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## International Finance Facility for Immunisation

**Primary Credit Analyst:**

Elie Heriard Dubreuil, London (44) 207-176-7302; elie.heriard.dubreuil@standardandpoors.com

**Secondary Contact:**

Nikola G Swann, CFA, FRM, Toronto (1) 416-507-2582; nikola.swann@standardandpoors.com

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# International Finance Facility for Immunisation

## Major Rating Factors

### Strengths:

- Highly rated grantor countries.
- Politically compelling mandate.
- Conservative financial policies.
- Innovative and effective financing instrument.

### Issuer Credit Rating

AA+/Negative/A-1+

### Weaknesses:

- Reliance on the willingness and ability of grantor countries to meet their obligations over the life of the program.
- Infrequent and mostly administrative payment delays on pledges from some donors.
- Grants conditional on poor countries avoiding protracted arrears to the International Monetary Fund.

## Rationale

The ratings on International Finance Facility for Immunisation (IFFIm) reflect the commitment of its highly rated grantors to its compelling mandate of supporting child immunization programs in the poorest of the world's developing countries. Our ratings on IFFIm remain unchanged under our revised criteria: "Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology," published on Nov. 26, 2012, on RatingsDirect.

IFFIm is a multilateral aid agency established as a charity in the U.K. in 2006. Its purpose is to accelerate the funding of the immunization and vaccine procurement programs of the Global Alliance (GAVI), a public-private partnership whose members include:

- The World Health Organization;
- The U.N. Children's Fund (UNICEF);
- The 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.

Of the world's poorest countries, 57 are currently eligible to receive support from GAVI. IFFIm operates by issuing bonds on the basis of commitments by sovereign governments to provide annual grants over two decades and disbursing the proceeds to fund GAVI's programs. This not only provides GAVI with greater funds in the near term, but also enhances GAVI's ability to provide multiyear grants to recipient countries.

On Feb. 8, 2013, IFFIm simplified its structure to exclude the GAVI Fund Affiliate charity. Previously, the proceeds from IFFIm bond issuances went through the GAVI Fund Affiliate, a separate U.K. registered charity, which in turn disbursed funds either to recipients or to an account of GAVI. The GAVI Alliance is now directly fulfilling the previous

GAVI Fund Affiliate rights and obligations.

Since the U.K., Italy, France, Spain, Sweden, and Norway established IFFIm in 2006, three more governments have made pledges: South Africa, The Netherlands, and Australia. Together, these pledges total nearly US\$6.3 billion. Brazil has also announced its intention to become a grantor, and IFFIm is seeking additional contributions. Should Brazil join IFFIm and make a long-term pledge, the U.K. would likely match this pledge, as it vowed to do for the second Italian contribution signed in November 2011.

Under our revised criteria, we determine support for GAVI, and thus for IFFIm, by evaluating the support of IFFIm's strongest shareholders. IFFIm continues to experience payment delays on pledges from several donors. We make a distinction between short delays of less than five days, and longer delays. This is consistent with our definition of default on long-term debt. Longer delays have generally arisen from donors rated below IFFIm. For those governments rated at or above IFFIm that have made late donor payments, these delays have been short and infrequent: we consider them to be administrative in nature and not reflective of the donors' ability or willingness to support this funding vehicle for GAVI.

In determining adequacy of future donor flows to support debt service, we compare expected cash flows from donors rated at or above IFFIm with IFFIm's cash outflows. Our debt service coverage ratio for this multilateral aid agency, which measures the total value of remaining IFFIm donor flows from 'AA+' and 'AAA' rated donors, after swap, divided by total debt service remaining to be paid, was about 2.0x at year-end 2012. IFFIm's own measure of its leverage, its gearing ratio--which measures the amount of its net financial obligations divided by the net present value of expected payments from all donors--was 40% at March 31, 2013.

To reduce the foreign exchange exposure of grants, which are made in the donors' local currency, and to transform fixed-rate borrowings into floating rate, IFFIm has conducted a series of long-dated swap agreements with the IBRD, its treasury manager and unique derivative counterparty. Given the duration of these agreements and that different yield curves are used to calculate the mark-to-market exposures, the aggregate fair value exposure under these swaps can vary substantially. We understand that these exposures should narrow to zero over the life of the contracts. We expect that the exposures will not entail IFFIm having related cash requirements or posting counterparty collateral, which could otherwise affect its ability to disburse funds to GAVI.

