

# International Finance Facility for Immunisation (IFFIm)

## Full Rating Report

### Ratings

<b>Foreign Currency</b>	AAA
Long-Term IDR	AAA
Short-Term IDR	F1+

### Outlooks

Long-Term Foreign-Currency IDR	Negative
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### Financial Data

(IFFIm)	31 Dec 11	31 Dec 10
Pledges received in the year, at fair value (USDm)	144	402
Outstanding pledges at FV (USDm)	3,404	3,172
Funds held in trust (USDm)	851	1,565
Outstanding debt (USDm)	2,573	3,409
Gearing ratio (%) - actual	44.0	40.4
Gearing ratio (%) - limit	70.2	70.7

### Key Rating Drivers

**Support from Donors:** IFFIm's 'AAA' rating is based upon the commitments of its donors. These include the government of Australia ('AAA'), the UK ('AAA'), France ('AAA'), Italy ('A-'), the Netherlands ('AAA'), South Africa ('BBB+'), Spain ('BBB'), Sweden ('AAA') and Norway ('AAA'). Support from donors is strong because of their high overall credit quality and the legally binding nature of their commitments. In Fitch Ratings' opinion, repudiation of these commitments would impose severe reputational damage.

**Strong Donors' Take-Up:** Funds raised by IFFIm on the market are disbursed as grants to the Global Alliance for Vaccines and Immunisation (GAVI) – a global health partnership. The number of donor countries has increased from six to nine since its creation in 2006.

**Pledged Grants:** IFFIm's resources consist of grants, which are pledged by donors and disbursed over a period of up to 23 years. They include interest on funds raised on the market and held in trust as a liquidity buffer. New pledges have been received since the start, including USD144m from Australia and Italy in 2011. At end-June 2011, the fair value of pledges receivable amounted to USD3.4bn; based on end-October 2012 figures, the UK is the largest contributor, with 47.5% of total pledges, followed by France with 27.4%.

**Controlled Leverage:** To limit indebtedness, IFFIm maintains a ratio of net debt (outstanding bonds minus funds placed in a trust) to net present value (NPV) of pledges (the gearing ratio) below a threshold, which is reviewed regularly. At end-June 2012, the limit for the gearing ratio stood at 69.5%, while the actual ratio was 41.2%. Though it has increased markedly since 2006, as IFFIm's indebtedness increases to fund vaccine programmes, there is a comfortable margin for a further increase in debt.

**Credit Risk Exposure:** Default of donors on their pledged grants constitutes the main source of risk. While the overall credit quality of donors is strong (pledges from countries rated 'AAA' accounted for 85.6% of the total at end-November 2012), this risk has increased following the successive ratings downgrades of Spain and Italy in the last two years. In 2012, grants pledged by two donor countries were not received on due date.

According to the arrangement between donors, if one of the 70 countries eligible for IFFIm's grants is in protracted arrears with the IMF, donors may reduce their grants by a set percentage. At end-November 2012, only three countries – with a weight of 1% of the grant portfolio each - had protracted arrears with the IMF: Somalia, Sudan and Zimbabwe.

**Liquidity and Market Risks:** IFFIm's exposure to foreign exchange risk is fully hedged. Liquidity risk is also marginal, as IFFIm holds a large portfolio of high-grade liquid assets, which must cover debt service payments over the next 12 months. Liquidity and market risks are managed effectively by the World Bank ('AAA'), IFFIm's designated treasury manager.

### What Could Trigger a Rating Action

**Asset Quality:** In Fitch's view, a gearing ratio limit of 70% is consistent with an 'AAA' rating. However, Fitch's assessment of IFFIm's rating is directly linked to the sovereign ratings of France and the UK, which are its largest contributors and are among the highest-rated donors. The outlook of the 'AAA' rating of the UK and France was changed to Negative in 2012 and 2011 respectively. In the event of a downgrade of the IDR of one of these two countries, IFFIm's ratings would be reviewed.

