

ISSUER IN-DEPTH

10 August 2017

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RATINGS

IFFIm	
	Rating
Senior Unsecured	Aa1/STA
Long-Term Issuer Rating	Aa1/STA
Other Short Term	P-1

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International Finance Facility for Immunisation – Aa1 Stable

Annual credit analysis

Overview and outlook

The International Finance Facility for Immunisation's (IFFIm) [Aa1 rating](#) reflects strong member support because of commitment from donor governments for funds through 2030, high liquidity and the involvement of the World Bank (IBRD) as treasury manager. IFFIm provides funding for immunization programs in the world's poorest countries. The programs are carried out by Gavi, the Vaccine Alliance. IFFIm issues bonds to finance Gavi programs, and donor payments are used to repay the bonds. As its revenue structure is reliant on the receipt of donors' pledges, IFFIm's rating is closely linked to the creditworthiness of its sovereign donors.

Given that IFFIm lacks paid-in capital and does not make loans, it does not face the same credit risks as multilateral development banks. The main factors driving IFFIm's creditworthiness are the high levels of support and commitment it receives from its donors. The IBRD's role as treasury manager and the policies it implements add institutional strength to IFFIm's credit profile, and ensure appropriate levels of liquidity to cover debt service requirements.

Positive ratings momentum for IFFIm would emerge if the creditworthiness of its largest donors, the UK and France, were to improve. A significant decrease in the concentration of sovereign donors' pledges would also be credit positive. A material deterioration in the creditworthiness of its donors could lead to downward pressure on IFFIm's rating, particularly if the deterioration led to a downgrade of the UK and/or France by more than one notch. A weakening of the gearing ratio limit mandate or a change in treasury manager, neither of which we consider likely, would also be credit negative.

This credit analysis elaborates on IFFIm's credit profile in terms of capital adequacy, liquidity and strength of member support, which are the three main analytical factors in Moody's [Supranational Rating Methodology](#).

This credit analysis provides an in-depth discussion of credit ratings for IFFIm and should be read in conjunction with Moody's most recent credit opinion and rating information available on [Moody's website](#).

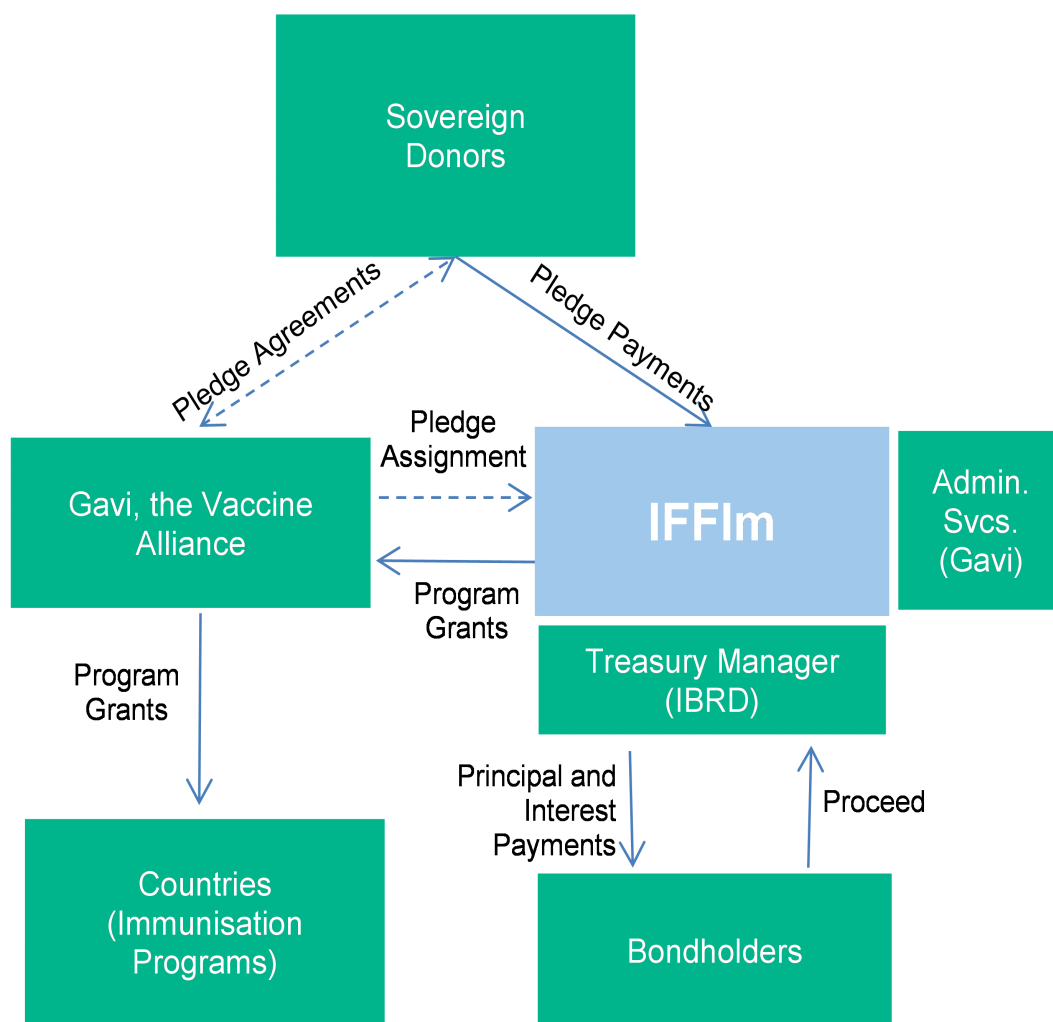
Organizational structure and strategy

IFFIm is a multilateral development institution created in 2006 as a financing tool to accelerate and facilitate funding for immunizations carried out by Gavi, the Vaccine Alliance (Gavi¹), and thereby help the international community achieve the Millennium Development Goals for improved child and maternal health. IFFIm serves as an additional funding vehicle for Gavi-approved programs and does not have any operations other than making grants to Gavi to finance programs in the world's poorest countries². IFFIm has no employees and therefore receives administrative support from Gavi. Moreover, the International Bank for Reconstruction and Development (IBRD), as treasury manager, conducts IFFIm's financial affairs, including risk management. IFFIm is incorporated as a private company, registered as a charity in England and Wales, and is governed by its own board of directors.

