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## International Finance Facility for Immunisation

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# International Finance Facility for Immunisation

## Major Rating Factors

### Strengths:

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

### Issuer Credit Rating

*Foreign Currency*

AA/Negative/A-1+

*Local Currency*

NR/--/NR

### Weaknesses:

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

## Rationale

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

On Jan. 27, 2015, the German government hosted the Gavi's replenishment meeting, which led to the second replenishment of Gavi for 2016-2020. Record new pledges amounting to US\$7.5 billion were made to Gavi for the next five years. Out of these, governments committed US\$280 million to IFFIm for 2016-2035 (i.e., 4% of the total new pledges). The U.K. did not make any new pledges to IFFIm, despite remaining the biggest donor to Gavi.

In our view, this modest percentage of new pledges did not enhance the policy importance of IFFIm--for future financing of Gavi's immunization programs--in the eyes of donor countries. While IFFIm continues to provide Gavi with significant flexibility to accelerate immunization programs if needed, donor countries mostly judged that it was not necessary to increase IFFIm's capacity.

IFFIm has been an important source of funding for Gavi since 2006. During 2006-2014, it provided about 33% of Gavi's program funding, though Gavi's plan for 2016-2020 indicates that only about 14% of contributions will come from IFFIm. Through raising debt against future grants for vaccinations, IFFIm has allowed Gavi to accelerate its immunization programs. Having reached a greater critical mass, Gavi is now entering into steadier territory for vaccinations and support for public health, implying less reliance on IFFIm for front-loading funding. We note, however, that IFFIm will still disburse funds to Gavi through to 2030.

Under our criteria, we determine support for IFFIm by evaluating the support of IFFIm's strongest contributors. The U.K. is the largest contributor; it has pledged more than 50% of the funds still to be received by IFFIm. France follows, with over 28% of pledges. Other highly rated contributors include Australia, Norway, The Netherlands, and Sweden, accounting for respectively slightly less than 5%, 3%, 2%, and 1% of the grants IFFIm is to receive. Other contributors are Italy (8%), Spain (3%), and South Africa (less than 1%).

IFFIm operates by issuing bonds, backed by sovereign government commitments, to provide annual grants over two

decades and by disbursing the bond proceeds to Gavi to fund its programs. This not only front-loads Gavi's funds, but also enhances its ability to provide multiyear grants to recipient governments. IFFIm would be at risk if countries in a reference portfolio, representing 71 of the world's poorest nations, go into protracted arrears to the IMF. If this happens, contributor governments are released from a portion of their scheduled annual payments under their pledges, which means that fewer funds will be available to reimburse IFFIm's debtholders.

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 improved slightly to 2.2x as of Dec. 31, 2015, compared with 2.0x at year-end 2014, as the additional sukuk issuance in 2015 was more than offset by the additional pledges received during the January 2015 Gavi replenishment (we take them into consideration despite the fact that some formal procedures related to them may not have been completed).

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 maintain its liquidity requirements. Our coverage ratio includes only pledges from contributors rated at the level of IFFIm or above (that is, currently 'AA' or above).

When excluding France, the ratio falls sharply, putting at risk the full coverage of debt payment. Indeed, in a severe stress scenario, in which France would not have the capacity or willingness to pay its pledges to IFFIm, we expect that a number of recipient countries would fall into protracted arrears to the IMF, reducing significantly the payments due to IFFIm.

IFFIm's board of directors has established its own limit for maximum gearing using different assumptions. IBRD calculates this ratio for the board quarterly. In 2013, IBRD introduced an additional risk management buffer in this calculation, due to its large uncollateralized swap exposure to IFFIm. Under this formula, IFFIm's maximum gearing ratio is currently set at 58%. The actual gearing ratio has been significantly below this limit--at about 40% for the past five years--and has fallen to 34% according to the latest data. We nonetheless expect it to increase somewhat as IFFIm continues to disburse funds to Gavi.

