



Emerging  
Markets  
**Ratings**  
Ltd.

## **CREDIT RATINGS IN WAEMU**

**WEST AFRICA RATING AGENCY | JOHANNESBOURG | DEC. 2018**



WARA | | West Africa Rating Agency

Emerging  
Markets  
Ratings  
Ltd.

Emerging Markets Ratings Limited

l'étalon des performances

la sécurité des investissements

Cocody Angré Papayé Ilot 4 Villa n°100 28 bp 421 abidjan 28  
Siteweb : [www.rating-africa.org](http://www.rating-africa.org)

Tél : + 225 22 50 18 44 - Cel : + 225 49 00 28 94  
Fax : + 225 22 52 33 72 - E-mail : [info@rating-africa.org.com](mailto:info@rating-africa.org)

# TABLE OF CONTENTS

---

<b>Credit Ratings in WAEMU</b>	<b>4</b>
1. Context and definitions	<b>5</b>
2. Regulatory framework	<b>17</b>
3. Who we are	<b>20</b>
4. Our rating product suite	<b>28</b>



1

# RATINGS: CONTEXT AND DEFINITIONS

**RELEVANCE, USE AND LIMITATIONS OF RATINGS**

# Between issuers and investors

---

« ***A rating is the shortest financial editorial on the planet*** »

Leo O'Neil, former CEO of Standard & Poor's.

## Context:

Ratings, and beyond then, financial and credit analysis, now hold a *central* stage on capital markets, be they global or regional, and even on local ones. *What is at stake for investors?* Access information that is reliable, retreated, filtered and standardized through a robust analytical process, which can make some decent sense.



# First of all, a rating is *an opinion*

---

The evolutions of credit prices (i.e. *spreads* or risk premiums) should reflect the volatility of risks (i.e. credit or counterparty risk), themselves captured by credit ratings.

## What is a rating?

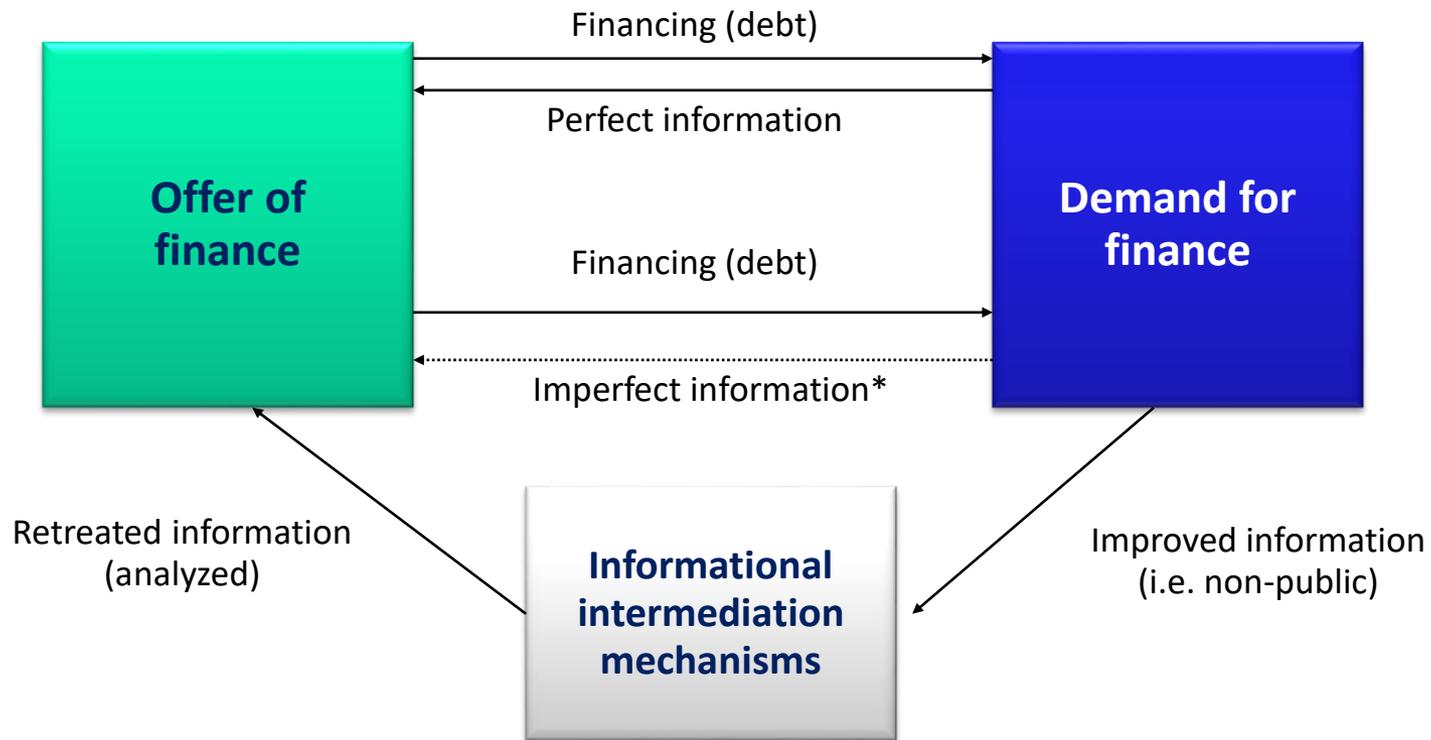
Definition: a rating is an **independent *opinion*** as to the capacity and willingness in the short to medium terms) of a debtor to meet his/her financial obligations, in full and on time.

## What a rating is not:

- It is not a recommendation to buy, sell, or hold financial securities.
- It is not a judgment.
- It is not a valuation.
- It is not a piece of advice.



# Informational intermediation



\* Note: also called « **informational incompleteness of markets** »



# Informational asymmetries and *monitoring*

---

## Typology

---

<b>Asymmetry</b>	Hidden information	Hidden action
<b>Opportunism</b>	Ex ante	Ex post
<b>Economic consequence</b>	Anti-selection	Moral hazard
<b>Incentives</b>	Risk revelation	Audit/controls
<b>Banking reaction</b>	Credit rationing	Self-fulfilment

---

## Delegation

---

On intermediated markets

Banks

On disintermediated markets

Rating agencies

---



# Informational asymmetry and *monitoring*

---

- Ratings allow **the emergence of a common alphabet and language**: as such, ratings constitute together a focal point.
- This concept has been largely used by **the convention theory**. As a matter of fact, the concept of **focal point** is older than the convention theory as a consistent theoretical paradigm.
- The concept dates back to the 60s, and finds its roots in the seminal work of **Thomas Schelling** (2005 Nobel Prize winner) in the 60s.
- The most commonly used definition of a focal point is the following: **it is a common knowledge (i.e. a public information) to which everyone refers, and which everyone knows is a reference for all.**
- Definitely, **ratings are focal points.**



# Pricing principle: the « *issuer-pay model* »

---

- **Debt issuers pay rating agencies for the services the latter provide to investors.**
- **Price** = fixed annual fee, called surveillance fee + variable fees that depend on the amount of debt issued (with a ceiling call the “*frequent issuer fee*”).
- **The cost of a rating is seldom a constraint;** rating services are, at the end of the day, relatively affordable.



