

Research Update:

IFFIm 'AA/A-1+' Ratings Affirmed On Upcoming Replenishment Cycle; Outlook Remains Stable

December 13, 2024

Overview

- IFFIm's purpose is to provide funding to Gavi, the Vaccine Alliance, for immunization and other programs related to Gavi's mission, and following the height of the COVID-19 pandemic, we expect it will continue to play an important role on the global stage.
- As it enters the Gavi 6.0 replenishment and strategy cycle, IFFIm plans to scale up delivery of high-impact, expensive vaccines with support from its highly rated donor base, which includes Canada, Norway, and the U.K.
- We affirmed our 'AA/A-1+' long- and short-term issuer credit ratings on IFFIm.
- The stable outlook reflects our view that IFFIm's donor support and innovative vaccine financing model remain sufficiently robust to offset potential pressure on debt service coverage from changes in grant receivables' credit quality or increased debt issuance.

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Rating Action

On Dec. 13, 2024, 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.

Outlook

The stable outlook reflects support from highly rated donors. We believe this support limits 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. We also assume this support will continue with new pledges from existing and potentially new members, amid reliance on IFFIm as the strategy for Gavi 6.0 crystallizes.

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 increased its debt outstanding absent additional donor pledges;
- IFFIm experienced limited success in securing new pledges during the Gavi 6.0 cycle;
- Highly rated contributors delayed donor grants; or
- Due to political events, we ceased to view sovereign credit 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 supported a stronger debt service coverage ratio.

Rationale

IFFIm continued to receive solid support from donors throughout 2024, notwithstanding that we no longer account for pledges from 'AA-' rated France--the third-largest donor, with 9.1% of future inflows--because it's rated lower than IFFIm.

The U.K. ('AA') remains IFFIm's single largest donor, accounting for 41.6% of future pledges, after it reprogrammed a £461 million grant to Gavi into an IFFIm pledge two years ago. Meanwhile, Norway ('AAA') now accounts for 17% of future pledges.

Canada ('AAA') became IFFIm's 11th donor in February 2023. It pledged C\$125 million for 2023-2030, which represents 2.6% of remaining inflows from 2024 onward. While this amount is comparatively small, Canada's contributions expand IFFIm's 'AAA' rated donor base and reinforce the value ascribed to IFFIm's innovative financing model.

Discussions on the Gavi 6.0 replenishment cycle and strategy for 2026-2030 began in mid-2024 and will take shape over 2025. Support from new pledges from existing and potentially new donors will be a signal of IFFIm's policy importance.

We consider the credit quality of pledges from the U.K. and other highly rated countries to be 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 total outstanding debt. Moreover, we evaluate the availability of cash on the balance sheet to cover upcoming debt redemptions. We then develop a forward-looking view for the next two years by estimating additional debt issuance. 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 2023, IFFIm's total outstanding debt was US\$1.9 billion, compared with US\$2.4 billion in 2022. IFFIm did not tap global markets in 2023, but it placed a US\$1.0 billion three-year bond in October 2024 to cover US\$832.5 million due in amortization in 2025 and to fund Gavi. Demand was 4x subscribed. IFFIm plans to issue US\$300 million-US\$500 million in 2025. We estimate its stressed debt service coverage ratio will be above 1.1x for 2024-2026, considering current pledge commitments and available liquid assets.

We affirmed our ratings on IFFIm based on our view of its highly rated donors' commitment 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 US\$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 US\$937 million to IFFIm as part of the US\$8.8 billion in total pledges for Gavi's strategic goal to support the immunization of 300 million children. During 2022, the U.K. and Spain pledged additional amounts to IFFIm that were recognized at an initial fair value totaling US\$541 million, including the U.K. amount reprogrammed from a direct Gavi grant to IFFIm, effectively increasing its pledges. And in 2023, Canada joined, pledging C\$125 million.

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 US\$1.2 billion in 2021 and were US\$829 million in 2022, US\$435 million in 2023, and an estimated US\$366 million in 2024.

IFFIm was founded in 2006 with US\$4 billion pledged over 20 years by six sovereign donors. As of

November 2024, donors' pledges increased to US\$9.132 billion, of which US\$3.54 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, 2024.

We determine support for IFFIm by evaluating the support of its strongest contributors. Apart from the U.K., which contributes 42% 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 2024 onward. The third-largest donor is France (rated 'AA-'), which provides 9.1% of the total estimated remaining inflows into IFFIm. Other lower-rated contributors are Italy (7%), Spain (4%), Brazil (less than 0.4%), and South Africa (less than 0.1%).

To measure IFFIm's risk-adjusted leverage, 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 was 1.2x as of Dec. 31, 2024, down from 1.3x a year earlier.

IFFIm has its own leverage ratio to manage credit risk and protect the facility from insolvency--calculated and presented to the board quarterly by IBRD. It includes a leverage ratio limit, which limits net financial obligations to the present value of scheduled payments from grantors. The limit was 73.4% as of June 2024, versus 71.8% as of year-end 2023 and 73.8% as of year-end 2022.

Leverage has risen in line with Gavi's increased usage of IFFIm since the COVID-19 pandemic began. The actual ratio was 48.1% as of June 2024, down from 54.3% in December 2023 and 52.3% in December 2022.

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 2024, there were 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 2023 and 2022, the minimum liquidity requirements were US\$118 million and US\$576 million, respectively. We calculated these as the equivalent cumulative contracted debt service payments for the next 12 months. IFFIm's liquid assets totaled US\$529 million in 2023 and US\$1 billion in 2022. IFFIm remains compliant with its policy.

After not tapping markets in 2023, in October 2024, IFFIm issued a US\$1 billion bond, its single largest bond since its inaugural one in 2006. This issuance was aimed primarily at bolstering liquidity ahead of its November 2025 US\$832 million maturity.

In 2022, IFFIm issued two bonds, one in July and the other in November. The £250 million

three-year fixed-rate bond in July provided immediately available funding for Gavi, followed by the \$500 million fixed-rate bond in November--which ultimately served as prefunding for the November 2023 maturity.

On April 21, 2021, IFFIm issued \$750 million in five-year fixed-rate vaccine bonds, which provided Gavi with immediately available funding to support routine immunization and whose amount was later increased to \$1 billion, accelerating 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

- The MLI Sector's Focus Remains On Capital Optimization, Says Supranationals Special Edition 2024, Oct. 31, 2024
- Supranationals Edition 2024: Comparative Data For Multilateral Lending Institutions, Oct. 22, 2024
- Introduction To Supranationals Special Edition 2024, Oct. 22, 2024
- Will Callable Capital Be A Game Changer For The MLI Asset Class?, July 22, 2024
- IFFIm Outlook Revised To Stable From Negative On Solid Donor Support And Creditworthiness; 'AA/A-1+' Ratings Affirmed, Dec. 20, 2023
- How Would MLIs' Participation In Sovereign Debt Restructurings Affect Our Preferred Creditor Treatment And Ratings?, Nov. 28, 2023

Ratings List

Ratings Affirmed

International Finance Facility for Immunisation

Sovereign Credit Rating

Foreign Currency AA/Stable/A-1+

International Finance Facility for Immunisation

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

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criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.

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