Although IFFIm had previously experienced payment delays from several contributors, we also note that all payments have been received in full as of Dec. 31, 2015. Delays of more than a few days have generally arisen from donors rated lower than IFFIm. We consider the rare delays from highly rated countries to have been administrative in nature and not to have reflected the contributors' ability or willingness to support IFFIm.

IFFIm also incurs rollover risk as its debt financing is for shorter tenors than its receivable pledges. To allay part of this funding risk, IFFIm maintains a minimum liquidity equivalent to its cumulative contracted debt service payments for the next 12 months. In addition, management can stop disbursements if the 12 months' debt service is not covered. IBRD recalculates and resets this limit quarterly. At Dec. 31, 2014, cash and funds held in trust totaled \$1,015 million.

## Outlook

The negative outlook reflects potential downside risks that we believe could diminish the credit quality of IFFIm's

grant receivables.

We could lower the ratings on IFFIm this year if we were to lower the sovereign credit ratings on France; if highly rated contributors were to reduce their support (say by falling into arrears on donor grants); if substantially more grant-recipient governments go into protracted arrears to the IMF; or if IFFIm experiences funding pressure.

We could revise the outlook to stable in 2016 if we were to revise the outlook on the long-term rating on France to stable, as 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. 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.

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, 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 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\$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.

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 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, 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 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). If Zimbabwe were to emerge from arrears in 2016, the inflows from donors to IFFIm would increase from 97.5% to 98.5% of the pledged amounts.

**Table 1**

IFFIm Reference Portfolio
<b>0.5% countries</b>
Sudan, South Sudan
<b>1% countries</b>
Afghanistan, Angola, Armenia, Azerbaijan, 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
<b>3% countries</b>
Vietnam
<b>5% countries</b>
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 53 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, 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

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 due 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%, and will remain at this level until another country goes into or emerges from protracted arrears with the IMF.

In 2014, 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 14.9% from 14.5% as upgrades in the recipient portfolio more than offset the downgrades of some of the donor countries. This resulted in a fair-value gain on pledges of US\$56 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 programs 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.

Standard & Poor's expects 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 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.

On a cumulative basis, since IFFIm's inception, investment income has covered administrative expenses, although the lower interest rates have meant that this was not the case in 2013 and in 2014.

## **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 US 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 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, as long as IFFIm's policy importance is maintained for its donor countries.

