STANDARD & POOR'S

Global Credit Portal®
RatingsDirect®

February 22, 2012

International Finance Facility for Immunisation

Primary Credit Analyst:
Larry Hays, New York (1) 212-438-7347; larry_hays@standardandpoors.com

Secondary Contact:
Nikola G Swann, Toronto (1) 416-507-2582; nikola_swann@standardandpoors.com

Table Of Contents

Major Rating Factors

Rationale

Outlook

Mandate

Organization And Related Entities

Grant Payment Condition

Financing

IFFIm Gearing Ratio Limit

Financial Statements

Balance Sheet

Income And Expenditure Statement

International Finance Facility for Immunisation

Major Rating Factors

Issuer Credit Rating
AA+/Negative/A-1+

Strengths:

- Highly rated grantor countries.
- Politically compelling mandate.
- Conservative financial policies.
- Highly professional financial management.

Weaknesses:

- Link to the creditworthiness of the organization's largest grantor countries.
- Reliance on the willingness and ability of grantor countries to meet their obligations over the life of the program.
- Reliance on poor countries avoiding protracted arrears to the International Monetary Fund (IMF; not rated).

Rationale

The ratings on the International Finance Facility for Immunisation (IFFIm) reflect the commitment of its generally highly rated grantor countries to its compelling mandate of supporting child immunization programs in the poorest of the world's developing countries.

IFFIm is a multilateral development institution established as a registered charity in the U.K. in 2006. Its purpose is to accelerate the funding of the immunization and vaccine procurement programs of the GAVI Alliance (GAVI), a public-private partnership. GAVI's members include the World Health Organization (WHO); the U.N. Children's Fund (UNICEF); the International Bank for Reconstruction and Development (IBRD; AAA/Stable/A-1+), 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. More than 50 of the world's poorest countries are currently eligible to receive funds raised by IFFIm.

IFFIm operates by issuing bonds on the basis of commitments by sovereign governments to provide annual grants over a number of years. Australia's (AAA/Stable/A-1+) commitment, for example, extends through 2030. IFFIm then disburses the proceeds to fund GAVI's programs. This method of operation provides greater funds to GAVI in the near term than would otherwise be possible and enhances GAVI's ability to provide multiyear grants to recipient countries, which is very important.

The initial grantors to IFFIm were the U.K. (AAA/Stable/A-1+), Italy (BBB+/Negative/A-2), France (AA+/Negative/A-1+), Spain (A/Negative/A-1), Sweden (AAA/Stable/A-1+), and Norway (AAA/Stable/A-1+). (All ratings are foreign-currency sovereign credit ratings as of Feb. 22, 2012.) In October 2006, these nations collectively pledged nearly US$4 billion equivalent (as of Oct. 2, 2006, exchange rates), to be paid over as many as 20 years. There have been several additions over the years:

- In 2007, France added €867 million to its initial pledge of €373 million, and South Africa (BBB+/Stable/A-2) pledged US$20 million.
- In 2009, the Netherlands (AAA/Negative/A-1+) pledged €80 million.
- In 2010, the U.K. added £250 million to its initial commitment of £1.38 billion, and Norway added 1.5 billion

Norwegian krone to its initial commitment of US$27 million.

- In 2011, Australia pledged A$250 million, and Italy added €25.5 million to its initial pledge of €473 million.

Together, these pledges total nearly US$6.3 billion. Brazil (BBB/Stable/A-3) has also announced its intention to become a grantor, and IFFIm is soliciting additional pledges.

IFFIm launched its first issue—a five-year, US$1 billion benchmark bond—in October 2006 and repaid it in 2011. It has had a number of additional issues since then:

- US$223 million equivalent in March 2008.
- 10 issues for US$1.102 billion equivalent in 2009.
- Six issues totaling US$849 million equivalent in 2010.
- Four issues for US$395 million equivalent in 2011.

IFFIm's original target was to raise about US$4 billion equivalent (net of refinancing) in the capital markets. However, the actual amount will reflect (among other things) any additional pledges it receives.