IFFIm is at risk if its eligible grant-recipient countries go into protracted arrears to the International Monetary Fund (IMF). Donor countries are released from a portion of their scheduled annual payments under their pledges, the amount depending on the extent to which IFFIm-eligible countries are in protracted arrears to the IMF (late more than six months).

Finally, IFFIm incurs roll-over risk, as its debt financing is for shorter tenors than its grants. To allay part of this funding risk, IFFIm maintains a minimum liquidity equivalent to its cumulative contracted debt service payments for the next 12 months. This minimum is recalculated and reset quarterly. As of Dec. 31, 2011, the calculated minimum liquidity was US\$595 million; as of the same date, total cash and funds held in trust were US\$852 million.

## Outlook

The outlook is negative, reflecting the negative outlooks on several of IFFIm's highly rated donor governments. If we were to lower more of the ratings on IFFIm's donor governments--particularly those on the U.K. or France, its largest donor governments--or our ratings on the IBRD, we could lower our rating on IFFIm as well. In addition, downward pressure on the ratings could arise if highly rated donors began running payment arrears to IFFIm, if substantially more beneficiary governments go into protracted arrears to the IMF, or if IFFIm experienced funding pressure. On the other hand, if the ratings on IFFIm's donors stabilize and if, in our view, other risks diminish, the rating on IFFIm could stabilize as well.

## Mandate

IFFIm has its roots in the Millennium Development Goals that the U.N. General Assembly unanimously adopted in September 2000. The fourth of these goals specifically targeted a two-thirds reduction in the mortality rate of children younger than five by 2015. The U.N. General Assembly considered intensifying efforts to immunize children to be vital to achieving that reduction. IFFIm's purpose is to assist in that intensification by providing funding for immunization and related programs earlier and in larger amounts than would otherwise be available, and by facilitating multiyear grants, which are important to recipient countries. Funds raised by IFFIm are expected to be applied in four principal areas:

- Stepping up mass vaccination campaigns, particularly for measles and tetanus.
- Strengthening health systems that deliver immunization services.
- Facilitating the stockpiling of polio vaccines.
- Supporting the development of new vaccines.

## Organization And Related Entities

IFFIm is one of several directly related entities.

### **International Finance Facility for Immunisation Co.**

IFFIm was incorporated as a private company in June 2006 and registered as a charity with the Charity Commission of England and Wales. IFFIm has a limited purpose: to raise funds for GAVI-approved programs based on the irrevocable and legally binding pledges of member countries to provide grants to the GAVI Alliance, which it in turn assigns to IFFIm. These grants, to be paid in installments through as late as 2030, will provide the funds to service the debt that IFFIm raises to fund GAVI programs.

On February 24, 2012, René Karsenti took over as new board chair of IFFIm. Dr. Karsenti brings a wealth of banking experience from both the private sector and multilateral lending institutions such as the European Investment Bank, the European Bank for Reconstruction and Development and the World Bank group. The board consists of six directors. Its tasks are essentially to review and approve requests for funding submitted by GAVI. When considering whether to approve requests for funding, IFFIm takes into account the following factors:

- Whether the request is materially complete and in accordance with GAVI's strategic objectives and program principles.
- The ability of IFFIm to provide the funds necessary to meet the request, given market conditions and other factors.
- The funding, liquidity, and other operating strategies approved by the IFFIm board, following consultation with IBRD.
- Any additional requirements specified in the various documents to which IFFIm is a party.

IFFIm outsources all of its other activities to either GAVI or IBRD; the Finance Framework Agreement prohibits IFFIm from having employees.

### **GAVI Fund Affiliate**

On Feb. 8, 2013, IFFIm amended its Finance Framework Agreement and related Master Definition Agreement to simplify its structure. Previously, the proceeds from IFFIm bond issuances went through the GAVI Fund Affiliate, a separate U.K. registered charity, which in turn disbursed funds either to recipients or to an account of GAVI. The GAVI Fund Affiliate was created in May 2006 specifically to enter into pledge agreements with IFFIm's grantor countries and subsequently assign them to IFFIm.

