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Ratings

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Research Update:

Arab Investment and Export Credit Guarantee Corporation (Dhaman) 'A+' Ratings Affirmed; Outlook Stable

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Overview

- In 2023, Dhaman's gross insured business in its investment guarantee line rebounded to $701 million, from $162 million in 2022, on the back of a new insurance policy covering an international commercial loan to the Egyptian government.
- However, Dhaman's total gross insured business remained flat since rising economic and political instability in member states dented business volumes in the export credit and trade finance lines.
- We positively reassessed Dhaman's financial risk profile to very strong, from strong, and removed our positive holistic notch for exceptional liquidity, as per our rating approach.
- We affirmed our 'A+' issuer credit and financial strength ratings on Dhaman. The outlook remains stable.

Rating Action

On March 27, 2024, S&P Global Ratings affirmed its 'A+' long-term issuer credit and financial strength ratings on The Arab Investment and Export Credit Guarantee Corporation (Dhaman). The outlook remains stable.

Outlook

The stable outlook reflects our expectation that Dhaman will advance its 2022-2026 strategic plan and further expand its investment guarantee business line, while maintaining its robust capital and liquidity positions.

Downside scenario

We could lower the rating in the next two years if we observe weakening shareholder support or execution risks around the entity's public policy mandate. This could be demonstrated, for example, by the withdrawal of a major shareholder or persistent challenges related to expanding the core investment guarantee business line.

A material deterioration of Dhaman's capital or liquidity position could also place pressure on the rating, although we currently view this as unlikely.

Upside scenario

A track record of strong business expansion or a substantial capital increase accompanied by timely member subscriptions could lead to a positive rating action. Ratings upside would hinge on still-robust capital and liquidity levels.

Rationale

Dhaman's gross insured business in the investment guarantee line, where its development impact is highest, increased to a record $701 million in 2023 after stagnating at $100 million-$200 million for over a decade. This stems from Dhaman's issuance of a non-honoring of sovereign financial obligation insurance policy to cover a $500 million seven-year international commercial loan provided by Deutsche Bank and the Arab Banking Corporation to the Egyptian government. The deal, which will support social projects in health and education, marks Egypt's first international loan transaction benefiting from a multilateral credit-enhancement mechanism.

Despite a recovery in the investment guarantee business, Dhaman's total insured business remained flat at $3 billion in 2023. Slowing global trade and the cancellation of sizable contracts in Pakistan lowered business volumes in the export credit line, while placing Pakistan and Turkey temporarily off-cover due to rising political instability and economic turmoil affected trade finance volumes. However, gross premiums in both lines strengthened on the back of higher business charges recorded in challenging economies. While our base case assumes broadly stable and supportive hydrocarbon prices will bolster Dhaman's medium-term operational performance, this may be partially offset by the imposition of additional credit limits on certain member states.

The geographical scope of Dhaman's operations continues to be affected by enduring geopolitical tensions and economic challenges in the region. Since 2022, Dhaman has selectively withdrawn coverage from certain geographies and is applying a more conservative underwriting approach to others. Already, five member countries out of 21--Lebanon, Syria, Somalia, Sudan, and Yemen (alongside others on a selective basis)--are regularly placed off-cover, narrowing Dhaman's geographic coverage and the scope of its business operations. Although this reflects ongoing difficult operating conditions, we believe it to be an output of Dhaman's prudent risk settings that, ultimately, could limit the agency's development impact.

Dhaman's leadership team continues to advance its 2022-2026 strategic plan to enhance the corporation's development role and regional efforts. The strategy aims to repurpose Dhaman's vision and mission, redefine its risk appetite, outline plans for growth including new markets and products, and specify new requirements for systems and risk management. We expect the strategy, while yet to deliver meaningful growth and impact, in our view, could benefit Dhaman's medium-term business volumes. However, a structural lack of investor interest in high-income member countries (such as in the Gulf Cooperation Council) could jeopardize further expansion in the investment guarantee line.