# A rating agency should be...

---

- ✓ INDEPENDENT
- ✓ PROFESSIONAL
- ✓ COMPETENT
- ✓ RELEVANT
- ✓ TIMELY
- ✓ TRANSPARENT
- ✓ RIGOROUS
- ✓ CREDIBLE
- ✓ EXPERIENCED



# What ratings are...

---

- **Ratings are opinions**, derived from fundamental macro-, meso- and microeconomic analysis, as to the relative creditworthiness of an issuer or issue, expressed in the form of a system of symbols.
- **Creditworthiness** is defined as the capacity and willingness of an issuer to to meet his/her financial obligations in full and on time.
- **Fundamental analysis** relates to the structural factors underlying creditworthiness, including long-term financial performance, management capabilities, competitive advantages etc. We rate through the cycle, and give little weight to cyclical drivers. Our credit ratings are not at all point-in-time ratings.



## ... and what they are not

---

- **A measure of non-credit investment risks** (typically, ratings have nothing to do with valuation or stock prices): WARA does not provide equity research.
- **A measure of market risk**, but only a good *proxy* for default risk.
- **A recommendation** to buy, sell or hold securities.
- **A judgment on the “quality”** of a company.
- **A judgment as to the progress** a country or government might achieve economically, politically or socially.



# What are ratings used for?

---

From the issuer's perspective	From the investor's perspective
<ul style="list-style-type: none"><li>■ Transparency</li><li>■ Discipline</li><li>■ Benchmarking</li><li>■ Communication</li><li>■ Pricing</li><li>■ Diversification of funding sources</li><li>■ Signaling</li></ul>	<ul style="list-style-type: none"><li>■ Comparability</li><li>■ Liquidity</li><li>■ Relevance= objectivity + independence</li><li>■ Cost saving</li><li>■ Pricing</li><li>■ Delegated surveillance / monitoring</li><li>■ <i>Capturing the upside of rating migrations</i></li></ul>



# What we offer... and what we do not offer

---

- We do not provide any structuring advice
- We do not provide any legal advice
- We do not trade any financial securities
- We do not provide any valuation services
- We do not provide any recommendation

**But...**

- We quantify the size of securitization tranches
- We ask for legal opinions when necessary
- We are glad to answer investors' questions
- We publish transition matrices and rating-spread tables
- We publish detailed rating reports with the analysis of all rating drivers



2

## RATINGS IN WAEMU: THE REGULATORY FRAMEWORK

**A LICENSE... BUT ALSO SOME OBLIGATIONS**

# The regulatory framework for ratings in WAEMU

---

- Very close to the one applicable to rating agencies in the **European Union**.
- **AMF-UMOA** (formerly known as CREPMF) is the regulator of rating agencies in WAEMU.
- A rating agency must mandatorily be **licensed** by AMF-UMOA to operate as such in WAEMU .
- Regulation is encompassed in the following documents:
  - **Instruction 36/2009** on bond issuances in WAEMU
  - **Instruction 37/2009** on the condition for rating agencies to assign ratings in WAEMU
  - **Instruction 38/2009** on approving guarantors on WAEMU's common stock exchange
  - **Circular 02-2010** on the contents of the prospectus to be published by debt issuers in WAEMU



# Some obligations

---

- **Any company listed on the regional stock market (BRVM); any issuer of bonds on the regional market; and any guarantor MUST be rated by a rating agency licensed in WAEMU, with the exception of central and regional governments (for which ratings are optional).**
- For all bonds and other fixed-income securities, **issuers commit to be rated pendant until the maturity of the fixed-income securities.**
- If an investment-grade rating cannot be met, issuers must resort to a guarantor, **but the guarantor must itself be rated and its rating should be in the investment-grade category.**
- If the issuer is not rated, the external guarantee must **cover** the entire amount of principal and interests during the entire life of the bonds.
- Licensed rating agencies in WAEMU are subject to several **obligations**: they must have a physical presence in at least one of the WAEMU countries, they must show a certain level of analytical quality and skills, they must have sufficient resources, and their methodologies must be robust enough.





3

## WARA: WHO WE ARE

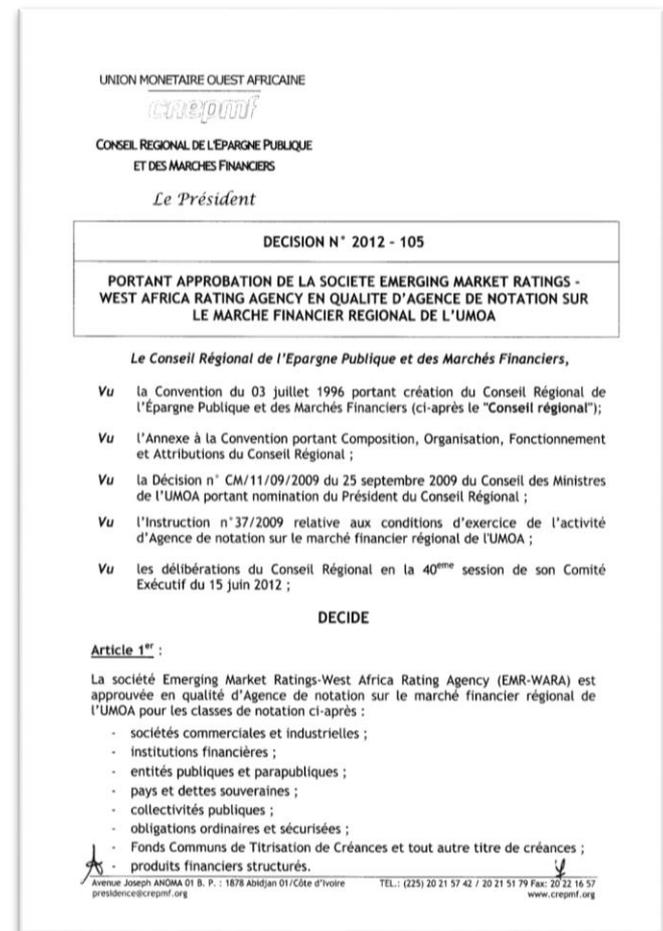
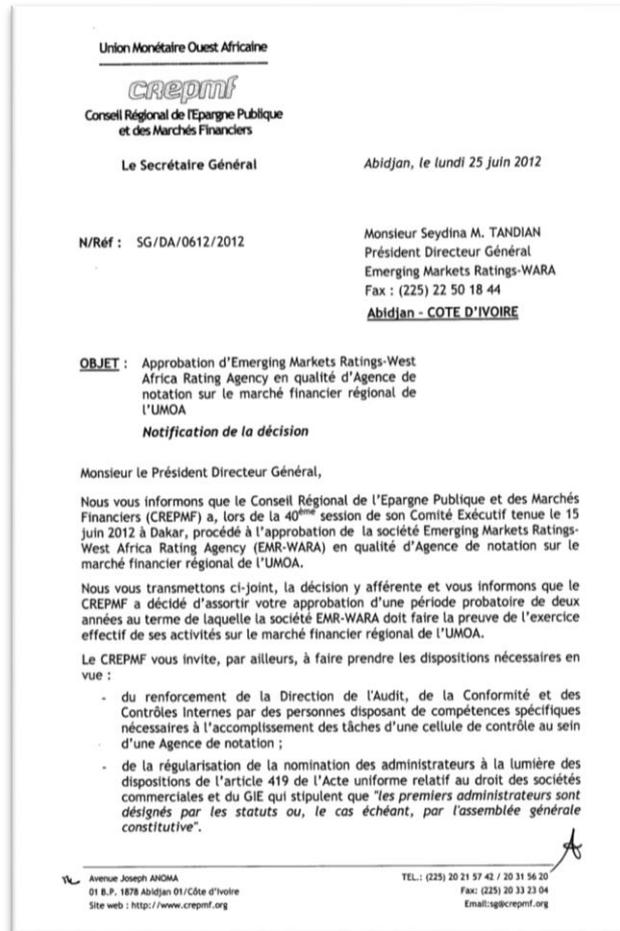
**A WAEMU RATING SPECIALIST**