Sovereign donors enter into pledge agreements with Gavi, setting a total amount to be paid according to a schedule over a set period. Gavi assigns IFFIm the right to receive the cash as it comes in and IFFIm uses this right to future cash flows to access the international debt markets. The proceeds from IFFIm's bond issues are granted to Gavi-approved immunization programs. IFFIm uses the cash from scheduled donor payments to service debt and cover operating expenses (see Exhibit 1). The repayment of IFFIm's debt has priority over funding for immunizations, and the treasury manager is authorized to delay program funding to repay debt obligations.

Exhibit 1

IFFIm's organizational structure



Source: IFFIm

Rating rationale

Our determination of a supranational's rating is based on three rating factors: capital adequacy, liquidity and strength of member support. For other supranational entities we place more emphasis on the strength of member support such that it drives the preliminary rating range. Capital adequacy and liquidity combine to form the assessment of intrinsic financial strength, which can provide uplift to the preliminary rating range. For more information, please see our [supranational rating methodology](#).

Capital adequacy: not applicable

Factor 1



Capital adequacy assesses the solvency of an institution. The capital adequacy assessment considers the availability of capital to cover assets in light of their inherent credit risks, the degree to which the institution is leveraged and the risk that these assets could result in capital losses.

The absence of capital gives factor 1 zero weighting in the methodology

IFFIm's absence of paid-in capital in its balance sheet, and consequently its dependence on grants from its donors, limits the assessment of the institution's intrinsic financial strength and makes a capital adequacy analysis less relevant to determine its creditworthiness. Additionally, given that IFFIm only provides grants to Gavi, and thus lacks a loan portfolio, it is not exposed to the same sort of credit risk that other supranational entities experience in the form of borrower quality and asset performance.

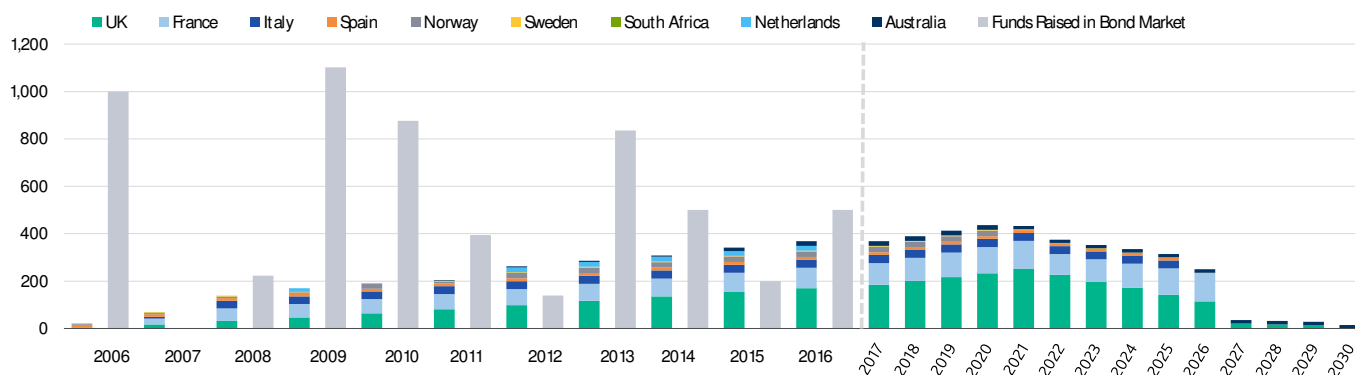
Nonetheless, IFFIm's gearing policy provides a similar point of reference to assess its solvency as the leverage ratio (debt over equity) does for multilateral development banks (MDBs). As such, even though these factors are not incorporated into the scorecard that accompanies the supranational rating methodology, the gearing ratio and limit are important components of our analysis of IFFIm.

Gearing ratio and limit conservatively manage leverage

As a financing vehicle, IFFIm's operations and leverage capability are largely dependent on donors' payments. In order to determine an appropriate level of leverage, IFFIm manages bond issuances against the present value of expected future cash flows from grantor pledges, which allows IFFIm to front-load its debt issuance (see Exhibit 2).

Exhibit 2

Leverage is front-loaded, supported by future cash flows (Donor commitments by year, US\$ mln)



Source: IFFIm, Moody's Investors Service

The residual, which is still available to IFFIm over time, creates a cushion to protect bond holders against adverse credit events, such as a large number of countries entering into protracted arrears with the International Monetary Fund (IMF), a condition that may diminish the total inflow of pledges because falling into protracted arrears with the IMF is a trigger for reduced disbursements from donors.

Conditionality of donors' pledge payments a source of risk in the structure

Under Eurostat accounting rules, if the payment obligations of the donors were unconditional, the total pledge would have to be recognized all at once as a liability on donors' accounts. A high-level financing condition (also referred to as the grant payment condition) was added to ensure that donors are not required to report their entire pledge to Gavi as a liability immediately upon making the pledge. This conditionality does not alter the legally binding nature of the commitments.

The condition is that if any of the 71 countries in the IFFIm reference portfolio were to fall into protracted arrears with the IMF (that is, more than six months), the amount of the donor disbursements to IFFIm would be reduced by a predetermined amount during the time that the country remains in arrears (grant payment condition). If the country becomes current again, the donor payments would resume according to the original schedule. The treasury manager determines the reduction and coordinates the reduced payments from the donors on IFFIm's behalf.

For all but 10 of the countries, the reduction would be 1% of scheduled grants. For South Sudan and Sudan, the reduction would be 0.5%, for Vietnam 3%, and for Bangladesh, Democratic Republic of Congo, Ethiopia, India, Indonesia, Nigeria and Pakistan, it would be 5%. As a result, if enough countries were in arrears to the IMF at the same time, the amount of the payments to IFFIm could in some circumstances be less than the amount needed to service debt, depending on the actual amount of debt that had been issued and the scheduled debt-service payments at the time.

