

CREDIT OPINION

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Update

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International Finance Facility for Immunisation – Aa1 Stable

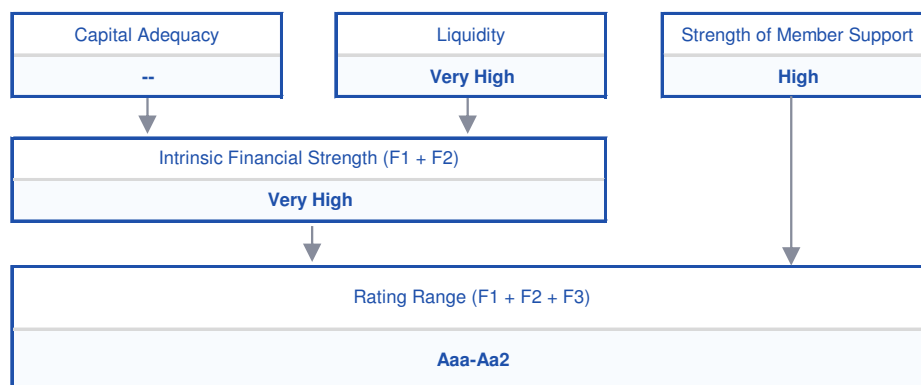
Regular update

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 \(Aa2 stable\)](#) and [France \(Aa2 positive\)](#).

Exhibit 1

IFFIm's credit profile is determined by three 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 concentration and high credit risk correlation of IFFIm's largest donors, against IFFIm's conservative liquidity and gearing policies, which will continue to mitigate concentration risks. Moreover, we expect 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. A significant decrease in the concentration of sovereign donors' pledges would also be credit positive.

Factors that could lead to a downgrade

A material deterioration in the creditworthiness of its donors could lead to downward pressure on IFFIm's rating, particularly if the deterioration led to a downgrade of the UK and France. A weakening of the gearing ratio limit mandate or a change in treasury manager, neither of which we consider likely, would also be credit negative.

Key indicators

Exhibit 2

International Finance Facility for Immunisation	2012	2013	2014	2015	2016	2017
Total Assets (USD million)	4,243	4,443	4,170	3,737	3,229	3,502
Return on Average Assets (%)	-7.9	3.3	2.5	2.1	1.4	6.9
ST Debt + CMLTD/Liquid Assets (%) [1]	76.7	70.7	41.7	76.5	61.6	32.0
Total Debt/Discounted Callable Capital (%) [2]	40.5	46.2	42.9	39.4	37.4	33.2

[1] Short-term debt and currently-maturing long-term debt

[2] Net debt as percent of the present value of scheduled donor pledge payments. Donor payments based on prevailing USD exchange rate at date of signed pledge.

Source: Moody's Investors Service

Detailed credit considerations

Our "High" assessment for **strength of member support** 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, pledging 48% of remaining donor payments. Further significant concentration results from our belief that there is correlation between three of IFFIm's euro area donors: France, [Italy \(Baa3 stable\)](#), and [Spain \(Baa1 stable\)](#) pledge 32%, 8%, and 3%, respectively, of remaining donor payments. As a result of the correlation assumption, we consider these three sovereigns' combined 43% of remaining pledges to be 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 very high Aa1 weighted median 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 one is a solvency policy over the remaining life of IFFIm – a gearing ratio limit that restricts net debt to around 58% of the present value of remaining donor payment

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amounts. In our view, the strength of the gearing ratio limit is not only a function of how well the risks are modeled in order to set the limit, but a function of the flexibility of the limit to account for increasing risks; and, importantly, the flexibility for the Treasury Manager to delay grant commitments and disbursements to make sure the gearing ratio limit is met at all times. The second 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 IBRD's role as the treasury manager is a key support factor for IFFIm's rating. As an innovation in financing, IFFIm started as an untested structure. The World Bank's capacity, experience, and proven track record of timely debt servicing adds necessary institutional strength to the new structure. As IFFIm's counterparty, the IBRD has committed to not call collateral following IFFIm's downgrade from Aaa in 2013. This commitment came in tandem with a structural change to the limits of IFFIm's indebtedness. A "Risk Management" buffer of 12% was added to the gearing ratio limit, bringing the limit around 58% from 70%. We view this structural change positively as it reduces the overall risk taken on by IFFIm (i.e. a lower leverage level) and enables it to maintain regular financial operations. The structural change also displays the noncontractual support that IFFIm receives from the IBRD. This development supports our assessment that having the IBRD as Treasury Manager is a significant source of credit strength for IFFIm.

Recent developments

IFFIm's gearing and liquidity ratios remain robust...