However, IFFIm considered that this additional layer in the structure was unnecessary and so removed the GAVI Fund Affiliate from the structure. The GAVI Fund Affiliate consequently transferred to the GAVI Alliance all of its rights and obligations under the original Framework.

### **GAVI Alliance**

GAVI is a public-private partnership created in 2000 in response to and to combat declining rates of immunization in developing countries. A secretariat based in Geneva coordinates GAVI's activities. The Gates Foundation has made several commitments to GAVI totaling US\$2.5 billion. In addition, 19 countries, including the six founding countries--the U.S., Netherlands, Norway, the U.K., Sweden, and Denmark--made multiyear pledges either directly or indirectly through IFFIm or the Advance Market Commitment. Other organizations also contributed to GAVI. Of the total US\$16.1 billion committed by all donors as of Dec. 31, 2012, US\$6.6 billion has already been contributed to GAVI, whereas the remaining pledges extend up to 2031.

GAVI's board of directors consists of 28 members, including GAVI's CEO. Eighteen are representative seats, of which five represent grantor country governments and five represent developing country governments. One director represents each of the Gates Foundation, WHO, UNICEF, and IBRD, and one each represents the vaccine industry in industrialized countries, the vaccine industry in developing countries, civil society, and technical health/research institutes. Nine additional members are independent individuals.

### **International Bank for Reconstruction and Development (IBRD)**

IBRD, which is the keystone of the World Bank group, is responsible for the following tasks:

- Execution of the IFFIm funding program, including the structure of the program, the methods of offering, and the choice of funding instruments.
- Cash-management services.
- Acting as a hedging counterparty for all derivative transactions.
- Management of the gearing ratio (see the "IFFIm Gearing Ratio" section).
- Tracking grantor contributions.

- Accounting and financial reporting support services.

Having IBRD perform these functions effectively is critical to the successful operation of IFFIm's funding program and the ratings on its bond issues. Not only does IBRD execute the borrowing program and manage the proceeds, but it also ensures that sufficient liquidity is in place to meet commitments for disbursements to GAVI and to make IFFIm's debt service payments as they come due. IBRD also makes sure that IFFIm's borrowing remains within established limits. IFFIm reimburses IBRD for the cost of these services.

## Grant Payment Condition

Under prevailing EC public-sector accounting principles, the total amount of government pledges for which the amounts and schedules of payments are incorporated into law (as are those to GAVI) would ordinarily be treated as expenditures in the years the pledges were made. However, Eurostat, EC's statistical arm, ruled that although the amounts and schedules of payments of grantor countries' pledges to IFFIm are established, if these payments were in some way conditional, the amounts paid could be recorded as expenditures when the payments, rather than the pledges, are made. This ruling was important to grantor countries because most did not want to include the full amount of their pledges to GAVI in their budgets in one year.

The conditionality mechanism chosen was based on the payment status with the IMF of countries originally eligible for support from IFFIm. Although, when IFFIm was set up, 72 countries were eligible for support from GAVI based on their low levels of per capital income, two--Cuba (not rated) and North Korea (not rated)--were (and currently are) not IMF members and therefore were not eligible for support from IFFIm. The remaining 70 countries constituted a reference portfolio; all were placed into one of three country weight groups: 1% (62 countries), 3% (one country), and 5% (seven countries) (see table 1). IFFIm expects to finance bigger programs in the larger-weight countries.

General eligibility for GAVI support is reevaluated every year based on gross national income per capita. The current threshold is US\$1,520 based on the most recent World Bank data. There are currently 57 countries eligible for support, though not all of these countries qualify for all types of support as GAVI sets further eligibility criteria for each support. Furthermore, the independence of South Sudan from Sudan resulted in a split of the weight allocated to both countries: from the original weight of 1% allocated to Sudan, each of the two countries now receives a 0.5% weight. The current list of countries, and associated weights, is shown in table 1.

