S&P Global Ratings

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Research Update:

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

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## Overview

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

## Rating Action

On Jan. 28, 2022, 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 donors to its mandate of supporting child immunization programs in the world's poorest countries. We also consider IFFIm's efforts to address the COVID-19 pandemic, 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,
- UNICEF,

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

Gavi has found itself at the center of the international response to the COVID-19 pandemic, coordinating COVAX with the Coalition for Epidemic Preparedness Innovations (CEPI), WHO, and UNICEF by launching the COVAX facility. The COVAX facility is a global risk-sharing mechanism for pooled procurement and equitable distribution of COVID-19 vaccines. In addition, within the COVAX facility, the Gavi Advance Market Commitment (AMC) for COVID-19 was launched to provide equitable access to COVID-19 vaccines for low-income and lower-middle-income countries. IFFIm facilitated donor support for the Gavi COVAX AMC, with approximately $1.2 billion pledged, which would be made available through its vaccine bonds.

Gavi has utilized IFFIm's front-loading capability to support its program for 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 pledge from Norway 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), and Italy committed and signed $6 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 Gavi's replenishment, Italy, the Netherlands, Norway, and Sweden pledged the equivalent of $937 million to IFFIm as part of the $8.8 billion in total pledges for Gavi's 2021-2025 strategic goals to support the immunization of 300 million children. We believe 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. Disbursements from IFFIm to GAVI reached $1.2 billion in 2021.

IFFIm was founded in 2006 with US$4 billion pledged over 20 years by six sovereign donors. As of Dec. 31, 2021, donors' pledges have increased to US$7.9 billion, of which US$3.8 billion will be paid from 2021 to 2037.

In October 2018, Brazil signed a grant agreement for $20 million paid over 20 years to IFFIm. Brazil is the 10th government donor to IFFIm overall and the second donor among 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. Sudan cleared its arrears to the IMF in May 2021, and Somalia cleared its arrears in March 2020. No other countries are in arrears.

We determine support for IFFIm by evaluating the support of its strongest contributors. Apart from the U.K., which contributes 36% of support, highly rated contributors include Australia, Norway, the Netherlands, and Sweden (all rated 'AAA'), which as of January 2022 together account for 41% of the contributions IFFIm is to receive. The third-largest donor is France (rated 'AA'), which provides 14% of the total estimated remaining inflows into IFFIm. Other lower-rated contributors are Italy (8%) and Spain (1%), as well as Brazil (less than 0.4%) and South Africa (less than 0.1%).

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 estimated this ratio to be 2.8x as of Dec. 31, 2020, and 1.4x as of Dec. 31, 2021. We expect the coverage ratio could decline following continued debt issuances to fund Gavi and given fewer remaining donor pledges, but this is sensitive to IFFIm disbursement and funding decisions. Historically, we have observed that increases in debt have been met by increasing pledges. We expect 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 74.1% as of Sept. 30, 2021, up from 70.5% in December 2020. This improvement reflects Sudan's arrears clearance and an increase in pledges from highly rated donors. The actual gearing ratio has historically been below this limit; it was 15.6% as of December 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, given we understand 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 2022, 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 because 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, 2020, and Dec. 31, 2019, the calculated minimum liquidity requirements were US$40 million and US$338 million, respectively, calculated as the equivalent cumulative contracted debt service payments for the next 12 months. IFFIm's liquid assets totaled US$492 million and US$428 million in 2020 and 2019, respectively.

IFFIm has been active in the funding market over the past two years. On April 21, 2021, IFFIm issued US$750 million five-year fixed-rate vaccine bonds, which provided Gavi with immediately available funding to support routine immunization. In November 2021, IFFIm increased the April bond issuance by US$250 million, bringing the total size to US$1 billion. This also accelerated critical funding for the Gavi COVAX AMC.

In 2020, IFFIm issued two bonds: in July, NOK2 billion in vaccine bonds for COVID-19 vaccine development by CEPI, and in November, a $500 million three-year benchmark vaccine bond to provide Gavi with flexible funding for core immunization programs and eventual distribution of COVID-19 vaccines.

## Outlook

The stable outlook balances IFFIm's robust debt service coverage ratio, which could withstand a stressed protracted arrears scenario from Gavi-eligible recipient countries, with the resilience of the sovereign ratings on IFFIm's highly rated donors.

### Downside scenario

We could lower our ratings on IFFIm in the next two years if we lowered our sovereign credit ratings on its highly rated donors or if IFFIm experiences a funding squeeze that weighs 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.

### Upside scenario

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

## Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- 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

- Introduction To Supranationals Special Edition 2021, Oct. 27, 2021
- Supranationals Edition 2021: Comparative Data For Multilateral Lending Institutions, Oct. 27, 2021
- Supranationals Special Edition 2021, Oct. 27, 2021
- 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 |
|---|
| Sovereign Credit Rating |

**Ratings Affirmed**

| | |
|---|---|
| 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.