There are three principal credit risks for the notes IFFIm issues:

- That grantor countries will not pay their pledges in full and on time. In our view, this risk rises once the funds that IFFIm raised have been spent and donors' grants are used predominantly to service debt. However, mitigating this risk are the relatively high ratings on most of IFFIm's current donor countries, the high political visibility of the use of funds, and the total value of outstanding bonds being limited to only a portion of the net present value of the grants (69.4% as of Sept. 30, 2011, against actual outstandings of 43.8%).
- That IFFIm's treasury manager will fail to ensure that funds are available to make debt-service payments as they come due. The facts that IBRD is acting as IFFIm's treasury manager and that pledges and borrowings are all swapped immediately into U.S. dollars with IBRD as swap counterparty limit this risk.
- That more IFFIm-eligible countries than expected will go into protracted arrears to the IMF. Grantor countries are released from a portion of their scheduled annual payments under their pledges, the amount depending on the extent to which IFFIm-eligible countries are in arrears to IMF for more than six months (protracted arrears). However, it would require an unexpectedly large and sustained increase in IFFIm-eligible countries' protracted arrears to IMF to reduce donor governments' installments by so much that IFFIm could not cover expected interest and principal payments, particularly in the early years of IFFIm's fundraising.

IFFIm's financial strategy calls for it to maintain a 'AAA' rating on its borrowings from two of the three major international rating agencies. Furthermore, under the Finance Framework Agreement among IFFIm, GAVI, the GAVI Fund Affiliate (see the section below on this entity), IBRD, and the sovereign donors, IFFIm is not permitted to approve any new programs if, at such time, its obligations are not rated 'AAA' or the equivalent by two of the three major international rating agencies. Our Jan. 13, 2012, downgrades of grantors France, Italy, and Spain (as well as the revision of the outlook on the Netherlands to negative) prompted us to lower our rating on IFFIm to 'AA+' from 'AAA'. A similar action on IFFIm by either of the other two rating agencies would require amending the Finance Framework Agreement if IFFIm were to continue operating as it has.

Outlook

The outlook is negative to reflect the negative outlook on several of IFFIM's grantor countries, most importantly France. The current long-term rating on IFFIm reflects our expectation that the ratings on major donor countries—particularly the U.K. and France—will remain at current levels and that these countries will continue to meet their commitments to IFFIm. It also reflects our expectation that IBRD will perform its tasks as treasury manager competently and that the protracted arrears to IMF of the countries originally eligible to receive funds raised by IFFIm—especially in the latter years of IFFIm's activities—will not substantially exceed expectations based upon historical experience. If these assumptions are not met, downward pressure on the ratings would build.

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. Unlike most other multilateral development institutions that have wide and varied mandates, 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 Fund Affiliate (GFA), which it in turn assigns to IFFIm (see the section below for a description of GFA). 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 a board consisting of six directors. Its tasks essentially consist of reviewing and approving requests for funding submitted by GFA. 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 Fund Affiliate

GFA was established in May 2006 as a private company incorporated in the U.K. and registered as a U.K. charity. It was created specifically to enter into pledge agreements with IFFIm's grantor countries and subsequently assign them to IFFIm. GFA's board of directors comprises experts in global health, investments, auditing, and accounting. It reviews and approves program funding requests and, when appropriate, makes requests for funding by IFFIm. After IFFIm issues bonds, it disburses the proceeds to GFA, which in turn disburses funds either to recipients or to an account of GAVI.

GAVI

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, including an initial five-year grant of US$750 million to GAVI, supplemented by another grant of US$750 million in 2005 (to be fully paid in by year-end 2014), and a US$1 billion pledge provided in June 2011 for 2011-2015. In addition, six founding countries—the U.S., Netherlands, Norway, the U.K., Sweden, and Denmark—made multiyear pledges totaling more than US$97 million. Some of these countries have made additional pledges. Nine other countries have also made pledges: Canada, France, Australia, Germany, Luxembourg, Japan, Korea, Spain, and Ireland; the European Community. Funds have also come from various other foundations and philanthropists.

GAVI's board of directors consists of 18 directors. Five of them 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.

International Bank for Reconstruction and Development

IBRD, which is the keystone of the World Bank Group, is the oldest and, with 187 member countries, the multilateral development finance institution with the largest number of members. Standard & Poor's rating on IBRD has been 'AAA' since 1959. A major borrower in international financial markets for many years, IBRD has a reputation for sophistication and professionalism in its treasury and related operations.