**Table 1**

Countries Eligible For Support From GAVI
<b>0.5% countries</b>
Sudan, South Sudan
<b>1% countries</b>
Afghanistan, Benin, Burkina Faso, Burundi, Cambodia, Cameroon, Central African Republic, Chad, Comoros, Republic of Côte d'Ivoire, Djibouti, East-Timor, Eritrea, Gambia, Ghana, Guinea, Guinea-Bissau, Haiti, Kenya, Korea DPR*, Kyrgyzstan, Lao PDR, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Myanmar, Nepal, Nicaragua, Niger, Papua New Guinea, Rwanda, São Tomé & Príncipe, Senegal, Sierra Leone, Solomon Islands, Somalia, Tajikistan, Tanzania, Togo, Uganda, Uzbekistan, Yemen Republic, Zambia, and Zimbabwe
<b>3% countries</b>
Vietnam

**Table 1****Countries Eligible For Support From GAVI (cont.)****5% countries**

Bangladesh, Congo DR, Ethiopia, India, Nigeria, and Pakistan

\*GAVI does not use funds generated by IFFIm to support this country's immunisation programmes.

The percentage of each installment of grantors' pledges is reduced by an amount based on how many countries, in which weight groups, have protracted arrears on any of their obligations to the IMF 25 business days before the date payment is due. Sums not paid by grantors due to the grant payment condition are not required to be made up in the future. Between Oct. 2, 2006, and March 2008, four countries, each with a 1% weight, were in protracted arrears to the IMF--Liberia, Somalia, Sudan, and Zimbabwe (none are rated). As a consequence, only 96% of the amounts otherwise due was required to be paid (a reduction by four countries times 1% per country).

In March 2008, IMF announced that Liberia had repaid all of its obligations. Accordingly, the reduction in required installments paid from April 8, 2008, up until the split of Sudan, was 3%. After the split, it decreased to 2.5%, and will remain at this level until another country goes into or emerges from protracted arrears with IMF.

## Financing

IFFIm's financial strategy originally called for it to maintain a 'AAA' (or equivalent) rating on its borrowings. Furthermore, under the Finance Framework Agreement, IFFIm was not permitted to approve any new programs if, at that time, it is not rated 'AAA' by two of the three major international rating agencies.

After we lowered the long-term issuer credit rating on IFFIm to 'AA+' on Jan. 17, 2012, IFFIm amended its framework agreement to revise the minimum rating to 'AA', or whichever rating that the grantors would agree on.

In addition, if IBRD determines that the funds it manages for IFFIm are insufficient to meet all of IFFIm's financial obligations, IBRD is obliged under the Finance Framework Agreement not to comply with a GAVI request for disbursement.

There are two elements to IFFIm's debt-servicing capacity:

- In the short run, its liquidity position.
- In the longer run, its aggregate grant receivables and other income relative to its operating expenses and debt-service payments.

### Liquidity

The IBRD, as treasury manager, maintains IFFIm's liquidity above the next 12 months of principal repayment and interest payment obligations. Standard & Poor's believes that IBRD, as treasury manager, will manage IFFIm's liquidity position conservatively and will maintain liquidity at adequate levels.

IBRD maintains a single investment pool, separate from the funds of the World Bank group, which commingles funds from IFFIm, GAVI, and numerous other trust funds administered by the bank. Under IFFIm's investment strategy, IBRD structures IFFIm's portfolio to have interest-rate sensitivities matching those of the liabilities funding the

portfolio. The portfolio's assets--which may include money market instruments; issuances of governments, government agencies, and multilateral organizations; and corporate and asset-backed securities--are subject to minimum credit ratings as follows:

- Money market deposits must have maturities of six or fewer months and must be issued or guaranteed by financial institutions with senior debt securities that are rated 'A-' or higher. In practice, they are mostly overnight deposits.
- Government or government agency obligations and those of multilateral organizations or any other official entity must be rated 'AA-' or higher.
- Corporate or asset-based securities must be rated 'AAA'.

We do not expect significant credit losses on IFFIm funds managed by IBRD.