### Related Research

- [Global Economic Outlook \(December 2012\)](#)
- [France \(December 2012\)](#)
- [UK Public Finances Update \(September 2012\)](#)

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## Profile and Shareholders' Support

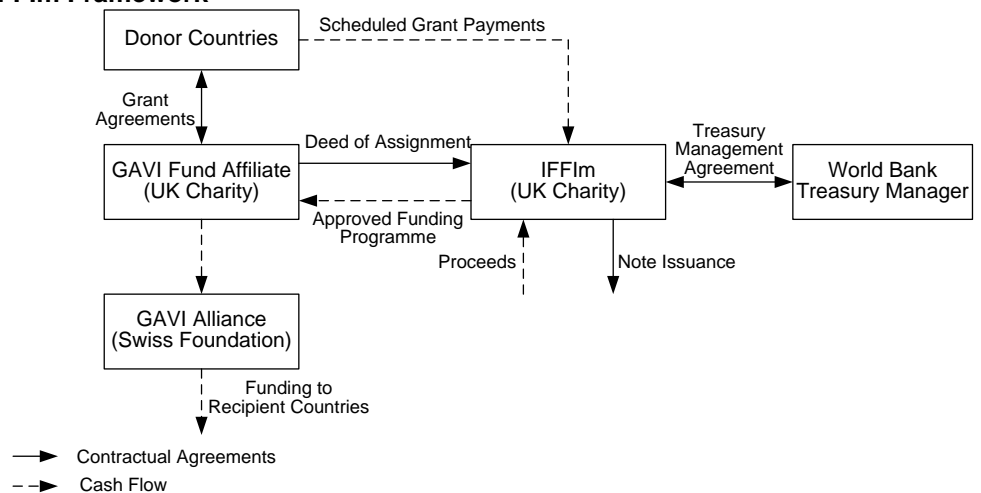
### Profile

Created in 2006, IFFIm is a vehicle through which advanced countries facilitate the upfront financing of large-scale immunisation programmes in 70 developing countries by pledging multi-year aid flows as backing for bonds issued in the international capital markets. The interest and principal on IFFIm's debts are paid out of future flows of grant aid from the participating donor countries.

Funds raised by IFFIm on the financial markets are disbursed as grants to GAVI – a global health partnership committed to improving access to immunisation for children in impoverished countries. It comprises governments in industrialised and developing countries, UNICEF, the WHO, the World Bank, the Bill & Melinda Gates Foundation, non-government organisations, vaccine manufacturers and public health and research institutions.

Figure 1

### IFFIm Framework



Source: Fitch

### Shareholders' Support

Grants pledged by donor countries constitute the only resource combined with interest income on treasury assets, which is small, of IFFIm. The UK ('AAA'/Negative) and France ('AAA'/Negative) are the largest contributors, with 47.5% and 27.4% of the total at end-October 2012. Other donors include Australia ('AAA'/Stable, which joined in 2011), Italy ('A-'/Negative), Norway ('AAA'/Stable), South Africa ('BBB+'/Negative), Spain ('BBB'/Negative), and Sweden ('AAA'/Stable). The payment of the grants started in 2006 and is spread over five to 23 years, depending on countries.

However, an element of conditionality was introduced in donors' commitments, set in the original arrangement between donors (the Grant Agreement): if one potential recipient country (out of 70 countries eligible for IFFIm's grants) is in protracted arrears with the IMF, pledged grants from donors are reduced by a given percentage (1% to 5%). Due to this conditionality, donors' commitments are not scored as government debt, which implies a genuine risk transfer to bond holders.

IFFIm has received strong take-up from the international community: while IFFIm comprised only six donor countries at its inception in 2006, three (South Africa, Netherlands and Australia) subsequently joined as donors, while existing participants increased their pledges (France, Norway and UK); Italy also increased its pledges in 2011. The UK has committed to increase its grants to IFFIm, but this has not been signed yet. Another country has indicated its willingness to participate in IFFIm but discussions are still under way. This has brought IFFIm's total cumulative grant pledges over the next 20 years in absolute terms to USD6,267.9m at end-October 2012. The fair value amount, at 30 September 2012, was USD3,564m.

