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Research Update:

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

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Overview

- We have reviewed our ratings on International Finance Facility for Immunisation (IFFIm) under our revised criteria.
- We are affirming our 'AA+/A-1+' long- and short-term issuer credit ratings on IFFIm.
- The outlook remains negative, reflecting the negative outlooks on the IFFIm donor sovereigns.

Rating Action

On Dec. 17, 2012, Standard & Poor's Ratings Services affirmed its 'AA+/A-1+' long- and short-term issuer credit ratings on International Finance Facility for Immunisation (IFFIm). The outlook is negative.

Rationale

The ratings on IFFIm reflect the commitment of its highly rated grantors to its compelling mandate of supporting child immunization programs in the poorest of the world's developing countries. Our ratings on IFFIm remain unchanged under our revised criteria: "Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology," published Nov. 26, 2012, on RatingsDirect on the Global Credit Portal.

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 the Global Alliance (GAVI), a public-private partnership whose members include: the World Health Organization; the U.N. Children's Fund (UNICEF); the International Bank for Reconstruction and Development (IBRD; commonly referred to as the World Bank; AAA/Stable/A-1+); the Bill and Melinda Gates Foundation; governments of both developing and industrialized countries; research and health institutes; vaccine producers; and civil society organizations. Seventy of the world's poorest countries are eligible to receive funds raised by IFFIm. IFFIm operates by issuing bonds on the basis of commitments by sovereign governments to provide annual grants over two decades and disbursing the proceeds to fund GAVI's programs. This not only provides greater funds to GAVI in the near term, but it also enhances GAVI's ability to provide multiyear grants to recipient countries.

Since the U.K. (unsolicited ratings AAA/Negative/A-1+), Italy (unsolicited ratings BBB+/Negative/A-2), France (unsolicited ratings AA+/Negative/A-1+), Spain (BBB-/Negative/A-3), Sweden (AAA/Stable/A-1+), and Norway (AAA/Stable/A-1+) established IFFIm in 2006, three more governments have made pledges: South Africa (BBB/Negative/A-2), the Netherlands (unsolicited ratings AAA/Negative/A-1+), and Australia (unsolicited ratings AAA/Stable/A-1+). Together, these pledges total nearly US\$6.3 billion. Brazil (BBB/Stable/A-2) has also announced its intention to become a grantor, and IFFIm is seeking additional contributions. (All ratings are foreign currency.)

Under our revised criteria, we determine support for GAVI, and thus for IFFIm, by evaluating the support of IFFIm's strongest shareholders. Although IFFIm continues to experience payment delays on pledges from a few donors, these are principally donors rated below Standard & Poor's issuer credit rating on IFFIm. For those governments that are rated at or above IFFIm that have made late donor payments, these have been short and infrequent: we consider them to be administrative in nature and not reflective of the donors' ability or willingness to support this funding vehicle for GAVI. In determining adequacy of future donor flows to support debt service, we compare expected cash flows from donors rated at or above IFFIm with IFFIm's cash outflows. Our debt service coverage ratio for this multilateral aid agency, which measures the total value of remaining IFFIm donor flows from 'AA+' and 'AAA' rated donors, divided by total debt service remaining to be paid, was about 2.0x, as of Dec. 14, 2012. IFFIm's own measure of its leverage, its gearing ratio, which measures the amount of its financial obligations divided by the net present value of expected payments from all donors, stood at 44% as of Sept. 30, 2012.

To reduce foreign exchange exposure of grants, which are made in the donors' local currency, and to transform fixed-rate borrowings into floating rate, IFFIm has conducted a series of long-dated swap agreements with the IBRD, its treasury manager and unique derivative counterparty. Given the duration of these agreements and that different yield curves are used to calculate the mark-to-market exposures, the aggregate net payables under these swaps can vary substantially. We understand that these exposures should narrow to zero over the life of the contracts. We expect that these exposures will not entail IFFIm having related cash requirements or posting counterparty collateral, which could affect its ability to disburse funds to GAVI.

IFFIm is at risk if its eligible grant-recipient countries go into protracted arrears to the International Monetary Fund (IMF). Donor countries are released from a portion of their scheduled annual payments under their pledges, the amount depending on the extent to which IFFIm-eligible countries are in protracted arrears to the IMF (late more than six months).

Finally, IFFIm 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. This minimum is recalculated and reset quarterly. As of Dec. 31, 2011, the calculated minimum liquidity was US\$595

million; as of the same date, total cash and funds held in trust were US\$852 million.

Outlook

The outlook is negative, reflecting the negative outlooks on several of IFFIm's highly rated donor governments. If we were to lower more of the ratings on IFFIm's donor governments--particularly those on the U.K. or France, its largest donor governments--or our ratings on the IBRD, we could lower our rating on IFFIm as well. In addition, downward pressure on the ratings could arise if highly rated donors began running payment arrears to IFFIm, if substantially more beneficiary governments go into protracted arrears to the IMF, or if IFFIm experienced funding pressure. On the other hand, if the ratings on IFFIm's donors stabilize and if, in our view, other risks diminish, the rating on IFFIm could stabilize as well.

Related Criteria And Research

Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology, Nov. 26, 2012

Ratings List

International Finance Facility for Immunisation

Ratings Affirmed

Issuer credit rating AA+/Negative/A-1+

Senior unsecured AA+

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