

CREDIT OPINION

27 October 2021

Update

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International Finance Facility for Immunisation (IFFIm) – Aa1 stable

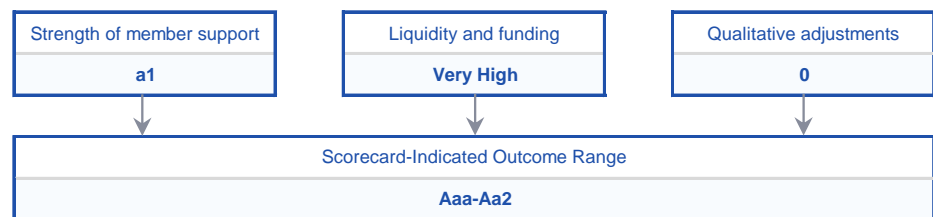
Regular update

Summary

The [International Finance Facility for Immunisation's](#) (IFFIm) credit profile reflects very high liquidity, strong commitment from donor governments and a high concentration of pledges. The IBRD's role as risk manager of IFFIm's investment portfolio and its access to financial markets to issue bonds are credit strengths. These offset vulnerabilities from the high concentration of donor pledges and credit risk of its largest donors, the [UK](#) (Aa3 stable) and [France](#) (Aa2 stable).

Exhibit 1

IFFIm's credit profile is determined by two factors



Source: Moody's Investors Service

Credit strengths

- » Strong commitment from donor governments to support programs financed by IFFIm
- » Strong gearing and liquidity positions, and strong risk management policies

Credit challenges

- » Concentration of donor pledges
- » High correlation in credit risk among the largest donors
- » Donor disbursement conditions – in the unlikely event that a large number of recipient countries go into arrears with the IMF – causing material reductions in donor payments

Rating outlook

The stable outlook balances the high concentration of IFFIm's donor pledges, and the related risk of further weakening of their credit profiles, particularly that of the UK, against IFFIm's own conservative liquidity and leverage policies. We expect these prudent policies to continue and IFFIm's market access to remain strong.

Factors that could lead to an upgrade

Positive ratings momentum for IFFIm would emerge if the creditworthiness of its largest donors, the UK and France, were to improve materially. A significant decrease in the concentration of donor pledges would also be credit positive.

Factors that could lead to a downgrade

Further material deterioration in the creditworthiness of IFFIm's donors could place downward pressure on IFFIm's rating, particularly if a significant deterioration impacts the UK or France, IFFIm's largest donors. A weakening of risk management practices, or a significant increase in leverage would also be credit negative events that could pressure the rating.

Key indicators

Exhibit 2

IFFIm	2015	2016	2017	2018	2019	2020
Total Assets (USD million)	3,736.9	3,229.3	3,501.9	3,073.2	2,504.0	3,857.6
Return on Average Assets	2.1	1.4	6.9	4.7	-3.0	37.0
Liquid Assets / ST Debt + CMLTD	130.8	162.3	312.5	162.2	129.1	1,231.9
Liquid Assets / Total Assets	26.4	26.7	26.0	26.6	17.1	12.8
Callable Capital / Gross Debt [1]	190.6	193.0	264.7	366.5	503.6	316.0

[1] Callable capital represents scheduled donor pledge payments. Payments based on prevailing USD exchange rate at date of signed pledge.

Source: Moody's Investors Service

Detailed credit considerations

Our "a1" assessment for **strength of member support** deviates from the scorecard-indicated adjusted score to account for incoming pledges that will modify IFFIm's current donor composition. The announced pledges, totaling an excess of \$900 million are almost entirely pledged by [Sweden](#) (Aaa stable) and [Norway](#) (Aaa stable). Our assessment balances the expectation of very high contractual and extraordinary support from IFFIm's donors against the relatively high concentration of pledges, one of the main sources of risk to IFFIm's creditworthiness. The donor governments are committed to make payments to IFFIm on specified dates over a period of around 20 years, conditional on adherence to its gearing and liquidity policies, and on the involvement of the [International Bank for Reconstruction and Development](#) (IBRD or World Bank, Aaa stable) as treasury manager. IFFIm's rating is closely linked to the creditworthiness of its sovereign donors because its revenue structure is reliant on the receipt of donors' pledges. Although the amount and timing of donor payments is predetermined at the time they are pledged, the amounts and maturities of debt issuance are based on the recommendation of the Treasury Manager.