### Related Criteria

[Rating Multilateral Development Banks \(May 2012\)](#)

Figure 2

**IFFIm: Pledged Grants in Nominal Value, as of End-October 2012**

Donors	Cumulative grants in (USDm) <sup>a</sup>	In % of total	Grant date	Payment period
UK (AAA/Negative)	2,979.9	47.5	2006 & 2010	23 years
France (AAA/Negative)	1,719.6	27.4	2006 & 2007	20 years
Italy (A-/Negative)	635.3	10.1	2006 & 2011	20 years
Spain (BBB/Negative)	240.4	3.8	2006	20 years
Norway (AAA/Stable)	264.5	4.2	2006 & 2010	15 years
Sweden (AAA/Stable)	37.7	0.6	2006	15 years
South Africa (BBB+/Negative)	20.0	0.3	2007	20 years
Netherlands (AAA/Stable)	114.4	1.8	2009	7 years
Australia (AAA/Stable)	256.1	4.1	2011	20 years
<b>Total (USD)</b>	<b>6,267.9</b>	<b>100.0</b>		

<sup>a</sup> Nominal amount of grants pledged, converted in in US dollars using exchange rate at which the pledges were hedged for non US dollar pledges

Source: IFFIm Global Debt Issuance Programme, Fitch

### Rating Approach

As with other supranational institutions, IFFIm allows rich countries to leverage funds for financing developing countries without impacting their own budget and debt figures. From a rating perspective, IFFIm appears unique and is best described as a supranational administrative body (SAB), and not as a multilateral development bank (MDB). IFFIm's management has a higher degree of discretion than an SPV in liquidity management and hedging operations. However, it is designed to achieve specific policy objectives – finance vaccination in poor countries – and its scope of activities is much narrower than MDBs. As indicated in Fitch's supranational criteria report, the rating of SAB employs an ad-hoc approach.

IFFIm's 'AAA' IDR is entirely based upon the support from donors, as its resources rely on grants. Hence, the main source of risk is that of non-payment by a donor of the grants it has pledged. This largely reflects the sovereign credit risk of donor governments themselves. Since the grant payments from each donor is made from national governments' budgets (or from a public agency, for a part of France's commitments), their credit quality is closely tied to that of the sovereign. However, though legally binding, IFFIm pledges are not linked in any formal way to donor's traditional sovereign debt contracts.

There is no sense in which a default on IFFIm pledges might constitute an event of default on senior unsecured sovereign debt obligations. The grant payments require the passage of annual budget legislation and hence annual parliamentary approval. In principle, this leaves the donor pledges to IFFIm exposed to political risk; a sovereign donor could, although still 'AAA' credit quality, decide not to honour its IFFIm obligations.

Given the importance of France and the UK, which together account for 74.9% of the total agreed pledges, Fitch has linked IFFIm's credit rating directly to the UK and France's sovereign rating. If either the UK or France's sovereign rating were to be downgraded from 'AAA', this would prompt a review of IFFIm's rating and would be likely to result in a downgrade.

The risk of the potential recipient countries entering into protracted arrears with the IMF also has to be taken into account. The other key rating factor is the level of indebtedness of IFFIm relative to the pledged grants, which is measured through the gearing ratio (see Debt and gearing). According to Fitch's estimates, a gearing ratio limit of 70% is consistent with a 'AAA' rating. The rating must also take into consideration the liquidity and market risks to which IFFIm is exposed, as well as overall risk management policies.

## Organisation and Financial Accounts

### Management

IFFIm was incorporated in the United Kingdom as a private company without share. It is governed by its Articles of Association of 2006. The management and strategy of IFFIm are placed under the responsibility of a board of directors, comprised of six individuals, which serve on a voluntary basis. It has no employees, as treasury and funding management are outsourced to the World Bank. IFFIm is established as a charity and the six directors are also trustees of the charity.

At end-October 2012, IFFIm had disbursed USD2,276m to the GAVI Fund Affiliate for immunisation and vaccine procurement. Vaccine programmes funded by IFFIm cover the following diseases: hepatitis B; haemophilus influenzae type B; yellow fever; and pneumococcal disease.