### **Grant receivables relative to financial liabilities**

IBRD's ability to make IFFIm's debt-service payments over the longer term depends on the proceeds from grants and other income being sufficient to meet all of IFFIm's debt-service payments and operating expenses. Whether grants will be sufficient to cover debt-service payments and other expenses depends principally on two factors: whether grantor countries meet their grant obligations and when and by how much these grant obligations are reduced by eligible countries' protracted arrears to IMF. The possible complications of exchange-rate changes are mitigated by IFFIm's policy of swapping all pledges and the proceeds of all its borrowings into three-month floating-rate U.S. dollars, with IBRD being the counterparty for all of the swaps.

### **Defaults on grant obligations are unlikely**

IFFIm's sources of financing to repay borrowings are the grants that grantor countries have committed to make (through GAVI) to IFFIm, the income earned by borrowings before they are disbursed, and new borrowings. Although the payments of these grants are legally binding on grantor countries, these payments remain subject to appropriation risk. And given that the grantors are sovereign countries, the enforceability of such agreements is uncertain. Standard & Poor's does not view non-debt-service obligations of sovereigns as necessarily enjoying the same priority of payment as debt-service obligations. However, grantor governments have embodied obligations to IFFIm in law, and the activities their grants support would seem to warrant sustained political and public support, even during times of financial stress.

IFFIm has experienced payment delays to pledges from several donors. Some of the delays have been for more than five days, which is our definition of default on long-term debt (see "Timeliness of Payments: Grace Periods, Guarantees, And Use Of 'D' And 'SD' Ratings", published Dec. 23, 2010 on RatingsDirect). However, such significant delays have arisen principally from donors rated lower than Standard & Poor's issuer credit rating on IFFIm. For the governments that are rated at or higher than IFFIm and that have made late donor payments, these have been short and infrequent: we consider them to be administrative in nature and not reflective of the donors' ability or willingness to support this funding vehicle for GAVI. Table 2 shows the schedule of contributions from the nine countries that have become grantors, in U.S. dollar equivalents. While the pledges vary in the amount and timing of contributions, collectively they gradually increase, peaking in 2021, and then recede, with the last of the contributions now scheduled to be made in 2030.

**Table 2**

Scheduled Donor Payments To IFFIm*										
(Mil. US\$)	U.K.	Australia	Norway	Sweden	Netherlands	France	Spain	South Africa	Italy	Total
2006	0	0	5.4	0	0	0	12	0	3.8	21.2
2007	17.6	0	5.4	2.5	0	25.4	12	1	7.6	71.6
2008	32.7	0	5.4	2.5	0	54.9	12	1	32.8	141.3
2009	48.4	0	5.4	2.5	14.3	58.2	12	1	32.7	174.5
2010	66.2	0	21.2	2.5	0	61.6	12	1	32.7	197.3
2011	83.9	0	7.9	2.5	0	65.3	12	1	35	210.8
2012	101.9	5.1	23.7	2.5	20	69.2	12	1	35	270.5
2013	119.9	5.1	23.7	2.5	20	73.4	12	1	35	292.8
2014	138.5	5.1	23.7	2.5	20	78.1	12	1	35	316
2015	157.9	14.9	23.7	2.5	20	82.9	12	1	35	350
2016	174.5	14.9	23.7	2.5	20	88.2	12	1	35	371.9
2017	189.3	14.9	23.7	2.5	0	93.7	12	1	35	372.2
2018	205.3	14.9	23.7	2.5	0	99.9	12	1	35	394.3
2019	221.8	14.9	23.7	2.5	0	106.3	12	1	35	417.4
2020	239.2	14.9	23.7	2.5	0	113.3	12	1	35	441.6
2021	257.7	14.9	0	2.5	0	120.8	12	1	35	444
2022	232.4	14.9	0	0	0	89.3	12	1	35	384.6
2023	201.9	14.9	0	0	0	96.8	12	1	35	361.7
2024	175.2	14.9	0	0	0	105	12	1	35	343.1
2025	145.8	14.9	0	0	0	113.9	12	1	35	322.6
2026	116.9	14.9	0	0	0	123.5	0	1	0	256.2
2027	21.4	14.9	0	0	0	0	0	0	0	36.3
2028	17.6	14.9	0	0	0	0	0	0	0	32.4
2029	13.9	14.9	0	0	0	0	0	0	0	28.8
2030	0	14.9	0	0	0	0	0	0	0	14.9
Total pledged	2,980	256	265	38	114	1,720	240	20	635	6,268
Amounts to be received as of January 2013	2,629	251	190	23	80	1,385	156	14	456	5,181
% total to be received	50.7	4.8	3.7	0.4	1.5	26.7	3	0.3	8.8	100
<b>Memo items</b>										
% of future scheduled contributions from countries rated 'AAA' as of May 13, 2013	61.2									
% of future scheduled contributions from countries rated 'AAA' or 'AA+' as of May 13, 2013	88									