# Who are we?

**WARA is a rating agency licensed by the regional market regulator (AMF-UMOA) through decision no.2012-105 and with license number AN-002/2012.**

WARA rates corporate entities, financial institutions, sovereigns and structured finance transactions in WAEMU.

WARA is recognized for its **analytical rigor and the quality of its analytical work in terms of credit research.**



# Our clients, our references

## STATES



## CORPORATES



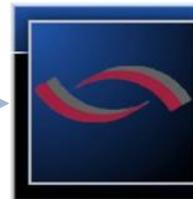
## FINANCIAL INSTITUTIONS



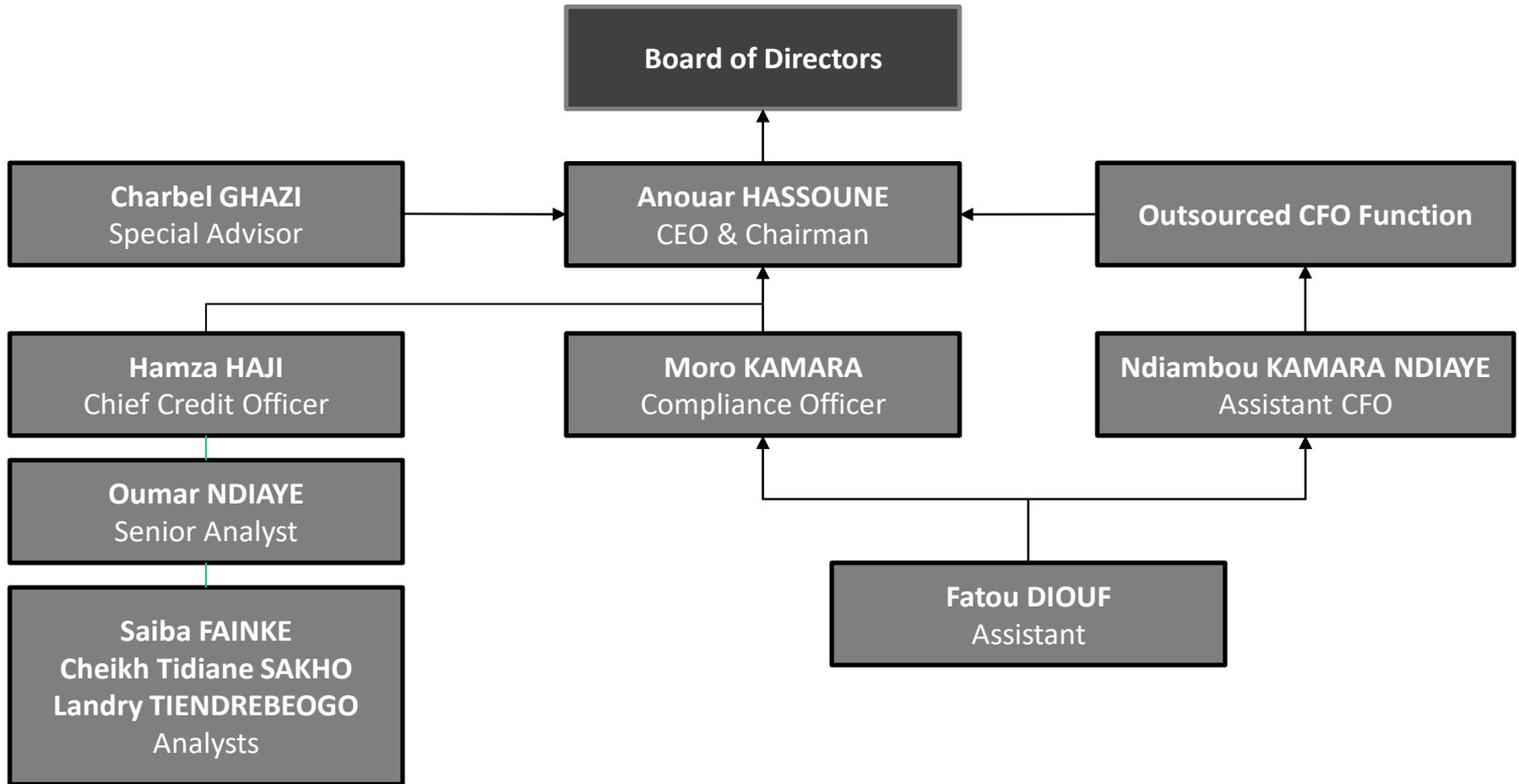
# Rating list

ENTITE	Méthodologie	Pays	Devisе régionale			Devisе internationale		
			Notation LT	Perspective	Notation CT	Notation LT	Perspective	Notation CT
1 SAPH	Corporate	COTE D'IVOIRE	BBB	Positive	w-4	iB	Positive	iw-6
2 GROUPE SIFCA	Corporate	COTE D'IVOIRE	BBB+	Positive	w-4	iB+	Positive	iw-5
3 CFAO MOTORS	Corporate	COTE D'IVOIRE	BBB+	Stable	w-3	iB+	Stable	iw-5
4 FILTISAC	Corporate	COTE D'IVOIRE	A	Stable	w-3	iBB-	Stable	iw-5
5 CORIS BANK	Banque	BURKINA FASO	BBB+	Stable	w-3	iB+	Stable	iw-5
6 ONATEL	Corporate	BURKINA FASO	BBB	Stable	w-4	iB	Stable	iw-6
7 BOAD	BMD	TOGO	ns.AA+	Stable	w-2	ns.iBB+	Stable	iw-5
8 SERVAIR	Corporate	COTE D'IVOIRE	BBB+	S-Incertaine	w-3	iB+	S-Incertaine	iw-5
9 TOTAL SENEGAL	Corporate	SENEGAL	A-	Stable	w-3	iB+	Stable	iw-5
10 MICROCREC SENEGAL	Banque	SENEGAL	BBB+	Stable	w-3	iB	Positive	iw-6
11 SITAB	Corporate	COTE D'IVOIRE	BBB	Négative	w-4	iB	Négative	iw-6
