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Research Update:

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

Primary Credit Analyst:

Alexander Petrov, London (44) 20-7176-7115; alexander.petrov@spglobal.com

Secondary Contact:

John B Chambers, CFA, New York (1) 212-438-7344; john.chambers@spglobal.com

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Overview

- International Finance Facility for Immunisation (IFFIm) provides funding for Gavi, the Vaccine Alliance, and we view its highly rated donor countries as committed to its mandate and critical policy role.
- Our ratings on IFFIm reflect our view of the high credit quality of its donors and its prudent debt and liquidity management framework, balanced against the high credit risk of its recipients and its diminishing role in funding Gavi.
- We are therefore affirming our 'AA/A-1+' ratings on IFFIm.
- The negative outlook reflects that on the U.K., as well as downside risks to IFFIm's policy role.

Rating Action

On Dec. 16, 2016, S&P Global Ratings affirmed its 'AA/A-1+' long- and short-term issuer credit ratings on the International Finance Facility for Immunisation (IFFIm). The outlook remains negative.

Rationale

The ratings reflect our view of the commitment of IFFIm's highly rated donors to its mandate of supporting immunization programs in the world's poorest countries.

IFFIm is a multilateral institution established as a charity in the U.K. in 2006. Its purpose is to fund 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, 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.

IFFIm benefits from pledges of nine donor countries to provide specified amounts of annual grants to it, up to and including 2030. IFFIm issues bonds against these pledges and uses the proceeds to disburse funds to Gavi and maintain a portfolio of liquid assets. Consequently, IFFIm provides Gavi with the ability to make multiyear pledges to recipient governments and to frontload some of its spending programs. Notably, over 2006-2015, IFFIm received just over \$2 billion in donor payments but disbursed close to \$2.5 billion to Gavi.

In 2006-2015, IFFIm financed 23% of total proceeds to Gavi, or 32% among government donors. The 2015 Gavi replenishment only increased IFFIm's outstanding stock of

pledges by 6% (\$280 million) against a \$7.5 billion increase in direct commitments to Gavi. In our view, this modest percentage of new pledges has not enhanced IFFIm's policy importance for donor countries, regarding future financing of Gavi's immunization programs. Although IFFIm continues to provide Gavi with significant flexibility to accelerate immunization programs if needed, many donor countries have considered it unnecessary to significantly increase IFFIm's capacity. Therefore, we expect IFFIm will finance only about 15% of Gavi's expenditures in 2016-2020. Moreover, in contrast with previous periods, IFFIm is scheduled to disburse less to Gavi than the total amount of donor inflows it will receive. If no further replenishments are made, IFFIm will likely enter a wind-down phase in the mid-2020s, when most of its commitments would be financed from accumulated liquid assets, the remainder of which would ultimately be transferred to Gavi.

The pledges made to IFFIm are subject to two types of credit risk.

First, each of IFFIm's recipient countries has a weight in a notional portfolio. If the recipient goes into protracted arrears with the International Monetary Fund (IMF), the amount of grants from donors is proportionately cut. Currently, Sudan and Somalia, with notional portfolio weights of 0.5% and 1%, respectively, are in arrears to the IMF. Accordingly, donor inflows are made at 98.5% of the pledged amount. If a recipient resolves the arrears, as Zimbabwe did a few months ago, the future donor payments increase but the previously foregone amounts are not received. Although such a structure was created mainly to prevent the pledges from being considered explicit central government debt for accounting purposes in some donor countries, it exposes IFFIm to a risk of significantly reduced cash inflows in a severe downturn scenario should IMF arrears spread.

Second, IFFIm is subject to credit risk of the donor countries. Of the nine sovereigns contributing to IFFIm, four countries (Australia, The Netherlands, Norway, and Sweden) are rated 'AAA' and are collectively expected to provide 12% of undiscounted outstanding pledges in 2017-2030. France and the U.K., both rated 'AA', are expected to provide 27% and 50%, respectively. The remaining 11% are to come from Spain, rated 'BBB', and Italy and South Africa, both rated 'BBB-', well below our rating on IFFIm.

