Research Update:

IFFIm Outlook Revised To Stable From Negative On Improved Debt Service Coverage; 'AA/A-1+' Ratings Affirmed

January 23, 2020

PRIMARY CREDIT ANALYST

Alexis Smith-juvelis
New York
+ 1 (212) 438 0639
alexis.smith-juvelis
@spglobal.com

SECONDARY CONTACT

Constanza M Perez Aquino
Buenos Aires
(54) 114-891-2167
constanza.perez.aquino
@spglobal.com

Overview

- During the past two years, IFFIm's total outstanding debt has declined, supporting an improvement in its debt service coverage ratio.
- On Dec. 17, 2019, we revised our outlook on the U.K.--IFFIm's largest donor--to stable from negative.
- Our rating on IFFIm reflects the coverage of outstanding and projected future debt by donor pledges to IFFIm as well as its policy importance and the creditworthiness of its main donor countries.
- We are revising our outlook on IFFIm to stable from negative and affirming our 'AA/A-1+' ratings. The stable outlook reflects an improvement in the debt service coverage ratio combined with the change in the long-term rating outlook on the U.K. to stable.

Rating Action

On Jan. 23, 2020, S&P Global Ratings revised its outlook on the International Finance Facility for Immunisation (IFFIm) to stable from negative. We also affirmed our 'AA' long-term and 'A-1+' short-term issuer credit ratings on IFFIm.

Rationale

We revised the outlook to stable from negative following an improvement in IFFIm's debt service coverage ratio, combined with the revision of the U.K.'s outlook to stable from negative.

We calculate the point-in-time debt service coverage ratio, which anchors our rating, by dividing total remaining pledges at a specified stress level by the total outstanding debt. We then take a forward-looking view for the next two years by estimating additional debt issuance and future pledges. Our estimated coverage ratio includes only pledges from contributors rated at the same level as IFFIm or higher (that is, currently 'AA' or above). As of year-end 2018, IFFIm's total outstanding debt declined to $886 million from $1,181 million the previous year, which supported an improved ratio signaling sufficient coverage, including a stress test, by 'AAA' and 'AA' rated sovereigns. We estimate IFFIm's total outstanding debt to decline further in 2019 given the balance between debt issuances and redemptions, further improving the coverage ratio.

At the same time, on Dec. 17, 2019, we revised our outlook on the U.K.--IFFIm's largest donor with pledges representing 48% of total donor receivables--to stable from negative. We consider the credit quality of pledges from the U.K. and other highly rated donors, such as France and Nordic countries, as material to IFFIm's credit quality. While IFFIm's debt service coverage falls sharply if we exclude pledges from the U.K., the overall magnitude was assuaged by the improved coverage ratio, so that a downgrade of the U.K. would not automatically lead to a downgrade of IFFIm.

We affirmed our ratings on IFFIm based on our view of the commitment of its highly rated contributors to its mandate of supporting child immunization programs in the world's poorest countries. Our ratings incorporate the risks stemming from the creditworthiness of its main donor countries in relation to the debt that IFFIm has incurred based on these commitments.

Founded in 2006 with US$4 billion pledged over 20 years by six sovereign donors, IFFIm, an innovative financial tool, has issued a variety of debt instruments against future donor pledges to provide annual grants over two decades to the Vaccine Alliance (Gavi). Gavi is a public-private partnership whose partners 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.

Since inception, donors' pledges have increased to US$6.6 billion, of which US$3.4 billion will be paid from 2019 to 2037. France, The Netherlands, and Australia committed future pledges to IFFIm, in addition to their existing long-term pledges, as part of Gavi's replenishment for 2016-2020.

In October 2018, Brazil signed a grant agreement for $20 million paid over 20 years in support to IFFIm. This makes it the 10th government donor to IFFIm and the second donor of emerging market countries Brazil, Russia, India, China, and South Africa (known as "BRICS"), after South Africa.

In December 2018, Norway notified Gavi that it required IFFIm's front-loading capability to support the Coalition for Epidemic Preparedness Innovation (CEPI). CEPI is a global public-private partnership whose mission is to accelerate the development of vaccines against emerging infectious diseases and enable equitable access to these vaccines for people during outbreaks. In November 2018, the Gavi Board approved the CEPI arrangement, which allows IFFIm to front-load a new Norwegian pledge of NOK600 million (US$66 million) to be paid over six years. IFFIm then issued bonds in Norwegian krone (NOK) against this contribution, which, in our view, demonstrates the facility's unique financing flexibility for donors.

Donors' pledges can be reduced, based on how many Gavi-eligible recipient countries have protracted arrears to the International Monetary Fund (IMF). As of January 2020, Somalia and Sudan were the only countries in arrears to the IMF, leading to a 1.5% reduction of total donor sovereign pledges to IFFIm. Although this reduction is small, it supports our conservative assumptions for long-term donor pledges.

We determine support for IFFIm by evaluating the support of its strongest contributors. Apart from the U.K. (which provides 48% IFFIm is to receive), highly rated contributors include Australia, Norway, The Netherlands, and Sweden (all rated 'AAA'). As of January 2019, together they account for 10% of the contributions IFFIm is to receive. The second-largest donor is France (rated 'AA'), which provides 31% of the total estimated remaining inflows into IFFIm. Other lower-rated contributors are Italy (7%) and Spain (2%), as well as Brazil (1%) and South Africa (less than 0.5%).