12 FCTC-COFINA	Titrisation	COTE D'IVOIRE	tAA	Stable	--	--	--	--
13 CORIS HOLDING	Banque/Corporate	BURKINA FASO	BBB	Positive	w-4	iB	Positive	iw-6
14 FONDS DE SOLIDARITE AFRICAIN	BMD/FoGar	NIGER	AA+	Stable	w-2	iBB+	Stable	iw-5
15 SICABLE	Corporate	COTE D'IVOIRE	A-	Stable	w-3	iB+	Stable	iw-5
16 MOVIS CI	Corporate	COTE D'IVOIRE	BB-	Positive	w-5	iCCC+	Positive	iw-6
17 CGF BOURSE	Société de gestion	SENEGAL	QSG-1/*****	Stable	--	--	--	--
18 ETAT 1	Souverain	CONFIDENTIEL	CONFIDENTIEL					
19 ETAT 2	Souverain	CONFIDENTIEL						
20 ETAT 3	Souverain	CONFIDENTIEL						
21 ETAT 4	Souverain	CONFIDENTIEL						
22 ETAT 5	Souverain	CONFIDENTIEL						
23 ETAT 6	Souverain	CONFIDENTIEL						
24 ETAT 7	Souverain	CONFIDENTIEL						
25 ETAT 8	Souverain	CONFIDENTIEL						
26 ETAT 9	Souverain	CONFIDENTIEL						
27 ETAT 10	Souverain	CONFIDENTIEL						
28 ETAT 11	Souverain	CONFIDENTIEL						
29 ETAT 12	Souverain	CONFIDENTIEL						
30 ETAT 13	Souverain	CONFIDENTIEL						
31 ETAT 14	Souverain	CONFIDENTIEL						
32 ETAT 15	Souverain	CONFIDENTIEL						
33 BANQUE	Banque	SENEGAL	NOTATION EN COURS					
34 BHS	Banque	SENEGAL	NOTATION EN COURS					
35 SENELEC	Corporate	SENEGAL	NOTATION EN COURS					

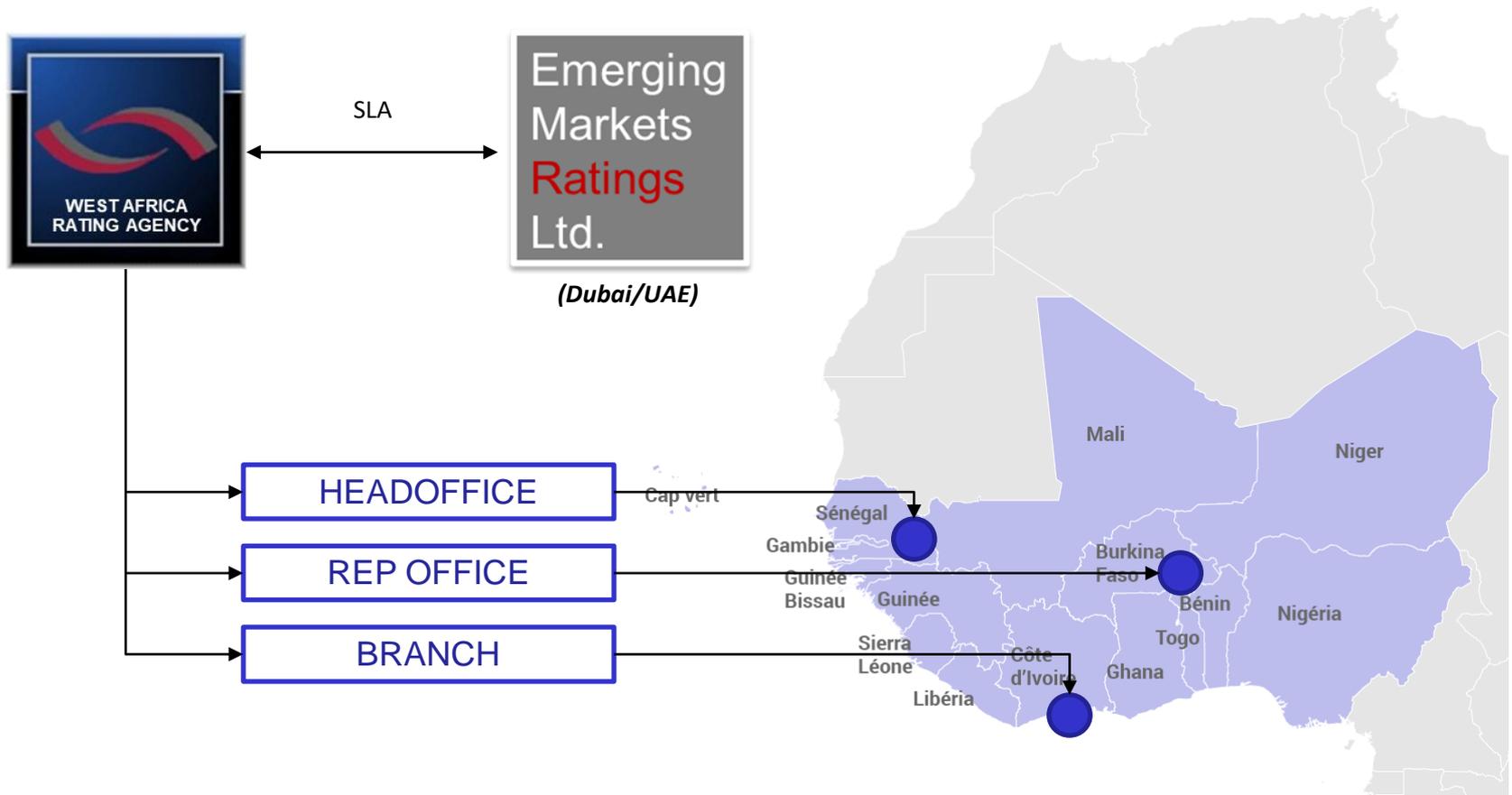
**WARA rates 35 entities in WAEMU and outside WAEMU. 19 of these ratings are public ratings, while 16 remain confidential as of now. 2 ratings are in the process of being produced.**