Dhaman's concentration in oil- and other petrochemical-related insurance activity, while declining over recent years, remains elevated at about 30% of total insured business. We believe this has prevented Dhaman from performing its countercyclical role, as export credit and trade finance business volumes correlate strongly with oil prices. Positively, management has proposed a strategy to lower its hydrocarbon exposure to 20% by reducing oil and gas export transactions from member to non-member countries and diversifying into new commodity sectors such as grains, edible oils, and sugar.

In our view, Dhaman faces steep competition from private insurers and other development agencies in its countries of operations, with some players entering the market with new products and covering a wider range of risks. Dhaman's low profile in non-member countries, eligibility criteria for its business, and its limited range of risk coverage could undermine the company's competitive position.

Despite high operating risks in several member countries, Dhaman's shareholder base has remained stable and supportive. The corporation currently has 25 shareholders: 21 are Arab states and four are pan-Arab regional funds owned by similar shareholders (the funds do not have voting rights). Positively, no shareholder has left, and we do not expect any departures over the medium term. Dhaman's most recent capital increase was in 2013, which resulted in a 50% augmentation of capital from all shareholders to be repaid over a five-year period. This was followed by a voluntary additional contribution from its five largest shareholders in 2014. We understand there are still overdue payments from four member states and three institutional shareholders from the first capital-raising exercise in 2013, and that one state shareholder recently paid 50% of its outstanding share in 2023.

We do not incorporate preferred creditor treatment in our assessment of Dhaman's enterprise risk profile because less than 25% of its insured business is noncommercial (the investment guarantee line; currently 22% of total insured business). Within this line of business, Dhaman has a strong history of recoveries from member states, although recoveries can occur over an extended period and Dhaman has granted small waivers in the past (related to interest on late recoveries). We expect preferential treatment from member countries for Dhaman's commercial exposure, for instance, by exempting them from currency convertibility or transfer restrictions. There are currently no outstanding arrears on Dhaman's sovereign exposures.

On Nov. 15, 2023, we published our revised criteria for analyzing insurers' risk-based capital, "Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions." These revised criteria had no material impact on our ratings on Dhaman, and we expect the corporation's risk-based capital adequacy to remain redundant at the 99.99% confidence level with a material buffer over the next two years.

Dhaman's exceptional liquidity is underpinned by its conservative investment portfolio, largely geared toward fixed-income instruments. In 2023, the portfolio comprised 44% bonds, 24% equities (including infrastructure equity funds), 23% bank deposits, and 9% real estate. About 40% of Dhaman's bond portfolio is in speculative-grade securities, primarily reflecting business sourced from lower-rated sovereigns.

Given the materiality of Dhaman's buffer at the 99.99% confidence level and its investment exposures, we think the corporation is unlikely to experience volatility in its capital and earnings. We therefore reassessed Dhaman's financial risk profile to very strong, from strong, under our criteria for multilateral lending institutions. We also removed the one notch of uplift for exceptional liquidity since this is now captured in Dhaman's improved financial risk profile.

Furthermore, the institution holds its investments in U.S. dollars and Kuwaiti dinar. The latter currency is pegged to an undisclosed basket of currencies and has historically shown very little volatility relative to the U.S. dollar. We therefore view minimal foreign exchange risk.

Ratings Score Snapshot

Issuer and financial strength credit ratings	A+/Stable/--
Stand-alone credit profile	a+
Enterprise risk profile:	Adequate
Governance and management expertise	Adequate
Financial risk profile:	Very strong
Capital adequacy	N/A
Funding and liquidity	N/A
Holistic approach	0

N/A--Not applicable.

Related Criteria

- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions, Nov. 15, 2023
- Criteria | Governments | General: Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology, Jan. 31, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Supranationals Special Edition 2023: Capital Optimization At The Forefront for MLIs, Oct. 13, 2023
- Supranationals Special Edition 2023, Oct. 12, 2023
- Supranationals Edition 2023: Comparative Data For Multilateral Lending Institutions, Oct. 12, 2023
- Introduction To Supranationals Special Edition 2023, Oct. 11, 2023

Ratings List

Ratings Affirmed

Arab Investment and Export Credit Guarantee Corp. (The)	
Sovereign Credit Rating	
Foreign Currency	A+/Stable/--
Financial Strength Rating	
Local Currency	A+/Stable/--