

Research Update:

International Finance Facility for Immunisation 'AA/A-1+' Ratings Affirmed; Outlook Remains Stable

January 26, 2021

Overview

- IFFIm's purpose is to provide funding to Gavi, the Vaccine Alliance, for immunization and programs related to Gavi's mission, and we expect it will continue to play an important role in the context of COVID-19.
- The rating balances our view of IFFIm's policy importance and the creditworthiness of its main donor countries, which is anchored by our debt service coverage ratio.
- We are affirming our 'AA/A-1+' ratings on IFFIm.
- The stable outlook on IFFIm reflects a robust debt service coverage ratio, which is able to withstand downgrades of its highly rated donors.

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Rating Action

On Jan. 26, 2021, S&P Global Ratings affirmed its 'AA' long-term and 'A-1+' short-term issuer credit ratings on the International Finance Facility for Immunisation (IFFIm). The outlook remains stable.

Rationale

We affirmed our ratings on IFFIm based on our view of the commitment of its highly rated contributors to its mandate of supporting child immunization programs in the world's poorest countries while accounting for the risks stemming from the creditworthiness of its main donor countries in relation to the debt that IFFIm has incurred based on these commitments.

IFFIm, an innovative financial tool, has issued a variety of debt instruments against future donor pledges to provide annual grants over two decades to Gavi, the Vaccine Alliance--a public-private partnership whose partners include:

- The World Health Organization,
- The U.N. Children's Fund,

- International Bank for Reconstruction and Development (IBRD, commonly referred to as the World Bank),
- The Bill and Melinda Gates Foundation,
- Governments of both developing and industrialized countries,
- Research and health institutes,
- Vaccine producers, and
- Civil society organizations.

During the 2020 Gavi replenishment meetings in June 2020, Italy, the Netherlands, Norway, and Spain pledged \$926 million equivalent to IFFIm as part of the \$8.8 billion in total pledges for Gavi's 2021-2025 strategic goals to support the immunization of another 300 million children and respond to COVID-19. In December 2020, IFFIm received additional pledges from the U.K., Netherlands, Italy, and Norway totaling over \$800 million. Total pledges to IFFIm were over \$1.7 billion equivalent by the end of 2020. In addition, Gavi requested an additional \$2 billion in 2020 to support COVAX Advanced Market Commitment (AMC), which IFFIm will play an important role in.

We believe that the 2020 Gavi replenishment, as well as other donor contributions, has demonstrated IFFIm's value proposition in support of its policy importance. We expect the institution will leverage its unused capacity to support Gavi's efforts to research, develop, and deploy COVID-19 vaccines via COVAX AMC.

IFFIm was founded in 2006 with US\$4 billion pledged over 20 years by six sovereign donors. As of Dec. 31, 2020, donors' pledges increased to US\$8.1 billion, of which US\$4.0 billion will be paid from 2021 to 2030.

In December 2018, Gavi was able to utilize IFFIm's front-loading capability to support its program for the Coalition for Epidemic Preparedness Innovations (CEPI). CEPI is a global public-private partnership whose mission is to accelerate the development of vaccines against emerging infectious diseases and enable equitable access to these vaccines. In November 2018, the Gavi Board approved the CEPI arrangement, which allows IFFIm to front-load a new Norwegian pledge of Norwegian krone (NOK) 600 million (US\$66 million) paid over six years. In June 2020, Norway committed and signed an additional NOK2 billion (approximately US\$200 million) so that IFFIm could issue vaccine bonds to expedite funding through Gavi to CEPI to support the development of COVID-19 vaccine candidates.

In October 2018, Brazil signed a grant agreement for \$20 million paid over 20 years in support to IFFIm. Brazil is the 10th government donor to IFFIm overall and the second donor of the BRICS countries (Brazil, Russia, India, China, and South Africa) after South Africa.

Donors' pledges can be reduced, based on how many Gavi-eligible recipient countries have protracted arrears to the IMF. As of January 2021, Sudan is the only country in arrears to the IMF, leading to a 0.5% reduction of total donor sovereign pledges to IFFIm. Although this reduction is small, it supports our conservative assumptions for long-term donor pledges.

We determine support for IFFIm by evaluating the support of IFFIm's strongest contributors. Apart from the U.K., which contributes 44%, highly rated contributors include Australia, Norway, The Netherlands, and Sweden (all rated 'AAA'), which as of January 2021 together account for 16% of the contributions IFFIm is to receive. The second-largest donor is France (rated 'AA'), which provides 31% of the total estimated remaining inflows into IFFIm. Other lower-rated contributors are Italy (7%) and Spain (2%), as well as Brazil (less than 0.6%) and South Africa (less than 0.5%).