\*US\$ equivalents of the pledges using the FX rate on the date the pledges were originally swapped.

### Grant payment condition reductions in grant payments are the bigger risk

The second source of shortfalls in receipts from grantor countries results from the grant payment condition and eligible countries' protracted arrears to the IMF. Twenty-six countries have gone into protracted arrears with IMF since 1975, four of them on two occasions (see table 3). Nineteen of the countries that have had protracted arrears are

IFFIm-eligible countries and, of these, the Democratic Republic of Congo has a 5% weight and Vietnam has a 3% weight for purposes of the grant payment condition.

**Table 3**

<b>Countries With Protracted Arrears To The IMF Since 1975</b>			
		<b>Start of arrears</b>	<b>Emergence from arrears</b>
<b>IFFIm-eligible countries that were formerly in protracted arrears to IMF</b>			
Cambodia	11/12/1992	Mar-75	Oct-93
Nicaragua	05/31/1984	Feb-83	Apr-85
Guyana	05/21/1990	Apr-83	Jun-90
Chad	10/11/1984	Jan-84	Nov-84
Vietnam*	03/29/1991	Feb-84	Oct-93
Sierra Leone	09/02/1986	Nov-84	Sep-86
Liberia		Dec-84	Mar-08
Tanzania	04/01/1986	Mar-85	Jul-86
Zambia	12/06/1985	Apr-85	Jan-86
Gambia, The	07/18/1986	Jun-85	Jul-86
Sierra Leone	02/14/1992	Jan-87	Mar-94
Zambia	02/27/1991	Apr-86	Dec-95
Honduras	08/25/1988	Oct-87	Nov-88
Congo, Dem. Rep. of¶	05/15/1989	Jun-88	May-89
Haiti	06/09/1989	Oct-88	Sep-89
Honduras	05/21/1990	Nov-88	Jun-90
Congo, Dem. Rep. of¶	05/08/2002	Nov-90	Jun-02
Haiti	11/25/1994	Nov-91	Dec-94
Central African Republic	12/03/1993	Jun-93	Mar-94
Afghanistan, Islamic State of	02/01/2003	Nov-95	Feb-03
<b>IFFIm-eligible countries currently in protracted arrears</b>			
Sudan		Jul-84	...
Somalia		Jul-87	...
Zimbabwe		Feb-01	...
<b>Countries formerly with protracted arrears not eligible for IFFIm support</b>			
Peru	12/10/1989	Sep-85	Mar-93
Jamaica	10/22/1986	Apr-86	Jan-87
Panama	04/14/1990	Dec-87	Feb-92
Dominican Republic	02/28/1991	Aug-90	Apr-91
Iraq	08/01/2004	Nov-90	Sep-04
Bosnia and Herzegovina	11/10/1995	Sep-92	Dec-95
Yugoslavia, Federal Rep. of§	11/10/2000	Sep-92	Dec-00

\*3% country weight ¶5% country weight. §No longer exists as a country; no successor countries are eligible for IFFIm financing.

Protracted arrears to the IMF have dropped in recent years. Since 1995, when Afghanistan went into protracted arrears (from which it emerged in 2003), only one country has gone into protracted arrears--Zimbabwe in 2001. Thus,

as noted above, the elimination of Liberia's arrears in March 2008 and the split of Sudan lowered the current reduction to 2.5%.

