

July 9, 2009

International Finance Facility for Immunitisation

Primary Credit Analyst:

Larry Hays, Ph.D., New York (1) 212-438-7347; larry_hays@standardandpoors.com

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Major Rating Factors

Strengths:

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

Issuer Credit Rating

AAA/Negative/A-1+

Weaknesses:

- Reliance on the political commitment of shareholders remaining intact 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 International Finance Facility for Immunisation (IFFIm) reflect the commitment of its highly rated shareholders to its compelling mandate of supporting child immunization programs in the poorest of the world's developing countries. The commitment extends to IFFIm's highly professional partners.

IFFIm is a private entity incorporated in the U.K. ('AAA'; all country ratings are long-term foreign currency sovereign credit ratings as of July 6, 2009) on June 26, 2006, and registered as a U.K. charity. Its purpose is to accelerate the funding of the immunization and vaccine procurement programs of the Global Alliance (GAVI; formerly the Global Alliance for Vaccines and Immunisation). GAVI is a public-private partnership whose members include the World Health Organization (WHO); the U.N. Children's Fund (UNICEF); the International Bank for Reconstruction and Development (IBRD; long-term issuer credit rating of 'AAA'), 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. Seventy-two of the world's poorest countries are eligible for grants from GAVI, 70 of which are eligible to receive funds raised by IFFIm.

IFFIm is intended to front-load financial support for GAVI's programs by issuing bonds on the strength of its financial base of legally binding pledges from donor countries and disbursing the proceeds to GAVI. This enables more money to be provided earlier than would otherwise be possible and enhances GAVI's ability to provide multiyear grants, which is important to recipient countries.

The initial donors to IFFIm were the U.K., Italy ('A+'), France ('AAA'), Spain ('AA+'), Sweden ('AAA'), and Norway ('AAA'). On Oct. 2, 2006, these nations collectively pledged nearly US\$4 billion equivalent (at Oct. 2, 2006, exchange rates), to be paid over as many as 20 years. In addition, France completed the formalization of an €867 million addition to its initial pledge of €373 million in December 2007. South Africa ('BBB+') became a donor in March 2007, pledging US\$20 million, and the Netherlands ('AAA') pledged €80 million in June 2009 (although the documentation has not yet been finalized). In addition, Brazil ('BBB-') has announced its intention to become a donor and contribute US\$20 million. IFFIm is soliciting additional pledges.

IFFIm's first issue, a five-year benchmark bond for US\$1 billion, was launched in October 2006. Its second issue, a two-year uridashi bond for South African rand (ZAR) 1.7 billion (US\$223 million equivalent), was undertaken in

March 2008. In February 2009, IFFIm launched three uridashi bond issues for an aggregate US\$429 million equivalent, and additional uridashi bonds are being prepared for later this year. A five-year issue for £266 million (US\$404 million equivalent) aimed at Individual Savings Account holders in the U.K. was closed on May 15, 2009. The total amount to be raised in the capital markets, net of refinancing, is targeted at approximately US\$4 billion equivalent, but the actual amount will reflect (among other things) additional pledges.

There are three principal credit risks to the notes issued by IFFIm:

- That donor governments will not pay their pledges in full and on time. This risk rises once the funds that IFFIm raised have been spent and donor's grants are used predominantly to service debt. It is attenuated by the high ratings on the current donor countries and the high political visibility of the use of funds.
- 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 the total amount of outstanding bonds is limited to only a portion of the net present value of the grants minimize the second risk.
- That more IFFIm-eligible countries than expected will go into protracted arrears to the IMF. To the extent that these countries' arrears to the IMF exceed six months (protracted arrears), donor countries are released from a portion of their pledges. 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 expected interest and principal payments could not be covered, particularly in the early years of IFFIm's fundraising.

IFFIm's financial strategy calls for it to maintain 'AAA' ratings on its borrowings. 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, it is not rated 'AAA' or the equivalent by two of the three major international rating agencies, of which Standard & Poor's Ratings Services is one.