# Org chart



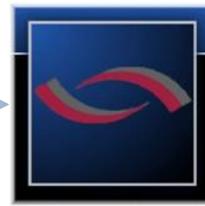
# Geographic footprint



# Board of Directors

---

Name	Nationalities	Role	Shareholder?	Other information
Anouar HASSOUNE	France/Morocco	Chairman	yes	WARA's CEO
Tijane SYLLA	Senegal	Director	yes	Former Minister
Alain GOETZMANN	France	Director	yes	Businessman
Dounia TAARJI	Morocco	Director	no	Compliance Officer Casablanca SE
Gilbert SINARE	Burkina Faso	Director	yes	Senior Accountant
Yeri DIOP	Senegal	Director	yes	Businessman
Cheikh T. SAKHO	Senegal	Director	no	Former ONUDI Director



# Shareholding structure

---

Shareholders	FCFA	%
Famille TANDIAN	85.000.000	85%
Anouar HASSOUNE	13.000.000	13%
Alain GOETZMANN	500.000	0,5%
Tijane SYLLA	500.000	0,5%
Gilbert SINARE	500.000	0,5%
Yeri DIOP	500.000	0,5%
<b>TOTAL</b>	<b>100.000.000</b>	<b>100%</b>





4

## WARA'S RATING OFFERING

**A COMPREHENSIVE SUITE OF RATING PRODUCTS**

# WARA's rating universe

Rating type	Issuer Categories	WARA's Offering
<b>FUNDAMENTAL RATINGS</b>	Banks	<b>YES</b>
	Insurance companies	<b>YES</b>
	Corporates	<b>YES</b>
	Sovereigns	<b>YES</b>
	Local governments	<b>YES</b>
	Project finance	<b>YES</b>
<b>STRUCTURED FINANCE RATINGS</b>	Securitization transactions	<b>YES</b>
	Covered bonds	<b>YES</b>
<b>FUND RATINGS</b>	Management quality	<b>YES</b>
	Volatility	<b>NO</b>
	Performance	<b>NO</b>
	Liquidity	<b>NO</b>



# What currencies?

---

## ■ Foreign currency ratings

- Reflect the counterparty risk attached to an issuer in a currency other than the that of the issuer.
- These ratings are constraints by the risk of moratorium on foreign currency payments, i.e. by non-transfer and convertibility risks.

## ■ Domestic/regional currency ratings

- Are not constraints by non-transfer and convertibility risks.
- Reflect the credit risks inherent to an issuer in the context of its domestic/regional market.



# What do we rate at the end of the day?

---

The **Expected Loss** (EL) is a function of the **Probability of Default** (PD) and the **Loss Given Default** (or Severity of Loss, LGD):

$$\begin{aligned} \text{Expected Loss (EL)} \\ = \\ \text{Probability of Default (PD)} \\ \times \\ \text{Loss Given Default (LGD)} \end{aligned}$$

This is the probability to earn enough cash flows in the future, in order to cover all payment obligations.



# Transition matrices

---

- **Transition matrices** summarize rating changes over a certain period of time.
- While computing transition matrices, WARA treats rating changes, rating withdrawals and defaults as mutually exclusive states.
- WARA in general will not withdraw ratings because they are deteriorating. Ratings are withdrawn because of debt reaching maturity.
- Ratings can also be withdrawn because issuers ask the rating agency to do so, as their needs evolve.



# Example

1970-2005

To:

From:

	AAA	AA	A	BBB	BB	B	CCC	Défaut	RR
AAA	89.90%	6.72%	0.54%	0.19%	0.01%	0.00%	0.00%	0.00%	2.63%
AA	1.04%	87.89%	6.92%	0.27%	0.05%	0.02%	0.00%	0.01%	3.81%
A	0.06%	2.57%	88.12%	4.95%	0.52%	0.10%	0.02%	0.02%	3.64%
BBB	0.05%	0.21%	4.92%	84.72%	4.44%	0.79%	0.25%	0.18%	4.46%
BB	0.01%	0.06%	0.48%	5.65%	76.68%	7.61%	0.62%	1.18%	7.72%
B	0.01%	0.05%	0.17%	0.41%	5.55%	74.54%	5.44%	5.37%	8.46%
CCC	0.00%	0.04%	0.04%	0.20%	0.74%	7.17%	60.65%	19.52%	11.66%

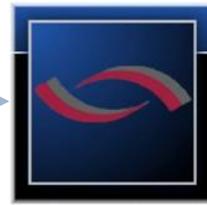


# Default: what is it?

---

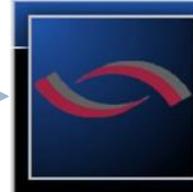
**WARA identifies credit events as per its own definition of situations of default, in order to remain in line with practices generally applied on the bond market.** As such, the Rating Agency's definition of « default » is very close to contractual ones and market practices, but can in some other circumstances materially diverge from the latter. WARA's definition includes :

- (i) **all payment delays, or non-payment, of interest coupons or principal**, including missed payment during a grace period;
- (ii) **bankruptcy, failure, receivership, or any other type of moratorium (including when driven by the regulator) affecting the payment**, in full and on time, of coupon and principal; or
- (iii) **cases of asset swaps at a discount**, including when: (a) the issuer offers to creditors an asset, a security or a combination of securities representing a future financial obligation of a lesser value than the original obligation (like preferred or ordinary shares, or bonds with lower attached coupons and principal amounts, or characterized by a lower level of seniority or a longer tenor); (b) the swap appears to be a means, explicitly or implicitly, to help the debtor avoid technical default on its contractual payments.



# Idealized cumulative expected losses

	1	2	3	4	5
AAA	0.0000%	0.0001%	0.0004%	0.0010%	0.0016%
AA+	0.0003%	0.0017%	0.0055%	0.0116%	0.0171%
AA	0.0007%	0.0044%	0.0143%	0.0259%	0.0374%
AA-	0.0017%	0.0105%	0.0325%	0.0556%	0.0781%
A+	0.0032%	0.0204%	0.0644%	0.1040%	0.1436%
A	0.0060%	0.0385%	0.1221%	0.1898%	0.2569%
A-	0.0214%	0.0825%	0.1980%	0.2970%	0.4015%
BBB+	0.0495%	0.1540%	0.3080%	0.4565%	0.6050%
<b>BBB</b>	<b>0.0935%</b>	<b>0.2585%</b>	<b>0.4565%</b>	<b>0.6600%</b>	<b>0.8690%</b>
BBB-	0.2310%	0.5775%	0.9405%	1.3090%	1.6775%
BB+	0.4785%	1.1110%	1.7215%	2.3100%	2.9040%
BB	0.8580%	1.9085%	2.8490%	3.7400%	4.6255%
BB-	1.5455%	3.0305%	4.3285%	5.3845%	6.5230%



