International Finance Facility for Immunisation (IFFIm)

Full Rating Report

Ratings

Long-Term IDR	AA+
Short-Term IDR	F1+

Outlook

Long-Term IDR	Stable

Financial Data

International Finance Facility for Immunisation (IFFIm)

	31 Dec 13	31 Dec 12
Pledges received in the year at fair value (USDm)	-	-
Outstanding pledges at fair value (USDm)	n.a.	3,562
Funds held in trust (USDm)	n.a.	547
Outstanding debt (USDm)	n.a.	1,959
Gearing ratio – actual (%)	44.7	43.2
Gearing ratio – limit (%)	69.2	69.6

Related Research

France (January 2014)
United Kingdom (December 2013)
International Bank for Reconstruction & Development (IBRD) (March 2014)

Analysts

Amelie Roux
+33 1 44 29 92 82
amelie.roux@fitchratings.com

Theresa Paiz
+1 212 908 0534
theresa.paiz@fitchratings.com

Key Rating Drivers

Support From Donors: International Finance Facility for Immunisation's (IFFIm) ratings are driven by funding from donors that have committed to disburse grants over more than 20 years to finance immunisation programmes in 53 developing countries. Its donors are: the UK (AA+), France (AA+), Italy (BBB+), Australia (AAA), Norway (AAA), Spain (BBB+), the Netherlands (AAA), Sweden (AAA) and South Africa (BBB). More particularly, the ratings are based on commitments by the UK (50% of nominal pledges in mid-April 2014) and France (27.1%).

Strong Donor Commitment: The donors' commitment is legally binding, and repudiation of their pledges would entail severe reputational damage and legal proceedings. The number of donor countries and the value of pledges have increased since the creation of IFFIm in 2006, reflecting strong take-up from donors. In mid-April 2014, the nominal value of pledges totalled USD4.5bn.

Credit Risk From Donors: Default of donors on the timely payment of their pledges is the main source of risk. Downgrades of a number of EU sovereigns in recent years have increased credit risk, and IFFIm was downgraded along with the UK and France in early 2013. There were short payment delays by some donors in 2012 and 2013, but these were swiftly rectified.

Credit Risk From Beneficiaries: Donors have the right to reduce their payments by a predefined percentage if one of the beneficiary countries is in protracted arrears with the IMF. In 2013, grant disbursements to IFFIm were 2.5% lower than scheduled due to Zimbabwe, Somalia and Sudan being in default to the IMF. The risk of IFFIm failing to repay part of its bonds because of this reduction is limited by the liquidity buffer and gearing ratio limit it maintains.

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 a trust) to net present value of pledges (the gearing ratio). At end-2013, the gearing ratio was 44.7% against a defined limit of 69.2%.

Additional Cap on Borrowing: In addition, a 12 percentage-point buffer on the limit was introduced in 2013, effectively capping it at 57.2% at end-2013, in exchange for IFFIm not posting collateral on its derivative exposure to the International Bank for Reconstruction & Development (IBRD; its unique derivative counterparty) after its downgrade. This debt ceiling, which Fitch considers conservative, ensures that IFFIm can honour its debt service even in case of a rebate or delay in the grant disbursements 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. Exposure to foreign exchange risk is fully hedged. Liquidity and market risk are managed effectively by the IBRD, 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 ratings.

Gearing Ratio: Over the medium term, a breach by IFFIm of its gearing ratio limit, related to rising debt or recipient countries' rising credit risk, could trigger a rating downgrade.