Outlook

We revised our outlook on IFFIm to negative on May 21, 2009, as a consequence of our revision of the outlook on the 'AAA' rating on the U.K. to negative on the same day. The current long-term rating on IFFIm reflects Standard & Poor's expectation that donor countries will meet their commitments and that important large donors such as the U.K. and France will remain rated 'AAA'. It also reflects our expectation that IBRD will perform its tasks as treasury manager competently and that the protracted arrears to IMF of the 70 IFFIm-eligible countries—especially in the latter years of IFFIm's activities—will not substantially exceed expectations based upon historical experience. If these assumptions do not hold, downward pressure on the rating would build.

Mandate

IFFIm has its roots in the Millennium Development Goals that were unanimously adopted by the U.N. General Assembly in September 2000. The fourth of these goals, MDG 4, specifically targeted a two-thirds reduction in the mortality rate of children younger than five by 2015. Intensifying efforts to immunize children was seen as vital to achieving that reduction. IFFIm was created to assist in that intensification by enabling funding for immunization and related programs earlier and in larger amounts than would otherwise be possible and by facilitating multiyear grants, which are important to recipients of these grants. 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; supporting the stockpiling of polio vaccines; and 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 grants from donor governments assigned to it by GFA (see the sections below for descriptions of these entities). The proceeds of these grants, to be paid in installments through 2026, will provide the funds to service the debt that IFFIm raises.

IFFIm has a board of directors that is responsible for overseeing its activities. It currently has four members, but that is likely to expand by one or two during 2009. 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.

All of IFFIm's other activities are outsourced to either GAVI or IBRD, and, in light of this, the Finance Framework Agreement prohibits IFFIm from having employees.

GAVI Fund Affiliate (GFA)

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 donor 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 the GAVI Fund, which in turn disburses the funds.

GAVI Alliance (GAVI)

Based in Geneva, Switzerland, GAVI is a public-private partnership created in 2000 in response to declining rates of immunization in developing countries. The Gates Foundation provided an initial five-year grant of US\$760 million to GAVI, supplemented by another grant of US\$750 million in 2005 (to be fully paid in by year-end 2014). In

addition, six founding countries—the U.S. ('AAA'), Netherlands, Norway, the U.K., Sweden, and Denmark ('AAA')—made multiyear pledges totaling more than US\$97 million. Some of these countries have made additional pledges, and pledges also have been made by six other countries (Canada, France, Australia, Germany, and Luxembourg, all of which are rated 'AAA', and Ireland ['AA']); the European Community (EC; 'AAA'); and various other foundations and philanthropists.

GAVI's board of directors was reconfigured during 2008 and now consists of 18 directors. Five of them represent donor governments and five represent developing country governments; one 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.

GAVI Fund

The GAVI Fund, created to be GAVI's financing arm, is a nonprofit organization based in the U.S. Its board of directors shapes a financial strategy to support the implementation of GAVI's strategic plan. In so doing, it monitors GAVI's income and assets and liabilities, validates budgets, determines how programs will be funded, and certifies the availability of funding for GAVI's programs. It also provides strategic guidance for GAVI's private fundraising.

At a joint meeting on Feb. 26, 2008, the boards of the GAVI and the GAVI Fund agreed in principle to centralize governance and operations of the two entities within the GAVI. The joint boards also decided to reorganize GAVI as a Swiss Foundation under Swiss law. This reorganization is ongoing.

International Bank for Reconstruction and Development

IBRD, which is the keystone of the World Bank Group, is the oldest and, with 185 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, it 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 donor 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 rating of 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; that IFFIm's borrowing remains within established limits; and that new programs will not be financed unless the borrowings will be rated 'AAA' by at least two major rating agencies. The cost of these services is reimbursed by IFFIm.

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, has ruled that although the amounts and schedules of payments of donor countries' pledges to IFFIm are established, if these payments are in some way conditional, the amounts paid can be recorded as expenditures when the payments, rather than the pledges, are made. This ruling was important to donor countries, because most did not want to include the full amount of their pledges in their budgets in one year.