### Financial Accounts

IFFIm produces annual accounts in accordance with UK GAAP. They are compiled on an accrual basis and financial assets and liabilities are measured at fair value. The appendix tables show IFFIm's accounts from 2008 to 2011, produced by IFFIm's trustees. Accounts differ markedly from those of corporate or sovereign entities, as most of the stream of revenues and expenses are known in advance until the extinction of IFFIm.

The operating income of IFFIm is made up of the fair value of grant commitments received from donors. As most of these commitments were received at inception, IFFIm recorded substantial income in its early years but, in subsequent years its revenues have been much lower and will remain so for the remainder of its life. In 2010, they were significant as a result of the large contributions from Norway and the UK (USD401.6m), but decreased to USD144.1m in 2011. This includes the pledges from Australia, which joined in 2011, and additional pledges from Italy.

Operating expenses are rapidly rising as they include the grants extended annually to GAVI. Hence, IFFIm reports a structural operating loss in its profit and loss account. It incurs interest expenses on the outstanding bonds, which are partly offset by revenues from the investment of liquid assets; it also records the fair value adjustments of donors' pledges and bond payable. Negative fair value adjustments were significant in 2011, amounting to USD127.8m. This was largely because different discount curves are used for the donor pledges and the swaps hedging those pledges.

Assets consist of donors' pledges recorded at fair value ie, at their risk-adjusted NPV, and of liquid assets (funds held in trust). In 2011, the decline in interest rates led to a substantial increase in fair value adjustments of pledges (USD290m). Liabilities include the fair value of outstanding bonds and the grants that IFFIm has committed to GAVI Fund Affiliate but not yet disbursed. Given the structure of IFFIm, which is to finance upfront the GAVI Programme by issuing debt, outstanding bonds are increasing rapidly while the value of future pledges decline as donors' payment are received; hence, net assets are structurally declining.

## Capitalisation, Funding and Liquidity

### Capitalisation and Leverage

The IFFIm has no capital. Its net assets are equal to the grants that have been paid – and placed in treasury (trust) - plus the net present value (NPV) of the grants that have been pledged and not received, minus the debt issued. The NPV of pledges is recalculated on a yearly basis, taking into account new pledges received during the year, the grants received from donors and the change in the fair value of outstanding pledges. The discount rate used to calculate the fair value integrates a risk factor that reflects the credit risk to which the IFFIm is exposed (see Credit Risk).

Figure 3  
Fair Value of Outstanding Pledges at Year-End, 2008-2011

(USDm)	2011	2010	2009	2008
<b>NPV of pledges at beginning of year</b>	<b>3,172</b>	<b>2,882</b>	<b>2,741</b>	<b>2,977</b>
Pledges received during the year at fair value	144	402	87	0
Donor payments received in cash in the year	-202	-185	-166	-152
Fair value gain (losses), incl credit risk	290	73	219	-84
<b>NPV of pledges (as per annual report)</b>	<b>3,404</b>	<b>3,172</b>	<b>2,882</b>	<b>2,741</b>

Source: IFFIm Report of the Trustees and Financial Statements, Fitch

IFFIm's indebtedness is subject to a statutory limit. The gearing ratio used to calculate this limit is equal to IFFIm's net financial obligations – defined as outstanding bonds and derivative liability minus funds placed in trust - divided by the NPV of the grant pledges to be disbursed by donors, adjusted for derivatives. These computations are performed by the World Bank, which was appointed as treasury manager of IFFIm. The figures used for the computation of the gearing ratio by the World Bank are based on cash amounts translated in US dollars using the exchange rate at which they have been hedged. These numbers differ from those recorded in the accounts, where hedging operations and their underlying instrument are recorded as separate, both on the balance sheet and the profit and loss account.

