

# International Finance Facility for Immunisation (IFFIm)

## Full Rating Report

### Ratings

Long-Term IDR	AA
Short-Term IDR	F1+

### Outlook

Long-Term IDR	Negative
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### Financial Data

#### International Finance Facility for Immunisation (IFFIm)

	Dec 15	Dec 15
Pledges received in the year at fair value (USDm)	0	0
Outstanding pledges at fair value (USDm)	2,736	3,153
Funds held in trust (USDm)	985	1,012
Outstanding debt (USDm)	1,606	1,893
Gearing ratio – actual (%)	33.7	40.0
Gearing ratio – limit (%)	69.7	69.3

### Key Rating Drivers

**Support from Donors:** International Finance Facility for Immunisation's (IFFIm) ratings are driven by pledges from donors to disburse grants to repay IFFIm's debt and more particularly by commitments by the UK (51% of pledges at June-2016) and France (28%). IFFIm is a supranational entity established in 2006 to fund immunisation for children in 53 countries eligible for funds from Gavi, the Vaccine Alliance, a global health public-private partnership. Funds raised on financial markets by IFFIm are disbursed as grants to Gavi.

**Strong Donor Commitment:** Donors' commitments are legally binding, and repudiation of their pledges would entail severe reputational damage and legal proceedings. IFFIm's donors are the UK (AA/Negative), France (AA/Stable), Italy (BBB+/Negative), Australia (AAA/Stable), Norway (AAA/Stable), Spain (BBB+/Stable), the Netherlands (AAA/Stable), Sweden (AAA/Stable) and South Africa (BBB-/Negative). The present value of outstanding pledges was USD2.6bn at end-June 2016.

**Credit Risk from Donors:** Default of donors on the timely payment of their pledges is the main source of risk. The downgrade of the France sovereign rating in 2014 directly led to IFFIm's ratings being downgraded also in December 2014. The revision of the Outlook on IFFIm to Negative in June 2016 was a direct result of the UK's sovereign ratings being downgraded and placed on Negative Outlook in the immediate aftermath of the Brexit vote.

**Credit Risk from Beneficiaries:** Credit risk also arises from the developing countries in the reference portfolio: donors have the right to reduce their payments by a predefined percentage if one of the reference countries is in protracted arrears with the IMF.

**Contained Leverage:** IFFIm disburses grants in support of its mandate thanks to bond issues repaid from pledged disbursements by donors. IFFIm maintains a ratio of net debt (outstanding bonds minus funds placed in trusts) to net present value of pledges (the gearing ratio). At end-September 2016, the gearing ratio was 28.1%, against a defined limit of 69.7%.

**Additional Cap on Borrowing:** In 2013, a 12 percentage-point buffer on the gearing ratio limit was introduced, effectively capping it at 57.7%. This debt ceiling, which Fitch considers conservative, ensures that IFFIm can honour its debt service even if there is a reduction or delay in the pledge payments by donor countries.

**Limited Liquidity, Market Risks:** Liquidity risk is limited due to IFFIm's strict compliance with its liquidity policy (liquid assets must cover debt service over the next 12 months) and conservative risk management. IFFIm's unhedged exposure to foreign exchange is minimal. Liquidity and market risk are managed effectively by the International Bank for Reconstruction and Development (IBRD; AAA/Stable), IFFIm's designated treasury manager.

### Rating Sensitivities

**Donor Rating Changes:** IFFIm's ratings and Outlook would be reviewed if the ratings and Outlooks of the UK or France were changed, due to their weight in donors' pledges. Material delays of grant disbursements by donor countries would also exert pressure on the rating.

**Gearing Ratio:** Over the medium term, should IFFIm come close to a breach of its gearing ratio limit related to rising debt or a reduced net present value of pledges following an increase in the credit risk of recipient countries or donors a rating downgrade could result.

### Analysts

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**Profile and Organisation**

