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Research Update:

International Finance Facility for Immunisation Long-Term Rating Lowered To 'AA' On France Downgrade; Outlook Stable

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Overview

- On Nov. 8, 2013, we lowered the long-term sovereign credit ratings on the Republic of France to 'AA' from 'AA+'.
- We also lowered our long-term issuer credit rating on the International Finance Facility for Immunisation (IFFIm) to 'AA' from 'AA+'.
- France is the second-largest financial contributor country to the IFFIm, representing one-quarter of IFFIm's total expected future cash receipts.
- We assess that financial contributors' willingness to support IFFIm, the funding vehicle for the GAVI Alliance (formerly the "Global Alliance for Vaccines and Immunisation"; GAVI), remains strong, and that the recurrent payment delays are administrative in nature.
- The outlook on IFFIm is stable, reflecting that on the Republic of France.

Rating Action

On Nov. 8, 2013, Standard & Poor's Ratings Services lowered its long-term issuer credit rating on the International Finance Facility for Immunisation (IFFIm) to 'AA' from 'AA+'. At the same time, we affirmed the 'A-1+' short-term rating. The outlook is stable.

Rationale

The rating action on IFFIm follows that on the Republic of France, the IFFIm's second-largest financial contributor. The ratings on IFFIm continue to reflect our view of the commitment of its highly rated contributors to its mandate of supporting child immunization programs in the world's poorest developing countries.

IFFIm is a multilateral development institution established as a charity in the U.K. in 2006. Its purpose is to accelerate the funding of 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 (UNICEF), 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.

Fifty-five of the world's poorest countries are eligible to receive funds raised by IFFIm. IFFIm operates by issuing bonds on the basis of sovereign government commitments to provide annual grants over two decades, and by disbursing the proceeds to fund GAVI's programs. This not only provides more funds to GAVI in the short term, but also enhances GAVI's ability to provide multiyear grants to recipient countries.

Under our criteria, we determine support for GAVI--and in turn 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 close to 27% of pledges. Other highly rated contributors include Australia, Norway, The Netherlands, and Sweden with respectively slightly less than 5%, 4%, 2% and 1% of the contributions to be received. Other contributors are Italy (with 9%), Spain (3%), and South Africa (less than 1%).

IFFIm experienced payment delays on pledges from several contributors, including some very recent delays, but these appeared to be administrative in nature. Delays of more than a few days have generally arisen from donors rated lower than IFFIm. Late contributor payments by governments rated at or higher than IFFIm have been short and infrequent. We consider these delays to be administrative and not reflective of the contributor's ability or willingness to support IFFIm.

IFFIm would be at risk if its eligible grant-recipient countries go into protracted arrears to the International Monetary Fund (IMF). If this happens, contributor countries are released from a portion of their scheduled annual payments under their pledges, which means that fewer funds will be available to reimburse IFFIm investors. The reduction in pledges depends primarily on the number of IFFIm-eligible countries in protracted (more than six months) arrears to the IMF.

Our debt service coverage ratio for IFFIm decreased to 1.7x, as of today, from about 2.0x at year-end 2012. Our ratio measures the total value of remaining IFFIm contributor pledges from contributors rated at the level of IFFIm or above (that is, currently rated 'AA' or above), after swap, divided by total debt service remaining to be paid. This ratio nevertheless still indicates an ample margin at the 'AA' level to absorb potential reduction in future flows arising from eligible recipient countries going into protracted arrears to the IMF.

IFFIm's board of directors established a limit for the maximum gearing. This is a ratio, which IBRD recalculates at least quarterly. In 2013, IBRD introduced an additional risk management buffer in this calculation, lowering the maximum gearing ratio below 60%. The actual gearing ratio has been significantly below this limit--at about 40% for the past five years.

IFFIm also incurs roll-over risk, as its debt financing is for shorter tenors than its grants. 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. IFFIm recalculates and resets this limit quarterly. At Dec. 31, 2012, cash and funds held in trust totalled US\$547 million.

Outlook

The outlook is stable, reflecting the outlook on France, as well as our view that contributors' willingness to support IFFIm continues to be strong and that IFFIm is prudently managed.

If we were to lower the sovereign credit ratings on one or several of IFFIm's largest contributor governments, or our ratings on the IBRD, we could lower our ratings on IFFIm. Downward ratings pressure could also build if highly rated contributors fell behind on their payments to IFFIm, if substantially more grant-recipient countries go into protracted arrears to the IMF or if IFFIm experienced funding pressure.

We could raise the ratings on IFFIm if we were to upgrade one or several of its largest contributor countries, notably the Republic of France.

Related Criteria And Research

- Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology, Nov. 26, 2012
- Principles Of Credit Ratings, Feb. 16, 2011
- France Long-Term Ratings Lowered to 'AA' On Weak Economic Growth Prospects And Fiscal Policy Constraints; Outlook Stable, Nov. 8, 2013

Ratings List

Downgraded; CreditWatch/Outlook Action; Ratings Affirmed

	To	From
International Finance Facility for Immunisation		
Issuer Credit Rating	AA/Stable/A-1+	AA+/Negative/A-1+
Senior Unsecured	AA	AA+

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