To measure IFFIm's risk-adjusted gearing, we calculate the coverage of the outstanding debt by

total remaining pledges from 'AAA' and 'AA' rated sovereigns under a severe stress scenario. We estimate this ratio to be 4.0x by Dec. 31, 2019, and 2.0x by Dec. 31, 2020. We expect the coverage ratio could decline following larger debt issuances during 2020, but this could be balanced by the recent pledges committed but not yet signed by donors.

We expect that IFFIm will issue enough debt to maintain its planned disbursements to Gavi and sustain its liquidity requirements to cover 12 months of upcoming debt service payments.

IFFIm has its own internal gearing ratio to manage credit risk and protect the facility from insolvency--calculated and presented to the board quarterly by IBRD. It includes a gearing ratio limit, which limits net financial obligations to the present value of scheduled payments from grantors. The limit is set at 70.5% as of Dec. 31, 2020. The actual gearing ratio has been significantly below this limit--it was 16.5% as of November 2020. Still, we expect it will increase somewhat toward the end of the funding cycle, as IFFIm continues to disburse funds to Gavi.

We use our sovereign ratings as proxies for the credit quality of donor pledges, as we understand that the pledges are legal obligations of the sovereigns. Moreover, we consider that IFFIm retains policy importance for its biggest donors, supporting global vaccinations through Gavi.

As of January 2021, there are no delays in donor pledges. IFFIm has previously experienced payment delays from several contributors, typically from donors rated lower than IFFIm. We consider the rare delays from highly rated countries to have been administrative and not to have reflected the contributors' ability or willingness to support IFFIm.

IFFIm also incurs rollover risk since its debt financing is for shorter tenors than its receivable pledges. To allay part of this funding risk, IFFIm maintains minimum liquidity equivalent to its cumulative contracted debt service payments for the next 12 months. In addition, management can stop disbursements if the 12 months' debt service is not covered. IBRD recalculates and resets this limit quarterly.

As of Dec. 31, 2019, and 2018, the calculated minimum liquidity requirement was US\$340 million and US\$528 million, respectively, calculated as the equivalent cumulative contracted debt service payments for the next 12 months. The value of IFFIm's liquid assets was US\$817 million and US\$395 million in 2018 and 2019, respectively. IFFIm did not issue debt during 2018.

During 2019, IFFIm issued two bonds. IFFIm returned to the Islamic capital markets with a third Sukuk issuance, raising US\$50 million for Gavi's immunization program. The Sukuk, a financial certificate that complies with Islamic financing principles, was issued to the Islamic Development Bank (IsDB) as the sole investor. The transaction highlighted the shared development goals of IsDB. IFFIm also issued a US\$66 million zero coupon bond in Norwegian krone. During 2020, IFFIm issued two bonds--in July 2020, NOK2 billion in vaccine bonds for COVID-19 vaccine development by CEPI, and in October 2020, a \$500 million three-year benchmark vaccine bond that will provide Gavi flexible funding for core immunization programs and support for eventual distribution of COVID-19 vaccines.

Outlook

The stable outlook reflects a robust debt service coverage ratio that is able to withstand downgrades of its highly rated donors.

We could raise the ratings on IFFIm in the next two years if we were to raise our sovereign credit ratings on the U.K. and other key donors.

We could lower our ratings on IFFIm in the next two years if we were to lower our sovereign credit ratings on its highly rated donors or if IFFIm experiences a funding squeeze that would weigh on

its debt service coverage ratio. We could also downgrade IFFIm if highly rated contributors delay donor grants, or if, due to political events, we change our view that the credit quality of the countries' pledges is equal to their sovereign debt obligations.

Related Criteria

- Criteria | Governments | General: Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology, Dec. 14, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Supranationals Special Edition 2020 Says Multilateral Lenders Are Addressing Challenges From COVID-19, Oct. 20, 2020
- Supranationals Edition 2020: Comparative Data For Multilateral Lending Institutions, Oct. 21, 2020
- Introduction To Supranationals Special Edition 2020, Oct. 20, 2020
- How Multilateral Lending Institutions Are Responding To The COVID-19 Pandemic, June 9, 2020
- Can Multilateral Lenders' Capital Bases Hold Up Against COVID-19?, June 9, 2020
- ESG Industry Report Card: Supranationals, Feb. 11, 2020

Ratings List

Ratings Affirmed

International Finance Facility for Immunisation

Sovereign Credit Rating

Foreign Currency AA/Stable/A-1+

Senior Unsecured AA

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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