However, IMF arrears are historically low

At present, two countries (Somalia and Sudan) have protracted arrears with the IMF. Since 1975, there has been an average of five of the 71 countries in the IFFIm reference portfolio with protracted arrears at any one time, of which only one (Vietnam in the 1980s and through 1993) would trigger a reduction in payments of more than 1% per country. The highest number of countries in arrears in any single year was 11, in both 1988 and 1989, when Vietnam was one of those countries. Therefore, in those two years, the reduction in donor payments would have been 13% from the committed amounts, had IFFIm existed.

It is notable that the number of countries in arrears dropped considerably from 10 in the 11-year period through 1994, to three from 1994 onwards. Also, none of the countries that would trigger a 5% reduction in payments has ever been in protracted arrears, while the IMF no longer has exposure to Vietnam (3% reduction) and Laos (1% reduction), as of 2012 and 2013, respectively. Going forward, it seems likely that the number of countries going into arrears will remain low, in part because of the debt relief granted in 2005 to more than 30 of the most heavily indebted countries. The global financial crisis of 2008-9 was largely an advanced industrial crisis and, while there was an eventual spillover to the global macroeconomy, the 71 countries in consideration here were relatively financially insulated.

We deem it unlikely that reductions in donors' scheduled payments would occur to the extent that IFFIm's ability to service debt would be jeopardized. Supporting this view is the fact that the treasury manager oversees this risk by monitoring and setting a limit on IFFIm's gearing ratio.

The gearing ratio is defined as total debt net of cash holdings (net debt) over the present value of donor pledges. At end-2016, this ratio was 29.7%, down from 33.5% in 2015. However, the ratio has increased from 20.0% at end-2006, and we expect it to increase over time to closer to the guiding gearing ratio limit (GRL) of around 70% (or slightly more than 58% including the 12% assigned as a risk management buffer), as set by the trustees on the advice of the treasury manager. This is a natural evolution of the ratio as intended by IFFIm's structure, which front-loads bond issuance for immediate immunization impact while the sovereign pledges are paid-in gradually over IFFIm's life. It is important to note that despite the existence of a maximum level, the treasury manager is under no obligation to reach that level.

The IBRD models the risks associated with reductions in donors' scheduled payments, either stemming from recipient countries going into arrears with the IMF or due to delays in disbursement on the pledge contract with IFFIm. The model builds in the risk of either of these reductions and can be adjusted as risks increase, with the ultimate goal of minimizing the potential that a shortfall in cash inflows would prevent the timely payment of debt obligations. It is a solvency model over the remaining life of IFFIm. The treasury manager calibrates the gearing limit model to maintain a Aaa expected loss on IFFIm's bonds.

The limit on the gearing ratio provides a cushion as it keeps the amount of net debt at a level that is below the present value of cash inflows from donors' scheduled pledge payments. This cushion can absorb a significant amount of risk stemming from the grant payment condition, as well as some risk that donors' payments will fall short of the committed amount. However, given the heavy concentration of donors' pledges, we do not believe the GRL is sufficient to de-link IFFIm's creditworthiness from its donors' creditworthiness.

In our view, the strength of the GRL is not only a function of how well the risks are modeled in order to set the limit, but also of (1) the flexibility of the limit to account for increasing risks and, more importantly, (2) the flexibility for the treasury manager to delay grant commitments and disbursements to Gavi in respect of the GRL. If the treasury manager believes that a large number of countries will go into arrears or that donors' finances are facing stress that would hinder their ability to pay-in according to the pledge schedule, it could delay further approvals for Gavi grants until the gearing ratio falls comfortably below the guiding limit. We view this to be a very strong credit enhancement as it can dynamically absorb a significant amount of the risks that IFFIm faces. The institutionalized priority on timely debt servicing plays a large role in IFFIm's Aa1 rating.

Liquidity: Very High

Liquidity policy and IBRD's involvement as treasury manager are important credit enhancements

Factor 2



A financial institution's liquidity is important in determining its shock absorption capacity. We evaluate the extent to which liquid assets cover debt service requirements and the stability of the institution's access to funding.

IFFIm's liquidity is deemed to be "Very High" and reflects a prudent liquidity policy, the role of the IBRD as risk manager of its investment portfolio, as well as our view of high access to financial markets to issue bonds.

Liquidity policy ensures ample coverage of upcoming financial obligations

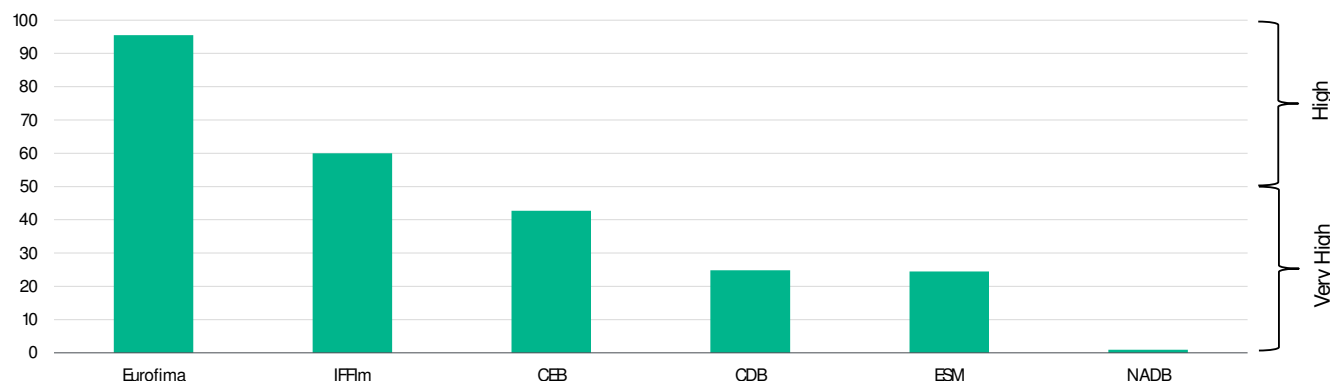
As stated by IFFIm, its liquidity policy aims to ensure an adequate level of liquid assets to meet its operational requirements, provide predictability of program funding, and support its credit rating. To this end, the policy sets a prudential minimum level of liquidity equivalent to IFFIm's cumulative contracted debt-service payments for the next 12 months, in line with the liquidity policies of other highly rated supranationals.