Profile and Organisation

A Recent, Innovative Financial Scheme

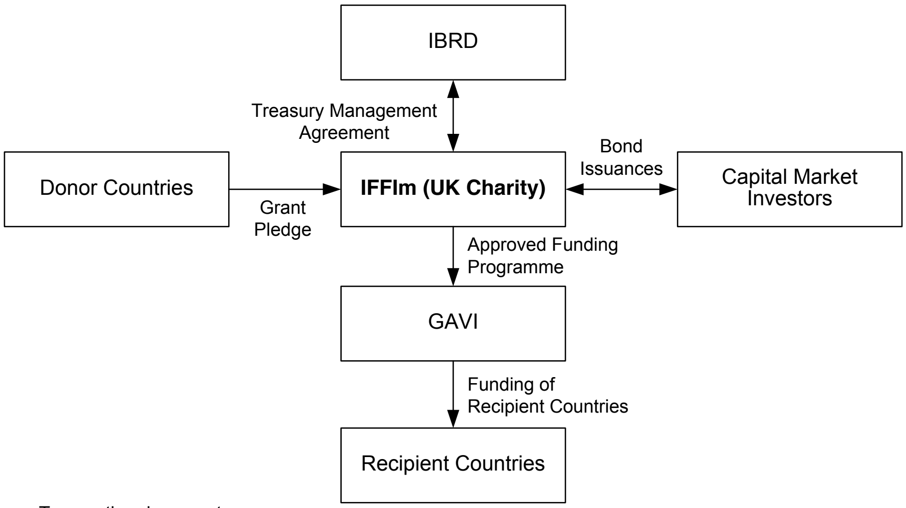
Created in 2006, IFFIm is a UK charity through which developed countries facilitate the upfront financing of large-scale immunisation programmes in developing countries by pledging multi-year grants as backing for bonds issued in the international capital markets.

Funds raised on financial markets by IFFIm are disbursed as grants to Global Alliance Vaccine Initiative (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 the largest source 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 a 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, based on the net present value (NPV) of pledges), provide additional protection to bondholders in case of a delay in or limited shortage of disbursements of grants by donor countries.

Figure 1

Structure Diagram



Source: Transaction documents

Governance

IFFIm is run by a six-member board, which approves each disbursement to GAVI and reviews GAVI's programmes.

Expanding Activities

Though recently created, IFFIm has managed to regularly expand its operations since 2006. IFFIm has not received new pledges since end-2011. It is engaged in discussions with potential new donor countries (including Brazil), although negotiations have not yet been finalised. At end-October 2013, the pool of total pledges that had been committed amounted to USD6.3bn in nominal terms, of which USD4.6bn remained to be disbursed.

Related Criteria

Rating Multilateral Development Banks (May 2012)

Figure 2

IFFIm's Resource Base, Mid-April 2014

Donors (Long-Term Foreign-Currency IDR)	Cumulative grants (USDm)[a]	As % of total	Grant date	Payment period
Australia (AAA)	216	4.8	2011	19 years
France (AA+)	1,218	27.1	2006 and 2007	19 years
Italy (BBB+)	418	9.3	2006 and 2011	20 years
Netherlands (AAA)	58	1.3	2009	7 years
Norway (AAA)	150	3.3	2006 and 2010	10 years
South Africa (BBB)	12	0.3	2007	20 years
Spain (BBB+)	157	3.5	2006	20 years
Sweden (AAA)	20	0.4	2006	15 years
United Kingdom (AA+)	2,250	50.0	2006 and 2010	20 years
Total	**4,555**	**100.0**		

[a] Nominal amount of grants pledged in mid-April 2014, converted into US dollars using exchange rate at 23 April 2014
Source: IFFIm, Fitch

Rating Approach

Current 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 (both AA+/Stable), whose pledges accounted for 50% and 27.1% respectively of the total in mid-April 2014. IFFIm can be downgraded in line with either of these two sovereigns, as was the case in April 2013, when Fitch downgraded the UK from 'AAA' to 'AA+'/Stable; its Outlook is also adjusted with any change in the Outlooks of France or the UK.

IFFIm's rating also takes into account its leverage, as measured by its gearing ratio (see below) and risk management framework, which Fitch considers are currently commensurate with very high ratings.

Conditions for an Evolution 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, which 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

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 their willingness to support the institution through a rise in pledges (see *Expanding Activities* above). However, grant disbursement is subject to yearly parliamentary approval in each country, which exposes IFFIm to a degree of 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 their commitment.

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 sovereign downgrades of the UK and France to 'AA+'/Stable in 2013, the downgrade of Spain to 'BBB'/Stable in 2011-2013, and the downgrade of Italy to 'BBB+'/Negative in the same period. The large share of France and the UK in total pledges has led the agency to link the ratings of IFFIm to the sovereign ratings of these two donors.

