

## CREDIT OPINION

25 September 2023

Update

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### RATINGS

IFFIm	Rating	Outlook
Long-term Issuer	Aa1	Negative
Short-term Issuer	P-1	--

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# International Finance Facility for Immunisation – Aa1 negative

Regular update

## Summary

The credit profile of [International Finance Facility for Immunisation](#) (IFFIm) reflects its very high liquidity and strong commitment from donor governments. The [International Bank for Reconstruction and Development's](#) (IBRD, Aaa stable) role as risk manager of IFFIm's investment portfolio and its access to financial markets to issue bonds are credit strengths. These strengths offset vulnerabilities from the high concentration of donor pledges and credit risk of its largest donors, the [Government of United Kingdom](#) (Aa3 negative) 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
- » Significant reductions in donor payments in the unlikely event that a large number of recipient countries go into arrears with the IMF

## Rating outlook

The negative rating outlook reflects the impact of negative credit pressures building up on IFFIm's largest donors, particularly the UK, which accounts for 43% of remaining

donor pledges. In addition, negative credit pressures are also building up on a number of European sovereigns as a result of the ongoing energy crisis and its potential economic and fiscal implications. Although we do not expect any of the donors to alter their current commitments to IFFIm, the credit quality of IFFIm is closely linked to that of its largest donors given that IFFIm is a financing vehicle without a capital buffer.

### Factors that could lead to an upgrade

A rating upgrade is unlikely, 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 substantially. A significant decrease in the concentration of donor pledges would also be credit positive.

### Factors that could lead to a downgrade

A 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.

### Key indicators

Exhibit 2

IFFIm	2017	2018	2019	2020	2021	2022
Total Assets (USD million)	3,501.9	3,073.2	2,504.0	3,857.6	4,202.5	4,429.6
Return on Average Assets	6.9	4.7	-3.0	37.0	-16.8	-0.4
Liquid Assets / ST Debt + CMLTD	312.5	162.2	129.1	1,231.9	624.5	186.1
Liquid Assets / Total Assets	26.0	26.6	17.1	12.8	14.6	23.3
Callable Capital / Gross Debt [1]	264.7	366.5	503.6	316.0	216.3	161.9

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

Sources: IFFIm and Moody's Investors Service

#### Profile

The International Finance Facility for Immunisation (IFFIm) is a multilateral development institution created in 2006 as a financing tool to accelerate and facilitate funding for immunizations carried out by the Vaccine Alliance (Gavi)<sup>1</sup>, and thereby help the international community in achieving the United Nations' Sustainable Development Goals. IFFIm serves as an additional funding vehicle for Gavi-approved programs and does not have any operations other than providing grants to finance Gavi programs in the world's poorest countries. IFFIm has no employees and therefore receives administrative support from Gavi. Moreover, the IBRD, as treasury manager, conducts IFFIm's financial affairs, including risk management. The role of the IBRD as treasury manager is a significant source of credit strength for IFFIm. The financial and institutional strength of the IBRD allows it to provide innovative risk management solutions, which ultimately benefit IFFIm. IFFIm is incorporated as a private company, registered as a charity in England and Wales, and is governed by its own board of directors.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody.com> for the most updated credit rating action information and rating history.

## Detailed credit considerations

Our determination of a supranational's rating is based on three rating factors: capital adequacy, liquidity and funding, and strength of member support. For other supranational entities, strength of member support is the key driver of our assessment of the institution's credit profile, as shown on the cover page graphic. Additional considerations on liquidity and funding, and other qualitative adjustments, including risks stemming from the operating environment or the quality of management, are incorporated to provide the rating range. For more information please see our [Supranational Rating Methodology](#).

### FACTOR 1: Strength of member support score: a1

We assess IFFIm's strength of member support score at "a1". In addition to pledges being legal obligations, most of the pledged support to IFFIm comes from donors with high credit ratings who have shown a strong commitment to supporting IFFIm's mission. The score also reflects incoming pledges that will modify IFFIm's current donor composition. Our final assessment of strength of member support balances the donors' ability and willingness to honor pledges with risks stemming from the concentration of IFFIm's donor structure.