The tasks outsourced by IFFIm to IBRD include:

- 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 GFA and to make IFFIm's debt service payments as they come due. IBRD also makes sure that IFFIm's borrowing remains within established limits and that new programs will not be financed unless at least two major rating agencies will rate the borrowings 'AAA'. IFFIm reimburses IBRD for the cost of these services.

Grant Payment Condition

Under prevailing 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 GFA) 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 GFA in their budgets in one year.

The conditionality mechanism chosen was based on the payment status with IMF of countries originally eligible for support from IFFIm. Although when IFFIm was set up, 72 countries were eligible for support from GAVI based on their low levels of per capital income, two—Cuba (not rated) and North Korea (not rated)—were (and currently are) not members of IMF and therefore were not eligible for support from IFFIm. The remaining 70 countries constituted a reference portfolio, in which all were placed into one of three country weight groups: 1% (62 countries), 3% (one country), and 5% (seven countries) (see Table 1). IFFIm expects to finance bigger programs in the larger-weight countries. The sum of the weights of the 70 countries equals 100%.

Table 1

Countries Eligible For Support From IFFIm*
1% countries
Afghanistan, Angola, Armenia, Azerbaijan, Benin, Bhutan, Bolivia, Burkina Faso, Burundi, Cambodia, Cameroon, Central African Republic, Chad, Comoros, Congo, Republic of Côte d'Ivoire, Djibouti, Eritrea, 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, Sâo Tomé & Principe, Senegal, Sierra Leone, Solomon Islands, Somalila, Sri Lanka, Sudan, Tajjikstan, Tanzania, Timor-Leste, Togo, Uganda, Ukraine, Uzbekistan, Yemen Republic, Zambia, and Zimbabwe
3% countries
Vietnam
5% countries
Bangladesh, Congo DR, Ethiopia, India, Indonesia, Nigeria, and Pakistan

The percentage of each installment of the pledges grantors have made that must be paid is reduced by an amount based on how many countries in which weight groups have protracted arrears on any of their obligations to IMF 25 business days prior to the date payment is due. So, if four countries, each with a weight of 1%, have protracted arrears to IMF 25 business days before a payment from a grantor is scheduled to be made, that grantor is entitled to reduce the amount of its scheduled contribution by 4% (four countries times 1% per country). Sums not paid by grantors due to the grant payment condition are not required to be made up in the future. Between Oct. 2, 2006,

939000 | 300000798

and March 2008, four countries, each with a 1% weight, were in protracted arrears to IMF—Liberia, Somalia, Sudan, and Zimbabwe, none of which is rated. As a consequence, only 96% of the amounts otherwise due was required to be paid.

In March 2008, IMF announced that Liberia had repaid all of its obligations. Accordingly, the reduction in required installments paid from April 8, 2008, to the date of this report was 3%. It will remain at 3% until another country goes into or emerges from protracted arrears with IMF.

Financing

IFFIm's financial strategy calls for it to maintain a 'AAA' (or equivalent) rating on its borrowings. Furthermore, under the Finance Framework Agreement, IFFIm is 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. In addition, in the event that IBRD determines that the funds it manages for IFFIm are insufficient to meet all of IFFIm's financial obligations, IBRD has the obligation under the Finance Framework Agreement not to comply with a GFA 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 Finance Framework Agreement spells out IBRD's responsibilities as treasury manager, which include ensuring that "at all times IFFIm maintains sufficient available resources... to meet the aggregate amount of disbursements for Approved Programmes... and the other requirements of Clause 6.3." The other requirements include principal repayment and interest payment obligations as well as all of IFFIm's other financial obligations. Standard & Poor's believes that IBRD, as treasury manager, will manage IFFIm's liquidity position well 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, GFA, 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 or fewer months and must be issued or guaranteed by financial institutions with senior debt securities that are rated 'A-' or higher.
- 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.

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, with IBRD being 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 GFA) to IFFIm, the income earned by borrowings before they are disbursed, and new borrowings. Although the payments of these grants are legally binding on grantor countries, these payments remain subject to appropriation risk. And given that the grantors are sovereign countries, the enforceability of such agreements is uncertain. Standard & Poor's does not view non-debt-service obligations of sovereigns as necessarily enjoying 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. Supporting this view are the additional commitments that were made to IFFIm during 2009, 2010, and 2011. Accordingly, Standard & Poor's believes the risk that a grantor country will fail to make its scheduled payments to IFFIm is similar to the risk that it will fail to meet its debt-servicing obligations. To date, grantor governments have met their payment obligations punctually.

