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International Finance Facility for Immunisation

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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 conditional on poor countries avoiding protracted arrears to the International Monetary Fund (IMF).

Rationale

The rating reflects our view of potential downside risks that could weigh on the capacity and willingness of donor governments to honor their pledges to International Finance Facility for Immunisation (IFFIm). On Oct. 10, 2014, we revised to negative the outlook on France, IFFIm's second-largest donor government, which represents more than one-quarter of IFFIm's total expected future cash receipts.

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, the Vaccine Alliance, a public-private partnership whose members include the World Health Organization, the U.N. Children's Fund, International Bank for Reconstruction and Development (IBRD, commonly referred to as the World Bank), the Bill and Melinda Gates Foundation, governments of both developing and industrialized countries, research and health institutes, vaccine producers, and civil society organizations.

IFFIm could play a significant role in the fight against the ebola epidemic--and thereby reinforce its role--if manufacturers manage to develop an approved vaccine and IFFIm emerges as the vehicle of choice to finance its distribution to poor countries. Also, in January 2015 we expect donors to announce their potential commitments to Gavi and IFFIm for 2016-2020 during the second replenishment of the program. We anticipate the bulk of the contributions for the second replenishment will come from existing donors.

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. Although we believe donor governments' willingness to support IFFIm will remain strong, the outcome of the Gavi replenishment early next year could inform our view on the ongoing policy importance of IFFIm, positively or negatively. In addition, general elections are to be held in 2015 in the U.K. The rise of UKIP, a right-wing populist party that advocates a dramatic reduction in foreign aid, might affect the support of IFFIm's largest contributor as mainstream political parties risk catering to populism.

IFFIm has been an important source of funding for Gavi since 2006. During 2006-2013, it provided 39% of Gavi contributions. By raising debt against future Official Development Assistance (ODA) 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 throughout the life of its borrowing program, extending 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 close to 27% of pledges. Other highly rated contributors include Australia (slightly less than 5% of the ODA yet to be received), Norway (3%), The Netherlands (2%), and Sweden (1%). 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, were to 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 would 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. This coverage ratio slightly improved to 1.3x as of Dec. 31, 2014, compared with 1.2x as of year-end 2013, due to US$835 million debt maturing in 2014, partially offset by the issuance of a US$500 million three-year sukuk issuance on Nov. 27, 2014. If we assume that IFFIm will increase its gearing over the next six years to the limit agreed with the IBRD, our coverage ratio decreases to 1.2x by 2020. Our coverage ratio includes only pledges from contributors rated at the level of IFFIm or above (that is, currently rated 'AA' or above). Excluding France, we expect the ratio to fall below 1x as of year-end 2014. A ratio below 1x indicates a shortfall of highly rated pledges under our severe economic stress scenario (see appendices to our criteria "Understanding Standard & Poor's Rating Definitions," June 3, 2009, for examples and specifications of a severe 'AA' stress scenario). Under this scenario, we estimate that a portion of countries included in the IFFIm reference portfolio would enter in protracted arrears with the IMF, and IFFIm's sovereign pledge receivables would therefore decrease accordingly.

IFFIm's board of directors has established its own limit for maximum gearing using different assumptions. IBRD calculates this ratio for the board at least quarterly. In 2013, IBRD introduced an additional risk management buffer in this calculation, due to its large uncollateralized swap exposure to IFFIm. The gearing ratio limit is 69%; after deducting the 12 percentage point risk management buffer, IFFIm's maximum leverage ratio reaches 57%. The actual gearing ratio has been significantly below this limit--at about 40%--for the past five years, but we expect IFFIm to gradually increase leverage toward that limit by 2020.

Although IFFIm has previously experienced payment delays from several contributors, all payments had been received in full for calendar year 2014. Delays of more than a few days have generally arisen from donors rated lower than IFFIm. We consider that the rare delays from highly rated countries were administrative in nature and did not reflect 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, the management can stop disbursements if the 12 months' debt service is not covered. IBRD recalculates and resets this limit quarterly. At Dec. 31, 2013, cash and funds held in trust totaled $1,025 million.

Outlook

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

We could stabilize the ratings if risk-adjusted gearing were commensurate with the rating level. This could occur, for example, if we were to revise the outlook on the long-term rating on France to stable. We could also stabilize the ratings on IFFIm if we assessed its policy importance as having been reinforced, for example, following a successful second replenishment in which a large proportion of Gavi pledges were made to IFFIm.