Figure 3

Evolution in Ratings of IFFIm Donor Countries

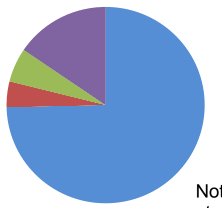
	Rating in Dec 06	Rating in Apr 14
UK	AAA	AA+
France	AAA	AA+
Italy	AA−	BBB+
Spain	AAA	BBB+
Norway	AAA	AAA
Sweden	AAA	AAA
South Africa	BBB+	BBB
Netherlands	AAA	AAA
Australia	AA+	AAA

Source: Fitch

Figure 4

Rating of Recipient Countries

End-2013



Source: IFFIm, Fitch

Figure 5

Evolution in Ratings of IFFIm's Largest Recipient Countries

	Rating in Dec 06	Rating in Apr 14
Vietnam	BB−	B+
Bangladesh	NR	NR
Congo DR	NR	NR
Ethiopia	NR	NR
India	BBB−	BBB−
Indonesia	BB−	BBB−
Nigeria	BB−	BB−
Pakistan	NR	NR

Source: IFFIm, Fitch

In 2012 and 2013, IFFIm experienced short, technical delays of grant disbursements by some donor countries, which did not exceed a few business days and were rectified swiftly. An increase in the number and length of payment delays in the future, revealing a decline in donor countries' willingness or ability to support IFFIm, could exert pressure on ratings.

Indirect but Material Exposure to Credit Risk From Recipient Countries

Credit risk also indirectly emanates from the 53 eligible countries. An element of conditionality was introduced in donor countries' commitments; if one recipient country is in protracted arrears with the IMF (ie, with arrears above six months), pledges by donor countries are reduced by a given rebate percentage. This rebate depends on each recipient country: they are grouped into four categories with different rebate rates applicable to the disbursed grants (0.5%, 1%, 3% and 5%) depending on the importance of GAVI's activity in each of them. This conditionality avoids considering donor countries' pledges as government debt.

The pool of recipient countries consists of developing countries, most of them considered low-income countries, with weak or no ratings assigned by Fitch. At end-2013, Sudan, Zimbabwe and Somalia were in protracted arrears to the IMF, with applicable discount rates of 0.5%, 1% and 1% respectively. Grants actually disbursed by donor countries in 2013 were therefore reduced by a cumulative 2.5% from the original predefined notional amounts. This rebate has remained broadly stable since IFFIm's inception (it was 3% until 2012). If and when any of these recipient countries resumes debt service to the IMF, the rebate would be suppressed for future grant disbursements by donor countries.

In theory, this means that IFFIm can suffer a shortage of revenues that may not enable it to honour its debt service. The current 2.5% loss in revenue is not worrying given the current level of 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 (see below).

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% rebate in grant disbursements (Vietnam), or a 5% rebate (Bangladesh, the Democratic Republic of Congo, Ethiopia, India, Indonesia, Nigeria and Pakistan). Among these higher-risk countries, IFFIm is most exposed to Bangladesh, the Democratic Republic of Congo, Ethiopia and Pakistan, which have outstanding programmes with the IMF, implying repayments in the coming years.

Fitch tracks the risk of rebates on grant disbursements through the follow-up of arrears to the IMF, but also and importantly through the follow-up of the gearing ratio. This ratio captures the credit risk of recipient countries and would rise if the credit quality of recipient countries declined significantly; Fitch's triggers on IFFIm's ratings therefore involve a deterioration in the gearing ratio (see below).

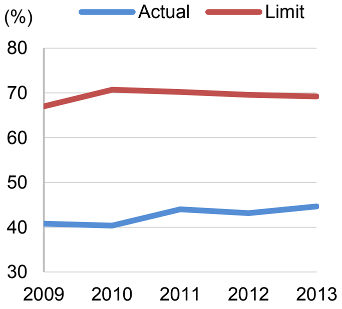
Leverage and Liquidity

Contained Leverage

IFFIm's outstanding debt at end-2012 was USD1.9bn and mostly comprised debt issued in currencies other than the dollar.