To measure IFFIm's risk-adjusted leverage, we calculate the coverage of its outstanding debt by total remaining pledges from 'AAA' and 'AA' rated sovereigns under a severe stress scenario. We expect this ratio will remain firmly above 2x in the next three years, as IFFIm is currently very liquid and has limited debt issuance needs. Moreover, we expect the coverage ratio will increase slightly, unless Gavi wants to use substantially more of IFFIm funds. We expect that IFFIm will issue enough debt to maintain both the planned disbursements to Gavi and its liquidity requirements.

The coverage ratio falls below 1x if we exclude the U.K. and France. Moreover, such a stress scenario would most likely involve some defaults by the recipient countries, reducing the inflows even from those countries that continue paying into IFFIm. Consequently, even the exclusion of the U.K. alone would put IFFIm's ability to service its debt into question, and a downgrade of the U.K. from the current 'AA'

rating level would, all other factors remaining equal, lead to a corresponding downgrade of IFFIm.

Besides potential downgrades of IFFIm's highly rated donors, the credit quality of its donor pledges could worsen if we see considerable weakening in donor appreciation of IFFIm's policy role. Such a development would suggest a widening gap between donors' willingness to support IFFIm and their willingness and ability to service their own senior unsecured commercial debt obligations (which is reflected in our rating on the sovereign). For example, if IFFIm's role in Gavi's funding decreased even further, and IFFIm retained even more of the donor funds in its treasury portfolio, we could take a more skeptical view of the pledges, although the exact rating impact would partly depend on the size and credit risk of those treasury assets.

IFFIm's board of directors has established its own limit for maximum leverage, using different assumptions. The IBRD calculates this ratio for the board quarterly. In 2013, the IBRD introduced an additional risk management buffer in this calculation, due to its large uncollateralized swap exposure to IFFIm. Under this formula, IFFIm's maximum leverage ratio is currently set at 58%. The actual ratio has been significantly below this limit--at about 40% for the past five years--and has fallen to 28% according to the latest data. We nonetheless expect it will increase gradually as IFFIm continues to disburse funds to Gavi.

Although IFFIm experienced payment delays from time to time from several contributors, it had received all payments in full as of Nov. 30, 2016. Delays of more than a few days have generally arisen from donors rated lower than IFFIm. We consider that the delays from highly rated countries were administrative in nature and did not reflect the contributors' ability or willingness to support IFFIm.

IFFIm also faces refinancing risk because its debt is at shorter tenors than its receivables 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 12 months' debt service is not covered. The IBRD recalculates and resets this limit quarterly. As of Nov. 30, 2016, IFFIm's cash and funds held in trust totaled \$955 million, over 160% of the limit.

Outlook

The negative outlook on IFFIm reflects that on the U.K., indicating potential risks that we believe could further diminish the credit quality of the institution's grant receivables.

We could lower the ratings on IFFIm in the next two years if we lowered our sovereign credit ratings on the U.K.; if highly rated contributors reduced their support for IFFIm (for example, by falling into arrears on donor grants); if, in our view, changes in political priorities weakened the donors' perceived willingness to honor their pledges compared with their willingness to service their own government sovereign debt obligation; or if IFFIm experienced funding pressure.

We could revise our outlook on IFFIm to stable if we revised our outlook on the U.K. to stable, since this would strengthen our view of IFFIm's risk-adjusted leverage.

Related Criteria And Research

Related Criteria

- General Criteria: Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers - May 07, 2013
- Criteria - Governments - General: Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology - November 26, 2012
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009

Related Research

- Supranationals Special Edition 2016: Five-Year Comparative Data For Multilateral Lending Institutions - September 29, 2016

Ratings List

	Rating	
	To	From
International Finance Facility for Immunisation		
Issuer Credit Rating		
Foreign Currency	AA/Negative/A-1+	AA/Negative/A-1+
Senior Unsecured		
Foreign Currency	AA	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.globalcreditportal.com and at spcapitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

Additional Contact:

SovereignEurope; SovereignEurope@spglobal.com

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