



Rating Action: Moody's changes outlook to negative from stable; Affirms Aa1 ratings of the International Finance Facility for Immunisation (IFFIm)

28 Oct 2022

New York, October 28, 2022 – Moody's Investors Service ("Moody's") has changed the outlook to negative from stable and affirmed the Aa1 issuer and senior unsecured bond ratings of the International Finance Facility for Immunisation (IFFIm).

Moody's has also affirmed IFFIm's senior unsecured MTN programme rating at (P)Aa1, the short-term issuer rating at Prime-1, and the other short-term rating at (P)Prime-1.

The decision to change the outlook to negative is driven mainly by the weakening credit quality of IFFIm's largest shareholder, the United Kingdom, Government of (UK, Aa3 negative). The affirmation of the Aa1 ratings reflects strong donor support for IFFIm's mission, ample liquidity and robust risk management by staff from the International Bank for Reconstruction and Development (IBRD, Aaa stable).

RATINGS RATIONALE

RATIONALE FOR THE NEGATIVE OUTLOOK

WEAKENING CREDIT QUALITY OF IFFIM'S LARGEST SHAREHOLDER

The negative outlook reflects the impact of negative credit pressures building on IFFIm's largest donors, particularly the UK, which accounts for 46% of remaining donor pledges. In addition, negative credit pressures are also building on a number of European sovereigns as a result of the ongoing energy crisis and its potential economic and fiscal implications. Even though we do not expect any of the donors to alter their current commitments to IFFIm, the credit quality of IFFIm is closely linked to those of its largest donors given that IFFIm is a financing vehicle without a capital buffer.

IFFIm's donor pledges are highly concentrated with its largest donor, the UK, accounting for 46% of all outstanding donor pledges as of June 30, 2022, and the top three donors (UK, Norway (Aaa stable), and France (Aa2 stable)) accounting for 77% of all outstanding donor pledges. Donor concentration has been reduced somewhat, but it remains a key credit feature that affects IFFIm's credit profile, more so given its relatively high reliance on a single donor, the UK, a sovereign which has experienced continued weakening of credit quality for several years. Since the strength of member support is a key rating factor that tracks closely the rating of the largest donors, in the event of a UK downgrade, IFFIm's weighted average donor rating and strength of member support could weaken further undermining IFFIm's credit profile.

RATIONALE FOR AFFIRMING Aa1 RATINGS

STRONG DONOR SUPPORT FOR IFFIM'S MISSION, AMPLE LIQUIDITY AND ROBUST RISK

MANAGEMENT

Donors continue to show very strong support for IFFIm's mission in expanding financing options for Gavi. Gavi and the financing provided through IFFIm are an integral part of delivering on the United Nations' Sustainable Development Goals. The likelihood that a donor would abandon these goals once they have committed future donor pledges is very low. Moreover, since the breakout of the coronavirus pandemic, the ability of IFFIm to provide rapid financing during crisis to expand covid vaccine access in low-income countries led to significant increase in donor pledges in the past two years. Given recent experience of developing a vaccine to immunize against coronavirus, the relevance of Gavi and IFFIm in channeling urgent vaccination to low-income countries has significantly increased.

IFFIm continues to be seen by donors as an attractive financing vehicle to aid Gavi, as seen by the expansion of its donor base and their financial commitments. At inception, IFFIm had six donors: United Kingdom, France, Italy, Norway (Aaa stable), Spain (Baa1 stable), and Sweden (Aaa stable). Over time, these donors have increased their pledges, while new donors have joined IFFIm.

In 2021, IFFIm received new sovereign pledges totaling \$720 million . Although concentration of pledges remains high, new pledges have come from more diverse set of donors with higher sovereign ratings.

Furthermore, IFFIm has retained strong liquidity to cover upcoming debt maturities. IFFIm's liquidity policy ensures ample coverage of its financial obligations to meet its operational requirements, provide predictability of program funding, and support its credit rating. Similar to other supranationals, IFFIm's policy sets a prudential minimum level of liquidity equivalent to IFFIm's cumulative contracted debt-service payments for the next 12 months. IFFIm has consistently held more liquid assets than the prudential minimum set by the policy. As of year-end 2021, the minimum liquidity required by IFFIm's policy was \$99 million, while the value of IFFIm's actual liquid assets amounted to \$615 million, and hence more than six times above the prudential minimum.

Robust risk management practices and moderate leverage relative to committed donor pledges are key mitigating factors against donor concentration risk. In addition, the role of the IBRD as IFFIm's financial and risk manager provides strong institutional support to IFFIm, and is a key support element for the rating. 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. As of June 2022, gearing ratio was 50.5% well below the 73.8% gearing ratio limit. Throughout IFFIm's existence, the observed gearing ratio has remained well below its limit.

ENVIRONMENTAL, SOCIAL, GOVERNANCE CONSIDERATIONS

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 has played an important role in expanding vaccination against the coronavirus to low-income countries. As a result, donor support to IFFIm has increased, given the important role it played in providing rapid financing to Gavi during the pandemic.

Governance considerations are material for IFFIm's credit profile, given relatively concentrated donor pledges, with the UK, Norway and France accounting for 77% of all outstanding donor pledges as of June 30, 2022. This introduces risk to the weighted average donor rating, especially as both the UK and Italy have experienced negative credit pressures recently. The role of the IBRD in risk management is also material for IFFIm's credit profile in mitigating concentration risks.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

A rating upgrade is unlikely in the near term, given the negative outlook. However, positive credit pressure would emerge if the creditworthiness of IFFIm's largest donors, the UK and France, were to improve materially. A significant decrease in the concentration of donor pledges would also be credit positive.

Further deterioration in the creditworthiness of IFFIm's donors could lead to a downgrade of IFFIm's rating, particularly of 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 put pressure on the rating.

The principal methodology used in these ratings was Multilateral Development Banks and Other Supranational Entities Methodology published in October 2020 and available at <https://ratings.moodys.com/api/rmc-documents/69182>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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Samar Maziad
Vice President - Senior Analyst
Sovereign Risk Group
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Alejandro Olivo
MD-Sovereign/Sub Sovereign
Sovereign Risk Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

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