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Research Update:

IFFIm Outlook Revised To Stable From Negative On Solid Donor Support And Creditworthiness; 'AA/A-1+' Ratings Affirmed

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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, on the global stage, post-pandemic.
- Strengths in IFFIm's donor base--which now includes 'AAA' rated Canada, stabilization of the U.K.'s creditworthiness, and the U.K. reprogramming more funds to IFFIm--offset the downside risk, associated with the sovereign rating on France, on debt service coverage metrics.
- We revised our outlook on IFFIm to stable from negative and affirmed our 'AA/A-1+' issuer credit ratings.
- The stable outlook reflects our view that donor support for IFFIm and its innovative model to leverage vaccine finance remain sufficiently robust to manage potential pressure on its debt service coverage metrics from the credit quality of its grant receivables or debt issuance.

Rating Action

On Dec. 20, 2023, S&P Global Ratings revised its outlook on the International Finance Facility for Immunisation (IFFIm) to stable from negative. We also affirmed our 'AA' long-term and 'A-1+' short-term issuer credit ratings on IFFIm.

Outlook

The stable outlook reflects support from highly rated donors. We believe this support limits potential downside risks that 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;
- IFFIm increases its debt outstanding absent additional donor pledges;
- Highly rated contributors delay donor grants; or
- Due to political events, we no longer view sovereign ratings as proxies for the credit quality of donor pledges.

Upside scenario

We could raise the ratings over the next two years if we were to raise the ratings on IFFIm's highly rated donors, especially the U.K., or if additional pledges from 'AAA' rated donors support a stronger debt service coverage ratio.

Rationale

The outlook revision to stable from negative follows signs of solid support from the donor community to IFFIm throughout 2023. The U.K., IFFIm's largest single donor, accounts for 43% of IFFIm's future pledges. In April 2023, we revised our outlook on the 'AA' sovereign credit rating on the U.K. to stable from negative, supporting the credit quality of IFFIm's grant receivables. In addition, in June 2022, the U.K. reprogrammed a £461 million grant to Gavi into an IFFIm pledge.

Meanwhile, 'AAA' rated Canada became IFFIm's 11th donor in February 2023. It pledged C$125 million from 2023 to 2030, which represents 2.4% of remaining inflows from 2023 onward. While the amount is currently comparatively small, Canada's contributions expand IFFIm's 'AAA' rated donor base and reinforce the value ascribed to IFFIm's innovative financing model. Particularly, as discussions on Gavi 6.0 will begin in 2024, the next replenishment cycle for Gavi will span from 2026 to 2030.

We believe these developments enhance IFFIm's credit profile, notwithstanding the negative outlook on the sovereign rating on France. France (AA/Negative/A-1+) is IFFIm's third-largest donor, with pledges representing 10% of remaining inflows.

We consider the credit quality of pledges from the U.K. and other highly rated countries as material to IFFIm's credit quality. 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 2022, IFFIm's total outstanding debt increased to $2.4 billion from $1.8 billion in 2021 following funding activity associated with increased pledges from members to support Gavi, particularly with its COVID-19-related efforts. In 2023, IFFIm did not tap global markets. We expect debt to total $1.9 billion at year-end 2023 as a three-year $500 million bond matured in November. We estimate IFFIm's (stressed) debt service coverage ratio will be above 1x for 2023.

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, as well as 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 (WHO),
- 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 was launched to support the participation of 92 low-income and middle-income economies in the COVAX Facility. 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 used 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 2020-2025 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 strategic goals to support the immunization of 300 million children. We believe the Gavi 5.0 replenishment, as well as other donor contributions, has demonstrated IFFIm's value, supporting its policy importance. During 2022, the U.K. and Spain pledged additional amounts to IFFIm that were recognized at an initial fair value totaling US$541 million. And in 2023, Canada joined, pledging C$125 million, and in 2022 the U.K reprogrammed a direct GAVI grant to IFFIm, effectively increasing its pledges.

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 peaked at $1.2 billion in 2021, and were $829 million in 2022 and $435 million in 2023.

IFFIm was founded in 2006 with US$4 billion pledged over 20 years by six sovereign donors. As of September 2023, donors' pledges increased to US$9.068 billion, of which US$3.5 billion will be paid from 2024 to 2037.

In October 2018, Brazil signed a grant agreement for $20 million paid over 20 years to IFFIm. Brazil was the 10th government sovereign 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 countries are in arrears as of Nov. 30, 2023.

We determine support for IFFIm by evaluating the support of its strongest contributors. Apart from the U.K., which contributes 43% of support, highly rated contributors include Australia, Canada, Norway, the Netherlands, and Sweden (all rated 'AAA'), which together account for 36% of the contributions IFFIm is to receive from 2023 and onward. The third-largest donor is France (rated 'AA'), which provides 10% of the total estimated remaining inflows into IFFIm. Other lower-rated contributors are Italy (7%) and Spain (4%), 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 1.2x as of Dec. 31, 2023, from 1.1x a year earlier.

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 73.8% as of year-end 2022 and 72.3% in June 2023.

Gearing has risen in line with Gavi's increased usage of IFFIm in the pandemic and post-pandemic. The actual gearing ratio was 58.9% as of June 2023, up from 52.3% in December 2022 and 40.3% in December 2021.

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 2023, 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 these rare delays to have been administrative and not 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 year-end 2022 and 2021, the minimum liquidity requirements were US$576 and US$99 million, respectively. We calculated these as the equivalent cumulative contracted debt service payments for the next 12 months. IFFIm's liquid assets totaled US$1 billion in 2022 and US$603 million in 2021. IFFIm remains compliant with its policy.

IFFIm has been active in the funding market in recent years, though not in 2023. During 2022, it issued two bonds, one in July and the other in November. The July £250 million three-year, fixed-rate bond, which provided immediately available funding for Gavi, was followed by a $500 million fixed-rate bond in November--which in the end served as prefunding for the November 2023 maturity. 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

- How Would MLIs' Participation In Sovereign Debt Restructurings Affect Our Preferred Creditor Treatment And Ratings?, Nov. 28, 2023
- Supranationals Special Edition 2023: Capital Optimization At The Forefront For MLIs Oct. 13, 2023
- Supranationals Edition 2023: Comparative Data For Multilateral Lending Institutions, Oct. 12, 2023
- Supranationals Special Edition 2023, Oct. 12, 2023
- Introduction to Supranationals Special Edition 2023, Oct. 11, 2023
- IFFIm Outlook Revised To Negative Following Outlook Revisions On Key Donors; 'AA/A-1+' Ratings Affirmed, Dec. 13, 2022
- International Finance Facility for Immunisation 'AA/A-1+' Ratings Affirmed; Outlook Remains Stable, Jan. 28, 2022

Ratings List

Ratings Affirmed		
International Finance Facility for Immunisation		
Senior Unsecured	AA	
Ratings Affirmed; CreditWatch/Outlook Action		
	To	**From**
International Finance Facility for Immunisation		
Sovereign Credit Rating		
Foreign Currency	AA/Stable/A-1+	AA/Negative/A-1+