The conditionality mechanism chosen was based on the payment status with IMF of countries eligible for support from IFFIm. Although 72 countries are eligible for support from GAVI based on their low levels of per capital income, two—Cuba (not rated) and North Korea (not rated)—currently are not members of IMF and, therefore, are not eligible for support from IFFIm. The remaining 70 countries constitute a reference portfolio, in which all are 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 International Finance Facility for Immunisation		
1% countries	3% country	5% countries
Afghanistan, Angola, Armenia, Azerbaijan, Benin, Bhutan, Bolivia,	Vietnam	Bangladesh
Burkina Faso, Burundi, Cambodia, Cameroon, Central African Republic,		Democratic Republic of Congo
Chad, Comoros, Congo, Republic of Côte d'Ivoire, Djibouti, Eritrea,		Ethiopia
The Gambia, Georgia, Ghana, Guinea, Guinea-Bissau, Guyana, Haiti,		India
Honduras, Kenya, Kiribati, Kyrgyzstan, LAO PDR, Lesotho, Liberia,		Indonesia
Madagascar, Malawi, Mali, Mauritania, Moldova, Mongolia, Mozambique,		Nigeria
Myanmar, Nepal, Nicaragua, Niger, Papua New Guinea, Rwanda, São		Pakistan
Tomé & Príncipe, Senegal, Sierra Leone, Solomon Islands, Somalia,		
Sri Lanka, Sudan, Tajikistan, Tanzania, Timor-Leste, Togo, Uganda,		
Ukraine, Uzbekistan, Yemen Republic, Zambia, Zimbabwe		

The percentage of each installment of the pledges donors 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 donor is scheduled to be made, that donor is entitled to reduce the amount of its scheduled contribution by 4%—four countries times 1% per country. Sums not paid by donors due to the grant payment condition are not required to be made up in the future. Between Oct. 2, 2006, and March 2008, four countries, each with a 1% weight, were in protracted arrears to IMF—Liberia, Somalia, Sudan, and Zimbabwe. As a consequence, only 96% of the amounts otherwise due was required to be paid.

On March 14, 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 'AAA' ratings 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' (or equivalent) 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 well manage IFFIm's liquidity position 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 whose senior debt securities are rated at least 'A-'.
• 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 donor 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 donor 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 donor grant obligations are unlikely

IFFIm's sources of financing to repay borrowings are the grants that donor countries have committed to make (through GFA) to IFFIm, the income earned by borrowings before they are disbursed, and new borrowings. However, although the payments of these grants are legally binding on donor countries, these payments remain subject to appropriation risk. And given that the donors are sovereign countries, the enforceability of such agreements is uncertain. Standard & Poor's does not view nondebt-service obligations of sovereigns as enjoying the same priority of payment as debt-service obligations. However, donor 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. The percentage of most countries' annual budgets, or even their annual aid budgets, accounted for by payments of their pledges to IFFIm is relatively small, and there would no doubt be significant peer pressure against a donor country defaulting on its obligations to IFFIm. Accordingly, Standard & Poor's believes the risk that a donor country will fail to make its scheduled payments to IFFIm is similar to, albeit greater than, the risk that it will fail to meet its debt-servicing obligations. To date, donor governments have met their payment obligations punctually.

Table 2 shows the schedule of contributions from the seven countries that have become donors as of the date of this report. While the pledges vary in amount and in the pattern of timing of contributions, collectively they gradually increase, peaking in 2021, and then recede, with the last of the contributions scheduled to be made in 2026.

Table 2

Schedule Of Donor Payments To International Finance Facility for Immunisation							
Year	U.K. (£ 000s)	France (€ 000s)	Italy (€ 000s)	Spain (€ 000s)	Sweden (Skr 000s)	Norway (US\$ 000s)	South Africa (US\$ 000s)
2006			3,000	9,475		5,400	
2007	9,420	20,000	6,000	9,475	18,410	5,400	1,000
2008	17,460	40,600	25,850	9,475	18,410	5,400	1,000
2009	25,840	42,990	25,800	9,475	18,410	5,400	1,000
2010	33,920	45,420	25,800	9,475	18,410	5,400	1,000
2011	42,140	48,100	25,800	9,475	18,410		1,000
2012	50,440	50,850	25,800	9,475	18,410		1,000
2013	58,820	53,880	25,800	9,475	18,410		1,000
2014	67,500	57,210	25,800	9,475	18,410		1,000
2015	76,600	60,650	25,800	9,475	18,410		1,000
2016	84,180	64,420	25,800	9,475	18,410		1,000
2017	90,760	68,340	25,800	9,475	18,410		1,000
2018	97,880	72,740	25,800	9,475	18,410		1,000
2019	105,580	77,330	25,800	9,475	18,410		1,000
2020	113,820	82,240	25,800	9,475	18,410		1,000
2021	122,640	87,590	25,800	9,475	18,410		1,000
2022	107,920	62,120	25,800	9,475			1,000
2023	90,400	67,360	25,800	9,475			1,000
2024	74,780	73,040	25,800	9,475			1,000
2025	61,320	79,200	25,800	9,475			1,000
2026	48,580	85,880					1,000
Total	1,380,000	1,239,960	473,450	189,500	276,150	27,000	20,000

