



Global Credit Research
Rating Action
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Rating Action: Int'l Fin. Facility for Immunisation

Moody's Rates International Finance Facility for Immunisation (P) Aaa

New York, August 30, 2006 -- Moody's Investors Service has assigned a (P) Aaa issuer rating to the newly created International Finance Facility for Immunisation (IFFIm). This rating would apply to future bond issues of IFFIm, although there has been no debt issuance to date. The rating is a provisional rating, according to Moody's, because final documents relating to, among other things, donor grants to IFFIm have not yet been signed. Moody's expects that after the documentation is complete the "Provisional" designation will be removed and the issuer rating will be Aaa with a stable outlook.

The new international organization, which is incorporated as a charity in the United Kingdom, will provide additional funding for the already existing GAVI (Global Alliance for Vaccines and Immunization) Alliance, which brings together public and private resources to fund vaccine supplies and immunization programs in the world's poorest countries.

"IFFIm was created solely to accelerate the availability of funds contributed by a number of governments to GAVI for immunization programs. It will have no other operations," according to Moody's Vice President Steven Hess. Programs funded with IFFIm resources will be targeted at reducing mortality among children less than five years of age. 70 countries with per capita incomes of less than \$1,000 are potentially eligible to receive funding from IFFIm for GAVI- and IFFIm-approved immunization programs.

GAVI will carry out the immunization programs, while the financial operations of IFFIm will be managed by the International Bank for Reconstruction and Development (IBRD, or World Bank), designated as Treasury Manager for IFFIm.

IFFIm's assets will consist principally of legally binding commitments from initially six European governments to contribute funds to IFFIm on agreed dates over the coming 20 years. These contributions will constitute the source of repayment for bonds to be issued by IFFIm. The bond proceeds will be used to fund approved immunization programs.

The six countries initially making commitments are France, Italy, Norway, Spain, Sweden, and the United Kingdom. Other countries may also make pledges, with Brazil and South Africa having stated their intention to do so. Of the initial pledges totaling \$5.2 billion, 80% come from the United Kingdom and France, although a portion of France's pledge has yet to be formally approved. The pledges are in the form of legally binding Grant Agreements to be signed by the governments and the GAVI Fund Affiliate, with the latter in turn assigning the proceeds to IFFIm.

The actual payment amounts from donors will be conditional on whether or not any of the countries eligible for immunization programs is in protracted (more than six months) arrears to the International Monetary Fund (IMF). During any period that one of the countries is in arrears, the payment amounts from the donors will be reduced by 1% for each of 62 countries, 5% for each of seven large countries (Bangladesh, DR Congo, Ethiopia, India, Indonesia, Nigeria, and Pakistan), and 3% for one country, Vietnam. At present, there are four countries in arrears, all of them in the 1% category. Historically, the highest number of countries in arrears at any one time was 11, in both 1988 and 1989.

IFFIm will issue bonds for the purpose of financing approved immunization programs. Timing and maturity of bond issuance will be managed by the Treasury Manager depending on the amount needed for approved immunization programs and market conditions. The cumulative amount of approved programs is limited by an agreed schedule that gradually rises to \$4 billion over 10 years, indicating that the bonds are likely to be issued mainly over that period, although there is no firm timetable.

"Moody's provisional Aaa rating is based on several factors," said Hess. "First, the donor countries are highly rated—five of the six are Aaa—and their commitment to the programs to be financed by IFFIm is strong." A reduction in child mortality is one of the Millennium Development Goals established by governments in 2000.

In addition, the Grant Agreements will be legally binding, and failure to make a scheduled payment could result in any of the donor governments being sued in court by IFFIm.

A second factor supporting the rating is the financial policies to be followed by IFFIm. A maximum gearing ratio will be established that will limit debt issuance in relation to the present value of remaining donor commitments. Although this ratio has not yet been formalized and could vary during IFFIm's life, Moody's believes that a ratio in the neighborhood of 70% would likely provide sufficient protection against the risk of a large number of recipient countries going into protracted arrears with the IMF. This is subject, however, to the Treasury Manager's prudent management of the amount and maturity structure of bond issuance.

Aside from the gearing ratio, IFFIm will also have a liquidity policy that will require a minimum amount of liquid assets to be held at all times. It is proposed that this will be something such as at least enough to cover debt service for one year going forward.

A third and critical factor giving support to the Aaa rating is the appointment of the World Bank as Treasury Manager. IBRD has a strong track record of treasury and risk management, and Moody's believes the analytical and administrative capacity it supplies to IFFIm will help ensure timely servicing of IFFIm's debt and keeping within the established gearing and liquidity policies. In addition, on the risk management side, the World Bank has strong familiarity with the recipient countries and will be in a position to anticipate developments that could cause a large number of countries going into arrears. The Treasury Manager is also charged by IFFIm to withhold disbursements for immunization programs should such disbursements threaten its ability to operate within the gearing or liquidity policies.

Moody's Hess says that there are two main risks to potential IFFIm bondholders. "First, will the donor countries make full and timely payments according to the agreed schedule? There is a risk that a change in government could result in a change in policy toward foreign aid." Moody's believes that in the case of the programs financed by IFFIm, the likelihood of such a change is very low. The rating agency also believes that the governments involved have the capacity to make timely payments according to the agreed schedule. Finally, the legally binding nature of the commitments makes it highly unlikely that they will not be paid.

The other risk, according to Moody's, is that a much larger number of countries than in the past go into protracted arrears with the IMF. According to historical data on arrears to the IMF, this appears unlikely. Moody's again points out that the maximum number of countries in arrears to the IMF at any one time was 11. The financial cushion (based on the likely 70% gearing ratio) built in to the IFFIm structure and managed by the World Bank is sufficient to cover the risk of an even larger number of countries in that position. Only an unprecedented global financial crisis would cause IFFIm's commitments to bondholders to be threatened.

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