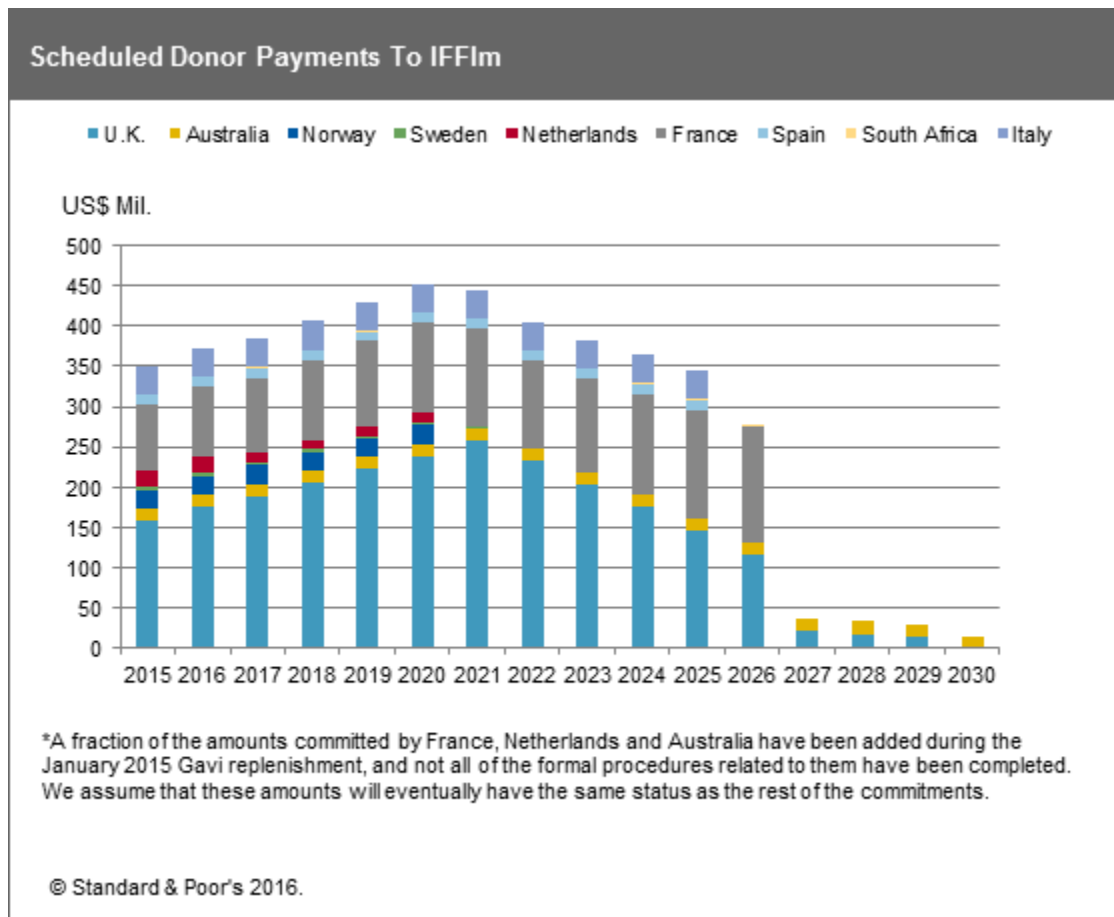


The replenishment of Gavi in 2015 led to a number of new pledges for IFFIm; less than 4% of the overall pledges were made through IFFIm, and only three countries contributed, which was somewhat below our expectations. Individual countries are driven by various budgetary planning considerations in splitting 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 negative 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 year-end 2015 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.

Chart 1 shows the schedule of contributions from the nine countries that have become grantors, in U.S. dollar equivalents. Although 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.

**Chart 1**



### 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 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
<b>IFFIm-eligible countries that were formerly in protracted arrears to IMF</b>		
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
<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	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

**Table 3**

<b>Countries With Protracted Arrears To The IMF Since 1975 (cont.)</b>		
	<b>Start of arrears</b>	<b>Emergence from arrears</b>
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. 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. Therefore, as noted above, the elimination of Liberia's arrears in March 2008 and the split of Sudan lowered the current reduction in payments due to 2.5%.

## Funding

Under its operational model, IFFIm issues a variety of debt instruments against future sovereign pledges. As IFFIm is borrowing against future sovereign pledges, it issues in a variety of currencies to reduce hedging costs.

IFFIm's most recent debt issues were two Sharia-compliant Sukuk 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. We note that 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, as it includes both traditional sovereign, supranational, and agency investors and Islamic finance market participants.

## IFFIm Gearing Ratio Limit

IBRD's principal tool for ensuring that IFFIm can meet its financial obligations over the longer term is the IFFIm's 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 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 gearing ratio limit is close to being reached, program disbursements can be delayed to bring the ratio back to an optimal level.

In estimating 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 countries' arrears to the IMF. It also incorporates assumptions about defaults on the part of grantor countries.

