, except Comoros (which represents about 0.5% of total loans). In the 51 years since inception, no credit losses or loans have been written off. Occasional technical arrears occur due to administrative issues in SSA sovereigns, but since the implementation of stricter management policies in 2016, these arrears are generally resolved before becoming material or above 180 days overdue.

The bank employs financial and risk management policies that are in line with global practices. We think BADEA could effectively withstand the loss of key personnel, and there is a long track record of stable and conservative management within the organization. Additionally, the bank's business continuity plan was tested and successfully mitigated instability in Sudan in 2023, where its headquarters were -- no business operations were materially affected by the conflict in Khartoum.

BADEA also enjoys privileges given to multilateral lending institutions (MLIs), such as exemptions from taxes, appropriations, moratoriums, and foreign exchange controls. It was established in 1974 by treaty and is owned by 18 members of the League of Arab States.

The bank's financial risk profile is extremely strong, driven by one of the highest RAC ratios among all MLIs that we rate. The RAC ratio after adjustments was 79% using data from Dec. 31, 2024, and parameters as of May 2, 2025. The ratio benefits from a sizable securities portfolio of \$2.65 billion, comprising \$1.60 billion in fixed-income securities, \$354 million in listed equities, and \$687 million in cash. The ratio is also supported by geographical diversification and preferential treatment from sovereigns, and we think it will remain high over the next 24 months. BADEA benefits from callable capital, but we do not include this in our RAC ratio because the financial risk profile is already extremely strong.

The bank's funding profile is composed mostly of shareholders' equity, although it is gradually raising debt through annual bond issuances and accepting deposits from central banks. BADEA issued a three-year, €500 million Reg-S Only Social Bond in January 2024 and issued a three-year, €750 million bond in March 2025. We understand BADEA is unlikely to materially change its funding profile in favor of debt financing and that borrowing will likely be at a similar scale to its past issuances.

Our liquidity ratio calculations as of Dec. 31, 2024, show very strong coverage of 4.5x for the six-month and 2.88x for the 12-month periods. These are above the coverage ratios of similarly rated peers and allow BADEA to accelerate disbursements, reflecting its sizable and liquid asset portfolio.

## **Ratings Score Snapshot**

Issuer credit rating: AA+/Stable/A-1+

- SACP: aa+
- Enterprise risk profile: Strong
- Policy importance: Strong
- Governance and management: Adequate

- Financial risk profile: Extremely strong
- Capital adequacy: Extremely strong
- Funding and liquidity: Strong
- Extraordinary support: 0
- Callable capital: 0
- Group support: 0
- Holistic approach: 0

Related Criteria

- Criteria | Governments | General: Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology, July 26, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Upgraded		
	To	From
Arab Bank for Economic Development in Africa		
Senior Unsecured	AA+	AA
Upgraded; Outlook Action; Ratings Affirmed		
	To	From
Arab Bank for Economic Development in Africa		
Sovereign Credit Rating		
Foreign Currency	AA+/Stable/A-1+	AA/Positive/A-1+

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