### Ability to honor pledges remains very strong despite concentration risk and some uncertainty

While IFFIm does not have capital, sovereign donor commitments are legally binding and enforceable payment obligations. Given the legal characteristics of these pledges, we consider these donor obligations as analogous to capital contributions. For most of the supranationals we rate, the strength of member support score is built around shareholders' capital contribution. In particular, we score the ability to support based on the weighted average shareholder rating. We calculate the weighted average donor rating at Aa3 because we consider outstanding donations analogous to capital subscriptions.

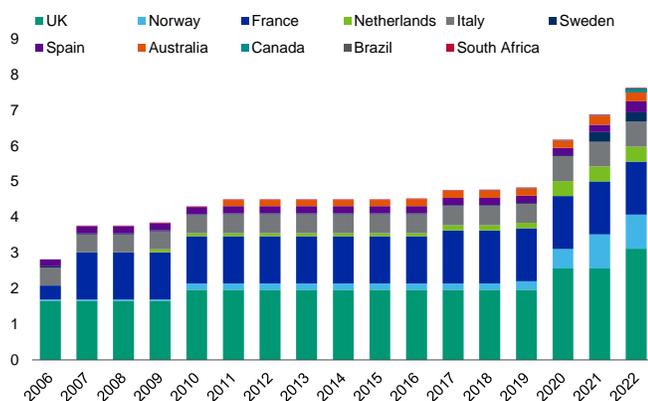
At its inception, IFFIm had six original donors: the UK, France, [Italy](#) (Baa3 negative), [Norway](#) (Aaa stable), [Spain](#) (Baa1 stable) and [Sweden](#) (Aaa stable). Over time, donors have increased their pledges, while new donors have joined IFFIm (see Exhibit 3). The new funding cycle, which runs from 2021 to 2025, and the coronavirus pandemic led donors to step up efforts after several years of limited additional pledges. Since 2020, new pledges have amounted to approximately \$3 billion. In 2022 alone, IFFIm received new sovereign pledges totaling \$541 million from Spain (€100 million) and the UK (£461 million). After accounting for fair value losses and payments received by donors, IFFIm's sovereign pledges decreased by \$486 million in 2022, mainly on account of currency and interest rate movements.

Pledges are considerably concentrated, with the UK and Norway accounting for more than half of the remaining outstanding pledges as of June 2023. This introduces risk to the weighted average donor rating of Aa3, which we use to score donors' ability to support. Therefore, negative rating pressure on sovereign ratings would weigh on IFFIm's creditworthiness. At the same time, IFFIm's donor base is shifting, with most new pledges coming from Aaa-rated sovereigns. For example, [Canada](#) (Aaa stable) entered IFFIm's donor base in March 2023 with a long-term pledge of CAD125 million.

Exhibit 3

### The pandemic has led to an uptick in donor contributions

Cumulative pledges since inception (\$ billion)

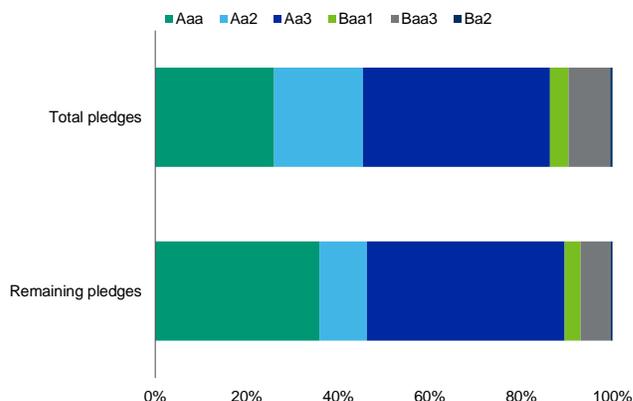


Sources: IFFIm and Moody's Investors Service

Exhibit 4

### Remaining pledges are significantly concentrated

Sovereign pledges by rating (as of June 2023)