The UK is the single largest donor to IFFIm, its pledges represent 40% of the total scheduled payments as of December 2020. Further significant concentration results from our belief that there is correlation between IFFIm's euro area donors: France, [Italy](#) (Baa3 stable), and [Spain](#) (Baa1 stable). Collectively, these donors respectively represent almost 30% of remaining payments as of December 2020. This represents an additional concentration risk. This donor concentration leads to a low-probability, but high-severity event risk in IFFIm's credit profile. Nevertheless, we believe that all donors have the capacity and willingness to meet their commitments on a timely basis. Supporting this assessment is the strong "a1" weighted average government bond rating of the donors and the very small size of the scheduled annual payments relative to the donors' annual budgets.

Our "Very High" assessment of **liquidity** reflects prudent liquidity policy, the role of the IBRD as risk manager of its investment portfolio, as well as access to financial markets to issue bonds. To ensure there are sufficient funds to repay bondholders despite the risk of reductions in donors' scheduled payments, IFFIm has two key risk management policies. The first policy is the liquidity policy, which requires a prudential minimum level of liquid assets to be held equal to at least one year's debt service (both interest and principal). The second is a solvency policy over the remaining life of IFFIm; IBRD, IFFIm's treasury manager, has set a limit on IFFIm's debt stock using a gearing ratio, defined as total debt net of cash holdings (i.e., net debt) over the present value of donor pledges. At end-2020,

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the gearing ratio was 15.6%, well below the then current gearing ratio limit (GRL) of 70.5%. The GRL rose significantly when IFFIm issued a \$750 million bond in April, and reached 53.1% in June 2021. However, we expect the ratio to fall as new pledges (worth an excess of \$900 million) have been announced but not confirmed and thus were not counted in the gearing ratio calculation.

ESG considerations

How environmental, social and governance risks inform our credit analysis of IFFIm

Moody's takes account of the impact of environmental (E), social (S) and governance (G) factors when assessing supranational issuers' credit profile. In the case of IFFIm, the materiality of ESG to the credit profile is as follows:

Environmental considerations are not material for IFFIm's ratings given its mandate to channel donor funding to Gavi.

Moody's considers the coronavirus outbreak as a social risk. In this context, social considerations are relevant for IFFIm's ratings given its mandate to channel donor funding to accelerate vaccination by GAVI, which will likely play an important role in expanding vaccination against the coronavirus to low-income countries. This could increase the degree of leverage and needed donor support to IFFIm.

Governance considerations are material for IFFIm's credit profile, given relatively concentrated donor pledges, with the UK, France and Italy accounting for almost 70% of pledges. This introduces risk to the weighted average donor rating, especially as both the UK and Italy have experienced negative credit pressures in recent years. The role of the IBRD in risk management is also material for IFFIm's credit profile in mitigating concentration risks.

All of these considerations are further discussed in the "Detailed credit considerations" section above. Our approach to ESG is explained in our cross-sector methodology [General Principles for Assessing ESG Risks](#). Additional information about our rating approach is provided in our [Supranational Rating Methodology](#).