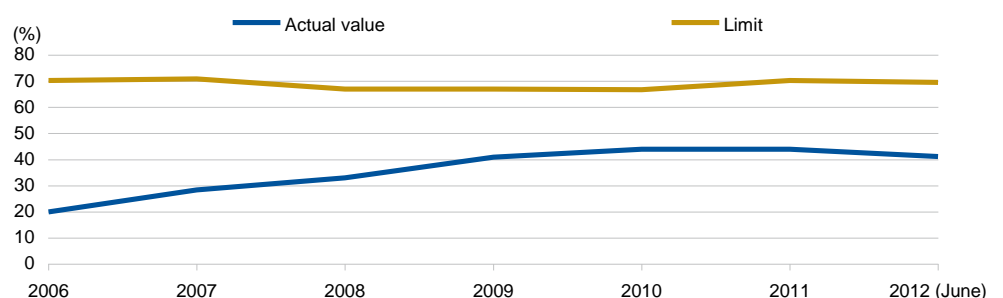
Figure 4  
Gearing Ratio Calculation at Year-End, 2008-2011

(USDm)	2011	2010	2009	2008
<b>NPV of pledges (as per annual report)</b>	<b>3,404</b>	<b>3,172</b>	<b>2,882</b>	<b>2,741</b>
Adjustment for derivatives used for hedging	0	274	328	521
<b>Adjusted NPV (used for gearing calculation)</b>	<b>3404</b>	<b>3,446</b>	<b>3,210</b>	<b>3,262</b>
Liquid assets	851	1,565	1,068	145
Bond debt	2,573	3,409	2,609	1,267
Adjustment for derivatives	-224	-451	-230	-44
<b>Net financial obligations</b>	<b>1,498</b>	<b>1,393</b>	<b>1,311</b>	<b>1,078</b>
<b>Net financial obligations/adjusted NPV</b>	<b>44.0</b>	<b>40.4</b>	<b>40.8</b>	<b>33.0</b>

Source: IFFIm Report of the Trustees and Financial Statements, Fitch

The calculation of the NPV of pledges requires a discount factor which encapsulates credit risk, ie the risk associated with non-payment of grants by donors and with a default of countries eligible for IFFIm's grants to IMF. Hence, an increase in IFFIm's exposure to credit risk translates into a decline in the value of the NPV of pledges and in an increase in the gearing ratio. As a consequence, the limit for the gearing ratio is subject to change. It was reduced from 70.3% in 2006 to 69.5% at end-June 2012. The actual value of the gearing ratio is monitored by the World Bank on a quarterly basis, and compared to the limit set by IFFIm.

Figure 5  
IFFIm Gearing Ratio  
2006 to June 2012



Source: IFFIm



The actual value of IFFIm's gearing ratio reached 41.2% at end-June 2012 (44.0% at end-December 2011). The improvement reflects the substantial amount of debt repaid by IFFIm in 2012 (USD570m), which largely offset grants disbursed to GAVI (USD100m). At end-October 2012, the gearing ratio remained well below the prudential limit, which is well below the limit. However, the value of the gearing ratio depends not only on the level of debt, but also on IFFIm's exposure to credit risk.

### Liquidity

Liquidity risk arises due to differences in timing between IFFIm's income stream from donors' pledges and its debt service obligations. The IFFIm by-laws set up conservative liquidity management policies; liquid assets are to be statutorily maintained at a level equal to the cumulated contractual debt service payments over the next 12 months. At end-2011 liquid assets fell as IFFIm repaid substantial amounts of debt. They amounted to USD852m, compared with USD1.565bn at end-2010, and compared with minimum liquidity requirement of USD595m.

### Risks

#### Credit Risk

Credit risk is by far the largest source of risk for IFFIm. It relates to the risk of donor non-payment of grant pledges, reductions of payments by donors to recipient countries defaulting on the IMF, counterparty risk on derivative contracts and default risk on its investment portfolio.

While it was extremely low at IFFIm's inception, the credit risk associated with the non-payment of donors markedly increased in the last two years, following the downgrade of several EU countries, in particular Italy ('A-/Negative') and Spain ('BBB-/Negative'). In 2012, for the first time, a grant pledged by a donor country was not received on the due date. Though pledges from countries rated 'AAA' still account for 85.6% of the total, the change in the rating outlook of the two largest contributors, France and the UK, has raised the possibility of a downgrade in the IDR of IFFIm.