In 2013, IBRD introduced an additional risk management buffer of 12% in this calculation, due to its large uncollateralized swap exposure to IFFIm. Under this formula, IFFIm's maximum gearing ratio is currently set at 58%. The actual gearing ratio has been significantly below this limit--at about 40% for the past five years, and 34% as of year-end 2015--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						
(%)	2015	2014	2013	2012	2011	2010
Maximum gearing ratio	70	69	69	70	69	70
Maximum gearing ratio with risk management buffer	58	57	57	N/A	N/A	N/A
Actual gearing ratio	34	40	45	43	44	41

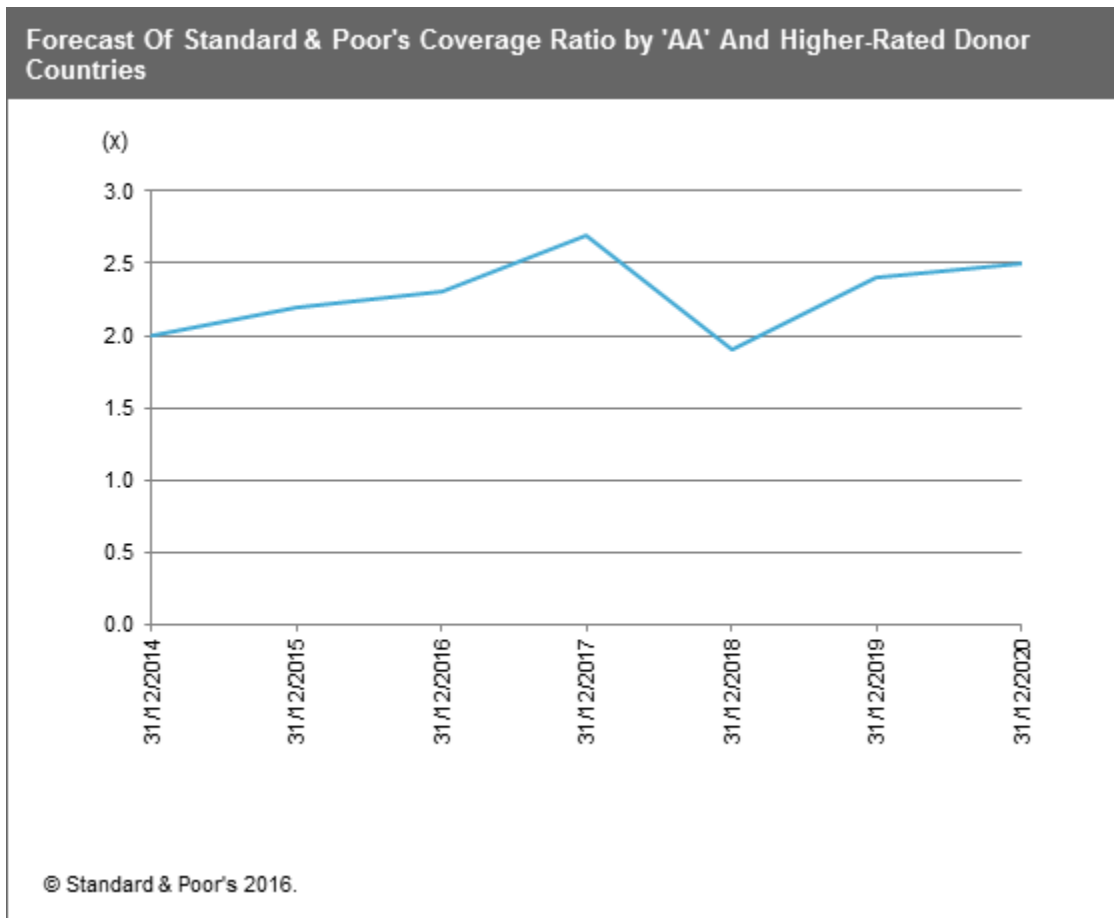
N/A--Not applicable.

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 2.2x as of Dec. 31, 2015, compared with 2.0x as of year-end 2014, as the additional Sukuk issuance in 2015 was more than offset by the additional pledges received during the January 2015 Gavi replenishment (we take them into consideration despite the fact that some formal procedures related to them may not have been completed).

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).