Reasons to expect that the payment performance of IFFIm-eligible borrowers from the IMF will continue to be better than in the distant past include:

- The debt burdens of many of the IFFIm-eligible countries have been sharply reduced by the Heavily Indebted Poor Countries and the Multilateral Debt Relief initiatives.
- There is greater tendency now to provide the poorest countries with grants instead of concessional debt.

## IFFIm Gearing Ratio Limit

IBRD's principal tool for ensuring that IFFIm can meet its financial obligations over the longer term is the IFFIm gearing ratio limit. This limit, established by IFFIm's board of directors based on the recommendation of IBRD, is the maximum amount of IFFIm's financial obligations as a percentage of the net present value of scheduled payments from grantors plus amounts potentially owing IFFIm from derivative transactions. IBRD recalculates this limit at least quarterly.

In calculating the net present value of scheduled payments from grantors, IBRD has developed a model that projects expected protracted arrears to the IMF by IFFIm-eligible countries based on the history of all countries' arrears to the IMF. It also incorporates assumptions about defaults on the part of grantor countries.

Based on IBRD's model, IFFIm's maximum gearing ratio was 70.3% as of Dec. 31, 2006, decreasing gradually to 67.0% as of Dec. 31, 2009, and subsequently increasing to 69.4% as of Sept. 30, 2011. In 2013, IBRD introduced an additional risk management buffer of 12%, reducing the effective maximum gearing ratio to 57%. The actual gearing ratio has been stable around 40% over the previous years (see table 4).

**Table 4**

IFFIm Maximum And Actual Gearing Ratios							
	--Dec. 31--						
	3/31/13	9/30/11	2010	2009	2008	2007	2006
Maximum gearing ratio	69.3	69.4	70.7	67	66.6	70.9	70.3
Maximum gearing ratio with risk management buffer	57	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Actual gearing ratio	40	43.8	40.6	40.9	33.1	35.5	20

N.A. not applicable

Our debt service coverage ratio for this multilateral aid agency, which measures the total value of remaining IFFIm donor flows from 'AA+' and 'AAA' rated donors, after swap, divided by total debt service remaining to be paid, was about 2.0x as of year-end 2012. Accordingly, to date IFFIm has borrowed much less than its internal guidelines would have permitted and has had financial obligations well below the present value of the scheduled contributions from 'AAA' and 'AA+' rated grantors. As that ratio increases, its coverage by scheduled contributions from 'AAA' grantor countries will become increasingly vulnerable to downgrades of these countries. In particular, the U.K. accounted for more than 50% of contributions to be received as of year-end 2011 and France another 26.7%. We would likely lower

our long-term ratings on IFFIm again if we were to downgrade France.

In the early years of this program, if protracted arrears suddenly rose to unexpectedly high levels, or if a grantor defaulted on its payments of grants, IFFIm could regain a prudent leverage by reducing or, under extreme circumstances, eliminating disbursements for programs. Its ability to do so will disappear in the final years of the program when funds are fully disbursed and debt service is dependent on receipt of grants and modest income from investments.

## Financial Statements

IFFIm is a charitable company incorporated in the U.K., and its financial statements are audited by KPMG in the U.K. according to U.K. Generally Accepted Accounting Principles (U.K. GAAP). However, because IFFIm's purpose is to fund GAVI's activities, which are conducted predominantly in U.S. dollars, it uses the U.S. dollar as its functional and reporting currency, translating British pounds, euros, Swedish kronor, Norwegian kroner, and Australian dollars into U.S. dollars. IFFIm's financial assets and liabilities--which constitute the whole of its balance sheet--are carried at fair value. Because IFFIm's assets consist entirely of grants that are to be paid over many years, IFFIm's balance sheet and income statement are very different from those of more conventional multilateral lending institutions and somewhat opaque. Notably, net assets are the difference between assets and liabilities, the charitable entity counterpart of shareholders' equity for a commercial entity.

