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Research Update:

International Finance Facility for Immunisation Ratings Affirmed At 'AA/A-1+'; Outlook Remains Negative

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Overview

- The International Finance Facility for Immunisation's (IFFIm's) purpose is to provide funding to the Vaccine Alliance (Gavi) for immunization and programs related to Gavi's mission.
- The ratings balance our view of IFFIm's policy importance and the creditworthiness of its main donor countries.
- We are affirming our 'AA/A-1+' ratings on IFFIm.
- The outlook on IFFIm remains negative, reflecting the negative outlook on the long-term rating on the U.K., IFFIm's largest donor and therefore its largest source of contribution receivables (or pledges).

Rating Action

On Dec. 7, 2018, S&P Global Ratings affirmed its 'AA/A-1+' long- and short-term issuer credit ratings on the U.K.-based multilateral agency International Finance Facility for Immunisation (IFFIm). The outlook remains negative.

Rationale

The ratings on IFFIm reflect our view of the commitment of its highly rated contributors to its mandate of supporting child immunization programs in the world's poorest countries and takes into account the risks stemming from the creditworthiness of its main donor countries.

Founded in 2006 with US\$4 billion pledged over 20 years by six sovereign donors, IFFIm, an innovative financial tool, has issued a variety of debt instruments against future donor pledges to provide annual grants over two decades to the Vaccine Alliance (Gavi)--a public-private partnership whose partners include the World Health Organization, the U.N. Children's Fund, International Bank for Reconstruction and Development (IBRD, commonly referred to as the World Bank), the Bill and Melinda Gates Foundation, governments of both developing and industrialized countries, research and health institutes, vaccine producers, and civil society organizations.

Since inception, donors' pledges have increased to US\$6.6 billion, of which

US\$3.8 billion will be paid from 2018 to 2037. In October 2018, Brazil signed a grant agreement for \$20 million paid over 20 years in support to IFFIm. This makes it the 10th government donor to IFFIm overall and the second donor of emerging market countries Brazil, Russia, India, China, and South Africa (known as "BRICS") after South Africa. France, The Netherlands, and Australia committed future pledges to IFFIm, in addition to their already existing long-term pledges, as part of Gavi's replenishment for 2016-2020.

As of November 2018, the U.K. is the largest donor to both IFFIm and Gavi. Its pledges represent 49% of donor receivables at IFFIm, and we expect it will fund 27% of activities under Gavi's 2016-2020 funding cycle. Consequently, we consider that the credit quality of pledges from the U.K. is in line with IFFIm's credit quality. If we were to downgrade the U.K., we would downgrade IFFIm.

Donors' pledges can be reduced, based on how many Gavi-eligible recipient countries have protracted arrears to the International Monetary Fund (IMF). As of November 2018, Somalia and Sudan were the only countries in arrears to the IMF, leading to a 1.5% reduction of total donor sovereign pledges to IFFIm. Although this reduction is small, it supports our conservative assumptions for long-term donor pledges.

Under our criteria, we determine support for IFFIm by evaluating the support of IFFIm's strongest contributors. Apart from the U.K., highly rated contributors include Australia, Norway, The Netherlands, and Sweden (all rated 'AAA'), which as of November 2018 together account for 9% of the contributions IFFIm is to receive. The second-largest donor is France (rated 'AA'), which provides 31% of the total estimated remaining inflows into IFFIm. Other lower-rated contributors are Italy (8%) and Spain (3%), as well as Brazil (1%) and South Africa (less than 0.5%).

To measure IFFIm's risk-adjusted gearing, we calculate the coverage of the outstanding debt by total remaining pledges from 'AAA' and 'AA' rated sovereigns under a severe stress scenario. We estimate this ratio to be 2.0x by Dec. 31, 2018, in line with our previous estimate of 1.8x as of year-end 2017. In the coming years, we expect the coverage ratio will increase slightly, unless Gavi wants to use substantially more of IFFIm's funds.