The treasury manager recalculates and resets the prudential minimum once every quarter. We consider this policy to be very strong since it ensures the ability to service debt for one year in the unlikely event that IFFIm loses market access and is unable to roll over existing debt. Relative to other supranationals rated Aa1, IFFIm's debt service coverage compares well (see Exhibit 3), with the adjusted ratio scoring a "High" assessment.

Exhibit 3

Debt service coverage is comparable to Aa1-rated peers

(Short-term and currently maturing long-term debt, % of liquid assets, 3-year average)



Source: Banks' financial statements, Moody's Investors Service

IFFIm has consistently held more liquid assets than the prudential minimum set by the policy. As of year-end 2016, the calculated minimum liquidity was \$568.6 million, significantly below the value of IFFIm's liquid assets, which amounted to \$863 million, about 1.5x the prudential minimum. For the five-year period 2012-16, the actual liquid asset holdings were on average 1.5x greater than the prudential minimum. IFFIm's liquidity policy and the liquidity position demonstrated thus far, are particularly important given that the entity's debt maturity profile tends to be concentrated in the medium term (see Exhibit 4).

Exhibit 4

Maturity of outstanding borrowings

(% of total)

	2012	2013	2014	2015	2016
1 year or less	21%	33%	22%	47%	38%
1-5 years	74%	64%	74%	51%	59%
Over 5 years	5%	3%	4%	2%	3%

Source: IFFIm

World Bank involvement in treasury operations and risk management provides institutional strength

The IBRD carries out IFFIm's financial management function under rules set forth in the Treasury Management Agreement (TMA). As such, there is active management of cash flows, investments and disbursements by a strong institution with a long track record. The TMA is renewed every five years, most recently in 2016.

The IBRD's financial management is very strong, one factor in its own Aaa rating and a strong supporting factor for IFFIm's Aa1 rating. The IBRD's involvement in establishing and managing IFFIm's gearing ratio, liquidity policy and the maturity structure of debt provides confidence that debt repayments will be made on time. The treasury manager has flexibility in delaying commitments and disbursements for programs in order to be within the desired gearing ratio and to maintain liquidity according to the established policy. Furthermore, it has, perhaps more than any other organization, a sense of the credit quality of recipient countries. It will be able, therefore, to adjust IFFIm's financial metrics in advance, in the event of a reduction in donors' scheduled payments, as a result of the grant payment condition, to safeguard IFFIm debt-repayment capacity.

As IFFIm's treasury manager, the IBRD carries out the entity's asset & liability management, namely the management of IFFIm's market risk stemming from foreign-exchange rate and interest-rate risks. Almost all sovereign pledges are denominated in local currency and not US dollars and some outstanding bonds are denominated in other currencies. In addition, interest rate fluctuations can impact the value of sovereign pledges and bonds. To hedge against interest rate and exchange rate risks, IFFIm enters into US dollar floating-rate swaps. Counterparty risk is low, as the swap contracts are with the IBRD.

The treasury manager invests liquid assets on IFFIm's behalf according to the following very conservative guidelines, which are similar to the IBRD's own guidelines, and whose goal is to preserve capital rather than generate earnings:

- » Money market instruments must be issued or guaranteed by financial institutions rated A3 or higher
- » Foreign-currency government and agency obligations must be rated Aa3 or higher
- » Local-currency government obligations carry no rating minimum, but are subject to credit approval on a country by country basis
- » Agency or instrumentality of a government, multilateral organization, or other official entity must be rated Aa3 or higher
- » Asset-backed securities must be rated Aaa
- » Corporate securities must be rated Aaa

Currently, around 52% of IFFIm's liquid assets portfolio is invested in sovereign bonds; about 9% of the total portfolio is invested in emerging market sovereign bonds, with no holdings having a rating below Baa. Regional exposure is fairly diversified, with Europe representing 50% of total sovereign and sovereign-guaranteed exposures, followed by North America (26%) and Asia (24%).

While IFFIm's investment guidelines are the same as the IBRD's own guidelines, its actual investments are even more conservative than the IBRD's. Holdings are even shorter in maturity, with the weighted average maturity of securities holdings being 10 months and the average maturity of deposits being 10 days.

Swap collateral posting creatively managed by setting additional limits on IFFIm's indebtedness

According to the swap agreement between IFFIm and the IBRD, after IFFIm's rating was changed from Aaa to Aa1, the IBRD has the right to call collateral above a threshold. Despite passing the threshold, the IBRD has not called collateral and has committed not to call it if doing so would constrain IFFIm's ability to meet its debt obligations. The IBRD made this commitment in line with its responsibilities as treasury manager to ensure that IFFIm has the funding to fulfill its debt obligations. The commitment was first established for one year from July 2013 through June 2014, in line with the IBRD's fiscal year, and has been renewed through 2017.

The IBRD's commitment not to call collateral comes in tandem with a structural change to the limits of IFFIm's indebtedness. A risk management buffer of 12% has been added to the gearing ratio limit. Neither the inputs nor the parameters of the gearing limit model have changed. The IBRD will run the model in the same manner and set a gearing limit to absorb risks from the two main sources of risk (that is, donor default on commitments and the grant payment condition). The risk management buffer results in an effective gearing ratio limit that is lower than that output by the model. The IBRD has sole discretion to adjust the risk management buffer.

We view this structural change positively as it reduces the overall risk taken on by the structure (that is, a lower leverage level) and enables IFFIm to maintain regular financial operations. Posting collateral would lead to additional funding obligations, which would increase the demands on IFFIm's liquidity position. Since swap transactions are frequently marked to market, the collateral positions can often change, thus requiring more active management of liquidity.

The structural change also displays the non-contractual support that IFFIm receives from the IBRD. The financial and institutional strength of the IBRD allows it to innovate solutions like this, which ultimately benefit IFFIm. A weaker organization or an organization whose own mandate does not align with IFFIm's would be less able or willing to support IFFIm in this manner. This development supports our assessment that having the IBRD as treasury manager is a significant source of credit strength for IFFIm.

Market funding access is high due to diversified investor base

IFFIm's borrowing program can be characterized as modest in size yet diversified. By year-end 2016, total bond issuance since inception amounted to \$5.7 billion with most of that issued in 2006, 2009, 2010, and 2013 (roughly \$1 billion each year). In 2016, bond redemptions were greater than the proceeds from a new bond issuance. The redemption of three bonds amounted to \$755 million, which was partly offset by a \$500 million issuance.