Credit risk also emanates from recipient countries with protracted arrears with the IMF. This risk has been largely stable since the creation of IFFIm. A total of five potential recipient countries rated by Fitch have seen their sovereign ratings upgraded in 2011 and 2012: Angola ('BB-'), Georgia ('BB-'), Indonesia ('BBB-'), Sri Lanka ('BB-') and Zambia ('B+'). As in 2011, only three countries – with a weight of 1% of the grant portfolio each - remained in protracted arrears with the IMF: Somalia; Sudan; and Zimbabwe.

IFFIm is exposed to counterparty credit risk in derivatives transactions and placement of liquid funds. However, this is mitigated by the role of the International Bank for Reconstruction & Development (IBRD: 'AAA') as IFFIm's unique counterparty in derivative contracts.

Credit risk in IFFIm's investment portfolio is mitigated by minimum rating guidelines. A minimum rating of 'AA-' for government and agency bonds and of 'A-' for money market funds is required; corporate bonds and ABS held by IFFIm must be rated 'AAA'. At end-October 2012, 92.4% of treasury assets were invested in bonds and bank placements rated 'AA-' and above, and the remainder was invested in securities rated between 'A-' and 'A+'. The portfolio of treasury assets is managed by the World Bank, which provides additional comfort.

#### Other Risks

IFFIm's exposure to market risks is limited. IFFIm grant commitments to recipients are in US dollars, while several donors' pledges and part of the debt are denominated in currencies other than US dollars. Currency risk is hedged through swaps that IFFIm has contracted with the World Bank. IFFIM also uses swaps with the World Bank to hedge the risk associated with the variation in exchange rates on donors' grants and bonds payable. These swaps move all IFFIm's future donor pledge cash flows and capital market liabilities to a US dollar three-month LIBOR floating-rate basis, matching the interest rate and exchange rate exposure of IFFIm's assets and liabilities.

Appendix

Figure 6

**Income and Expenditure Account**

<b>(USDm)</b>	<b>31 Dec 2011</b>	<b>31 Dec 2010</b>	<b>31 Dec 2009</b>	<b>31 Dec 2008</b>
Contribution revenue	144.1	401.6	87.1	0.0
Operating expenses	205.3	405.1	625.4	329.7
Of which grant payments	200.0	400.0	620.5	325.1
Other operating income	0.8	0.8	0.8	0.2
<b>Operating profit (loss)</b>	<b>-60.4</b>	<b>-2.7</b>	<b>-537.5</b>	<b>-329.5</b>
Investment income	8.0	5.7	10.8	4.5
Interest payable and gains & losses on financial instruments	-124.3	12.4	-18.9	20.7
Of which fair value gains & losses	-127.8	19.0	-10.8	24.6
<b>Surplus (deficit)</b>	<b>-176.7</b>	<b>15.8</b>	<b>-575.9</b>	<b>-314.5</b>

Source: IFFIm – Report of Trustees and Financial Statements

Figure 7

**Balance Sheet**

<b>(USDm)</b>	<b>31 Dec 2011</b>	<b>31 Dec 2010</b>	<b>31 Dec 2009</b>	<b>31 Dec 2008</b>
Sovereign pledges	3,404	3,172	2,882	2,741
Funds in trust	851	1,565	1,082	145
Other assets	1	143	23	42
<b>Total assets</b>	<b>4,256</b>	<b>4,880</b>	<b>3,987</b>	<b>2,928</b>
Bond issues	2,573	3,409	2,609	1,267
Grants payable	417	517	437	147
Other liabilities	489	1	3	1
<b>Total liabilities</b>	<b>3,479</b>	<b>3,927</b>	<b>3,049</b>	<b>1,415</b>
Net assets	777	953	938	1,513
<b>Total liabilities + net assets</b>	<b>4,256</b>	<b>4,880</b>	<b>3,987</b>	<b>2,928</b>
<b>Memo items</b>				
Net financial obligations	1,498	1,393	1,311	1,078
Adjusted NPV of pledges	3,404	3,446	3,210	3,262
Gearing ratio (%)	44.0	40.4	40.8	33.0

Source: IFFIm – Report of Trustees and Financial Statements

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

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