Table 2

Schedule Of Donor Payments To International Finance Facility for Immunisation (cont.)							
Initial value (US\$ 000s)	2,594,538	1,750,295	602,039	240,968	37,900	27,000	20,000

At Oct. 2, 2006, exchange rates, initial pledges from 'AAA' rated countries accounted for almost 85% of total pledges (Italy was rated 'A+'). Including an increase in the pledge from France (at the Dec. 17, 2007, U.S. dollar-to-euro exchange rate) and the pledge from South Africa raised the percentage of pledges from 'AAA' rated countries to more than 87%. We lowered our ratings on Spain to 'AA+' in January and revised our outlook on the U.K. to negative on May 21, 2009, implying some diminution in the credit quality of these pledges. However, IFFIm's receivables remain very high quality. The addition of new donors with ratings below 'AAA' would, of course, result in a further reduction in the average quality of IFFIm's receivables, although it would leave the absolute amount from 'AAA' rated donors unchanged.

Grant payment condition reductions in donor grant obligations are the bigger risk

The second, much more likely source of shortfalls in receipts from donor countries, results from the grant payment condition and eligible countries' protracted arrears to IMF. Twenty-six different 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 International Monetary Fund Since 1975		
IFFIm-eligible countries that were formerly in protracted arrears to the IMF		
	Start of arrears	Emergence from arrears
Cambodia	Mar-75	Oct-93
Nicaragua	Feb-83	Apr-85
Guyana	Apr-83	Jun-90
Chad	Jan-84	Nov-84
Vietnam*	Feb-84	Oct-93
Sierra Leone	Nov-84	Sep-86
Liberia	Dec-84	Mar-08
Tanzania	Mar-85	Jul-86
Zambia	Apr-85	Jan-86
The Gambia	Jun-85	Jul-86
Sierra Leone	Jan-87	Mar-94
Zambia	Apr-86	Dec-95
Honduras	Oct-87	Nov-88
Democratic Republic of Congo¶	Jun-88	May-89
Haiti	Oct-88	Sep-89
Honduras	Nov-88	Jun-90
Democratic Republic of Congo¶	Nov-90	Jun-02
Haiti	Nov-91	Dec-94
Central African Republic	Jun-93	Mar-94
Islamic State of Afghanistan	Nov-95	Feb-03

Table 3

Countries With Protracted Arrears To The International Monetary Fund Since 1975 (cont.)		
IFFIm-eligible countries currently in protracted arrears		
Sudan	Jul-84	N.A.
Somalia	Jul-87	N.A.
Zimbabwe	Feb-01	N.A.
Countries formerly with protracted arrears not eligible for IFFIm support		
Peru	Sep-85	Mar-93
Jamaica	Apr-86	Jan-87
Panama	Dec-87	Feb-92
Dominican Republic	Aug-90	Apr-91
Iraq	Nov-90	Sep-04
Bosnia and Herzegovina	Sep-92	Dec-95
Federal Republic of Yugoslavia§	Sep-92	Dec-00

*3% country weight. †15% country weight. §No longer exists as a country, and no successor countries are eligible for IFFIm financing. N.A.—Not applicable.

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 donors would have been 4.2%. 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.

As of Jan. 31, 2009, countries accounting for 68% of the portfolio weight had obligations to IMF. However, the severe global recession that began in 2008 prompts more concern about the ability of IFFIm-eligible countries to avoid protracted arrears to the IMF over the longer term, and we—as well as the IBRD—will monitor developments closely.

IFFIm Gearing Ratio

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 donors plus amounts potentially owing IFFIm from derivative transactions. IBRD recalculates this limit at least quarterly.

In calculating the IFFIm gearing ratio limit, IBRD has developed a model that explicitly incorporates the probability

of defaults by IFFIm-eligible countries to IMF, incorporating sovereign credit ratings and adjusting them for the preferred creditor treatment expected to be conferred upon IMF obligations. It also incorporates assumptions about the duration of these defaults. In making its estimates, IBRD draws upon data on all countries' arrears to IMF from 1975-2006.