Sources: IFFIm and Moody's Investors Service

While a deterioration in donor creditworthiness would impact IFFIm's own creditworthiness, key donors that have faced negative credit pressures in recent years have continued to show a strong ability and willingness to honor their pledges to IFFIm. Additionally, all donors have investment-grade ratings, with the exception of Brazil and [South Africa](#) (Ba2 stable), which together account for less than 1% of pledges. This indicates that there is a very high likelihood that IFFIm will continue to receive the pledges as promised from the sovereign donors with no, or minimal, delays or reductions.

In addition, the annual commitment for each donor is small in the context of the government's total budget. For example, the UK government's annual commitment, while varying by year, averages around £120 million, around 0.01% of total government revenue. Similarly, France's annual commitment to IFFIm represents an extremely small portion of its total annual budget of around 0.01% of government revenue. It seems unlikely, given the relative affordability of the annual amounts, that donors will renege on their commitments.

#### **Willingness to honor pledges supported by effective delivery of IFFIm's mandate**

With IFFIm, as with all supranationals, we assess the willingness of members to provide support in light of the importance of the institution to its members. Regional multilateral development banks (MDBs), as enactors of economic public policy, are often of strong economic importance to their sovereign members. This is not the case for IFFIm because Gavi is a charity organization and all immunization programs are located exclusively in non-donor countries. Therefore, the importance to the donors rests on the importance of the charity mandate and IFFIm's ability to help Gavi fulfill that mandate. Donors' commitment to the scheme is strong enough; in some cases, they have opted to disburse the full amount under the pledge agreement even when not required to do so. In accordance with the pledge agreements, donors may withhold a portion of their pledge disbursements if beneficiaries are in arrears with the IMF. In 2020, donors were allowed to withhold 0.5% to 1.5% of pledges, but one donor, Norway, decided to make the full disbursement. Donor commitments are also legally binding and represent a credit obligation of the sovereign, and failure to honor those commitments would expose the sovereign to legal challenges.

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 is very low.

#### **FACTOR 2: Liquidity and funding score: Very High**

We assess IFFIm's liquidity at "Very High," reflecting a prudent liquidity policy, the role of the IBRD as risk manager of its investment portfolio and its strong access to the financial markets to issue bonds.

#### **Liquidity policy ensures ample coverage of upcoming financial obligations**

IFFIm's liquidity policy aims to ensure an adequate level of liquid assets to meet its operational requirements, provide predictability of program funding and support its credit rating. To this end, the policy sets a prudential minimum level of liquidity equivalent to IFFIm's cumulative contracted debt-service payments for the next 12 months, in line with the liquidity policies of other highly rated supranationals.

The treasury manager recalculates and resets the prudential minimum every quarter. We consider this policy to be very strong because it ensures the ability to service debt for one year in the unlikely event that IFFIm loses market access and is unable to roll over maturing debt. IFFIm has consistently held more liquid assets than the prudential minimum set by the policy. As of year-end 2022, the minimum liquidity by IFFIm's policy was \$576 million, below the value of IFFIm's actual liquid assets, which amounted to \$1 billion, about two times the prudential minimum.

#### **World Bank involvement in treasury operations and risk management provides institutional strength**

The IBRD carries out IFFIm's financial management function under rules set forth in the Treasury Management Agreement. Therefore, there is active management of cash flow, investments and disbursements by a strong institution with a long track record.