We expect that IFFIm will issue enough debt to maintain its planned disbursements to Gavi and sustain its liquidity requirements to cover 12 months of upcoming debt service payments. Our estimated coverage ratio includes only pledges from contributors rated at the rating level of IFFIm itself or above (that is, currently 'AA' or above).

The ratio falls sharply if we exclude pledges from the U.K., putting the full coverage of debt payment at risk.

IFFIm has its own internal gearing ratio to manage credit risk and protect the facility from insolvency--calculated and presented to the board quarterly by IBRD. It includes a gearing ratio limit, which limits net financial

obligations to the present value of scheduled payments from grantors. The limit is currently set at 58.3% and includes a risk management buffer in the calculation due to IBRD's large uncollateralized swap exposure to IFFIm. The actual gearing ratio has been significantly below this limit--the ratio was 18.8% as of December 2017 and 9.7% as of September 2018. Still, we expect it will increase somewhat toward the end of the funding cycle, as IFFIm continues to disburse funds to Gavi.

We use our sovereign ratings as proxies for the credit quality of donor pledges, as we understand that the pledges are legal obligations of the sovereigns. Moreover, we consider that IFFIm retains policy importance for its biggest donors, supporting global vaccinations through Gavi.

During the Gavi replenishment meetings in 2015, only 4% of new pledges to Gavi (US\$258 million) were made through IFFIm. In our view, this modest percentage of new pledges did not enhance IFFIm's policy importance--for future financing of Gavi's immunization programs--in the eyes of donor countries. Although IFFIm continues to provide Gavi with significant flexibility to accelerate immunization programs if needed, most donor countries have judged that it is not necessary to increase IFFIm's capacity.

The institution is exploring ways to expand its role by leveraging its unused capacity with market-shaping activities to more directly support Gavi in reducing the cost and increasing the availability of vaccines, as well as additional financing to help countries install modern cold chain equipment (storage for vaccines). Additionally, its unused capacity can support rapid deployment of financing in the event of emergency disease outbreaks. However, if no further replenishments are made, we expect IFFIm to enter a wind-down mode in the mid-2020s, where most of its commitments would be financed out of accumulated liquid assets, the remainder of which would ultimately be transferred to Gavi.

Although IFFIm had previously experienced payment delays from several contributors, we understand that it had received all current payments in full as of Nov. 30, 2018. Delays of more than a few days have generally arisen only from donors rated lower than IFFIm. We consider the rare delays from highly rated countries to have been administrative in nature and not to have reflected the contributors' ability or willingness to support IFFIm.

IFFIm also incurs rollover risk as its debt financing is for shorter tenors than its receivable pledges. To allay part of this funding risk, IFFIm maintains minimum liquidity equivalent to its cumulative contracted debt service payments for the next 12 months. In addition, management can stop disbursements if the 12 months' debt service is not covered. IBRD recalculates and resets this limit quarterly.

As of Dec. 31, 2017, and 2016, the calculated minimum liquidity was US\$366.5 million and US\$568.6 million, respectively, and the value of IFFIm's liquid assets was US\$912 million and US\$863 million, respectively. IFFIm last issued debt in November 2017, when it issued a US\$300 million bond with a three-year

maturity and a 13-basis-point spread over three-month U.S. dollar LIBOR.

Outlook

The negative outlook reflects that of IFFIm's main donor, the U.K., incorporating risks that we believe could further diminish the credit quality of the agency's contribution receivables.

We could revise the outlook to stable if we were to take a similar action on our long-term rating on the U.K.

We could lower our ratings on IFFIm in the next two years if we were to lower our sovereign credit ratings on the U.K. Ratings downside could emerge if highly rated contributors delay donor grants; if, due to political events, we change our view that the credit quality of the countries' pledges is equal to their sovereign debt obligations; or if IFFIm experiences a funding squeeze.

Related Criteria

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- Criteria - Governments - General: Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology, Nov. 26, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

Supranationals Special Edition 2018: Comparative Data For Multilateral Lending Institutions, Oct. 11, 2018

Ratings List

Ratings Affirmed

International Finance Facility for Immunisation

Issuer Credit Rating	AA/Negative/A-1+
Senior Unsecured	AA

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