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Research Update:

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

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Overview

- The International Finance Facility for Immunisation's (IFFIm's) purpose is to provide funding to the Vaccine Alliance (Gavi) for immunization and programs related to Gavi's mission.
- The ratings balance our view of IFFIm's policy importance and the creditworthiness of its main donor countries.
- We are affirming our 'AA/A-1+' ratings on IFFIm.
- The negative outlook on IFFIm reflects the negative outlook on the long-term rating on the U.K., IFFIm's largest donor and therefore its largest source of contribution receivables (or pledges).

Rating Action

On Dec. 22, 2017, S&P Global Ratings affirmed its 'AA/A-1+' long- and short-term issuer credit ratings on the U.K.-based multilateral agency International Finance Facility for Immunisation (IFFIm). The outlook remains negative.

Rationale

The ratings on IFFIm reflect our view of the commitment of its highly rated contributors to its mandate, and take into account the risks coming from the creditworthiness of its main donor countries. Additionally, we base the ratings on our opinion that IFFIm is an important liquidity provider to the Vaccine Alliance (GAVI), to whom it can transfer revenues promptly if needed.

In accordance with Gavi's replenishment for 2016-2020, France, The Netherlands, and Australia have made future pledges to IFFIm, in addition to their already existing long-term pledges. IFFIm's new contribution agreement with Australia was signed in June 2016 and the new pledges from France and The Netherlands were signed in May 2017.

Although IFFIm has consistently contributed a minority of Gavi's funds (about 20% for the current 2016-2020 phase), and Gavi also receives grants directly from IFFIm's sovereign donors, only IFFIm's commitments currently extend beyond 2020. In our view, this highlights IFFIm's unique role for Gavi's long-term financial commitments. In addition, IFFIm can also use its liquidity to support Gavi for unplanned vaccination campaigns.

As of November 2017, the U.K. is the largest donor to both IFFIm and Gavi. Its pledges represent 48% of donor receivables at IFFIm, and we expect it will fund 27% of activities under Gavi's 2016-2020 funding cycle. IFFIm's second-largest donor is France, which provides 32% of the total estimated remaining inflows into IFFIm.

Consequently, we consider that the credit quality of pledges from the U.K. and France is in line with IFFIm's credit quality. If we were to downgrade the U.K. or France, we would downgrade IFFIm.

The ratings on IFFIm also incorporate our view of the commitment of its highly rated contributors to its mandate of supporting child immunization programs in the world's poorest countries. A multilateral institution established as a charity in the U.K. in 2006, IFFIm's purpose is to fund the immunization and vaccine procurement programs of Gavi, 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.

IFFIm issues a variety of debt instruments against future donor pledges to provide annual grants over two decades and by disbursing bond proceeds to Gavi to fund its programs. This not only front-loads Gavi's funds, but also enhances its ability to provide multiyear grants to recipient governments.

Donors' pledges can be reduced, based on how many Gavi-eligible recipient countries have protracted arrears to the International Monetary Fund (IMF). As of October 2017, 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.

Under our criteria, we determine support for IFFIm by evaluating the support of IFFIm's strongest contributors. Apart from the U.K. and France, highly rated contributors include Australia, Norway, The Netherlands, and Sweden (all rated 'AAA'), which as of November 2017 together account for 10% of the grants IFFIm is to receive. Other lower rated contributors are Italy (8%), Spain (3%), and South Africa (less than 0.5%) (all in the 'BBB' rating category, except for South Africa, which we recently downgraded to 'BB').

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 expect this ratio will fall slightly to 1.8x by Dec. 31, 2017 in line with our previous estimate of 1.9x as of year-end 2016.

In the coming years, we expect the coverage ratio will increase slightly, unless Gavi wants to use substantially more of IFFIm's funds. We expect that IFFIm will issue enough debt to maintain the planned disbursements to Gavi and to sustain its liquidity requirements to cover 12 months of upcoming debt service payments. Our estimated coverage ratio includes only pledges from contributors rated at the rating level of IFFIm itself or above (that is, currently 'AA' or above).

The ratio falls sharply if we exclude pledges from France, and is consistently below 1.0x if we exclude U.K. pledges, putting the full coverage of debt payment at risk.

IFFIm's board of directors has established its own limit for maximum gearing using different assumptions. IBRD calculates this ratio for the board quarterly. In 2013, 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 gearing ratio is currently set at 58.2%. The actual gearing ratio has been significantly below this limit--at about 40% for the past five years--and has fallen to 19.3% according to IFFIm's latest available data. 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, as we understand that the pledges are legal obligations of the sovereigns. Moreover, we consider that IFFIm retains policy importance for its biggest donors, supporting global vaccinations through Gavi.

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. If no further replenishments are made, we expect Gavi to enter a wind-down mode in the mid-2020s, where most of its commitments would be financed out of accumulated liquid assets, the remainder of which would ultimately be transferred to Gavi.

Although IFFIm had previously experienced payment delays from several contributors, we understand that it had received all current payments in full as of Nov. 30, 2017. Delays of more than a few days have generally arisen only from donors rated lower than IFFIm. We consider the rare delays from highly rated countries to have been administrative in nature and not to have reflected the contributors' ability or willingness to support IFFIm.

IFFIm also incurs rollover risk as 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 recalculates and resets this limit quarterly.

On Dec. 31, 2016, and Dec. 31, 2015, IFFIm's calculated minimum liquidity was US\$568.6 million and US\$823.9 million, respectively, and the value of its liquid assets totaled US\$863 million and US\$986 million. Liquid assets, as of Nov. 30, 2017, were US\$1.4 billion. IFFIm last issued debt in November 2017, when it issued a US\$300 million bond with a three-year maturity and a 13 basis-point spread over three-month U.S. dollar LIBOR.

Outlook

The negative outlook reflects that of IFFIm's main donor, the U.K., incorporating potential downside risks that we believe could further diminish the credit quality of the agency's contribution receivables.

We could revise the outlook to stable if we were to take a similar action on our long-term rating on the U.K., while keeping a stable outlook on our 'AA' long-term rating on France.

We could lower our ratings on IFFIm in the next two years if we were to lower our sovereign credit ratings on the U.K. or France. Ratings downside could emerge if highly rated contributors delay donor grants; if, due to political events, we change our view that the credit quality of the countries' pledges is equal to their sovereign debt obligations; or if IFFIm experiences a funding squeeze.

Related Criteria And Research

Related Criteria

- 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
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings - April 07,2017

Related Research

- Supranationals -- Special Edition 2017, Five-Year Comparative Data For Multilateral Lending Institutions - October 20, 2017

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

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