Table 2 shows the schedule of contributions from the nine countries that have become grantors. While the pledges vary in 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.

Table 2

Scheduled Donor Payments To IFFIm* (Mil. US$)

	U.K.	Australia	Norway	Sweden	Netherlands	France	Spain	South Africa	Italy	
	AAA/Stable	AAA/Stable	AAA/Stable	AAA/Stable	AAA/Neg	AA+/Neg	A/Neg	BBB+/Stable	BBB+/Neg	Total
2006	0.0	0.0	5.4	0.0	0.0	0.0	12.0	0.0	3.8	21.2
2007	17.6	0.0	5.4	2.5	0.0	25.4	12.0	1.0	7.6	71.6
2008	32.7	0.0	5.4	2.5	0.0	54.9	12.0	1.0	32.8	141.3
2009	48.4	0.0	5.4	2.5	14.3	58.2	12.0	1.0	32.7	174.5
2010	66.2	0.0	21.2	2.5	0.0	61.6	12.0	1.0	32.7	197.3
2011	83.9	0.0	7.9	2.5	0.0	65.3	12.0	1.0	35.0	210.8
2012	101.9	5.1	23.7	2.5	20.0	69.2	12.0	1.0	35.0	270.5
2013	119.9	5.1	23.7	2.5	20.0	73.4	12.0	1.0	35.0	292.8
2014	138.5	5.1	23.7	2.5	20.0	78.1	12.0	1.0	35.0	316.0
2015	157.9	14.9	23.7	2.5	20.0	82.9	12.0	1.0	35.0	350.0
2016	174.5	14.9	23.7	2.5	20.0	88.2	12.0	1.0	35.0	371.9
2017	189.3	14.9	23.7	2.5	0.0	93.7	12.0	1.0	35.0	372.2
2018	205.3	14.9	23.7	2.5	0.0	99.9	12.0	1.0	35.0	394.3
2019	221.8	14.9	23.7	2.5	0.0	106.3	12.0	1.0	35.0	417.4
2020	239.2	14.9	23.7	2.5	0.0	113.3	12.0	1.0	35.0	441.6

Table 2

Scheduled Donor Payments To IFFIm* (Mil. US$) (cont.)										
2021	257.7	14.9	0.0	2.5	0.0	120.8	12.0	1.0	35.0	444.0
2022	232.4	14.9	0.0	0.0	0.0	89.3	12.0	1.0	35.0	384.6
2023	201.9	14.9	0.0	0.0	0.0	96.8	12.0	1.0	35.0	371.7
2024	175.2	14.9	0.0	0.0	0.0	105.0	12.0	1.0	35.0	343.1
2025	145.8	14.9	0.0	0.0	0.0	113.9	12.0	1.0	35.0	322.6
2026	116.9	14.9	0.0	0.0	0.0	123.5	0.0	1.0	0.0	256.2
2027	21.4	14.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	36.3
2028	17.6	14.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	32.4
2029	13.9	14.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	28.8
2030	0.0	14.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	14.9
Total pledged	2,980	256	265	38	114	1,720	240	20	635	6,268
Amounts to be received	2,731	256	214	25	100	1,454	168	15	491	5,451
% total to be received	50.1	4.7	3.9	0.5	1.8	26.7	3.1	0.3	9.0	100.0
Memo items										
% of future scheduled contributions from countries rated 'AAA	61.0									
% of future scheduled contributions from countries whose ratings changed Jan. 13, 2012	38.8									

*US$ equivalents of the pledges using the FX rate on the date the pledges were originally swapped. Ratings are as of Feb. 22, 2012.

Using exchange rates as of Oct. 2, 2006, initial pledges from 'AAA' rated countries accounted for almost 85% of total pledges (Italy was rated 'A+'). Since then, there have been additional pledges from the U.K., France, and Norway, all rated 'AAA' at the time of signing their pledges; and new pledges from the Netherlands and Australia (both rated 'AAA') and South Africa. After lowering our ratings on France and Spain from 'AAA', 61% of future scheduled payments were from grantors that still have 'AAA' ratings.