The IBRD's financial management is very strong, a factor driving its own Aaa rating and a strong supporting factor for IFFIm's Aa1 rating. The IBRD's involvement in establishing and managing IFFIm's gearing ratio, liquidity policy and debt maturity structure provides confidence that debt repayments will be made on time. The treasury manager has flexibility in delaying commitments and disbursements for programs to be within the desired gearing ratio and to maintain liquidity according to the established policy. Furthermore, it has, perhaps more than any other organization, an understanding of the credit quality of recipient countries. Therefore,

it will be able to adjust IFFIm's financial metrics in advance in the event of a reduction in donors' scheduled payments, as a result of recipient countries going into arrears with the IMF, to safeguard IFFIm's debt repayment capacity.

As IFFIm's treasury manager, the IBRD carries out the entity's asset and liability management, namely the management of IFFIm's market risk stemming from foreign-exchange rate and interest rate risks. Almost all sovereign pledges are denominated in local currency and not in US dollars, and some outstanding bonds are denominated in other currencies. In addition, interest rate fluctuations can affect the value of sovereign pledges and bonds. To hedge against interest rate and exchange rate risks, IFFIm enters into US dollar floating-rate swaps. Counterparty risk is low because the swap contracts are with the IBRD.

The treasury manager invests liquid assets on IFFIm's behalf according to the following very conservative guidelines, which are similar to the IBRD's own guidelines, and whose goal is to preserve capital rather than generate earnings:

- » Money market instruments must be issued or guaranteed by financial institutions rated A3 or higher
- » Foreign-currency government and agency obligations must be rated Aa3 or higher
- » Local-currency government obligations carry no rating minimum, but are subject to credit approval on a country-by-country basis
- » Agency or debt instrument of a government, multilateral organization or other official entity must be rated Aa3 or higher
- » Asset-backed securities must be rated Aaa
- » Corporate securities must be rated Aaa

#### Market funding access is high because of a diversified investor base

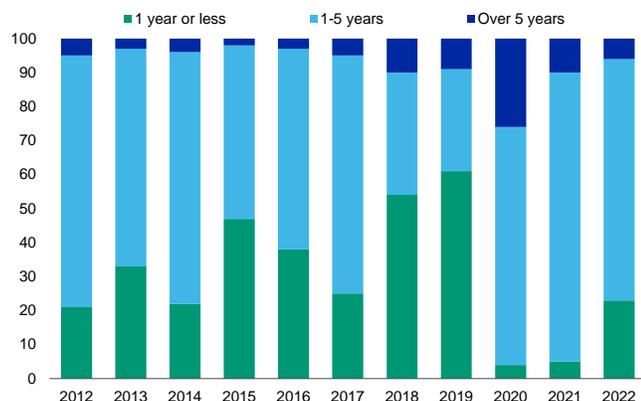
IFFIm's borrowing program can be characterized as diversified despite being modest in size. Most borrowing took place between 2009 and 2014, with IFFIm issuing around half of its total \$8.6 billion issuances over that period. Bonds are issued in four markets: [Japan](#) (A1 stable), the UK, Australia and the eurobond market. IFFIm has also entered the sukuk market, securing a total of \$750 million over three issues (2014, 2015 and 2019). Given its global funding base, and to hedge currency and interest rate risk, all bonds are swapped at issuance into US dollar floating rate.

IFFIm's infrequent market issuance has resulted in some volatility in its maturity profile over the years. IFFIm did not access the market very much in the two years preceding the pandemic but has returned to the market since 2020 to refinance maturing debt as well as in response to the uptick in sovereign pledges. IFFIm has issued close to \$3 billion in the last three years and considerably reduced near-term refinancing risks, with only 3% of outstanding debt due to mature in 2024 (see Exhibits 4 and 5).