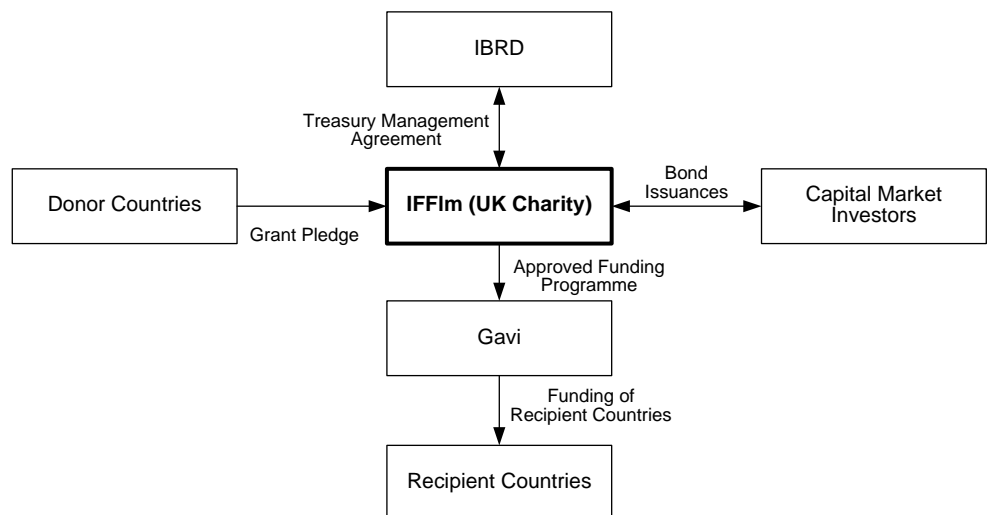
**A Recent, Innovative Financial Scheme**

Created in 2006, IFFIm is a UK charity through which developed countries facilitate the upfront financing of large-scale immunisation programmes in developing countries by pledging multi-year grants as backing for bonds issued in the international capital markets.

Funds raised on financial markets by IFFIm are disbursed as grants to Gavi, the Vaccine Alliance (Gavi), a global health public-private partnership to improve access to immunisation for children in a pool of 53 eligible developing countries. IFFIm has become one of the largest sources of funding for Gavi since its inception, together with direct grants from governments and foundations.

IFFIm honours its debt service thanks to the disbursement of grants initially pledged by donor countries according to predefined schedule, ranging from five to 23 years depending on the country. Internal procedures, including the maintenance of a comfortable liquidity cushion and a ceiling on indebtedness at a lower level than pledges (the gearing ratio limit based on the net present value of pledges), provide additional protection to bondholders in case of a delay in or limited shortage of disbursements of grants by donor countries.

**Structure Diagram**



Source: Transaction documents

**Governance**

IFFIm is run by a seven-member board, which approves each disbursement to Gavi and reviews Gavi’s programmes. The board meets a minimum of four times a year and all members are highly experienced in the international capital markets and multilateral development banks.

**Expanding Activities**

IFFIm has regularly expanded its operations since its foundation in 2006. At end-2015, the stock of pledges totalled USD2.7bn (fair value). IFFIm participated in a USD280m replenishment of Gavi in January 2015. This was made through IFFIm by France, the Netherlands and Australia. The first payment, of AUD7.3m, was received in June 2016.

**Related Criteria**

[Supranational Rating Criteria \(July 2016\)](#)

**IFFIm’s Resource Base, End-2015**

Donors (long-term foreign currency IDR)	Grant amounts (USDm) <sup>a</sup>	As % of total	Grant date	Payment period
Australia (AAA)	182.8	3.6	2011	19 yrs
France (AA)	1,350.5	26.8	2006 & 2007	19 yrs
Italy (BBB+)	543.4	10.8	2006 & 2011	20 yrs
Netherlands (AAA)	87.1	1.7	2009	7 yrs
Norway (AAA)	197.2	4.0	2006 & 2010	10 yrs
South Africa (BBB-)	20.0	0.4	2007	20 yrs
Spain (BBB+)	206.4	4.1	2006	20 yrs
Sweden AAA	32.7	0.6	2006	15 yrs
United Kingdom (AA)	2,415.5	48.0	2006 & 2010	20 yrs
<b>Total</b>	<b>5,035.7</b>			

<sup>a</sup> These amounts represents the US dollar equivalent amounts of grantor pledges at the exchange rates as of 31 December 2015  
Source: Fitch

**Rating Approach**

**Rating Approach**

IFFIm is a supranational administrative body whose ratings are based on an ad hoc approach. In the absence of intrinsic financial strengths (IFFIm has no capital). IFFIm’s rating is driven by support from donor countries as their grant payments ultimately back the repayment by IFFIm of its bond issuances.

IFFIm’s ratings and Outlook are more specifically based on the sovereign ratings and Outlooks of the two largest donor countries, the UK and France, whose pledges accounted for 51% and 28%, respectively, at end-June 2016. IFFIm can be downgraded in line with either of these two sovereigns, as happened in December 2014 when Fitch downgraded France from ‘AA+’ to ‘AA’. The IFFIm Outlook is also adjusted to reflect any change in the Outlooks of France or the UK, so when Fitch revised the UK’s rating Outlook to Negative in the aftermath of the Brexit vote in June 2016, IFFIm’s Outlook was also revised to Negative.