Recent developments

IFFIm has seen its operations revitalized

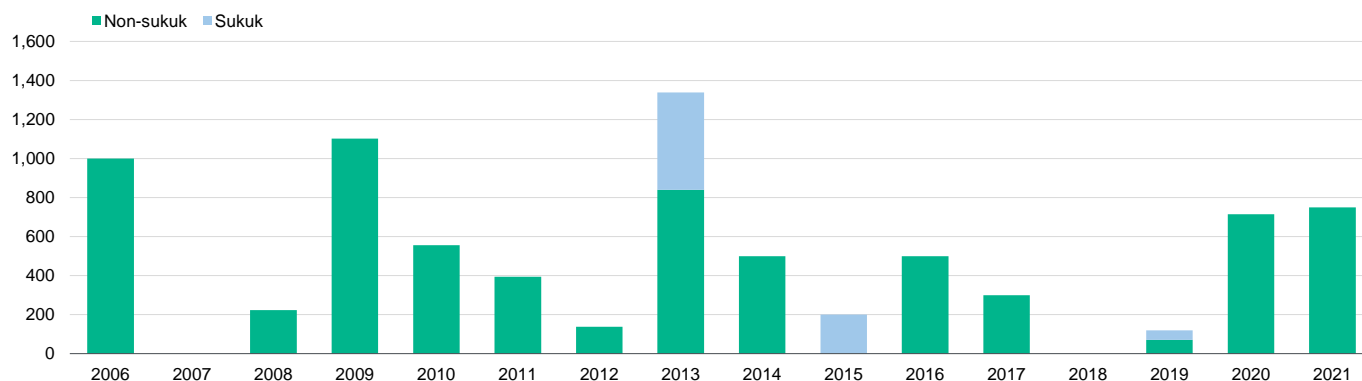
2020 brought a renewed impetus for market issuance, as IFFIm readied to play a role in the global response to the coronavirus pandemic while also supporting Gavi, whose new funding cycle will run from 2021-25.

The coronavirus pandemic of 2020 began just as Gavi prepared for a new funding cycle, which will run from 2021-25. The new cycle and the pandemic has spurred donors to step up their efforts, with new donations totaling \$1.5 billion being signed in 2020¹ More donations, totaling an excess of \$900 million, have been announced but are yet to be formalized.

This renewed flow of donations and associated planned disbursements has led to IFFIm revitalizing its borrowing program. IFFIm issued an NOK2 billion bond in July 2020, followed by a \$500 million three-year bond in October 2020. These were followed in April 2021 by a \$750 million five-year bond (see Exhibit).

Exhibit 3

IFFIm's borrowing programme has been revitalized (\$ million, as of September 2021)



Source: IFFIm and Moody's Investors Service

Rating methodology and scorecard factors

Rating factor grid - International Finance Facility for Immunisation		Initial score	Adjusted score	Assigned score
Factor 1: Strength of member support (100%)			a2	a1
Ability to support - weighted average shareholder rating (50%)			a1	
Willingness to support (50%)				
Non-contractual support			High	
Factor 2: Liquidity and funding (+3,+2,+1,0)			Very High	Very High
Liquid resources (20%)			aaa	
Availability of liquid resources		aaa		
Trend in coverage outflow		0		
Access to extraordinary liquidity		0		
Quality of funding (80%)			aa	
Other adjustments				0
Operating environment		0		
Quality of management		0		
Scorecard-Indicated Outcome Range				Aaa-Aa2
Rating Assigned				Aa1

Note: Our ratings are forward-looking and reflect our expectations for future financial and operating performance. However, historical results are helpful in understanding patterns and trends of an issuer's performance as well as for peer comparisons. Additional considerations that may not be captured when historical metrics are used in the scorecard may be reflected in differences between the adjusted and assigned factor scores. Furthermore, in our ratings we often incorporate directional views of risks and mitigants in a qualitative way. For more information please see our Multilateral Development Banks and Other Supranational Entities rating methodology.

Source: Moody's Investors Service

Moody's related publications

- » **Issuer In-Depth:** [International Finance Facility for Immunisation – Aa1 stable: Annual credit analysis](#), 12 August 2021
- » **Rating Methodology:** [Multilateral Development Banks and Other Supranational Entities](#), 28 October 2020

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

Endnotes

- 1 Most donations have been earmarked for either the COVID-19 Vaccines Global Access program (COVAX) or GAVI. A small portion is directed toward the Coalition for Epidemic Preparedness Innovations (CEPI), a Gavi approved program that supports research and development of vaccines.

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