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# International Finance Facility for Immunisation

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# International Finance Facility for Immunisation

## Major Rating Factors

| Issuer Credit Rating |
|---|
| *Foreign Currency* |
| AA/Negative/A-1+ |
| *Local Currency* |
| NR/--/NR |

### Strengths:

- Highly rated grantor countries
- Politically compelling mandate
- Innovative and effective financing instrument

### Weaknesses:

- Reliance on the willingness and ability of grantor countries to meet their obligations over the life of the program
- Grants that are conditional on poor countries avoiding protracted arrears to the International Monetary Fund (IMF)

## Rationale

The ratings reflect S&P Global Ratings' view of the commitment of the International Finance Facility for Immunisation's (IFFIm) 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 (WHO), 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 the year 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 front load 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 28% among all government funding sources (including IFFIm). The 2015 Gavi replenishment only increased IFFIm's outstanding stock of pledges by 4% ($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, though IFFIm pledges would already account for $1.3 billion from 2016-2020. 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 IFFIm does not receive the previously foregone amounts. 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 10.3% of undiscounted outstanding pledges in 2017-2030. France and the U.K., both rated 'AA', are expected to provide 31% and 52%, 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 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 because of 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.

## 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. We expect funds raised by IFFIm 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

From its inception in 2006 to year-end 2015, IFFIm has approved US$2,983 million in disbursements to Gavi, of which US$2,476 million were disbursed in the same period. Over 80% of approvals related to country-specific programs (i.e. focused on general development of health and vaccination systems), while the other 20% were approved for more "investment cases" of Gavi, targeting specific diseases on a global scale.

## 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 donor 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.

IFFIm has no staff, but the board consists of seven directors and is chaired by René Karsenti, who has banking experience in both the private sector and in multilateral lending institutions such as the European Investment Bank, the European Bank for Reconstruction and Development, and the World Bank Group. The most recent appointment to the board was that of Doris Herrera-Pol, the former Global Head of Capital Markets at the World Bank. The appointment was also in line with IFFIm's stated goal of improving the diversity of the board.

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 Alliance

Gavi is a public-private partnership created in 2000 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$4.1 billion. In addition, 23 countries, including the six founding countries--the U.S., The 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. The January 2015 replenishment conference on the refinancing of Gavi resulted in over US$7.5 billion in new pledges in addition to US$2 billion already pledged for 2016-2020. The pledges came from existing key donors and four new ones, as well as a number of private charitable organizations.

In total, the average annual proceeds to Gavi from all donation schemes has increased to $1.4 billion in 2011-2015 from an annual average of $472 million in 2000-2010, and we expect it to reach $1.7 billion in 2016-2020.

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 the Treasury Manager of IFFIm and responsible for, among other things, 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

IBRD's ability to execute these functions is critical to the successful operation of IFFIm's funding program and to 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 European Commission (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, countries could record the amounts paid as expenditures at the time they make payments, rather than the pledges. 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.

IFFIm included a conditionality mechanism because of the payment status with the IMF of the countries originally eligible for support from IFFIm. When IFFIm was set up, 72 countries were eligible for support from Gavi, based on their low levels of per capita income. However, Cuba and North Korea were not 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). IFFIm expects to finance bigger programs in the larger-weight countries.

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 (see table 1 for the current list of countries and associated weights).

**Table 1**

| IFFIm Reference Portfolio |
| --- |
| **0.5% countries** |
| Sudan, South Sudan |
| **1% countries** |
| Afghanistan, Angola, Armenia, Aserbaijan, Benin, Bhutan, Bolivia, Burkina Faso, Burundi, Cambodia, Cameroon, Central African Republic, Chad, Comoros, Congo, |
| Republic of Cote d'Ivoire, Djibouti, Eritrea, The Gambia, Georgia, Ghana, Guinea, Guinea#?Bissau, Guyana, Haiti, Honduras, Kenya, Kiribati, Kyrgyzstan, Lao PDR, Lesotho, |
| Liberia, Madagascar, Malawi, Mali, Mauritania, Moldova, Mongolia, Mozambique, Myanmar, Nepal, Nicaragua, Niger, Papua New Guinea, Rwanda, Sao Tome & |
| Principe, Senegal, Sierra Leone, Solomon Islands, Somalia, Sri Lanka, Tajikistan, Tanzania, Timor#?Leste, Togo, Uganda, Ukraine, Uzbekistan, Yemen, Zambia, Zimbabwe |
| **3% countries** |
| Vietnam |
| **5% countries** |
| Bangladesh, Congo DR, Ethiopia, India, Indonesia, Nigeria, and Pakistan |

General eligibility for Gavi support is re-evaluated every year based on gross national income per capita. The current threshold is US$1,580 based on the most recent World Bank data. There are currently 54 countries eligible for support, though not all of these countries qualify for all types of support, because Gavi sets further eligibility criteria for each type of support.