Bonds are issued in four markets: Japan, the UK, Australia and the Eurobond market, as well as global benchmark bonds. In October 2016, IFFIm issued a \$500 million bond in the international US dollar benchmark market, IFFIm's first return to this market since 2013. Also, IFFIm bonds are well received in the deep Uridashi market and the organization has returned to this market repeatedly. To hedge currency and interest-rate risk, all bonds are swapped at issuance into US dollar floating rate.

IFFIm entered the sukuk market with an issuance of a three-year, \$500 million bond in 2014. The bond, maturing on 4 December 2017, was oversubscribed. It attracted new investors with 68% of them coming from the Middle East and Africa. The organization took advantage of its newly established position in the sukuk market by issuing another \$200 million sukuk in September 2015.

Despite having a sovereign donor base that is mainly European, including several euro area members, IFFIm has been able to maintain its very low borrowing rates over recent years. Unlike Europe-based MDBs, IFFIm's borrowing costs were not stressed at the height of the European debt crisis. This can be largely attributed to the reputational benefits of having the IBRD as its treasury manager.

In 2015, IFFIm's second sukuk issuance combined with fair value gains on its other borrowings and redemptions of bonds (total value of \$361 million) decreased bonds payable by \$287 million, resulting in lower financing costs for the entity. IFFIm's borrowing costs are below its donors' composite cost. We view it as unlikely that there will be a dislocation in IFFIm's market access, but the liquidity policy discussed above provides additional protection for bondholders.

Strength of member support: High

Strong donors' ability and willingness to support are counterbalanced by high concentration of pledges

Factor 3

Scale



Contractual support primarily manifests itself in the callable capital pledge, which is a form of emergency support. Extraordinary support is a function of shareholders' ability and willingness to support the institution in ways other than callable capital.

Strength of member support can increase the preliminary rating range determined by combining factors 1 and 2 by as many as three scores.

We assess IFFIm's strength of member support as "High." This score balances the expectation of very high contractual and extraordinary support from its donors against the relatively high concentration of pledges, one of the main sources of risk to IFFIm's creditworthiness.

Given IFFIm's structure and grant operations, our analysis focuses on the likelihood that donor pledges will fall short of what was originally contracted, potentially hampering its ability to service debt. A reduction in the amount paid-in could result from either a donor breaking its contract with Gavi or a substantial number of recipient countries going into arrears with the IMF, thereby causing significant reductions in donor payments via the grant payment condition. We view the likelihood that a donor would break its contract with Gavi to be very low due not only to the legally binding nature of the pledges, but also the very strong commitment of the donors. Incorporated in the assessment of commitment are measures of donors' ability and willingness to honor pledges.

IFFIm's contractual support is based on its donors' pledges

The commitments made by IFFIm's donor governments constitute a legally binding contractual obligation that the entity can employ as backing to issue debt and as a financial resource to service it. The six original donors to IFFIm were the UK, France, Italy, Norway, Spain, and Sweden. Australia, the Netherlands and South Africa also finalized pledges. Since inception, four original donors and two subsequent donors have made additional pledges. In 2011, Brazil pledged the equivalent of \$20 million over 20 years; a grant agreement is pending.

In 2016, Australia finalized a \$37.5 million pledge, and this year IFFIm has received two new sovereign pledges. In May 2017, IFFIm received pledges from the Netherlands and France, in the amount of \$66.7 million and €150 million, respectively.

Exhibit 5 breaks down the \$6.3 billion in total outstanding commitments but does not include the new commitments made by the Netherlands and France. These grant agreements were however signed and finalized in May 2017.

Exhibit 5

Sovereign donors and pledges as of December 2016

	Original Pledge Date	Time Period (Years)	Total Amount (\$ mil)	Share of Total (%)	Share of Remaining Pledges 2017-2030 (%)	Rating* ** as of Aug 02, 2017
United Kingdom	Oct-06 *	23	2,980	47.3	52.6	Aa1/negative
France	Oct-06 *	20	1,720	27.3	27.4	Aa2/stable
Italy	Oct-06 *	20	635	10.1	8.1	Baa2/negative
Norway	Oct-06 *	15	264	4.2	2.5	Aaa/stable
Australia	Jun-11 *	20	283	4.5	5.9	Aaa/stable
Spain	Oct-06	20	240	3.8	2.8	Baa2/stable
Netherlands	Dec-09 *	8	114	1.8	0.0	Aaa/stable
Sweden	Oct-06	15	38	0.6	0.3	Aaa/stable
South Africa	Mar-07	20	20	0.3	0.3	Baa3/negative
			6,295			

* Additional pledge made by UK in August 2010; France in December 2007, January 2015 and May 2017; Italy in November 2011; Norway in August 2010; Australia in January 2015; Netherlands in January 2015, and May 2017

** Government bond rating

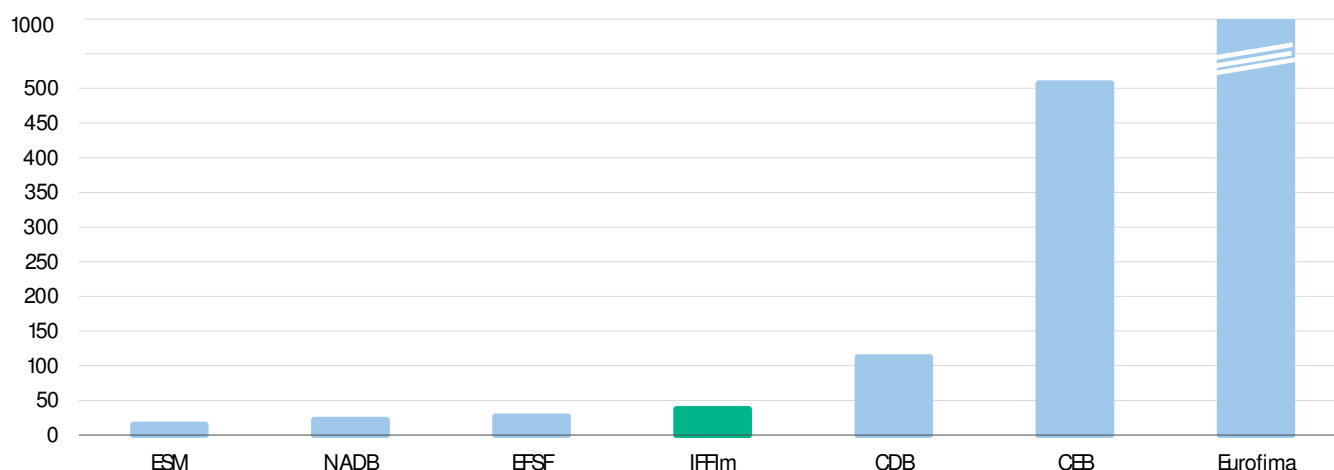
Source: IFFIm, Moody's Investors Service