**Table 5**

International Finance Facility for Immunisation Balance Sheet						
	--Dec. 31--					
(Mil. US\$)	2011	2010	2009	2008	2007	2006
<b>Assets</b>						
Cash held in trust	0.7	2.4	0.8	0.4	0.7	0.5
Funds held in trust	851.0	1,565.3	1,082.3	145.4	96.5	498.7
Prepayments	0.3	0.4	0.4	0.4	0.5	0.5
Derivative financial instruments	269.1	460.7	326.6	40.7	0.0	0.0
Sovereign pledges due within one year	211.3	163.6	150.4	130.7	127.0	60.2
Current assets	1,332.3	2,192.5	1,560.5	317.6	224.7	559.9
Sovereign pledges due after more than one year	3,192.7	3,008.0	2,731.7	2,610.5	2,849.8	2,089.1
Total assets	4,525.0	5,200.5	4,292.2	2,928.0	3,074.5	2,648.9
<b>Liabilities</b>						
Grants payable to GAVI Fund Affiliate	417.1	517.1	437.1	146.6	94.1	336.3
Creditors falling due within one year	766.6	1,079.9	267.5	12.7	109.5	75.5
Derivative financial instruments	755.8	320.3	305.0	0.0	0.0	0.0
Current liabilities	1,939.4	1,917.3	1,009.6	159.3	203.7	411.8
Creditors falling due after more than one year	1,809.1	2,330.0	2,345.3	1,255.5	1,043.1	1,007.0
Total liabilities	3,748.5	4,247.3	3,354.9	1,414.8	1,246.7	1,418.8
Net assets	776.5	953.2	937.3	1,513.3	1,827.8	1,230.2

Table 5

## International Finance Facility for Immunisation Balance Sheet (cont.)

Memo item						
Net current assets (all derivatives classified as current)	(607.1)	275.2	550.9	158.3	21.0	148.1

Table 6

IFFIm Income And Expenditure Account (Mil. US\$)	--Dec. 31--					June 26, 2006 - Dec. 31, 2006*
	2011	2010	2009	2008	2007	
<b>Income and expenditure account</b>						
<b>Revenue</b>						
Contribution revenue	144.1	401.6	87.1	0.0	679.7	2,110.0
Donated services	0.8	0.8	0.8	0.2	0.1	1.1
Investment and interest income	9.5	6.0	10.8	4.5	16.7	3.6
Total revenue	154.4	408.4	98.8	4.7	696.5	2,114.7
<b>Expenses</b>						
Program grants to GAVI Fund Affiliate	(200.0)	(400.0)	(620.5)	(325.1)	(186.1)	(861.1)
Treasury manager's fees	(2.6)	(2.2)	(2.0)	(1.8)	(1.3)	(1.9)
Governance costs	(2.7)	(2.9)	(3.0)	(2.8)	(2.2)	(1.6)
Financing income (expenses) on bonds and bond swaps	7.6	0.2	(30.4)	(10.2)	(49.9)	(9.6)
Other net financing income (expenses)	(133.4)	12.4	(18.9)	20.7	140.5	(10.3)
Total expenses	(331.1)	(392.6)	(674.7)	(319.2)	(98.9)	(884.5)
Surplus (deficit) for the year	(176.7)	15.8	(575.9)	(314.5)	597.6	1,230.2
<b>Memo item</b>						
Payments received from donors	201.6	184.7	165.7	151.8	72.8	20.3

\* IFFIm started its activities on June 26, 2006

## Related Criteria and Research

- Supranationals 2012 Special Edition, May 2, 2013
- International Finance Facility for Immunisation 'AA+/A-1+' Ratings Affirmed; Outlook Remains Negative, Dec. 17, 2012
- Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology, Nov. 26, 2012
- Timeliness of Payments: Grace Periods, Guarantees, And Use Of 'D' And 'SD' Ratings, Dec. 23, 2010

### Ratings Detail (As Of May 23, 2013)

#### International Finance Facility for Immunisation

Issuer Credit Rating	AA+/Negative/A-1+
Senior Unsecured	AA+

#### Issuer Credit Ratings History

17-Jan-2012	AA+/Negative/A-1+
06-Dec-2011	AAA/Watch Neg/A-1+
03-Nov-2010	AAA/Stable/A-1+
21-May-2009	AAA/Negative/A-1+

**Ratings Detail (As Of May 23, 2013) (cont.)**

\*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

**Additional Contact:**

SovereignEurope; SovereignEurope@standardandpoors.com

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