# Our rating scales

Regional Scale	International Scale
AAA	iBBB
	iBBB-
AA+	iBB+
	iBB
AA	
AA-	
A+	iBB-
A	
A-	iB+
BBB+	
BBB	iB
BBB-	
BB+	iB-
BB	
BB-	iCCC+
B+	
B	iCCC
B-	
CCC+	iCCC-
CCC	
CCC-	iCC/iC
CC	iD
C	
D	

- WARA's rating scale is by construction a **regional rating scale**. This means that WARA, *by default*, rates all categories of debt (including bonds) of WAEMU issuers denominated in the regional currency, i.e. the CFA Franc.
- WARA allows itself to rate debt denominated in foreign currencies (especially Eurobonds), but in this case, assigned ratings make explicit reference to its **global/international rating scale**, using the prefix « i ».
- **Unsolicited ratings** are preceded with the prefix « **ns.** »

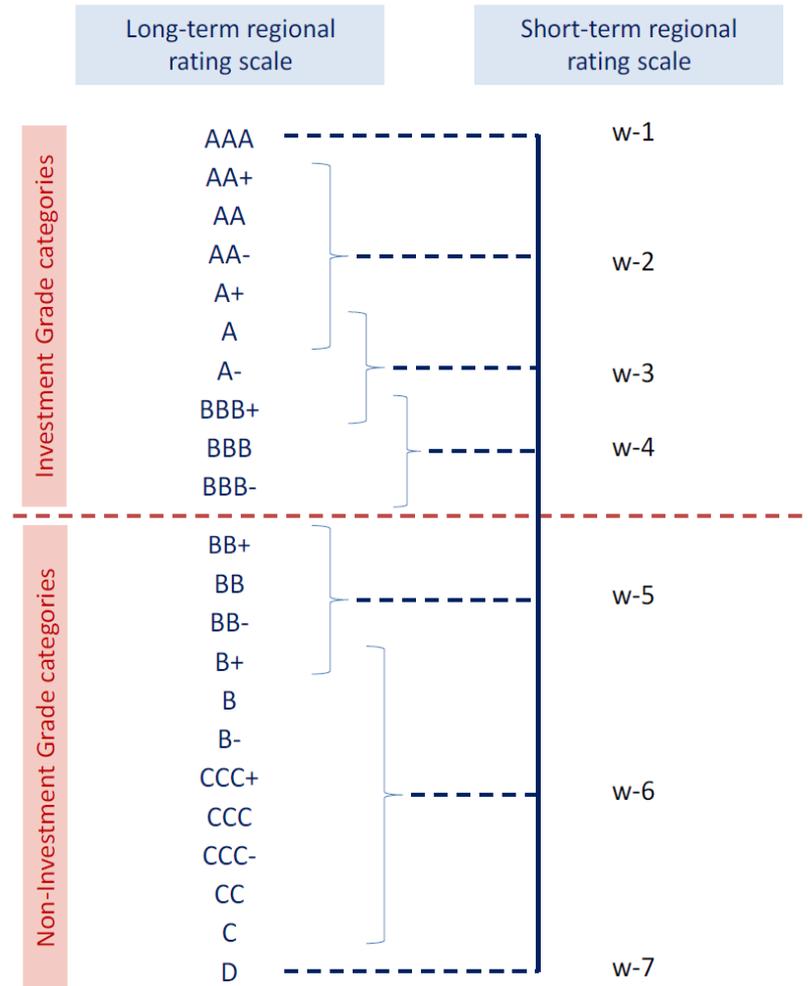


# Definition of rating categories

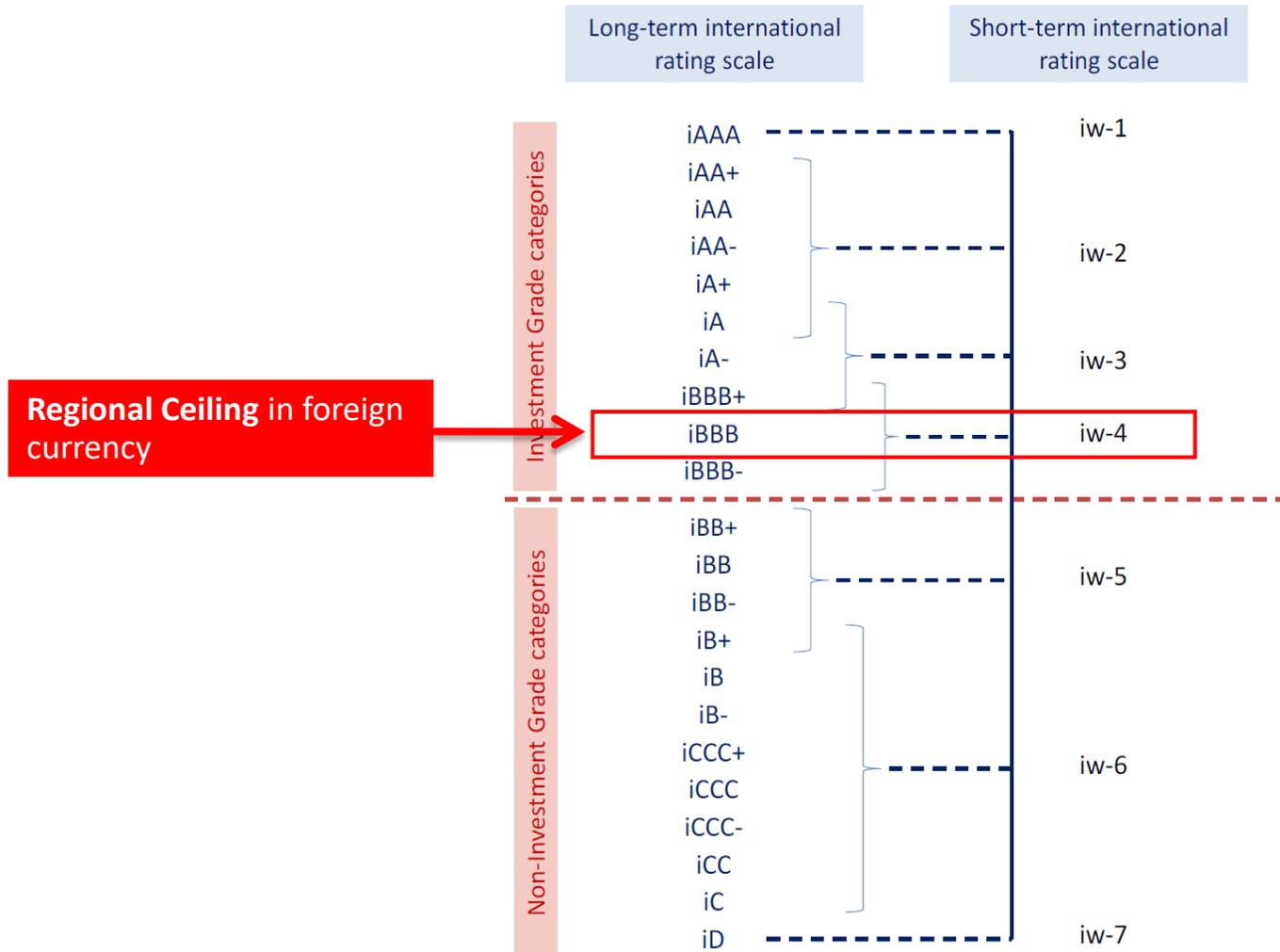
Long term rating scale	Definitions
AAA	WARA considers the rated issuer or issuance within the AAA category hold <b>the highest creditworthiness</b> , thus <b>minimal</b> credit risk
AA+ AA AA-	WARA considers the rated issuer or issuance within the AA category hold <b>high creditworthiness</b> , thus <b>very low</b> credit risk
A+ A A-	WARA considers the rated issuer or issuance within the A category hold <b>medium to high creditworthiness</b> , thus <b>low</b> credit risk
BBB+ BBB BBB-	WARA considers the rated issuer or issuance within the BBB category hold <b>medium creditworthiness</b> , and that their level of credit risk shows <b>some features of speculative nature</b>
BB+ BB BB-	WARA considers the rated issuer or issuance within the BB category hold <b>mediocre creditworthiness</b> , thus <b>significant</b> credit risk
B+ B B-	WARA considers the rated issuer or issuance within the B category hold <b>low creditworthiness</b> , thus <b>high</b> credit risk
CCC+ CCC CCC-	WARA considers the rated issuer or issuance within the CCC category hold <b>very low creditworthiness</b> , thus <b>very high</b> credit risk
CC C	WARA considers the rated issuer or issuance within the CC/C category hold <b>very highly speculative credit profiles</b> , and that <b>their default is imminent</b>
D	WARA considers the rated issuer or issuance within the D category have <b>explicitly defaulted</b>