We could lower the ratings on IFFIm if highly rated contributors were to reduce their support (for example, by falling into arrears on donor grants); if substantially more grant-recipient governments go into protracted arrears to the IMF; if IFFIm experiences funding pressure; or if we were to lower the sovereign credit ratings on France. The latter would imply our risk-adjusted coverage ratio falling below the threshold required to maintain the rating at the current level in our stress scenarios.

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 Gavi, the Vaccine 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 five directors and the institution could improve gender diversity within the board. Sean Carney, one of the board members, retired last year. Marcus Fedder replaced him as audit committee chair. On Feb. 24, 2012, René Karsenti took over as new board chair of IFFIm. Dr. Karsenti brings a wealth of banking experience from both the private sector and multilateral lending institutions such as the European Investment Bank, the European Bank for Reconstruction and Development and the World Bank Group. The tasks of the board are essentially to review and approve requests for funding submitted by Gavi. When considering whether to approve requests for funding, IFFIm takes into account the following factors:

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

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

International Finance Facility for Immunisation Sukuk Company Ltd.(IFFIm sukuk company)

The new vehicle IFFIm Sukuk Company was created to issue the sukuk at year-end 2014, with IFFIm as an obligor.

Gavi Fund Affiliate

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

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

Gavi, the Vaccine Alliance

Gavi is a public-private partnership created in 2000 in response to and to combat declining rates of immunization in developing countries. A secretariat based in Geneva coordinates Gavi's activities. The Gates Foundation has made several commitments to Gavi, totaling US$2.5 billion. In addition, 19 countries, including the six founding countries--the U.S., 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. In January 2015, we expect donors to announce their potential commitments to Gavi and IFFIm for 2016-2020 during the second replenishment of the program. We anticipate the bulk of the contributions for the second replenishment will come from existing donors. Of the total US$16.2 billion committed by all donors as of Sept. 30, 2013, US$8.4 billion has already been contributed to Gavi, whereas the remaining pledges extend up to 2032.

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 capital 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. The current list of countries, and associated weights, is shown in table 1.

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$1,570, 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 as 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 Repulic 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, Niger, Nigeria, Pakistan, Rwanda, Sao Tome & Principe, Senegal, Sierra Leone, Solomon Islands, Somalia, Sudan, South Sudan, Tajikistan, Tanzania, Togo, Uganda, Vietnam, Yemen, Zambia, and Zimbabwe
*GAVI does not use funds generated by IFFIm to support this country's immunization programmes.

The percentage of each installment of grantors' pledges is reduced by an amount based on how many countries, in which weight groups, have protracted arrears on any of their obligations to the IMF 25 business days before the date payment is due. 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, 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 IMF.

In 2013, the fair-value adjustment for 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 15.6%, as Laos doesn't have any more exposure to the IMF. This resulted in a fair-value gain on pledges of US$68 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 is not rated 'AAA' by two of the three major international rating agencies.

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

In addition, if 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 management of the institution 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 to date.

Grant receivables relative to financial liabilities

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

Defaults on grant obligations are unlikely

IFFIm's sources of financing to repay borrowings are the grants that grantor countries have committed to make (through Gavi) to IFFIm, the income earned by borrowings before they are disbursed, and new borrowings. Although 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.