This model is also the basis for the framework for assessing the net present value of expected scheduled payments to reflect the grant payment condition. Performances of IFFIm-eligible countries to date have been better than projected by IBRD's model. As of Oct. 26, 2006, the model suggested that scheduled installments from donor countries over the life of the facility should be reduced by 17.6% as a result of expected protracted arrears to the IMF. This percentage increased to 17.8% on Dec. 31, 2006, and then fell to 16.3% on Dec. 31, 2007, and to 16.1% on Dec. 31, 2008. By contrast, as noted earlier, actual protracted arrears by IFFIm-eligible countries were 4% as of Oct. 26, 2006, Dec. 31, 2006, and Dec. 31, 2007, and were 3% on Dec. 31, 2008. Accordingly, IBRD's model has thus far built in a substantial cushion for increased protracted arrears.

Based on these calculations, IFFIm's maximum gearing ratio was 70.3% as of Dec. 31, 2006, 70.9% as of Dec. 31, 2007, and 66.6% on Dec. 31, 2008. The actual gearing ratios were about 20% as of Dec. 31, 2006, 28.4% on Dec. 31, 2007, and 33.1% on Dec. 31, 2008. We expect these ratios to increase in the coming years as GAVI's disbursements increase substantially beginning in 2009.

In the early years of this program, if protracted arrears suddenly rise to unexpectedly high levels, IFFIm could regain a prudent ratio of discounted expected receivables to debt-service payments by reducing or, under extreme circumstances, eliminating disbursements. Its ability to do so will disappear in the final years of the program, when it will be unable to borrow and the only sources of repayment are contributions from donors and the income from undisbursed funds.

Financial Statements

IFFIm is a charitable company incorporated in the U.K., so its financial statements are prepared by the GAVI Fund (and audited by Deloitte & Touche LLP) in accordance with 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, euro, and Swedish kronor into dollars. IFFIm's financial assets and liabilities—which constitute the whole of its balance sheet—are carried at fair value. This makes IFFIm's balance sheet and income statement very different from those of multilateral lending institutions and somewhat opaque. Moreover, the Finance Framework Agreement gives IFFIm—as well as the GAVI Fund and the GFA—up to 10 months from the end of the financial year to prepare its audited financial statements.

Balance Sheet

Table 4 shows IFFIm's balance sheet at Dec. 31, 2007, the most recent available as of the date of this report.

Table 4

International Finance Facility for Immunisation Balance Sheet		
	--Dec. 31--	
(Mil. US\$)	2007	2006
Current assets		
Cash	0.7	0.5
Prepayments	0.5	0.5
Funds held in trust	96.5	498.7
Sovereign pledges	2,976.8	2,149.3
Sovereign pledges due within one year	127.0	60.2
Sovereign pledges due after more than one year	2,849.8	2,089.1
Total current assets	3,074.5	2,648.9
Liabilities		
Creditors falling due within one year	109.5	75.5
Grants payable to GAVI Fund Affiliate	94.1	336.3
Current liabilities	203.7	411.8
Liabilities falling due after more than one year	1,043.1	1,007.0
Net assets	1,827.8	1,230.2

Assets

IFFIm's assets comprise:

- Cash. This consists of funds in depository bank accounts that are available within 24 hours.
- Prepayments. This amount represents the payment of directors' liability insurance premiums.
- 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 organization; and corporate and asset-backed securities.
- Sovereign pledges. This is the fair value of pledge installments due to be received within one year or in more than one year. The fair value calculation is complicated, but basically it is calculated by discounting the expected donor installments with maturities of more than one year, adjusted to reflect the grant payment condition, with donor-specific risk-free interest rates. Even though most of these pledges are due after one year, they are classified as current assets.

Liabilities

IFFIm's liabilities consist of:

- Creditors falling due within one year. This is an amalgam of items, the principal one being US\$107 million of payables for currency and interest rates swaps as of Dec. 31, 2007.
- 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.
- Liabilities falling due after more than one year. This is the fair value of the US\$1 billion in notes issued on Oct. 2, 2006.