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 IMF. Twenty-six countries have gone into protracted arrears with IMF since 1975, four of them on two occasions (see Table 3). Nineteen of the countries that have had protracted arrears are IFFIm-eligible countries, and of these, the Democratic Republic of Congo (not rated) has a 5% weight and Vietnam ('BB') has a 3% weight for purposes of the grant payment condition.

Table 3

Countries With Protracted Arrears To The IMF Since 1975

Table 3

Countries With Protracted Arrears To The IMF Since 1975 (cont.)

		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
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 IMF have dropped in recent years. Since 1995, when Afghanistan (not rated) went into protracted arrears (from which it emerged in 2003), only one country has gone into protracted arrears—Zimbabwe in 2001. Thus, over the past 10 years, the average reduction in grant payments from IFFIm grantors would have been just over 4%. And, as noted above, the elimination of Liberia's arrears in March 2008 lowered the current reduction to 3%.

Reasons to expect that the payment performance of IFFIm-eligible borrowers from 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.
- There is greater tendency now 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 advice of IBRD, is the maximum amount of IFFIm's financial obligations (including those related to notes, loans [if IFFIm should access that market], and derivatives) as a percentage of the net present value of scheduled payments from grantors plus amounts potentially owing IFFIm from derivative transactions. IBRD recalculates this limit at least quarterly.

In calculating the net present value of scheduled payments from grantors, IBRD has developed a model that projects expected protracted arrears to IMF by IFFIm-eligible countries based on the history of all countries' arrears to IMF. It also incorporates assumptions about defaults on the part of grantor countries.

As of Oct. 26, 2006, the model suggested that scheduled installments from grantor countries over the life of the facility should be discounted by 17.6%. By contrast, as noted earlier, actual protracted arrears by IFFIm-eligible countries were 4% between October 2006 and March 2008 and 3% since that time, and there have been no defaults by grantors.

Based on IBRD's model, IFFIm's maximum gearing ratio was 70.3% as of Dec. 31, 2006, decreasing gradually to 67.0% as of Dec. 31, 2009, and subsequently increasing to 69.4% as of Sept. 30, 2011. The actual gearing ratio was 20% as of Dec. 31, 2006, increasing to 40.6% as of Dec. 31, 2010, and 43.8% as of Sept. 30, 2011.

Table 4

IFFIm Maximum And Actual Gearing Ratios

			--Dec. 31--				
	9/30/11	06/30/11	2010	2009	2008	2007	2006
Maximum gearing ratio	69.4	69.7	70.7	67.0	66.6	70.9	70.3
Actual gearing ratio	43.8	40.6	40.6	40.9	33.1	35.5	20.0

Accordingly, to date IFFIm has borrowed much less than its internal guidelines would have permitted and has had financial obligations well below the present value of the scheduled contributions from 'AAA' rated grantors. We expect the ratio to rise further over the next few years, approaching the maximum gearing ratio. As that ratio increases, its coverage by scheduled contributions from 'AAA' grantor countries will become increasingly vulnerable to rating downgrades of these countries. In particular, the U.K. accounted for more than 50% of contributions to be received as of year-end 2011 and France another 26.7%. We would likely lower our long-term ratings on IFFIm again if we downgrade France again.

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 ratio of discounted expected receivables to debt-service payments 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.

Balance Sheet

Table 5 shows IFFIm's balance sheet as of Dec. 31, 2010.

Table 5

International Finance Facility for Immunisation Balance Sheet

	--Dec. 31--				
(Mil. US$)	**2010**	**2009**	**2008**	**2007**	**2006**
Assets					
Cash held in trust	2.4	0.8	0.4	0.7	0.5
Funds held in trust	1,565.3	1,082.3	145.4	96.5	498.7
Prepayments	0.4	0.4	0.4	0.5	0.5
Derivative financial instruments	460.7	326.6	40.7	0.0	0.0
Sovereign pledges due within one year	163.6	150.4	130.7	127.0	60.2
Current assets	2,192.5	1,560.5	317.6	224.7	559.9
Sovereign pledges due after more than one year	3,008.0	2,731.7	2,610.5	2,849.8	2,089.1
Total assets	5,200.5	4,292.2	2,928.0	3,074.5	2,648.9
Liabilities					
Grants payable to GAVI Fund Affiliate	517.1	437.1	146.6	94.1	336.3
Creditors falling due within one year	1,079.9	267.5	12.7	109.5	75.5
Derivative financial instruments	320.3	305.0	0.0	0.0	0.0
Current liabilities	1,917.3	1,009.6	159.3	203.7	411.8
Creditors falling due after more than one year	2,330.0	2,345.3	1,255.5	1,043.1	1,007.0
Total liabilities	4,247.3	3,354.9	1,414.8	1,246.7	1,418.8
Net assets	953.2	937.3	1,513.3	1,827.8	1,230.2
Memo item					
Net current assets	275.2	550.9	158.3	21.0	148.1