The sovereign commitments are legally valid, binding and enforceable payment obligations. Given the legal characteristics of these pledges, these contractual obligations can be considered analogous to the callable capital (CC) that most MDBs have. When assessing the strength of a supranational's contractual support we look at the coverage that CC provides over the entity's current stock of debt. In the specific case of IFFIm, we consider the nominal value of the donors' remaining pledges. When comparing this metric with other supranationals rated Aa1, IFFIm scores well since the coverage that the remaining pledges provide exceeds the total gross debt stock (see Exhibit 6).

Exhibit 6

Contractual obligations provide ample coverage of debt

(gross debt over discounted callable/committed capital pledged by members rated Baa3 or higher, %)



Source: Moody's Investors Service

Ability to honor pledges remains very strong despite some donors' recent weakness

The ability of the donors to honor their commitment can be measured using our government bond ratings, which assess the expected loss an investor may face when holding debt obligations issued by the sovereign. As bonds represent contracts that the sovereign enters into and commits to paying cash (interest and principal) on a set schedule, we view the government bond ratings as a good proxy and applicable to IFFIm's case.

The weighted median donor rating is Aa1. Since the UK pledges will account for just under 50% of remaining pledges once the new pledges from France and the Netherlands are finalized, this calculation is largely determined by the UK's government bond rating, which was changed from Aaa to Aa1 in February 2013 and put on a negative outlook in June 2016. In addition, several other donors' creditworthiness experienced negative pressure over the past few years, namely euro area donors and South Africa.

Despite recent weakness, all the donors have investment grade ratings, and several members are very highly rated. This indicates that there is a very high likelihood that IFFIm will receive the pledges as promised from the sovereign donors with no, or minimal, delays or reductions.

In addition, the annual commitment for each donor is small in the context of the government's total budget. For example, the UK government's annual commitment, while varying by year, averages around £90 million, approximately 0.01% of its total annual revenue. Similarly, France's annual commitment to IFFIm represents an extremely small portion of its total annual budget of around 0.01% of revenue. It seems unlikely, given the relative affordability of the annual amounts, that donors will renege on their commitments.

Willingness to honor pledges supported by effectiveness in achieving mandate

With IFFIm, as with all supranationals, we assess the willingness of members to provide support in light of the importance of the institution to the member. Regional multilateral development banks, as enactors of economic public policy, are often of strong economic importance to their sovereign members. This is not the case for IFFIm since Gavi is a charity organization and all immunization programs are located exclusively in non-donor countries. Therefore, the importance to the donors rests on the importance of the charity mandate and IFFIm's ability to help Gavi fulfill that mandate.

Gavi and the financing provided through IFFIm is an integral part of the United Nations' three Millennium Development Goals related to health, targets four, five, and six, which aim to reduce child mortality rates, improve maternal health, and combat HIV/AIDS, malaria and other diseases, respectively. The likelihood that a donor would abandon this goal once they have committed to it is very small, not

just because of the gravity of the goal, but also because of the negative political repercussions stemming from a lawsuit over failure to honor commitments to fund immunization.

In addition, there are no serious questions about IFFIm's role in helping to reach this goal. Independent reviews conducted in recent years and separately commissioned by several different stakeholders spoke positively about IFFIm's effectiveness in accelerating and facilitating funding for Gavi. IFFIm continues to be a very important source of funding for Gavi and expects to disburse over \$1.2 billion to support Gavi programs between 2017 and 2020.

Concentration of pledges is a source of credit weakness

The two largest donors, the UK and France, account for 80% of IFFIm's remaining pledges. This concentration could fall, though only marginally, if new donors make new pledges or current donors make additional pledges.

Overall, however, the concentration, especially the UK's 53% share, is a credit weakness since it exposes IFFIm to a material loss of incoming payments based on the creditworthiness of one donor, whose rating now carries a negative outlook. That said, despite the current negative pressures on the UK's sovereign rating, IFFIm's solvency and liquidity buffers continue to provide significant protection to IFFIm's bondholders. Additionally, in past years even though the UK had already faced increased negative rating pressures, the government continued to display strong ability and willingness to honor its pledges to IFFIm.

Another source of risk due to concentration of donors' pledges that IFFIm faced in recent years came from the potential default correlation that exists among euro area sovereign donors. France, Italy, Spain, and the Netherlands account for 38% of remaining pledges through 2030. During the euro area debt crisis, the close institutional, economic and financial linkages between the major euro area sovereigns, along with the rating downgrades that three of these four sovereigns experienced, implied that under an extreme stress scenario a large portion of IFFIm's remaining pledges could have been at risk.