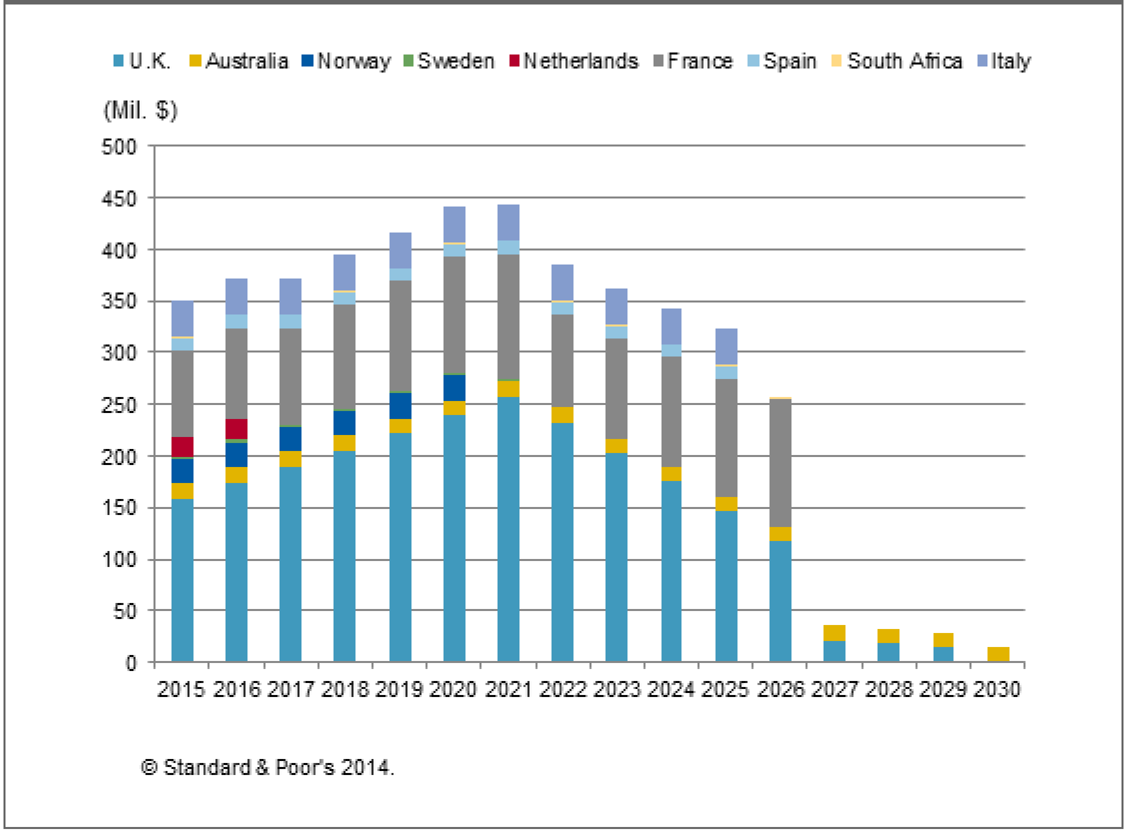
In January 2015, donors will proceed to the second replenishment of the institution and we anticipate the bulk of contributions will come from existing countries. Although we believe donor governments' willingness to support IFFIm will remain strong, the outcome of the Gavi replenishment early next year could inform our view on the ongoing policy importance of IFFIm, positively or negatively.

In addition, though IFFIm has experienced payment delays to pledges from several donors, all payments for calendar year 2014 have been made in full and on time. Some previous delays have lasted for more than five days, which is our definition of default on long-term debt (see "Methodology: Timeliness Of Payments: Grace Periods, Guarantees, And Use Of 'D' And 'SD' Ratings", published on Oct. 24, 2013, on RatingsDirect). However, such significant delays have arisen principally from donors we rate lower than IFFIm. Where the governments that we rate at the same level or higher than IFFIm have made late donor payments, these have been short and infrequent. We consider the 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

International Finance Facility for Immunisation: Scheduled Donor Payments To IFFIm



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
IFFIm-eligible countries that were formerly in protracted arrears to IMF			
Cambodia	11/12/1992	Mar-75	Oct-93
Nicaragua	05/31/1984	Feb-83	Apr-85
Guyana	05/21/1990	Apr-83	Jun-90
Chad	10/11/1984	Jan-84	Nov-84
Vietnam*	03/29/1991	Feb-84	Oct-93
Sierra Leone	09/02/1986	Nov-84	Sep-86
Liberia		Dec-84	Mar-08

Table 3

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

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

Protracted arrears to the IMF have dropped in recent years. Since 1995, when Afghanistan went into protracted arrears (from which it emerged in 2003), only one country has gone into protracted arrears--Zimbabwe in 2001. Thus, as noted above, the elimination of Liberia's arrears in March 2008 and the split of Sudan lowered the current reduction in the payment due to 2.5%.

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

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

IFFIm Gearing Ratio Limit

IBRD's principal tool for ensuring that IFFIm can meet its financial obligations over the longer term is the IFFIm gearing ratio limit. This limit, established by IFFIm's board of directors based on the recommendation of IBRD, is the maximum amount of IFFIm's outstanding bonds net of liquid asset holdings 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 calculating the net present value of scheduled payments from grantors, IBRD has developed a model that projects expected protracted arrears to the IMF by IFFIm-eligible countries based on the history of all countries' arrears to the IMF. It also incorporates assumptions about defaults on the part of grantor countries.

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 leverage ratio is currently set at 57%. The actual gearing ratio has been significantly below this limit--at about 40% for the past five years--but we expect IFFIm to gradually increase leverage toward that limit by 2020.