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 very different from those of multilateral lending institutions. The US\$680 million of contribution revenue recognized during 2007 and the US\$2,110 million during 2006 (see table 5) are much lower than the pledges made during 2007 and 2006, which totaled US\$1,296 million equivalent and US\$3,976 million equivalent, respectively. They are even more different from the cash payments actually received, which were US\$73 million equivalent during 2007 and US\$20 million equivalent during 2006.

Table 5

International Finance Facility for Immunisation Income And Expenditure Account And Cash Flow Statement		
	6/26/06*-	
(Mil. US\$)	2007	Dec. 31, 2006
Income and expenditure account		
Revenue		
Contribution revenue	679.7	2,110.0
Donated services	0.1	1.1
Investment and interest income	16.7	3.6
Total revenue	696.5	2,114.7
Expenses		
Program grants to GAVI Fund Alliance	(186.1)	(861.1)
Treasury manager's fees	(1.3)	(1.9)
Governance costs	(2.2)	(1.6)
Interest expense and financing charges	(50.2)	(8.1)
Net fair value gains (losses) on pledges and pledge swaps	140.3	(10.4)
Net fair value gains (losses) on bonds and bond swaps	0.1	(1.5)
Other unrealized foreign exchange gains	0.5	0.1
Total expenses	(98.9)	(884.5)
Surplus for the year	597.6	1,230.2
Cash flow statement		
Net cash outflows from operating activities, of which:	(418.7)	(503.6)
Donor payments	72.8	20.3
Interest and similar income	16.7	3.6
Sale (purchase) of investments	402.2	(498.7)
Proceeds from bond issuance	0.0	999.2
Net change in cash	0.2	0.5

*Date of incorporation.

The large differences between the value of contributions shown in the income statement and the actual payments

made by donors during the last quarter reflect the accounting principle that revenue be recognized when there is certainty of receipt and the amount can be reliably measured. So, although contributions from each donor country are recorded in their accounts as expenditure only when the cash payments are made, the total amount pledged (subject to adjustments noted below) is 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\$2,110 million on the 2006 income statement are thus the fair values of the US\$1,296 million equivalent and the US\$3,976 million equivalent in pledges made during 2007 and 2006, respectively. These reductions occur as the result of three adjustments:

- The portions of the pledges scheduled to be paid in more than one year from the balance sheet dates were present-valued using each donor 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 million.
- The value of the pledges during 2007 were reduced by US\$213 million equivalent, or 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.

Donated services.

In addition to the contribution revenue received from the GAVI Fund, IFFIm also received donated services from the GAVI Fund, primarily in the form of legal fundraising costs (US\$87,000 and US\$1.07 million equivalent in 2007 and 2006, respectively) and trustees' meeting and travel expenses.

Investment and interest income.

This is primarily the interest income from the funds managed for IFFIm by the IBRD (US\$14.3 million equivalent during 2007). Additionally, bank account interest and interest income realized from pledge swaps together added US\$2.4 million equivalent.

Program grants to GFA.

These are the funds IFFIm approved for disbursement to GFA during 2007 and 2006.

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 donors' 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.

Net fair value losses on bonds and bond swaps.

To match the basis of IFFIm's pledges, IFFIm's fixed-rate bond obligation was 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.

Cash Flow Statement

IFFIm's cash flow statement shows that between Oct. 2, 2006, and Dec. 31, 2006, IFFIm received US\$20 million equivalent from donors and US\$999 million equivalent from its US\$1 billion bond issue, of which it invested US\$499 million equivalent, using the remainder to fund its activities. During 2007, it received US\$73 million equivalent from donors, but raised nothing in the capital markets. Instead, it sold US\$402 million of its investments to fund its activities.

Recent Events

At the time of publication, IFFIm's year-end 2007 financial statements are the most recent available. However, since that time, all donor contributions have been received on time and in full, and Liberia has eliminated its arrears to the IMF. Accordingly, IFFIm's financial performance has been better than expected when it was originally rated, and it remains consistent with the 'AAA' rating originally assigned.

Ratings Detail (As Of July 9, 2009)*	
International Finance Facility for Immunisation	
Issuer Credit Rating	AAA/Negative/A-1+
Senior Unsecured (4 Issues)	AAA
Issuer Credit Ratings History	
21-May-2009	AAA/Negative/A-1+
30-Aug-2006	AAA/Stable/A-1+
*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.	

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