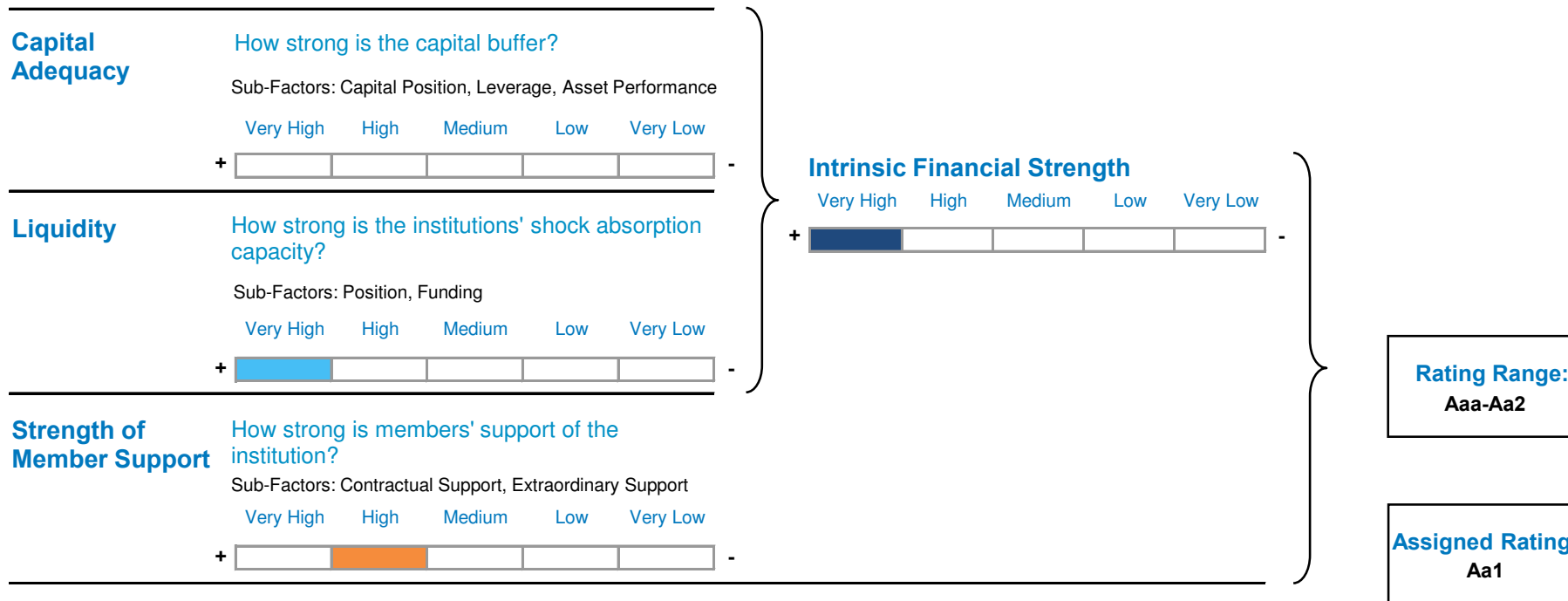
The stabilization in credit trends for Italy, France, the Netherlands and Spain, even if at lower rating levels than a few years ago, mitigates some of the risks seen for IFFIm in past years. Additionally, since 2014, we have reassessed the default correlation for euro area members because: (1) while the credit pressures facing countries of the monetary union share common characteristics, there also exist some idiosyncratic elements that drive the rating trajectories of individual countries and that would imply a lower mutuality of risk than previously assumed; (2) measures put in place since the start of the euro area crisis should improve the authorities' ability to manage contagion within the system, even that arising from the default of a very large euro area member. Taking these factors together – the improvement in and greater stability of donor creditworthiness and the lower default correlation assumption – we believe IFFIm's rating would be less immediately affected were any one of its euro area donors to be downgraded.

Rating range

Combining the scores for individual factors provides an indicative rating range. While the information used to determine the grid mapping is mainly historical, our ratings incorporate expectations around future metrics and risk developments that may differ from the ones implied by the rating range. Thus, the rating process is deliberative and not mechanical, meaning that it depends on peer comparisons and should leave room for exceptional risk factors to be taken into account that may result in an assigned rating outside the indicative rating range. For more information please see our Supranational Rating Methodology.

Exhibit 8

Supranational Rating Metrics: International Finance Facility for Immunisation



Source: Moody's Investors Service

Comparatives

This section compares credit relevant information regarding the International Finance Facility for Immunisation with other supranational entities rated by Moody's Investors Service. It focuses on a comparison with supranationals within the same rating range and shows the relevant credit metrics and factor scores.

As discussed previously, due to its lack of paid-in equity, capital adequacy analysis is of limited applicability for IFFIm. The European Financial Stability Facility, which relies on guarantees from its members to back its debt issuance, is another example of a supranational issuer operating with no paid-in capital. In both cases, intrinsic financial strength assessment is based solely on our liquidity factor score and receives a smaller weight in determination of the preliminary rating range, with member support becoming the primary rating factor.

Our "Very High" assessment of IFFIm's liquidity reflects the institution's ability to obtain debt financing at low cost, as indicated by the narrow spreads of its actively traded bonds. Although lower than those of the European Financial Stability Facility (EFSF), European Stability Mechanism (ESM) and Council of Europe Development Bank (CEB), IFFIm's seven-year average bond-implied rating is in line with the Aa1-Aa3 median and is higher than those of Caribbean Development Bank (CDB) and North American Development Bank (NADB). Conversely, IFFIm's debt service coverage ratio is somewhat weaker than those reported by its peers, which can be partially attributed to its front-loaded debt issuance program.

IFFIm shares the "High" assessment for strength of member support with EFSF, ESM and NADB, with all four institutions benefiting from member pledges that exceed their total debt stock by at least 100%.

Exhibit 9

IFFIm's Key Peers

	Year	IFFIm	EFSF	NADB	CDB	CEB	ESM	Aa Median
Rating/Outlook		Aa1/STA	Aa1/STA	Aa1/STA	Aa1/STA	Aa1/STA	Aa1/STA	--
Total Assets (US\$ million)	2015	3,737	204,634	1,781	1,407	27,342	167,898	5,924
Factor 1		--	--	High	Very High	Very High	Very High	--
Usable Equity/Gross Loans Outstanding + Equity Operations (%) ^[1]	2015	N/A	N/A	42.7	88.3	20.7	128.8	62.7
Debt/Usable Equity (%) ^[1]	2015	--	--	211.7	57.5	719.8	88.2	96.7
Gross NPLs/Gross Loans Outstanding (%) ^[2]	2015	--	0.0	0.0	0.5	0.0	0.0	0.0
Factor 2		Very High	High	High	Very High	Very High	Very High	--
ST Debt + CMLTD/Liquid Assets (%) ^[3]	2015	74.0	N/A	1.0	12.8	33.2	25.7	25.7
Bond-Implied Ratings (Long-Term Average)	2009-2015	Aa3	Aaa	A1	A3	Aa1	Aaa	Aa3
Intrinsic Financial Strength (F1+F2)		Very High	High	High	Very High	Very High	Very High	--
Factor 3		High	High	High	Very High	Medium	High	--
Total Debt/Discounted Callable Capital (%) ^[4]	2015	39.4	27.4	48.3	60.4	496.1	12.6	60.4
Weighted Median Shareholder Rating (Year-End)	2015	Aa1	Aa2	A1	Baa3	A2	Aa2	A1
Rating Range (F1+F2+F3)		Aaa-Aa2	Aa1-Aa3	Aaa-Aa2	Aaa-Aa2	Aaa-Aa2	Aaa-Aa2	--

[1] Usable equity is total shareholder's equity and excludes callable capital

[2] Non performing loans

[3] Short-term debt and currently-maturing long-term debt

[4] Callable capital pledge by members rated Baa3 or higher, discounted by Moody's 30-year expected loss rates associated with ratings.