Assets

IFFIm's assets comprise:

- Cash held in trust. This consists of funds in depository bank accounts that are available within 24 hours.
- Funds held in trust. As noted earlier, these are assets managed for IFFIm by IBRD in its capacity as treasury manager and comingled with those of other parties. These assets include money market instruments; issuances of governments, government agencies, and multilateral organizations; and corporate and asset-backed securities.
- Prepayments. This amount represents the payment of directors' liability insurance premiums, which totaled US$424,000 at year-end 2010.
- IFFIm makes extensive use of derivatives in managing its assets and liabilities. It does not use hedge accounting.
- Sovereign pledges due within one year is the value of pledge installments due to be received within one year.
- Sovereign pledges due after more than one year. The fair value calculation is complicated: Basically, the value of pledges is calculated by discounting the expected grantor installments, adjusted to reflect the grant payment condition, at grantor-specific risk-free interest rates. The increases in 2010 and 2009 reflect the present values of increased and new pledges that exceed payments received during the year and those expected during the next year (which are classified as current).

Liabilities

IFFIm's liabilities consist of:

- Grants payable to GFA. These are funds that are approved for disbursement by IFFIm but that are not yet ready to be disbursed by GFA.
- Creditors falling due within one year. This is an amalgam of items, the principal one at year-end 2010 being the maturing of IFFIm's initial US$1 billion bond issue.
- Liabilities falling due after more than one year consists of IFFIm's bond issues maturing in more than one year.
- Creditors falling due after more than one year.

Net assets

This is the difference between assets and liabilities, the charitable entity counterpart of shareholders' equity for a commercial entity.

Income And Expenditure Statement

Contribution revenue

As is true of its balance sheet, IFFIm's income statement is also very different from those of multilateral lending institutions. The differences were particularly stark during the first two years of IFFIm's existence. For instance, the US$680 million of contribution revenue recognized during 2007 and the US$2.11 billion during 2006 (see Table 5) are much lower than the pledges made during 2007 and 2006, which totaled US$1.296 billion equivalent and US$3.976 billion equivalent, respectively. They are even more different from the cash payments actually received, which were US$73 million equivalent in 2007 and US$20 million equivalent in 2006.

Table 6

IFFIm Income And Expenditure Account					
(Mil. US$)	**2010**	**2009**	**2008**	**2007**	**June 26, 2006 - Dec. 31, 2006**
Income and expenditure account					
Revenue					
Contribution revenue	401.6	87.1	0.0	679.7	2,110.0
Donated services	0.8	0.8	0.2	0.1	1.1
Investment and interest income	6.0	10.8	4.5	16.7	3.6
Total revenue	408.4	98.8	4.7	696.5	2,114.7
Expenses					
Program grants to GAVI Fund Affiliate	(400.0)	(620.5)	(325.1)	(186.1)	(861.1)
Treasury manager's fees	(2.2)	(2.0)	(1.8)	(1.3)	(1.9)
Governance costs	(2.9)	(3.0)	(2.8)	(2.2)	(1.6)
Financing income (expenses) on bonds and bond swaps	0.2	(30.4)	(10.2)	(49.9)	(9.6)
Other net financing income (expenses)	12.4	(18.9)	20.7	140.5	(10.3)
Total expenses	(392.6)	(674.7)	(319.2)	(98.9)	(884.5)
Surplus (deficit) for the year	15.8	(575.9)	(314.5)	597.6	1,230.2
Memo item					
Payments received from donors	184.7	165.7	151.8	72.8	20.3

The large differences between the value of contributions shown in the income statements and the actual payments made by grantors reflect the accounting principle that revenue be recognized when there is certainty of receipt and the amount can be reliably measured. As a result, although contributions from each grantor country are recorded in its own accounts as expenditures only when the cash payments are made, the total amounts pledged (subject to adjustments noted below) are treated as revenue on IFFIm's income statement.

