

Research Update:

IFFIm Outlook Revised To Negative Following Outlook Revisions On Key Donors; 'AA/A-1+' Ratings Affirmed

December 13, 2022

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.
- We revised the rating outlooks to negative on the U.K. and France, which are key donors representing more than half of IFFIm's total expected future cash receipts.
- We therefore revised our outlook on IFFIm to negative from stable and affirmed the 'AA/A-1+' issuer credit ratings.
- The negative outlook reflects our view of potential downside risks that we believe could diminish the credit quality of IFFIm's grant receivables and weigh on our calculation of its debt service coverage ratio.

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Rating Action

On Dec. 13, 2022, S&P Global Ratings revised its outlook on the International Finance Facility for Immunisation (IFFIm) to negative from stable. We also affirmed our 'AA' long-term and 'A-1+' short-term issuer credit ratings on IFFIm.

Outlook

The negative outlook reflects potential downside risks that we believe could diminish the credit quality of IFFIm's grant receivables over the next two years, which would weigh on its debt service coverage ratio.

Downside scenario

We could lower the 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 increases its debt outstanding absent additional donor pledges. 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 revise the outlook to stable and affirm the ratings over the next two years if we were to improve the outlook on IFFIm's highly rated donors, especially the U.K., or if additional pledges support a stronger debt service coverage ratio.

Rationale

We revised the outlook on IFFIm to negative from stable following the outlook revisions on the U.K. and France.

On Sept. 30, 2022, we revised our outlook on the U.K.--IFFIm's largest donor, with pledges representing 44% of remaining inflows as of 2023 onward--to negative from stable. On Dec. 2, 2022, we revised our outlook on France--IFFIm's third-largest donor, with pledges representing 11% of remaining inflows--to negative from stable. We consider the credit quality of pledges from the U.K. and other highly rated countries as material to IFFIm's credit quality. IFFIm's debt service coverage ratio falls below 1x if we exclude pledges from the U.K. and France.

We calculate a point-in time debt service coverage ratio, which anchors our rating, by dividing total remaining pledges at a specified stress level by the total outstanding debt. We then take a forward-looking view for the next two years by estimating additional debt issuance and future pledges. Our estimated coverage ratio includes only pledges from contributors rated at the same level as IFFIm or higher (that is, currently 'AA' or above). As of year-end 2021, IFFIm's total outstanding debt increased to \$1.8 billion from \$916 million from the previous year following funding activity given an increase in pledges from members to support Gavi, particularly in its COVID-19-related efforts.

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 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, the Gavi Advance Market Commitment (AMC) for COVID-19, which funds the COVAX facility, was launched. IFFIm facilitated donor support for the Gavi COVAX AMC, with approximately \$1.1 billion pledged, which it made available through its vaccine bonds.

In addition, 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 for the 2021-2025 period, 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. During 2022, the U.K. and Spain pledged an additional \$688 million to IFFIm. The institution has leveraged 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 and are expected to reach \$829 million in 2022.

IFFIm was founded in 2006 with US\$4 billion pledged over 20 years by six sovereign donors. As of Nov. 30, 2022, donors' pledges increased to US\$8.868 billion, of which US\$3.8 billion will be paid from 2023 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 44% of support, highly rated contributors include Australia, Norway, the Netherlands, and Sweden (all rated 'AAA'), which together account for 34% of the contributions IFFIm is to receive from 2023 and onward. The third-largest donor is France (rated 'AA'), which provides 11% of the total estimated remaining inflows into IFFIm. Other lower-rated contributors are Italy (7%) and Spain (3%), 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 1.6x as of Dec. 31, 2021, and 1.0x as of Dec. 31, 2022. This ratio could drop below 1x if we exclude the U.K.'s and France's pledges.

IFFIm has its own 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 was 74.1% as of year-end 2021, up from 70.5% in December 2020. This improvement reflects Sudan's and Somalia's arrears clearance and an increase in pledges. The actual gearing ratio was 40.3% as of December 2021, up from 15.6% as of December 2020, 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 November 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 reflective of 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, 2021, and Dec. 31, 2020, the minimum liquidity requirements were US\$99 million and US\$40 million, respectively, calculated as the equivalent cumulative contracted debt service payments for the next 12 months. IFFIm's liquid assets totaled US\$615 million and US\$492 million in 2021 and 2020, respectively.

IFFIm has been active in the funding market over the past two years. During 2022, it issued two bonds, a £250 million three-year, fixed-rate bond that will provide immediately available funding for Gavi in July, followed by a \$500 million fixed-rate bond in November. On April 21, 2021, IFFIm issued \$750 million five-year, fixed-rate vaccine bonds, which provided Gavi with immediately available funding to support routine immunization, and was later increased to \$1 billion, which accelerated critical funding for the Gavi COVAX AMC.

Related Criteria

- Criteria | Governments | General: Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology, Jan. 31, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- 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 2022, Oct. 11, 2022
- Introduction To Supranationals Special Edition 2022, Oct. 10, 2022
- Supranationals Edition 2022: Comparative Data For Multilateral Lending Institutions, Oct. 10, 2022
- 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

Senior Unsecured	AA
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Ratings Affirmed; CreditWatch/Outlook Action

	To	From
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International Finance Facility for Immunisation

Sovereign Credit Rating		
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Foreign Currency	AA/Negative/A-1+	AA/Stable/A-1+
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