Exhibit 5

#### IFFIm has historically kept its maturity profile concentrated in the medium term

Debt maturities (% of total)

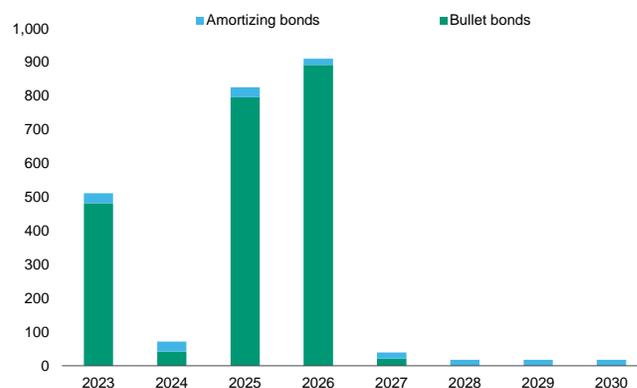


Sources: IFFIm and Moody's Investors Service

Exhibit 6

#### IFFIm's maturity profile remains manageable

Debt maturity profile (US\$ million)



Source: IFFIm and Moody's Investors Service

Despite having a sovereign donor base that is mainly European, including several euro area members, IFFIm has been able to maintain its very low borrowing rates over recent years. Unlike Europe-based MDBs, IFFIm's borrowing costs were not stressed at the height of the European debt crisis. This can be largely attributed to the reputational benefits of having the IBRD as its treasury manager. Any disruption to IFFIm's market access is unlikely, but the liquidity policy discussed above provides additional protection for bondholders.

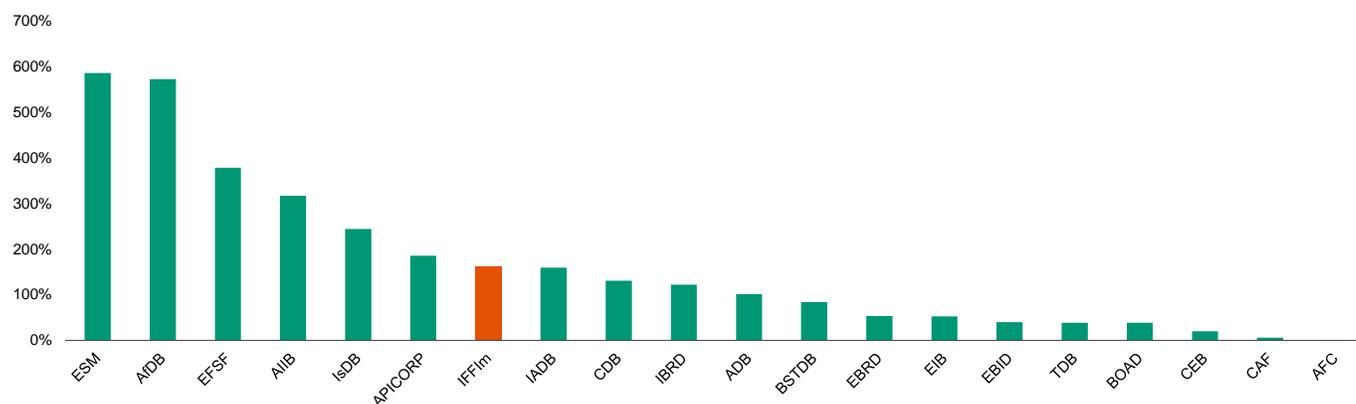
### Other elements related to intrinsic financial strength

#### Pledges remain substantial compared with outstanding debt

As a measure of the sustainability of IFFIm's finances, we can compare IFFIm's outstanding debt to the value of remaining pledges. Because we consider donor obligations as analogous to capital contributions in MDBs, this yields a ratio analogous to the callable capital-to-total debt ratio. In the specific case of IFFIm, we consider the nominal value of the donors' remaining pledges as a measure of callable capital. As of year-end 2022, IFFIm compared favorably with most of our rating universe, including other highly rated MDBs (see Exhibit 7).

Exhibit 7

#### Donor pledges showcase significant donor support (Callable capital as a percentage of total debt, latest data available)



Source: Moody's Investors Service

IFFIm uses a similar metric to ensure its financial sustainability. 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 (that is, net debt) over the present value of donor pledges. As of year-end 2022, the gearing ratio was 52.3%, well below the 73.8% gearing ratio limit at the time.