**Table 2**

| Countries Eligible For Support From Gavi |
| --- |
| Afghanistan, Bangladesh, Benin, Burkina Faso, Burundi, Cambodia, Cameroon, Central African Republic, Chad, Comoros, Democratic Republic of Congo, Republic of Cote d'Ivoire, Djibouti, Eritrea, Ethiopia, Gambia, Ghana, Guinea, Guinea-Bissau, Haiti, India, Kenya, Korea DPR*, Kyrgyzstan, Lao PDR, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Myanmar, Nepal, Nicaragua, Niger, Nigeria, Pakistan, Papua New Guinea, Rwanda, Sao Tome & Principe, Senegal, Sierra Leone, Solomon Islands, Somalia, Sudan, South Sudan, Tajikistan, Tanzania, Togo, Uganda, Yemen, Zambia, and Zimbabwe |
| *Gavi does not use funds generated by IFFIm to support this country's immunization programs. |

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. Grantors do not have to make up sums they do not pay, according to the grant payment condition. 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, grantors only had to pay 96% of the amounts due (a reduction by four countries times 1% per country).

In March 2008, the IMF announced that Liberia had repaid all of its obligations. Accordingly, grantors had to pay 97% of the amounts due from April 8, 2008, until the split of Sudan. After the split, the amount paid went up to 97.5%. In October 2016, Zimbabwe cleared its arrears with the IMF, and we expect the amount paid by donors in 2017 to move to 98.5% and stay at that level until another recipient country falls into or clears arrears with the IMF.

In 2015, the grant payment condition, which allows donor countries to reduce their payment to IFFIm if an IFFIm-eligible country falls into protracted arrears to the IMF, was revised to 13.4% from 14.5% because of upgrades in the recipient and donor portfolios. This resulted in a fair-value gain on pledges of US$80 million. The grant payment condition relies on a probabilistic model, which estimates the duration and likelihood that any IFFIm-eligible country could fall into arrears with the IMF over the life of the donor pledge.

## 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 program if, at that time, it was 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 the 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. In addition, if available liquidity falls below the next 12 months of debt service, the institution's management can stop disbursements.

We expect 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 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 eligibility of assets for the trust's portfolios follows the same guidelines as the treasury investments of IBRD and the International Development Association:

- Money market deposits must have maturities of six months or less 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.

In 2015, IFFIm's investment income was sufficient to cover its administrative expenses, after shortfalls in 2013 and 2014 because of low interest rates; on a cumulative basis since inception, the administrative expenses were also covered with the income on treasury portfolio.

### 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 the 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. IBRD is the counterparty for all of the swaps. IFFIm generally tries to secure pledges directly in U.S. dollars, but the decision is up to individual donor countries.

### 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 there is a legally binding requirement for grantor countries to pay these grants, the payments remain subject to appropriation risk. Given that the grantors are sovereign countries, the enforceability of the agreements is uncertain. In our view, sovereigns' non-debt-service obligations do not necessarily enjoy the same priority of payment as debt-service obligations. However, grantor governments have enacted obligations to IFFIm into law and the activities their grants support would seem to warrant sustained political and public support, even during times of financial stress, as long as IFFIm remains an important part of the policy of its donor countries.