As with the balance sheet, contributions on the income statement are reported at fair values. The US$680 million in contributions on IFFIm's 2007 income statement and the US$2.11 billion on the 2006 income statement were thus the fair values of the US$1.296 billion equivalent and the US$3.976 billion equivalent in pledges made during 2007 and 2006, respectively. These reductions occurred as the result of three adjustments:

- The portions of the pledges scheduled to be paid in were discounted using each grantor country's risk-free interest rate, which reduced the value of 2007 contributions by US$417 million equivalent and 2006 contributions by US$1.169 billion.
- The value of the pledges during 2007 were reduced by US$213 million equivalent (16.3%) as a consequence of the grant payment condition; those during 2006 were reduced by 17.8%. The differences between these reductions and the 4% actual deductions at those dates are booked as a realized gain.
- The sum of realized gains and foreign exchange gains added US$13 million and US$3 million equivalent to 2007 and 2006 contributions, respectively.

The US$401.6 million shown as contribution revenue in 2010 represents the value of the increase in U.K. and Dutch pledges during the year, evaluated as above.

Donated services

In addition to the contribution revenue received from the GAVI Fund Affiliate, IFFIm also received donated administrative services from the GAVI Campaign, a GAVI-related entity, which totaled US$842,000 in 2009.

Investment and interest income

This is the interest income from the funds managed for IFFIm by the IBRD (US$10.8 million equivalent during 2009) and from IFFIm's bank accounts (US$15,000).

Program grants to GFA

These are the funds IFFIm approved for disbursement to GFA during the year.

Treasury manager's fees

These are the fees paid to IBRD for the financial operations and investment management and other services provided to IFFIm.

Governance costs

These are miscellaneous fees related to governance, including legal fees, trustees' indemnity insurance premiums, auditors' fees, trustees meeting and travel expenses, and similar expenses.

Interest expense and financing charges

These are the interest on IFFIm's borrowings and the costs associate with these borrowings.

Net fair value losses on pledges and pledge swaps

IFFIm's board decided from the outset to lock in the present value of grantors' pledges. Accordingly, in its capacity as IFFIm's treasury manager, on Oct. 2, 2006, IBRD swapped the initial pledges into a zero coupon floating U.S. dollar three-month LIBOR basis. However, it swapped only 96% of the pledges, reflecting the 4% grant payment condition discount that prevailed as of that date. The depreciation of the U.S. dollar between Oct. 2, 2006, and Dec. 31, 2006, along with the changes in the interest rates used to discount the receivables and the change in the grant payment condition discount to 17.8% from 17.6%, resulted in an unrealized gain of US$59.6 million on the pledges. Netted against this gain were net fair value losses from the swaps, which totaled US$70.1 million over the same period, resulting in a net loss of US$10 million equivalent. During 2007, unrealized fair value gains on pledges totaled US$135 million equivalent, supplemented by a gain of US$86 million from foreign exchange movements. The sum of these two was offset partially by a fair value loss on pledge swaps. The subsequent net gains and losses have been much more modest.

Net fair value losses on bonds and bond swaps

To match the basis of IFFIm's pledges, IFFIm's fixed-rate bond obligations are swapped at issuance on a back-to-back basis into a U.S. dollar three-month LIBOR basis obligation. The net of the unrealized fair value losses on bonds and net fair value gains on the related swaps was a loss of US$1.5 million during October through Dec. 31, 2006, and a gain of US$83,000 during 2007. The subsequent net gains and losses have been more pronounced.

Memo item: Cash from grantor payments

Because of accounting conventions, IFFIm's actual cash receipts from grantors bear almost no resemblance to contribution revenues.

Ratings Detail (As Of February 22, 2012)	
International Finance Facility for Immunisation	
Issuer Credit Rating	AA+/Negative/A-1+

Ratings Detail (As Of February 22, 2012) (cont.)	
Senior Unsecured (12 Issues)	AA+
Issuer Credit Ratings History	
17-Jan-2012	AA+/Negative/A-1+
06-Dec-2011	AAA/Watch Neg/A-1+
03-Nov-2010	AAA/Stable/A-1+
21-May-2009	AAA/Negative/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.