# Short-term vs. long-term correspondence (regional scale)



# Short-term vs. long-term correspondence (global scale)



# Outlooks

---

- WARA's long-term ratings, which usually have a 3-year horizon, carry an **outlook**.
- The outlook indicates the possible direction of the rating over an 18-month timespan.
- The outlook can be « **Positive** » if the credit trend goes upwards ; « **Negative** » if the credit trend goes downwards ; or « **Stable** » if WARA believes there will be no rating changes over the 18 months following the latest **Rating Committee**.
- As a consequence, all WARA's ratings will have the following form : {Long-term rating / Outlook / short-term rating}.
- *For example*, a company may be assigned the following regional currency rating : « **BBB/Stable/w-4** ».



# Country ceilings

---

- in addition, WARA determines **country ceilings**, for each member country of WAEMU.
- **These ceilings indicate the maximum rating any issuer might be assigned in a given country.**
- **Country ceilings are not sovereign ratings**; country ceilings may be higher or equal to sovereign ratings.
- In a given country, some issuers with high strategic importance or with foreign ownership might be assigned ratings that can be higher than the sovereign rating; thus the concept of country ceiling.



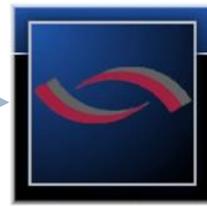
# How we determine country ceilings

---

- The **Country Ceiling (CC)** is the maximum rating any issuer might be assigned in a given country.
- This Country Ceiling depends on the **propensity of a given Government to support banks and companies considered strategically or systemically important.**

Propensity of Support	Country Ceiling
High	CC = SR + 2 notches
Medium	CC = SR + 1 notch
Low	CC = SR + 0 notch

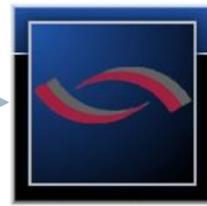
*SR: Sovereign Rating*



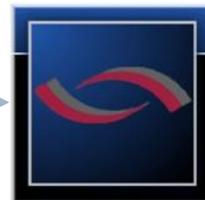
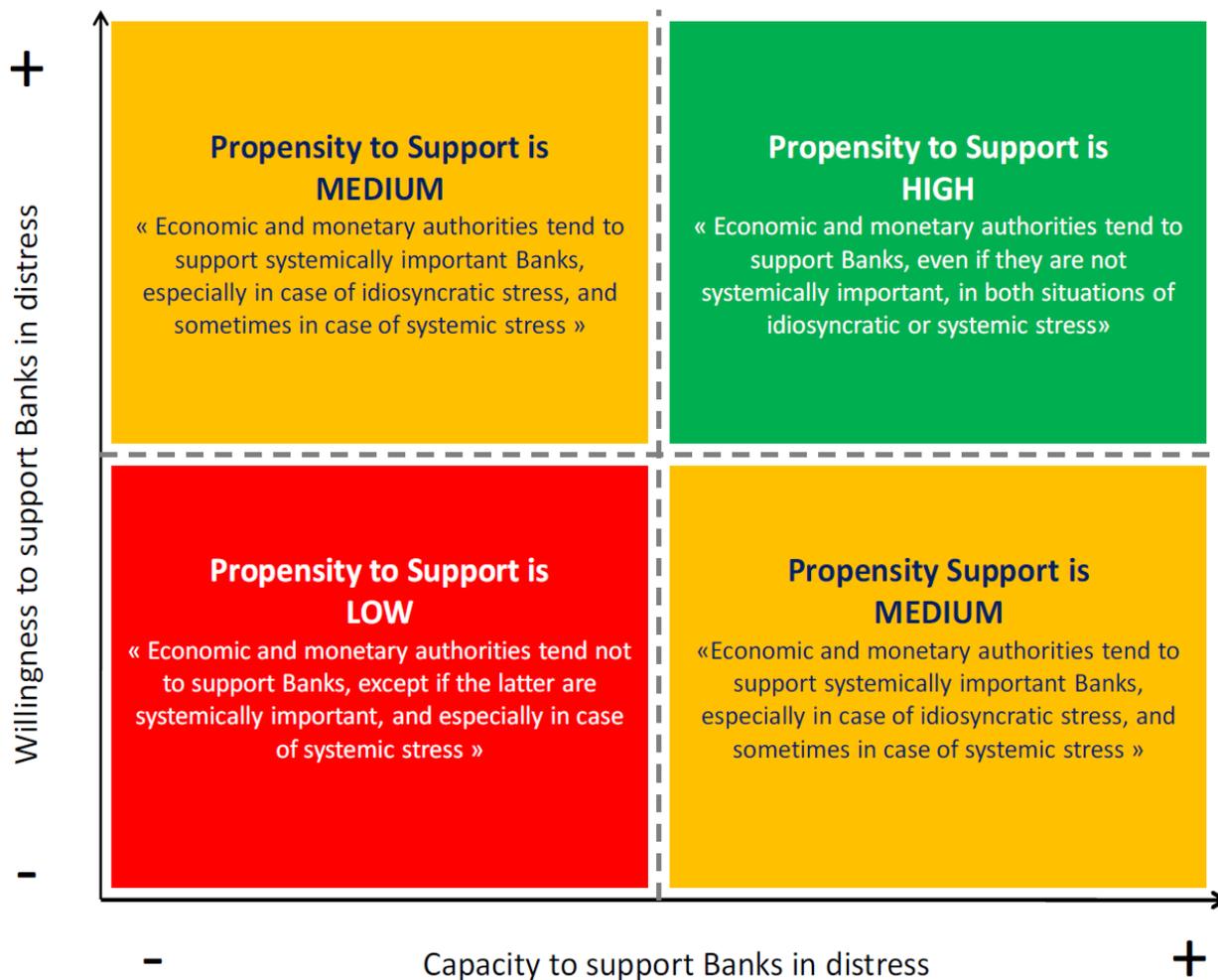
# Propensity of support