Table 4

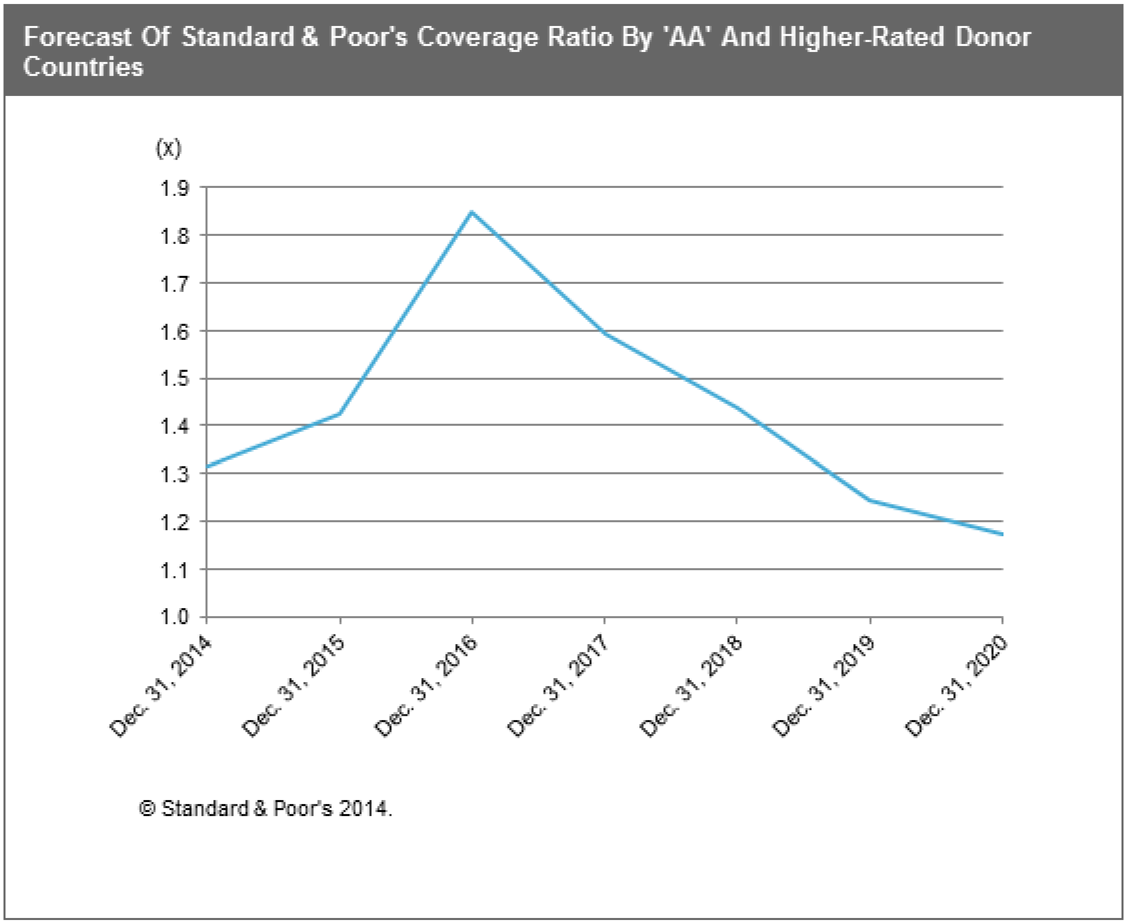
IFFIm Maximum And Actual Gearing Ratios

(%)	Oct. 2014	2013	2012	2011	2010	2009
Maximum gearing ratio	70	69	70	69	70	67
Maximum leverage ratio with risk management buffer	58	57	N/A	N/A	N/A	N/A
Actual gearing ratio	40	45	43	44	41	41

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. This coverage ratio slightly improved to 1.3x as of Dec. 31, 2014, compared with 1.2x as of year-end 2013, because US$835 million of debt matured in 2014, partially offset by the issuance of a US$500 million three-year sukuk on Nov. 27, 2014.

We assume that IFFIm will increase its gearing in the coming six years to reach a limit agreed with the IBRD; our coverage ratio decreases to 1.2x by 2020. 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, we expect the ratio to fall below 1x as of year-end 2014. A ratio below 1x indicates a shortfall of highly rated pledges under our severe economic stress scenario (see appendices to our criteria "Understanding Standard & Poor's Rating Definitions," published on June 3, 2009, for examples and specifications of a severe 'AA' stress scenario). Under this scenario, we estimate that a portion of countries included in the IFFIm reference portfolio would enter in protracted arrears with the IMF, and IFFIm's sovereign pledge receivables would therefore decrease accordingly.

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.