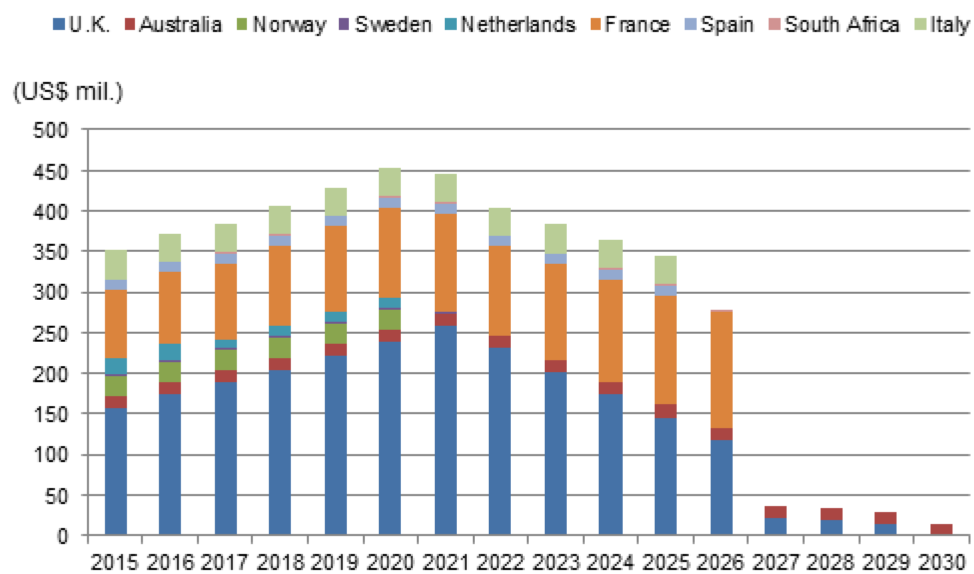
The replenishment of Gavi in 2015 led to a number of new pledges for IFFIm; less than 4% of the overall pledges were made through IFFIm, and only three countries contributed, which was somewhat below our expectations. Various budgetary planning considerations cause individual countries to split their commitments between IFFIm and direct support to Gavi; we believe that the overall size of Gavi's replenishment is also an indication of the continued support for IFFIm. That said, lack of further pledges to IFFIm may put pressure on IFFIm's policy importance when it moves closer to its wind-down stage.

In addition, though IFFIm has experienced payment delays to pledges from several donors, as of end-November 2016 all payments had been made in full and on time. Some previous delays have lasted for more than a few days. However, such significant delays have arisen principally from donors we rate lower than IFFIm. When governments that we rate at the same level or higher than IFFIm have made late donor payments, delays have been short and infrequent. We consider these delays to be administrative in nature and not reflective of the donors' ability or willingness to support this funding vehicle for Gavi.

Although the pledges vary in the amount and timing of contributions from the nine countries that have become grantors, collectively, they gradually increase, peaking in 2021, and then recede, with the last of the contributions now scheduled to be made in 2030 (see chart 1).

**Chart 1**

**Scheduled Donor Payments To IFFIm**




*A fraction of the amounts committed by France, Netherlands, and Australia have been added during the January 2015 GAVI replenishment, and not all of the formal procedures related to them have been completed. We assume that these amounts will eventually have the same status as the rest of the commitments.



## 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 (a risk incorporated into the gearing ratio limit model). Twenty-six countries have gone into protracted arrears with the IMF since 1975, four of them on two occasions (see table 3). Of the countries that have had protracted arrears, 19 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**

**Countries With Protracted Arrears To The IMF Since 1975**

| | Start of arrears | Emergence from arrears |
|---|---|---|
| **IFFIm-eligible countries that were formerly in protracted arrears to IMF** | | |
| Cambodia | Mar-75 | Oct-93 |
| Nicaragua | Feb-83 | Apr-85 |
| Guyana | Apr-83 | Jun-90 |
| Chad | Jan-84 | Nov-84 |
| Vietnam* | Feb-84 | Oct-93 |
| Sierra Leone | Nov-84 | Sep-86 |
| Liberia | Dec-84 | Mar-08 |
| Tanzania | Mar-85 | Jul-86 |
| Zambia | Apr-85 | Jan-86 |
| Gambia, The | Jun-85 | Jul-86 |
| Sierra Leone | Jan-87 | Mar-94 |
| Zambia | Apr-86 | Dec-95 |
| Honduras | Oct-87 | Nov-88 |
| Congo, Dem. Rep. of¶ | Jun-88 | May-89 |
| Haiti | Oct-88 | Sep-89 |
| Honduras | Nov-88 | Jun-90 |
| Congo, Dem. Rep. of¶ | Nov-90 | Jun-02 |
| Haiti | Nov-91 | Dec-94 |
| Central African Republic | Jun-93 | Mar-94 |
| Afghanistan, Islamic State of | Nov-95 | Feb-03 |
| Zimbabwe | Aug-01 | Oct-16 |
| **IFFIm-eligible countries currently in protracted arrears** | | |
| Sudan | Jul-84 | ... |
| Somalia | Jul-87 | ... |
| **Countries formerly with protracted arrears not eligible for IFFIm support** | | |
| Peru | Sep-85 | Mar-93 |
| Jamaica | Apr-86 | Jan-87 |
| Panama | Dec-87 | Feb-92 |
| Dominican Republic | Aug-90 | Apr-91 |
| Iraq | Nov-90 | Sep-04 |
| Bosnia and Herzegovina | Sep-92 | Dec-95 |
| Yugoslavia, Federal Rep. of§ | 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. No country has gone into protracted arrears to the IMF since Zimbabwe in 2011 (which the sovereign cleared). Therefore, the elimination of Zimbabwe's arrears lowered the current reduction in payments due to 1.5%.

