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Research Update:

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

Primary Credit Analyst:

Elie Heriard Dubreuil, London (44) 20-7176-7302; elie.heriard.dubreuil@standardandpoors.com

Secondary Credit Analyst:

John B Chambers, CFA, New York (1) 212-438-7344; john.chambers@standardandpoors.com

Research Contributor:

Alexander Petrov, London (44) 20-7176-7115; alexander.petrov@standardandpoors.com

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Overview

- International Finance Facility for Immunisation (IFFIm) provides funding for Gavi, the Vaccine Alliance (formerly the "Global Alliance for Vaccines and Immunisation", Gavi).
- The ratings balance our view of IFFIm's policy importance and the creditworthiness of its main donor countries.
- We are affirming the long- and short-term 'AA/A-1+' issuer credit ratings on IFFIm.
- The negative outlook reflects our view of potential downside risks that we believe could diminish the credit quality of IFFIm's grant receivables.

Rating Action

On Dec. 15, 2015, Standard & Poor's Ratings Services affirmed the issuer credit ratings on the International Finance Facility for Immunisation (IFFIm) at 'AA/A-1+'. 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.

On Jan. 27, 2015, the German government hosted the Gavi's replenishment meeting, which led to the second replenishment of Gavi for 2016-2020. Record new pledges amounting to US\$7.4 billion were made to Gavi for the next five years. Out of these, governments committed US\$280 million to IFFIm for 2016-2035 (i.e., 4% of the total new pledges). The U.K. did not make any new pledges to IFFIm, despite remaining the biggest donor to Gavi.

In our view, this modest percentage of new pledges did not enhance the policy importance of IFFIm--for future financing of Gavi's immunization programs--in the eyes of donor countries. While IFFIm continues to provide Gavi with significant flexibility to accelerate immunization programs if needed, donor countries mostly judged that it was not necessary to increase IFFIm's capacity.

IFFIm is a multilateral institution established as a charity in the U.K. in 2006. Its purpose is to fund the immunization and vaccine procurement programs of Gavi, a public-private partnership whose members 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.

IFFIm has been an important source of funding for Gavi since 2006. During 2006-2014, it provided 36% of Gavi contributions, though Gavi's plan for 2016-2020 indicates that only about 20% of contributions will come from IFFIm. Through raising debt against future grants for vaccinations, IFFIm has allowed Gavi to accelerate its immunization programs. Having reached a greater critical mass, Gavi is now entering into steadier territory for vaccinations and support for public health, implying less reliance on IFFIm for front-loading funding. We note, however, that IFFIm will still disburse funds to Gavi through to 2030.

Under our criteria, we determine support for IFFIm by evaluating the support of IFFIm's strongest contributors. The U.K. is the largest contributor; it has pledged more than 50% of the funds still to be received by IFFIm. France follows, with over 28% of pledges. Other highly rated contributors include Australia, Norway, The Netherlands, and Sweden, accounting for respectively slightly less than 5%, 3%, 2%, and 1% of the grants IFFIm is to receive. Other contributors are Italy (8%), Spain (3%), and South Africa (less than 1%).

IFFIm operates by issuing bonds, backed by sovereign government commitments, to provide annual grants over two decades and by disbursing the bond proceeds to Gavi to fund its programs. This not only front-loads Gavi's funds, but also enhances its ability to provide multiyear grants to recipient governments. IFFIm would be at risk if countries in a reference portfolio, representing 72 of the world's poorest nations, go into protracted arrears to the IMF. If this happens, contributor governments are released from a portion of their scheduled annual payments under their pledges, which means that fewer funds will be available to reimburse IFFIm's debtholders.

To measure IFFIm's risk-adjusted gearing, we calculate the coverage of the outstanding debt by pledges from highly rated sovereigns under a severe stress scenario. We expect this ratio to slightly improve to 2.2x by Dec. 31, 2015, compared with 2.0x as of year-end 2014, as the additional sukuk issuance in 2015 was more than offset by the additional pledges received during the January 2015 Gavi replenishment (we take them into consideration despite the fact that some formal procedures related to them may not have been completed).

In the coming years, we expect the coverage ratio to slightly increase, unless Gavi wants to use substantially more of IFFIm's funds. We expect that IFFIm will issue enough debt to maintain the planned disbursements to Gavi and to maintain its liquidity requirements. Our coverage ratio includes only pledges from contributors rated at the level of IFFIm or above (that is, currently 'AA' or above).

When excluding France, the ratio falls sharply, putting at risk the full coverage of debt payment. Indeed, in a severe stress scenario, in which France would not have the capacity or willingness to pay its pledges to IFFIm, we expect that a number of

recipient countries would fall into protracted arrears to the IMF, reducing significantly the payments due to IFFIm.

IFFIm's board of directors has established its own limit for maximum gearing using different assumptions. IBRD calculates this ratio for the board quarterly. In 2013, IBRD introduced an additional risk management buffer in this calculation, due to its large uncollateralized swap exposure to IFFIm. Under this formula, IFFIm's maximum gearing ratio is currently set at 58%. The actual gearing ratio has been significantly below this limit--at about 40% for the past five years--and has fallen to 34% according to the latest data. We nonetheless expect it to increase somewhat as IFFIm continues to disburse funds to Gavi.

Although IFFIm had previously experienced payment delays from several contributors, we also note that all payments have been received in full as of Oct. 31, 2015. Delays of more than a few days have generally arisen 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 a 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. At Dec. 31, 2014, cash and funds held in trust totaled \$1,015 million.

Outlook

The negative outlook reflects potential downside risks that we believe could diminish the credit quality of its grant receivables.

We could lower the ratings on IFFIm in 2016 if we were to lower the sovereign credit ratings on France; if highly rated contributors were to reduce their support (say by falling into arrears on donor grants); if substantially more grant-recipient governments go into protracted arrears to the IMF; or if IFFIm experiences funding pressure.

We could stabilize the ratings in 2016 if we were to revise the outlook on the long-term rating on France to stable, as this would strengthen our view of IFFIm's risk-adjusted leverage.

Related Criteria And Research

Related Criteria

- General Criteria: Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers - May 07, 2013
- Criteria - Governments - General: Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology - November 26, 2012

Related Research

- Supranationals Special Edition 2015, Oct. 8, 2015
- International Finance Facility for Immunisation Ratings Unaffected By Outcome Of Second Gavi Replenishment, Jan. 30, 2015
- Outlook On International Finance Facility for Immunisation Revised To Negative; 'AA/A-1+' Ratings Affirmed, Nov. 14, 2015
- France 'AA/A-1+' Ratings Affirmed; Outlook Remains Negative, Dec. 11, 2015
- United Kingdom Ratings Affirmed At 'AAA/A-1+'; Outlook Remains Negative On EU Referendum Uncertainties, Dec. 11, 2015

Ratings List

	Rating	
	To	From
International Finance Facility for Immunisation		
Issuer credit rating		
Foreign Currency	AA/Negative/A-1+	AA/Negative/A-1+
Senior Unsecured		
Foreign Currency	AA	AA

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