Financial Statements

IFFIm is a charitable company incorporated in the U.K., and its financial statements are audited by KPMG in the U.K. according to U.K. generally accepted accounting principles (U.K. GAAP). However, because IFFIm's purpose is to fund Gavi's activities, which are conducted predominantly in U.S. dollars, it uses the U.S. dollar as its functional and reporting currency, translating British pounds, euros, Swedish kronor, Norwegian kroner, and Australian dollars into U.S. dollars.

IFFIm's financial assets and liabilities--which constitute the whole of its balance sheet--are carried at fair value. Because IFFIm's assets consist entirely of grants that are to be paid over many years, IFFIm's balance sheet and income statement are very different from those of more-conventional multilateral lending institutions, and somewhat opaque. Notably, net assets are the difference between assets and liabilities, the charitable entity counterpart of shareholders' equity for a commercial entity.

Table 5

International Finance Facility for Immunisation Balance Sheet

	--As of Dec. 31 Fiscal Year End--				
(Mil. US$)	**2013**	**2012**	**2011**	**2010**	**2009**
Assets					
Cash held in trust	0.0	0.5	0.7	2.4	0.8
Funds held in trust	1,024.8	546.6	851.0	1,565.3	1,082.3
Prepayments	0.1	0.3	0.3	0.4	0.4
Derivative financial instruments	55.7	133.2	269.1	460.7	326.6
Sovereign pledges due within one year	260.0	235.1	211.3	163.6	150.4
Current assets	1,340.7	915.9	1,332.3	2,192.5	1,560.5
Sovereign pledges due after more than one year	3,102.0	3,327.1	3,192.7	3,008.0	2,731.7
Total assets	4,442.7	4,242.9	4,525.0	5,200.5	4,292.2
Liabilities					
Grants payable to GAVI Fund Affiliate	150.0	200.0	417.1	517.1	437.1
Creditors falling due within one year	725.6	420.6	766.6	1,079.9	267.5
Derivative financial instruments	1,194.2	1,145.8	755.8	320.3	305.0
Current liabilities*	2,069.8	1,766.4	1,939.4	1,917.3	1,009.6
Creditors falling due after more than one year	1,800.2	2,046.3	1,809.1	2,330.0	2,345.3
Total liabilities	3,870.0	3,812.7	3,748.5	4,247.3	3,354.9
Net assets	572.6	430.2	776.5	953.2	937.3
Memo item					
Net current assets	(729.2)	(850.5)	(607.1)	275.2	550.9

*Current liabilities include total derivative financial instruments, regardless of maturity.

Table 6

Income And Expenditure Account

	--As of Dec. 31 Fiscal Year End--				
(Mil. US$)	**2013**	**2012**	**2011**	**2010**	**2009**
Revenue					
Contribution revenue	-	-	144.1	401.6	87.1
Donated services	1.1	1.0	0.8	0.8	0.8
Investment and interest income	3.8	6.3	9.5	6.0	10.8
Total revenue	4.8	7.3	154.4	408.4	98.8
Expenses					
Program grants to GAVI Fund Affiliate	-	(390.0)	(200.0)	(400.0)	(620.5)
Treasury manager's fees	(2.3)	(2.4)	(2.6)	(2.2)	(2.0)
Governance costs	(2.7)	3.0	(2.7)	(2.9)	(3.0)
Financing income (expenses) on bonds and bond swaps	(6.6)	(12.0)	7.6	0.2	(30.4)
Other net financing income (expenses)	149.0	54	(133.4)	12.4	(18.9)
Total expenses	137.5	(347.4)	(331.1)	(392.6)	(674.7)

Table 6

Income And Expenditure Account (cont.)					
Surplus (deficit) for the year	142.3	(346.2)	(176.7)	15.8	(575.9)
Memo item					
Payments received from donors	267.2	251.5	201.6	184.7	165.7

Related Criteria And Research

Related Criteria

- Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology, Nov. 26, 2012
- Understanding Standard & Poor's Rating Definitions, June 3, 2009

Related Research

- International Finance Facility for Immunisation Long-Term Rating Lowered to 'AA' On France Downgrade; Outlook Stable, Nov. 8, 2013
- France Outlook Revised to Negative; 'AA/A-1+' Ratings Affirmed, Oct. 10, 2014
- Supranationals Special Edition 2014, Oct. 8, 2014

Ratings Detail (As Of December 23, 2014)		
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+
03-Nov-2010		AAA/Stable/A-1+
08-Nov-2013	*Local Currency*	NR/--/NR
17-Jan-2012		AA+/Negative/A-1+
06-Dec-2011		AAA/Watch Neg/A-1+
03-Nov-2010		AAA/Stable/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.

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