## Funding

Under its operational model, IFFIm issues a variety of debt instruments against future sovereign pledges. Because IFFIm is borrowing against future sovereign pledges, it issues in a variety of currencies to reduce hedging costs. In 2014-2015, IFFIm entered the sukuk (Islamic bonds) market, issuing two instruments for a total of US$700 million, both with a three-year maturity at interest rates of 14 and 15 basis points over LIBOR. IFFIm's latest issuance was a benchmark 500 million floating-rate dollar bond, issued at 26 basis points over three-month Libor.

The overall funding costs of IFFIm are lower than the weighted composite of the donor countries. We view IFFIm's market access as strong and its investor base as varied, because it includes both traditional sovereign, supranational, and agency investors and Islamic finance market participants.

## IFFIm Gearing Ratio Limit

IFFIm's key internal measure incorporating various risks to its financial sustainability is its gearing ratio. The gearing ratio is calculated as debt net of liquid assets over the net present value of the remaining donor pledges. The denominator of the ratio is subject to two risks: the credit risk of the donors, which could lead to defaults on donor payments, and the recipient credit risk (through the Grant Payment Condition). IFFIm calculates the ratio based on a proprietary financial model developed by IBRD treasury.

The numerator of the ratio only changes when IFFIm disburses to Gavi: debt issuance per se simply increases both the amount liquid assets and the debt level. In addition, IFFIm does not post collateral with IBRD; were it required to do so, some of its liquid assets would become encumbered and the numerator of the ratio would increase.

IBRD's principal tool for ensuring that IFFIm can meet its financial obligations over the longer term is setting the upper limit on this ratio, known as gearing ratio limit (GRL). This limit, established by IFFIm's board of directors based on the recommendation of IBRD, is the maximum amount of IFFIm's net financial obligations as a percentage of the net present value of scheduled payments from grantors. IBRD recalculates this limit at least quarterly. If the institution is close to reaching the GRL, program disbursements can be delayed to bring the ratio back to an optimal level.

In 2013, IBRD introduced an additional risk management buffer of 12% in this calculation because of its large uncollateralized swap exposure to IFFIm. Under this formula, IFFIm's maximum gearing ratio is currently set at 58%. The actual gearing ratio has been significantly below this limit--between 30% and 40% in recent years and close to 26% as of October 2016--but we expect IFFIm to gradually increase gearing over time as IFFIm continues to disburse funds to Gavi.

**Table 4**

**IFFIm Maximum And Actual Gearing Ratios**

| (%) | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|---|---|
| Maximum gearing ratio | 70 | 70 | 69 | 69 | 70 | 69 | 70 |
| Maximum gearing ratio with risk management buffer | 58 | 58 | 57 | 57 | N/A | N/A | N/A |

**Table 4**

**IFFIm Maximum And Actual Gearing Ratios (cont.)**

| (%) | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|---|---|
| Actual gearing ratio | 26 | 34 | 40 | 45 | 43 | 44 | 41 |