IFFIm’s rating also takes into account its leverage, as measured by its gearing ratio and risk management framework, which Fitch considers are commensurate with high ratings.

**Conditions for a Change in Rating Approach**

Fitch’s approach to rating IFFIm would be adjusted if the share of the UK and France in total pledges were materially diluted following the joining of new donors or new pledges from other existing donor countries. This is not Fitch’s base case for the foreseeable future.

**Credit Risk from Donor and Recipient Countries**

**Strong Exposure to Ability and Willingness of Donor Countries to Honour Pledges**

The willingness of donor countries to honour pledges to IFFIm has remained strong so far: the pledges are legally binding and some donor countries have shown willingness to support the institution through a rise in pledges (see *Expanding Activities* above). However, certain grant disbursements to be made by a grantor under a grant agreement may require additional or annual parliamentary or ministerial approval before they can be made, as for example in Spain, where the Spanish Council of Ministers has to approve its grant payments to IFFIm annually. This exposes IFFIm to some political risk. In addition, a failure by a donor country to honour a grant disbursement would not constitute an event of default on its senior unsecured sovereign debt obligations, which potentially reduces donor countries’ incentive to honour commitments.

**Evolution in Ratings of IFFIm Donor Countries**

	Rating in Dec 06	Rating in Dec 16
UK	AAA	AA
France	AAA	AA
Italy	AA-	BBB+
Spain	AAA	BBB+
Norway	AAA	AAA
Sweden	AAA	AAA
South Africa	BBB+	BBB-
Netherlands	AAA	AAA
Australia	AA+	AAA

Source: Fitch

Donor countries' pledges are not joint and several: they are only committed up to the amount of their own pledge. The ability of some donor countries to support IFFIm has declined in recent years, as reflected in the sovereign downgrades of the UK to 'AA'/Negative in June 2016, of France to 'AA'/Stable in December 2014 and the revision of the Outlook on Italy to Negative in October 2016. The large share of France and the UK in total pledges has led Fitch to link the ratings of IFFIm to the sovereign ratings of these two donors.

### Indirect but Material Exposure to Credit Risk from Recipient Countries

IFFIm established a reference portfolio containing Gavi-eligible countries that are also members of the IMF. The reference portfolio consists of 71 specified countries that were accorded country weightings. Under the terms of the grant agreements, a grant payment due from a grantor will be reduced if, on or before the date which is 25 IBRD business days before the due date from the grant payment, the IMF has declared that any specified country in the reference portfolio is in protracted arrears on any of its IMF financial obligations. The grant payments are reduced by the country weightings applicable to the specified countries declared to be in protracted arrears.

The pool consists of developing countries, most of them considered low income, with weak or no ratings assigned by Fitch. Somalia and Sudan are in protracted arrears to the IMF, with applicable discount rates of 1% and 0.5%, respectively. In 2015, Zimbabwe (discount rate 1%) was also in protracted arrears with the IMF, so grants actually disbursed by donor countries in 2015 were reduced by 2.5% from the original predefined notional amounts. Zimbabwe is no longer in arrears with the IMF so there will be a 1.5% cut applied in future.

In theory, this means IFFIm can suffer a shortage of revenues that may not enable it to honour its debt service. The current 1.5% loss in revenue is not worrying given the gearing ratio compared to expected grants and the size and management of treasury assets available as a cushion to ensure IFFIm's bond repayment.

Nonetheless, a significant rise in the number of countries in protracted arrears to the IMF could affect IFFIm's ability to honour its bond repayments; this would particularly be the case if it involved countries whose arrears would trigger a 3% reduction (Vietnam), or a 5% reduction (Bangladesh, the Democratic Republic of Congo, Ethiopia, India, Indonesia, Nigeria and Pakistan). However, several of IFFIm's recipient countries, including Vietnam, India, Indonesia and Nigeria, do not have outstanding credit to the IMF.

Fitch tracks the risk of reductions on grant disbursements through the follow-up of arrears to the IMF, but also through the follow-up of the gearing ratio limit. The deterioration of the credit quality of recipient countries and protracted arrears to the IMF do not affect the actual gearing ratio, but they would lead to a decrease in the gearing ratio limit.

## Leverage and Liquidity

### Contained Leverage

IFFIm's outstanding debt at end-2015 was USD1.6bn and mostly comprised debt issued in currencies other than the dollar. To reduce the risk of a gap between IFFIm's bond repayments and grant disbursements if credit risk on donor or recipient countries materialises, IFFIm maintains the gearing ratio limit as a statutory limit on net indebtedness.

