

FITCH AFFIRMS IFFIM AT 'AA'; OUTLOOK NEGATIVE

Fitch Ratings-London-11 December 2018: Fitch Ratings has affirmed International Finance Facility for Immunisation's (IFFIm) Long-Term Issuer Default Rating (IDR) at 'AA' with a Negative Outlook. The Short-Term IDR has been affirmed at 'F1+'. The ratings on IFFIm's senior unsecured debt, including programmes, have also been affirmed at 'AA'.

KEY RATING DRIVERS

The ratings on IFFIm are driven by the sovereign ratings of the UK (AA/Negative) and France (AA/Stable), IFFIm's two largest donors. IFFIm's ratings rely primarily on support from donors as their grant payments ultimately back the repayment by IFFIm of its bond issuance. The Negative Outlook reflects that on the UK's Long-Term IDR.

In line with Fitch's Supranationals Rating Criteria, IFFIm is viewed by the agency as a supranational administrative body (SAB) given its unique features as a multilateral development institution. Fitch rates IFFIm using an ad-hoc approach, which factors the creditworthiness of the UK and France, coupled with their share in outstanding pledges (48.7% and 31.4%, respectively at November 2018). Fitch also considers IFFIm's distinct structure as an international finance facility (IFF) and the institution's conservative prudential framework, which is outsourced to the International Bank for Reconstruction and Development (AAA/Stable).

IFFIm was created in 2006 to accelerate the availability of predictable, long-term funds for health and immunisation programmes in developing countries through Gavi, a global health public-private partnership, to improve access to immunisation for children in a pool of eligible developing countries. Funds raised in capital markets by IFFIm are disbursed as grants to Gavi as requested. In 2018, Brazil became the 10th donor country to commit funds to IFFIm by pledging USD1 million p.a. over the next 20 years.

Since its inception, IFFIm has represented a minority yet significant share (25%) of Gavi's total funding and commitments, despite limited disbursements in recent years. The importance of IFFIm to Gavi is highlighted by IFFIm being Gavi's only significant funding source beyond 2020.

IFFIm honours its debt service using the disbursement of legally binding grants initially pledged by donor countries according to a pre-defined schedule. Prudential measures include the maintenance of a comfortable liquidity cushion (at least 1x coverage of next 12 months scheduled obligations) and a ceiling on indebtedness at a lower level than pledges (the gearing ratio limit (GRL), based on the net present value (NPV) of pledges, which reflects the creditworthiness of both IFFIm's donors and beneficiaries). They provide additional protection to bondholders in case of a delay in or limited shortage of disbursements of grants by donor countries, or should the grants disbursement be reduced by protracted arrears of recipient countries to the IMF.

At end October-2018, IFFIm's gearing ratio was 5.8%, well below the GRL of 70.2%, inclusive of the institution's risk management buffer. Funds held in trust were prudently invested in investment-grade securities with 74% allocated to assets rated 'AA' to 'AAA' at end-1H18.

RATING SENSITIVITIES

In view of their dominant shares of pledged grants, Fitch links IFFIm's ratings to the sovereign ratings of the UK and France.

The main factors that could, individually or collectively, result in negative rating action are:

- A downgrade of either the UK or France;
- Material delays in grant disbursements by donor countries; and
- A reduced level of cushion that increases the potential for a breach of IFFIm's GRL related to rising debt or a reduced NPV of pledges following an increase in the credit risk of recipient countries or donors.

Conversely, the main factors that could, individually or collectively, result in a positive rating action are:

- An upgrade of the UK's and France's sovereign IDRs, which would result in a rating upgrade; and
- A revision of the Outlook on the UK's sovereign rating to Stable from Negative would result in a similar revision to IFFIm's Outlook.

KEY ASSUMPTIONS

Fitch assumes that the relative weight of donor countries in total pledged grants will remain broadly unchanged.

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Sources of information

- IFFIm's financial statements, and other information provided by IFFIm and IBRD

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Additional information is available on www.fitchratings.com

Applicable Criteria
Supranationals Rating Criteria (pub. 24 May 2018)
<https://www.fitchratings.com/site/re/10031448>

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