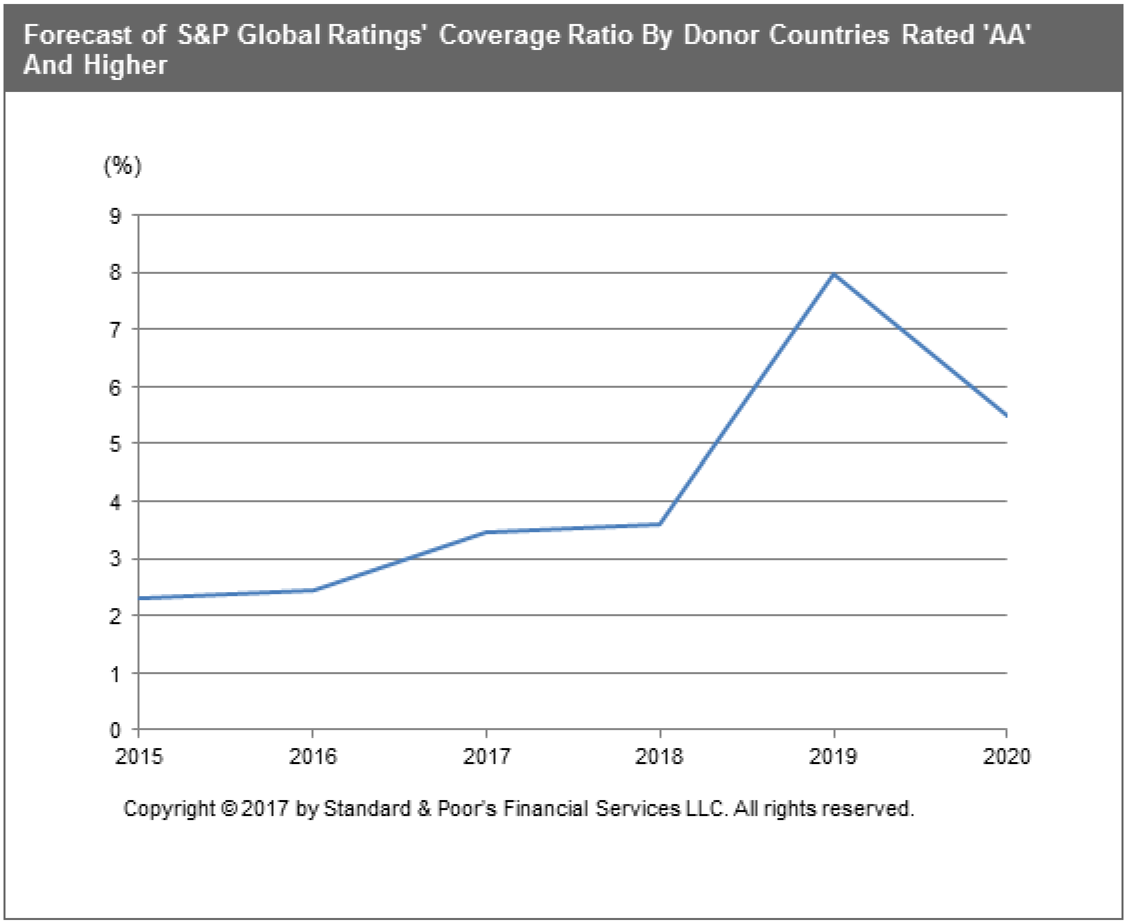
N/A--Not applicable.

To measure IFFIm's risk-adjusted gearing, we calculate the coverage of the outstanding debt by pledges from highly rated sovereigns under a severe stress scenario. We estimate that this ratio has improved to 2.5x as of Dec. 31, 2016, compared with 2.3x as of year-end 2015. In the coming years, we expect the coverage ratio to slightly increase 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 meet its liquidity requirements. Our coverage ratio includes only pledges from contributors rated at the level of IFFIm or above (that is, currently rated 'AA' or above).

Our simulations indicate that in an 'AA' scenario, where the pledges from countries rated below IFFIm would be in default, and a notable fraction of recipients would be in arrears to the IMF, IFFIm would nonetheless be able to meet its debt service obligation without significantly cutting its disbursements to Gavi. However, if we were to see a diminishing policy importance of IFFIm, such a scenario would be subject to further downside risks, as a severe stress scenario would put into question the willingness of even the highest-rated donors to support IFFIm.

If we were to exclude the U.K. pledges, our coverage ratio would fall to dangerously low levels; the combined pledges of 'AAA' donors and France would not be sufficient for IFFIm to conduct its activities in a normal manner, and the institution could only achieve full debt service by instating a near-stop in disbursements to Gavi, which would in turn severely undermine IFFIm's mandate and put pressure on the willingness of donors to support it.

**Chart 2**




## 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.

No significant changes in accounting policies have occurred since our last review of the entity.

# Related Criteria And Research

## Related Criteria

Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology, Nov. 26, 2012

## Related Research

How An Erosion Of Preferred Creditor Treatment Could Lead To Lower Ratings On Multilateral Lending Institutions, Aug. 26, 2013

| Ratings Detail (As Of May 26, 2017) | | |
|---|---|---|
| **International Finance Facility for Immunisation** | | |
| Issuer Credit Rating | | |
| *Foreign Currency* | | AA/Negative/A-1+ |
| *Local Currency* | | NR/--/NR |
| Senior Unsecured | | AA |
| **Issuer Credit Ratings History** | | |
| 14-Nov-2014 | *Foreign Currency* | AA/Negative/A-1+ |
| 08-Nov-2013 | | AA/Stable/A-1+ |
| 17-Jan-2012 | | AA+/Negative/A-1+ |
| 08-Nov-2013 | *Local Currency* | NR/--/NR |
| 17-Jan-2012 | | AA+/Negative/A-1+ |
| 06-Dec-2011 | | AAA/Watch Neg/A-1+ |

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.