Source: Moody's, respective MDB financial statements

Rating history

Exhibit 10

International Finance Facility for Immunisation (IFFIm)

	Issuer Rating			Outlook	Date
	Long-term	Short-term	Senior Unsecured		
Outlook Changed	--	--	--	Stable	August-14
Rating Lowered	Aa1	--	Aa1	--	March-13
Outlook Changed	--	--	--	Negative	December-12
Rating Affirmed	Aaa	P-1	Aaa	--	June-12
Rating Assigned	--	P-1	Aaa	--	November-06
Rating and Outlook Assigned	Aaa	--	--	Stable	October-06

Source: Moody's Investors Service

Annual statistics

Exhibit 11

International Finance Facility for Immunisation (IFFIm)

	2010	2011	2012	2013	2014	2015	2016
Balance Sheet, USD Thousands							
Assets							
Cash & Equivalents	2,442	692	549	22	3,349	1,197	81
Securities [1]	1,565,302	850,958	546,648	1,024,771	1,011,747	985,108	863,214
Derivative Assets	460,740	269,107	133,239	55,692	2,494	14,915	10,827
Other Assets [2]	3,172,003	3,404,209	3,562,479	3,362,170	3,152,876	2,735,697	2,355,136
Total Assets	5,200,487	4,524,966	4,242,915	4,442,655	4,170,466	3,736,917	3,229,258
Liabilities							
Bonds	3,408,509	2,573,414	1,959,039	2,168,030	1,892,780	1,605,984	1,381,669
Derivative Liabilities	320,270	755,794	1,145,828	1,194,230	1,088,961	859,903	577,518
Other Liabilities [3]	518,533	419,265	707,741	507,780	508,327	507,776	458,101
Total Liabilities	4,247,312	3,748,473	3,812,608	3,870,040	3,490,068	2,973,663	2,417,288
Net Assets/Restricted Funds	953,175	776,493	430,307	572,615	680,398	763,254	811,970
Memo							
Other borrowings by:							
IFFIm Sukuk Company Limited	0	0	0	0	0	499,000	502,000
IFFIm Sukuk Company II Limited	0	0	0	0	0	199,000	200,000

Notes:

[1] Funds held in trust

[2] Sovereign pledges

[3] Grants payable to Gavi and other liabilities

Source: IFFIm, Moody's Investors Service

International Finance Facility for Immunisation (IFFIm)

	2010	2011	2012	2013	2014	2015	2016
Income Statement, USD Thousands							
Net Interest Income	-126,767	-158,353	-97,665	-73,960	-48,378	-28,570	-9,630
Interest Income	5,670	8,046	6,282	3,752	2,950	4,784	8,224
Interest Expense	132,437	166,399	103,947	77,712	51,328	33,354	17,854
Net Non-Interest Income	554,331	191,198	147,482	224,967	162,524	116,215	112,599
Net Commissions/Fees Income	0	0	0	0	0	0	0
Other Income	554,331	191,198	147,482	224,967	162,524	116,215	112,599
Other Operating Expenses	411,732	209,527	396,003	8,699	6,363	4,789	54,253
Treasury manager's fees and governance costs	5,146	5,318	5,374	4,977	5,111	4,163	4,026
Program grants to GAVI	400,000	200,000	390,000	0	0	0	50,000
Net Income (Loss)	15,832	-176,682	-346,186	142,308	107,783	82,856	48,716

Source: IFFIm, Moody's Investors Service

Exhibit 12

International Finance Facility for Immunisation (IFFIm)

	2010	2011	2012	2013	2014	2015	2016
Financial Ratios							
Liquidity, %							
St Debt + CMLTD / Liquid Assets	68.8	89.8	76.7	70.7	41.7	76.5	61.6
Bond-Implied Rating	Aaa	Aaa	A1	Baa2	Baa2	--	--
Liquid Assets/ Total Debt	46.0	33.1	27.9	47.3	53.5	61.3	62.5
Liquid Assets/ Total Assets	30.1	18.8	12.9	23.1	24.3	26.4	26.7
Liquid Assets/Prudential Minimum (X) [1]	1.6	1.4	1.3	1.3	2.0	1.2	1.5
Other Ratios, %							
Gearing Ratio Limit [2]	70.7	70.2	69.3	69.2	69.3	69.7	69.8
Gearing Ratio (Actual) [3]	40.6	44.0	43.2	44.7	40.0	33.5	29.7
Weighted Median Donor Rating (Year-End)	Aaa	Aaa	Aaa	Aa1	Aa1	Aa1	Aa1

Notes:

[1] IFFIm maintains a prudential minimum level of liquidity equivalent to its cumulative contracted debt service payments for the next twelve months.

[2] Risk Management Buffer is 12%

[3] Net debt as percent of the present value of donor pledges

Source: IFFIm, Moody's Investors Service

Moody's related research

Credit Opinion

- » [International Finance Facility for Immunisation – Aa1 Stable: Regular update](#), 2 August 2017

Rating Methodology:

- » [Multilateral Development Banks and Other Supranational Entities](#), 29 March 2017

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

Related websites and information sources

- » [The IFFIm website](#)

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Endnotes

- [1](#) A charity established in 2000. As a public-private partnership, Gavi's donors are governments, corporations, foundations and private individuals
- [2](#) The world's poorest countries are defined as those with a per capita gross national income (GNI) of less than \$1,580. Gavi currently supports 73 countries, and 47 of those countries are eligible to apply for new immunization programs with Gavi

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