When excluding France, the ratio falls sharply, putting at risk the full coverage of debt payment. Indeed, in a severe stress scenario, in which France would not have the capacity or willingness to pay its pledges to IFFIm, we expect that a number of recipient countries would fall into protracted arrears to the IMF, reducing significantly the payments due to IFFIm.

Chart 2



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 gearing 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 the charitable entity counterpart of shareholders' equity for a commercial entity.

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

**Table 5**

<b>International Finance Facility for Immunisation Balance Sheet</b>					
	<b>--As of Dec. 31 Fiscal Year End--</b>				
Mil. US\$	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>Assets</b>					
Cash held in trust	3.3	0.0	0.5	0.7	2.4
Funds held in trust	1,011.7	1,024.8	546.6	851.0	1,565.3
Prepayments	0.1	0.1	0.3	0.3	0.4
Derivative financial instruments due within one year	1.7	55.5	17.5	171.8	46.9
Sovereign pledges due within one year	260.4	260.0	235.1	211.3	163.6
Current assets	1,277.4	1,340.4	800.2	1,235.0	1,778.7
Sovereign pledges due after more than one year	2,892.3	3,102.0	3,327.1	3,192.7	3,008.0
Derivative financial instruments due after more than one year	0.8	0.2	115.7	97.3	413.8
Total assets	4,170.5	4,442.7	4,242.9	4,525.0	5,200.5
<b>Liabilities</b>					
Grants payable to GAVI Fund Affiliate	0.0	150.0	200.0	417.1	517.1
Creditors falling due within one year	423.6	725.6	420.6	766.6	1,079.9
Derivative financial instruments due within one year	81.2	105.3	24.5	2.0	0.7
Current liabilities	504.8	980.9	645.1	1,185.7	1,597.7
Creditors falling due after more than one year	1,977.5	1,800.2	2,046.3	1,809.1	2,330.0
Derivative financial instruments due after more than one year	1,007.7	1,089.0	1,121.3	753.8	319.6
Total liabilities	3,490.1	3,870.0	3,812.7	3,748.5	4,247.3
Net assets	680.4	572.6	430.2	776.5	953.2
<b>Memo item</b>					
Net current assets	772.6	359.6	155.1	49.3	181.0

**Table 6**

<b>Income and Expenditure Account</b>					
	<b>--As of Dec. 31 Fiscal Year End--</b>				
<b>(Mil. US\$)</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>Revenue</b>					
Contribution revenue	-	-	-	144.1	401.6
Donated services	1.1	1.1	1.0	0.8	0.8
Investment and interest income	3.0	3.8	6.3	9.5	6.0
Total revenue	4.1	4.8	7.3	154.4	408.4

Table 6

Income and Expenditure Account (cont.)					
--As of Dec. 31 Fiscal Year End--					
(Mil. US\$)	2014	2013	2012	2011	2010
<b>Expenses</b>					
Program grants to GAVI Fund Affiliate	-	-	(390.0)	(200.0)	(400.0)
Treasury manager's fees	(2.3)	(2.3)	(2.4)	(2.6)	(2.2)
Governance costs	(2.8)	(2.7)	(3.0)	(2.7)	(2.9)
Financing income (expenses) on bonds and bond swaps	(11.3)	(6.6)	(12.0)	7.6	0.2
Other net financing income (expenses)	120.1	149.0	54.0	(133.4)	12.4
Total expenses	103.7	137.5	(353.4)	(331.1)	(392.6)
Surplus (deficit) for the year	107.8	142.3	(346.2)	(176.7)	15.8
<b>Memo item</b>					
Payments received from donors	295.0	267.2	251.5	201.6	184.7

## Related Criteria And Research

### Related Criteria

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

### Related Research

- Supranationals Special Edition 2015, Oct. 8, 2015

## Ratings Detail (As Of April 8, 2016)

### 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+

06-Dec-2011

AAA/Watch Neg/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. 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. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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