As of year-end 2017, IFFIm's gearing ratio, defined as total debt net of cash holdings (net debt) over the present value of donor pledges, remained low at 18.8%, below its five-year average of 33.3%. However, we expect that over time the ratio will inch closer to the guiding Gearing Ratio Limit (GRL) of around 58% (including the 12% buffer), as set by the trustees on the advice of the Treasury Manager. This is a natural evolution of the ratio as intended by IFFIm's structure, which front-loads bond issuance for immediate immunization impact while the sovereign pledges are paid-in gradually over IFFIm's life.

IFFIm also remains highly liquid and continues to over-comply with its own liquidity policies. This minimum liquidity level is equivalent to the cumulative contracted debt service payments over the next twelve months. This level is recalculated and reset on a quarterly basis. As of year-end 2017, the calculated minimum liquidity was \$366.5 million, significantly below the value of IFFIm's liquid assets, which amounted to \$912 million, about 2.5x the prudential minimum. For the five-year period 2013-17, the actual liquid asset holdings were on average 1.8x greater than the prudential minimum.

...but donor concentration risk remains

The institution's strong financial position is partially offset by its high donor concentration, with its two largest donors, the UK and France representing 80% of remaining pledges as of year-end 2017.

While there is a high level of uncertainty surrounding the ultimate outcome of Brexit negotiations, we believe that donor contributions to IFFIm will continue to flow regardless of the outcome, especially given the small amount that the annual donations represent with respect to the UK's budget (normally less than 0.1% of government revenue).

However, in the wake of [the British parliament's strong rejection of the draft withdrawal agreement](#) from the [European Union \(EU, Aaa stable\)](#) a wide range of outcomes remains possible, from a "no-deal" Brexit in March to a decision to remain indefinitely in the European Union. Given the extreme level of uncertainty, it is difficult to predict the eventual outcomes for Brexit, but of all the possible outcomes a "no deal" Brexit would have the most negative credit implications for the Sovereign. While prompt and forthright policy action could, in principle, avoid material damage to the UK's economic and fiscal strength and therefore its credit quality, the balance of risks would shift firmly to the downside, putting negative pressure on the UK's sovereign rating.

Given the UK's 50% share of remaining donor pledges, downward pressure on the sovereign's rating would likely entail downward pressure on IFFIm's rating as well.

Expansion and deepening of donor base highlights strong support for IFFIm's mission

Last October, [Brazil \(Ba2 stable\)](#) pledged \$20 million to IFFIm over the next twenty years (about 1% of remaining pledges), making it the tenth country to join the institution's donor list and the first one to do so from Latin America. The donations will be made in \$1 million annual installments.

In December, the Board of Gavi, the Vaccine Alliance that IFFIm finances, approved a proposal for [Norway \(Aaa stable\)](#) to support the Coalition for Epidemic Preparedness Innovation (CEPI) through the issuance of bonds backed by a new Norwegian pledge. While the amount of the new pledge is yet to be finalized, IFFIm's board has expressed support for the program and we believe it is likely to be finalized in early 2019. Norway has been a donor since IFFIm's founding in 2006 and accounts for around 1.5% of remaining pledges.

While the new donor amounts from Brazil and Norway are small relative to the total remaining, the new pledges highlight continued, broad support for IFFIm's mission.

Rating methodology and scorecard factors

Rating Factors - International Finance Facility for Immunisation

Rating Factors	Factor Weight	Factor Score
Factor 1: Capital Adequacy	0%	--
Factor 2: Liquidity	100%	Very High
Intrinsic Financial Strength (F1 + F2)	+2, +1, 0, -1 notches	Very High
Factor 3: Strength of Member Support	Preliminary Rating Range	High
Rating Range (F1 + F2 + F3)		Aaa-Aa2
Assigned Rating		Aa1

Note: While the information used to determine the grid mapping is mainly historical, our ratings incorporate expectations around future metrics and risk developments that may differ from the ones implied by the rating range. Thus, the rating process is deliberative and not mechanical, meaning that it depends on peer comparisons and should leave room for exceptional risk factors to be taken into account that may result in an assigned rating outside the indicative rating range. [For more information please see our Multilateral Development Banks and Other Supranational Entities rating methodology.](#)

Footnotes:

(1) Rating Range: Factor 1, Capital Adequacy, and Factor 2, Liquidity, combine according to the weights indicated into a construct we designate as Intrinsic Financial Strength (IFS). A notching system combines IFS and Factor 3, Strength of Member Support.

(2) 5 Ranking Categories: Very High, High, Medium, Low, Very Low.

Moody's related publications

- » **Issuer in-Depth:** [International Finance Facility for Immunisation – Aa1 Stable: Annual credit analysis](#), 24 July 2018
- » **Rating Action:** [Moody's affirms Aa1 issuer and bond ratings of the International Finance Facility for Immunisation \(IFFIm\) with a stable outlook](#), 17 January 2018
- » **Rating Methodology:** [Multilateral Development Banks and Other Supranational Entities](#), 17 September 2018

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.

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