The gearing ratio is computed as IFFIm's net financial obligations (outstanding bonds minus treasury assets placed in trust) divided by the net present value of the pledges to be disbursed by donors. The gearing ratio limits sets a maximum of net indebtedness as a share of the adjusted net present value of pledges. The computations are performed at least quarterly by the IBRD, which is IFFIm's treasury manager and derivative counterparty.

The computation of the net present value of pledges relies on a discount factor that captures the credit risk of donor countries. A rise in the credit risk (associated with rating downgrades) of donor countries translates into a decline in the net present value of pledges, which affects the gearing ratio.

IFFIm has never breached its gearing ratio limit. At end-September 2016, the gearing ratio was 28.1%, well within the defined limit of 69.7%. In addition to this defined limit, there is a 12 percentage point risk management buffer over and above the gearing ratio limit, meaning that leverage should never actually exceed 57.7%.

### Cautious Liquidity Management

Liquidity risk arises due to differences in timing between IFFIm's debt service obligations and the actual grant disbursements from donor countries. IFFIm has never lost market access and has always been able to refinance its bonds, even during the global financial crisis. More importantly, its bylaws set up conservative liquidity management policies: treasury assets have to cover at least the cumulative contractual debt service payments over the next 12 months. At end-October 2016, IFFIm's liquid assets totalled USD446m, far above the minimum liquidity threshold of USD68m.

The treasury portfolio is conservatively invested by the IBRD, which applies the same guidelines as on its own treasury portfolio. Corporate bonds and asset-backed securities must be rated 'AAA', while government and agency bonds must have a minimum rating of 'AA-' and money-market funds must have a 10 day maximum maturity and a minimum rating of 'A-'. At end-2015, 64% of treasury assets were invested in instruments rated 'AA'-'AAA'.

### Limited Other Risks

IFFIm's exposure to market risks is limited. IFFIm's unhedged exposure is minimal; it is exposed to mismatches between the currencies of donor pledges (local currency), and the payments made to Gavi and its debt service (US dollar), which it hedges through derivatives with the IBRD. IFFIm has no other derivative counterparty than the IBRD.

### IBRD Involvement Supportive

Fitch considers that the gearing ratio limit computation, the liquidity buffer and market risk management are conservative enough to ensure satisfactory protection to bondholders should there be a delay or moderate shortage of grant disbursements by donor countries, or should the grants disbursement be reduced by protracted arrears of recipient countries to the IMF.

The IBRD's involvement in IFFIm's treasury management and gearing ratio monitoring provides additional support. This is why Fitch considers risk management commensurate with high ratings for IFFIm, and ultimately why its ratings are more reliant on donor countries' sovereign ratings than on its own risk management framework.

### Income and Expenditure Account

USDm	31 Dec 15	31 Dec 14	31 Dec 13	31 Dec 12
Contribution revenue	1	1	1	1
Operating expenses	4,2	5,1	5,0	395,4
Total operating income	1,1	1,1	1,1	1,0
<b>Operating Profit (Loss)</b>	<b>(3)</b>	<b>(4)</b>	<b>(3,9)</b>	<b>(394,4)</b>
Net financing expenses on bonds and bond swaps	2,7	11,3	6,6	11,9
Net fair value gains on pledges and pledge swaps	85,5	121,9	153,7	54,1
Net other financing income	83,9	120,1	149,0	53,9
Total financing and investment income	85,9	111,8	146,2	48,2
<b>Surplus (deficit)</b>	<b>82,8</b>	<b>107,8</b>	<b>142,3</b>	<b>(346,2)</b>

Source: IFFIm – Report of Trustees and Financial Statements

### Balance Sheet

USDm	31 Dec 15	31 Dec 14	31 Dec 13	31 Dec 12
Sovereign Pledges	2,736	3,153	3,362	3,562
Funds in trust	985	1,012	1,025	547
Other assets	1	3	-	1
<b>Total assets</b>	<b>3,722</b>	<b>4,168</b>	<b>4,387</b>	<b>4,110</b>
Bond issues	1,606	1,893	2,168	1,959
Grants payable	507	507	507	707
Other liabilities	846	1,088	1,139	1,013
<b>Total liabilities</b>	<b>2,959</b>	<b>3,488</b>	<b>3,814</b>	<b>3,679</b>
Net assets	763	680	573	431
<b>Total liabilities + net assets</b>	<b>3,722</b>	<b>4,168</b>	<b>4,387</b>	<b>4,110</b>

Source: IFFIm – Report of Trustees and Financial Statements

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