- The **propensity of support** of national authorities is a function of their **capacity** to support strategic/systemic institutions, and their **willingness** to do so.
- With regards these two criteria, WARA estimates the intensity of the propensity to support in 3 categories : **High, Medium or Low**.
- For each country, WARA gauges the propensity of support. WARA analysts use the following definitions to assess such propensity of support:

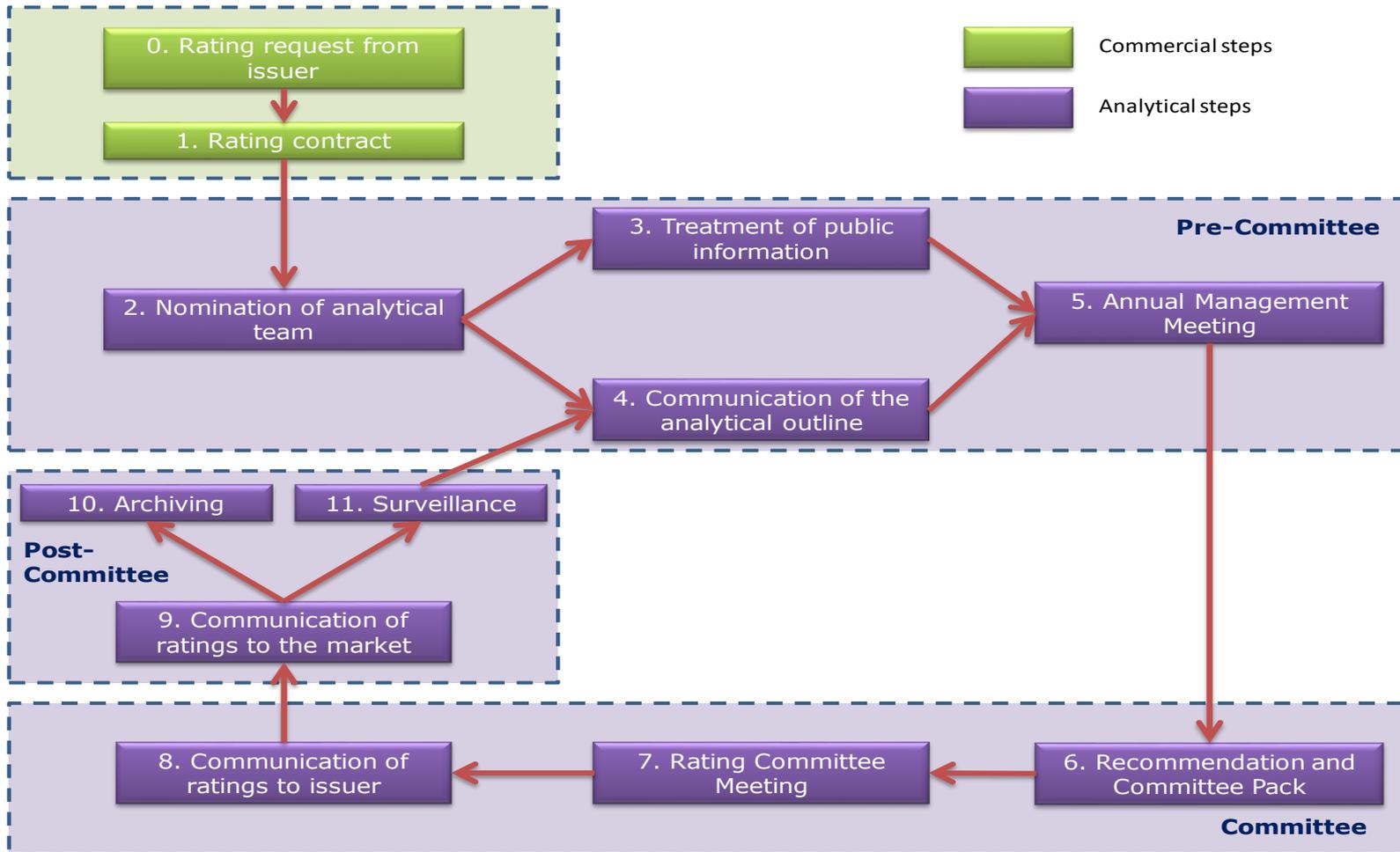
Criteria of PS	Definitions
<b>Capacity</b> to support Banks in distress	The capacity of national authorities to support domestic Banks in distress depends on their fiscal position, on the regulatory room for maneuver, on the amount of contingent liabilities in case of a systemic crisis and of crystallized losses on Banks' balance sheets, as well as on the financial flexibility of authorities.
<b>Willingness</b> to support Banks in distress	The willingness of national authorities to support domestic Banks in distress depends on whether public decision-making is more or less centralized, on the degree of interventionism and proactivity of public decision-making towards Banks, on the direct involvement of the public sector in the banking sector (especially as a shareholder) as well as on the tradition, history and track record of State intervention during past crises.



# Mapping the propensity of support



# The rating process summarized



# A rating? Yes, but how much?

---

- **15 to 25 millions de FCFA (EUR23-38k)** for the first year
- **10 to 20 millions FCFA (EUR15-30k)** for the following years
- Each year, we publish the **ID Card** of the Client (i.e. a short monography of its main economic features), a detailed **Analysis** (of its key credit drivers) and a **Press Release** (to inform the market about our credit opinion).
- **Two analysts** permanently dedicated to the monitoring / surveillance of each of our Clients.



# Contacts

---

## **Anouar HASSOUNE**

CEO and Chairman of the Board of Directors

*West Africa Rating Agency*

Tel: +221 33 825 72 22 | +33 6 3417-2502 | +352 691 26 23 88

Email: [anouar.hassoune@rating-africa.org](mailto:anouar.hassoune@rating-africa.org)

[www.emergingmarketsratings.com](http://www.emergingmarketsratings.com)