Throughout IFFIm's existence, the observed gearing ratio has remained well below its limit. At the start, the ratio rose as IFFIm issued debt and disbursed funds to Gavi. After 2013, however, the ratio started decreasing as a result of a slowdown in debt issuance, a steady stream of pledges and limited disbursements to Gavi. The ratio started to rise again from 2020, in line with the increased debt issuance.

### Qualitative adjustments to intrinsic financial strength

We do not apply qualitative adjustments related to the operating environment or the quality of management in our assessment of IFFIm's credit profile.

## 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.

We consider 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, Norway and France accounting for 71% of all outstanding donor pledges as of end-June 2023. 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.

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

### Expanded membership and addition of new pledges to boost member support

In March 2023, Canada became the 11th sovereign sponsor and grantor of IFFIm. Canada joined with a pledge of CAD125 million, or \$92 million, to be payable over a period of eight years. Given its high sovereign rating, the addition of Canada will help anchor the donor base creditworthiness. In addition, in 2022, IFFIm received additional pledges from the UK and Spain that amounted to \$541 million (recognized at initial fair value).

### Losses posted amid a difficult global interest rate environment and strong US dollar

The fair value of IFFIm's sovereign pledges has been negatively impacted by the increase in global interest rates as well as the strengthening of the US dollar relative to other currencies. This led IFFIm to experience \$474 million in fair value losses on its sovereign pledges. However, these losses were offset by fair value gain in derivative financial assets used to hedge interest rate and foreign currency risks associated with these sovereign pledges. Overall, the amount of funds held in trust increased resulting in the increase of total assets from \$4.2 billion in 2021 to \$4.4 billion in 2022.

### Two bond issuances in 2022 will provide more support to Gavi

In 2022, IFFIm issued two new bonds to support Gavi. The first, issued in July 2022 in the UK's sterling bond market, is a £250 million three-year, fixed-rate bond due June 2025. The transaction was oversubscribed and attracted 26 investors and an order book of more than £415 million, primarily from investors based in the UK.

The second bond, issued in October 2022, was for a \$500 million, three-year fixed-rate bond due November 2025 to provide funding to Gavi. The transaction was also oversubscribed, reaching an order book of almost \$600 million and attracting investors from different regions.

## Rating methodology and scorecard factors

Factor / Subfactor	Metric	Initial score	Adjusted score	Assigned score
<b>Factor 1: Strength of member support (100%)</b>			<b>a1</b>	<b>a1</b>
<b>Ability to support (50%)</b>			<b>aa3</b>	
	Weighted average shareholder rating	<b>aa3</b>		
<b>Willingness to support (50%)</b>			<b>High</b>	
	Non-contractual support		<b>High</b>	
<b>Factor 2: Liquidity and funding (+3,+2,+1,0)</b>			<b>Very High</b>	<b>Very High</b>
<b>Liquid resources (20%)</b>			<b>aaa</b>	
	Availability of liquid resources	<b>aaa</b>		
	Trend in coverage outflow	<b>0</b>		
	Access to extraordinary liquidity	<b>0</b>		
<b>Quality of funding (80%)</b>			<b>aa</b>	
<b>Other adjustments</b>				<b>0</b>
<b>Operating environment</b>		<b>0</b>		
<b>Quality of management</b>		<b>0</b>		
<b>Scorecard-Indicated Outcome Range</b>				<b>Aaa-Aa2</b>
<b>Rating Assigned</b>				<b>Aa1</b>

**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.

## Related websites and information sources

- » [Moody's Supranational web page](#)
- » [Moody's Sovereign and supranational rating list](#)
- » [International Finance Facility for Immunisation \(IFFIm\)](#)

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## Endnotes

- 1 Gavi is a charity established in 2000. As a public-private partnership, Gavi's donors are governments, corporations, foundations and private individuals.

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