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Research Update:

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

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Overview

- International Finance Facility for Immunisation (IFFIm) provides funding for Gavi, the Vaccine Alliance, and we view its highly rated donor countries as committed to its mandate and critical policy role.
- The downgrade of the U.K. to 'AA' implies reduced credit quality of receivables from the U.K., which constitute just over half of IFFIm's donor base, but we believe the increased risks are consistent with our long-term rating on IFFIm.
- We are therefore affirming our 'AA/A-1+' ratings on IFFIm.
- The negative outlook reflects that on the U.K. and France, which are both rated at the same level as IFFIm and together account for 80% of donor pledges to IFFIm.

Rating Action

On July 1, 2016, S&P Global Ratings affirmed its 'AA/A-1+' long- and short-term issuer credit ratings on the International Finance Facility for Immunisation (IFFIm). The outlook remains negative.

Rationale

The affirmation follows the downgrade of the U.K. on June 27, 2016 (see "Ratings On The United Kingdom Lowered To 'AA' On Brexit Vote; Outlook Remains Negative On Continued Uncertainty" published on RatingsDirect).

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.

The U.K. is the largest donor of both IFFIm, where its pledges represent 52% of donor receivables, and Gavi (formerly the Global Alliance for Vaccines and Immunization), where it is expected to fund 27% of activities in 2016-2020. Following the referendum on the U.K.'s membership of the EU, S&P Global Ratings downgraded the U.K. to 'AA' from 'AAA' and assigned a negative outlook. Therefore, in our view, the credit quality of the U.K.'s pledges to IFFIm has decreased, in line with the credit quality of the sovereign. Nonetheless, we have affirmed our 'AA' rating on IFFIm because we regard the entity's creditworthiness as equal to that of its two largest donors--the U.K. and France--both rated 'AA'. With the lowering of the sovereign rating on the U.K., the likelihood of the U.K.'s pledges being honored has reduced, but the sovereign rating is not lower than the rating on IFFIm. That said, given the negative outlooks on the U.K. and France, a downgrade of

either sovereign would lead to a downgrade of IFFIm, unless some currently unanticipated offsetting factors were to materialize.

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 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 provides Gavi with prefunding, 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 International Monetary Fund (IMF). If this were to happen, contributor governments would be released from a portion of the scheduled annual payments under their pledges, which means that fewer funds will be available to repay IFFIm's debtholders.

Under our criteria, we determine support for IFFIm by evaluating the support of IFFIm's strongest contributors. The U.K. is the largest contributor, and it has pledged 52% of the funds still to be received by IFFIm. France follows, with over 27% of pledges. Other highly rated contributors include Australia, Norway, The Netherlands, and Sweden (all rated AAA/Stable/A-1+), accounting for respectively slightly less than 5%, 2%, 1%, and 1% of the grants IFFIm is to receive. Other, lower-rated contributors are Italy (9%), Spain (3%), and South Africa (less than 1%), which are all in the 'BBB' rating category.

To measure IFFIm's risk-adjusted leverage, we calculate the coverage of its outstanding debt by total remaining pledges from 'AAA' and 'AA' rated sovereigns under a severe stress scenario. We expect this ratio to decline slightly to 1.9x by Dec. 31, 2016, compared with 2.2x as of year-end 2015, since we expect IFFIm will issue more debt in 2016 to top up its liquidity.

In the coming years, we expect the coverage ratio to increase slightly, unless Gavi wants to use substantially more of IFFIm funds. We expect that IFFIm will issue enough debt to maintain the planned disbursements to Gavi and its liquidity requirements to cover 12 months of upcoming debt service payments. Our coverage ratio includes only pledges from contributors rated at least at the same level as IFFIm (that is, 'AA' or higher).

The ratio falls sharply if we exclude pledges from France, and is consistently below 1x if we exclude the U.K.'s pledges, putting the full coverage of debt payment at risk. In a hypothetical scenario consistent with nonpayment by the U.K. or France, some of the recipient countries may be in protracted arrears with the IMF, thus reducing the payments other donors have to make. Therefore, we do not believe that

IFFIm would be able to service or repay its debt without the donor payments from either the U.K. or France.

IFFIm's board of directors has established its own limit for maximum leverage, using different assumptions. The IBRD calculates this ratio for the board quarterly. In 2013, the 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 leverage ratio is currently set at 58%. The actual ratio has been significantly below this limit--at about 40% for the past five years--and has fallen to 28% according to the latest data. We nonetheless expect it will increase gradually as IFFIm continues to disburse funds to Gavi.

IFFIm has been an important source of funding for Gavi since 2006. During 2006-2014, it provided 33% of Gavi contributions, although Gavi's plan for 2016-2020 indicates that only about 14% 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 steadier territory for vaccinations and support for public health, implying less reliance on IFFIm for front-loaded funding. We note, however, that IFFIm will still disburse funds to Gavi through to 2030. During the Gavi replenishment meetings in 2015, only 4% of new pledges to Gavi (\$280 million) were made through IFFIm. In our view, this modest percentage of new pledges has not enhanced IFFIm's policy importance for donor countries, regarding future financing of Gavi's immunization programs. While IFFIm continues to provide Gavi with significant flexibility to accelerate immunization programs if needed, many donor countries have considered it unnecessary to significantly increase IFFIm's capacity. If no further replenishments are made, IFFIm will likely enter a wind-down phase in the mid-2020s, when most of its commitments would be financed from accumulated liquid assets, the remainder of which would ultimately be transferred to Gavi.

Although IFFIm has experienced payment delays from several contributors, it received all payments in full as of May 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 faces refinancing risk because its debt is at shorter tenors than its receivables 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 12 months' debt service is not covered. The IBRD recalculates and resets this limit quarterly. As of May 31, 2016, IFFIm's cash and funds held in trust totaled \$1,173 million.

Outlook

The negative outlook reflects that on the U.K. and France, indicating potential risks that we believe could further diminish the credit quality of IFFIm's grant receivables.

We could lower the ratings on IFFIm in the next two years if we were to lower the sovereign credit ratings on the U.K. or France; if highly rated contributors were to reduce their support for IFFIm (for example, by falling into arrears on donor grants); if, in our view, political pressures in donor countries substantially widen the gap between the credit quality of the countries' pledges and their sovereign debt obligation; or if IFFIm experiences funding pressure.

We could revise the outlook on IFFIm to stable if we were to revise our outlooks on both the U.K. and France to stable, since this would strengthen our view of IFFIm's risk-adjusted leverage; or if we were to see evidence of IFFIm's growing policy importance to the donor countries.

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
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009

Related Research

- Ratings On The United Kingdom Lowered To 'AA' On Brexit Vote; Outlook Remains Negative On Continued Uncertainty, June 27, 2016
- France 'AA/A-1+' Ratings Affirmed; Outlook Remains Negative, April 22, 2016
- 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

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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