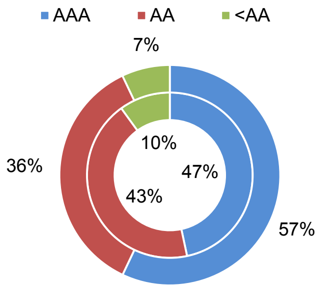
To reduce the risk of a gap between IFFIm's bond repayments and grant disbursements in case credit risk on donor or recipient countries materialises, IFFIm maintains a statutory limit on net indebtedness, the gearing ratio limit. The gearing ratio is computed as IFFIm's net financial obligations (outstanding bonds minus treasury assets placed in trust) divided by the NPV of the pledges to be disbursed by donors. The gearing ratio limit sets a maximum of net indebtedness as a share of the adjusted NPV of pledges. The computations are performed on at least a quarterly basis by the IBRD, which acts as IFFIM's treasury manager and derivative counterparty.

Figure 6
Gearing Ratio
2009-2013



Source: IFFIm

Figure 7
Treasury Assets
Inner ring: 2011
Outer ring: 2012



Source: IFFIm

The computation of the NPV of pledges relies on a discount factor that captures credit risk of both donor and recipient countries. A rise in credit risk (associated with rating downgrades) of donor and/or recipient countries translates into a decline in the NPV of pledges, which affects the gearing ratio limit.

IFFIm has never breached its gearing ratio limit. At end-2013, the gearing ratio was 44.7%, well within the defined limit of 69.2%. In 2013, following the downgrade of IFFIm, the IBRD decided not to request collateral from IFFIm on its mark-to-market derivative positions but instead introduced a 12% buffer on the gearing ratio limit, de facto capping the limit at 57.2% at end-2013. Should the gearing ratio get closer to this limit, IFFIm would have to reduce or delay the disbursement of grants to GAVI unless it received additional pledges from donor countries.

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-2012, IFFIm's treasury assets amounted to USD547m, or 130% of the liquidity threshold (end-2011: 143%).

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 a minimum rating of 'A−'. At end-2012, 90% of treasury assets were invested in instruments rated at least 'AA−' (end-2011: 93%), and no investment was rated below 'BBB+' (end-2011: 'A').

Limited Other Risks

IFFIm's exposure to market risks is limited. It is exposed to mismatches between the currencies of donor pledges (in their own currency) on the one hand, and the payments made to GAVI and its debt service (in US dollar) on the other, which it hedges though derivatives with the IBRD. These swaps move all IFFIm's future donor disbursements and debt to a US dollar three-month Libor floating-rate basis, matching the interest rate and exchange rate exposure of IFFIm's liabilities and assets. IFFIm has no other derivative counterparty than the IBRD.

Comfort Provided by the IBRD's Involvement

Fitch considers that the gearing ratio computation limit, the liquidity buffer and market risk management are conservative enough to ensure a 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 is an additional source of comfort. This explains why Fitch considers risk management commensurate with very high ratings for IFFIm, and ultimately why its ratings are currently more reliant on donor countries' sovereign ratings than on its own risk management framework.

Figure 8

Income and Expenditure Account

(USDm)	31 Dec 12	31 Dec 11	31 Dec 10	31 Dec 09
Contribution revenue	0.0	144.1	401.6	87.1
Operating expenses	395.4	205.3	405.1	625.4
Of which grant payments	390	200.0	400.0	620.5
Other operating income	1.0	0.8	0.8	0.8
Operating profit (loss)	**-394.4**	**-60.4**	**-2.7**	**-537.5**
Investment income	6.3	8.0	5.7	10.8
Interest payable and gains and losses on financial instruments	41.8	-124.3	12.4	-18.9
Of which FV gains and losses	54.5	-127.8	19.3	-10.8
Surplus (deficit)	**-346.3**	**-176.7**	**15.8**	**-575.9**

Source: IFFIm – Report of Trustees and Financial Statements

Figure 9

Balance Sheet

(USDm)	31 Dec 12	31 Dec 11	31 Dec 10	31 Dec 09
Sovereign pledges	3,562	3,404	3,172	2,882
Funds in trust	547	851	1,565	1,082
Other assets	1	1	143	23
Total assets	**4,110**	**4,256**	**4,880**	**3,987**
Bond issues	1,959	2,573	3,409	2,609
Grants payable	707	417	517	437
Other liabilities	1,013	489	1	3
Total liabilities	**3,679**	**3,479**	**3,927**	**3,049**
Net assets	431	777	953	938
Total liabilities + net assets	**4,110**	**4,256**	**4,880**	**3,987**
Memo items				
Gearing ratio (%)	43.2	44.0	40.4	40.8

Source: IFFIm – Report of Trustees and Financial Statements