To measure IFFIm's risk-adjusted gearing, we calculate the coverage of the outstanding debt by total remaining pledges from 'AAA' and 'AA' rated sovereigns under a severe stress scenario. We estimate this ratio was 2.6x (1.2x if we exclude the pledges from the U.K.) as of Dec. 31, 2018. In the near term, we expect the coverage ratio will increase, unless Gavi wants to use substantially more of IFFIm's funds.

We expect that IFFIm will issue enough debt to maintain its planned disbursements to Gavi and sustain its liquidity requirements to cover 12 months of upcoming debt service payments.

IFFIm has its own gearing ratio to manage credit risk and protect the facility from insolvency--calculated and presented to the board quarterly by IBRD. It includes a gearing ratio limit, which limits net financial obligations to the present value of scheduled payments from grantors. The limit is currently set at 58.3% and includes a risk management buffer in the calculation due to IBRD's large uncollateralized swap exposure to IFFIm. The gearing ratio has been significantly below this limit--the ratio was 7.8% as of December 2018. Still, we expect it will increase somewhat toward the end of the funding cycle as IFFIm continues to disburse funds to Gavi.

We use our sovereign ratings as proxies for the credit quality of donor pledges, since we understand that IFFIm retains policy importance for its biggest donors, supporting global vaccinations through Gavi and the reputational implications it could have on donors not honoring them. In addition, the pledges are legal obligations of the sovereigns with terms similar to unsecured bonds.

During the Gavi replenishment meetings in 2015, only 4% of new pledges to Gavi (US$258 million) were made through IFFIm. In our view, this modest percentage of new pledges did not enhance IFFIm's policy importance--for future financing of Gavi's immunization programs--in the eyes of donor countries. Although IFFIm continues to provide Gavi with significant flexibility to accelerate immunization programs if needed, most donor countries have judged that it is not necessary to increase IFFIm's capacity.

The institution is exploring ways to expand its role by leveraging its unused capacity to more directly support Gavi in reducing the cost and increasing the availability of vaccines, as well as to support the rapid deployment of financing in the event of emerging disease outbreaks. However, if no further replenishments are made, we expect IFFIm to enter a wind-down mode in the mid-2020s, where most of its commitments would be financed out of accumulated liquid assets, and the remainder would ultimately be transferred to Gavi.

As of January 2020, one donor is currently late on its 2019 payment, amounting to $0.95 million, although we expect this amount to be repaid in 2020. In our view, this does not reflect a weakening of IFFIm's policy importance and does not affect the rating since we consider pledges from donors rated at and above 'AA'. IFFIm has previously experienced payment delays from several contributors, typically from donors rated lower than IFFIm. We consider the rare delays from highly rated countries to have been administrative and not to have reflected the contributors' ability or willingness to support IFFIm.

IFFIm also incurs rollover risk because its debt financing is for shorter tenors than its receivable 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 the 12 months' debt service is not covered. IBRD as treasury manager recalculates and resets this limit quarterly.

As of Dec. 31, 2018, and 2017, the calculated minimum liquidity was US$528.2 million and US$366.5 million, respectively, and the value of IFFIm's liquid assets was US$819 million and US$912 million, respectively. IFFIm did not issue debt during 2018.

During 2019, IFFIm issued two bonds. It returned to the Islamic capital markets with a third Sukuk issuance, raising US$50 million for Gavi's immunization program. The Sukuk, a financial certificate that complies with Islamic financing principles, was issued to the Islamic Development Bank (IsDB) as the sole investor. The transaction highlighted the shared development goals of IsDB. IFFIm also issued a US$66 million zero coupon bond in Norwegian krone.

Outlook

The stable outlook reflects a robust debt service coverage ratio that we expect would hold up even if the U.K. were downgraded. Furthermore, the downside risk on IFFIm's debt coverage has lessened given the revised outlook on the U.K. to stable from negative, translating into improved credit quality of the agency's contribution receivables.

We could raise the ratings on IFFIm in the next two years if we were to raise our sovereign credit ratings on the U.K. and other key donors.

We could lower our ratings on IFFIm in the next two years if we were to lower our sovereign credit ratings on its highly rated donors or if IFFIm experiences a funding squeeze that weighs on its debt service coverage ratio. Also, we could downgrade IFFIm if highly rated contributors delay donor grants, or if, due to political events, we change our view that the credit quality of the countries' pledges is equal to the credit quality of their sovereign debt obligations.

Related Criteria

- Criteria | Governments | General: Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology, Dec. 14, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Supranationals Special Edition, Oct. 25, 2019

Ratings List

Ratings Affirmed; Outlook Action

	To	From
International Finance Facility for Immunisation		
Sovereign Credit Rating		
Foreign Currency	AA/Stable/A-1+	AA/Negative/A-1+

Ratings Affirmed

International Finance Facility for Immunisation	
Senior Unsecured	AA

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.