Research Update:

International Finance Facility for Education's UK Contingent Capital Treated As Equity-Like, 'AA+/A-1+' Ratings Affirmed

December 23, 2025

Overview

- We assess the International Finance Facility for Education's (IFFEd) Contingent Capital Agreement (CCA) with the U.K. government as early trigger contingent capital (ETCC) and include parts of these in our calculations of IFFEd's total adjustment capital (TAC), supporting our view of IFFEd's intrinsic capital strength.
- Our assessment of IFFEd's capitalization has further strengthened because of the recalibration of preferred creditor treatment risk weights and changes to the single-name concentration charge, both under our revised criteria.
- Our prospective view for the next few years factors in IFFEd's unique role, as well as our expectations that it will successfully execute its mandate to enable education financing in lower-middle-income countries and that contributors will remain supportive. This is balanced by its short track record, evolving operational functions, and broader startup-related risks.
- We have affirmed our 'AA+/A-1+' issuer credit ratings on IFFEd and maintained the stable outlook.

Rating Action

On Dec. 23, 2025, S&P Global Ratings affirmed its 'AA+' long-term and 'A-1+' short-term issuer credit ratings on the International Finance Facility for Education (IFFEd). The outlook is stable.

Outlook

The stable outlook reflects our view that, over the next two years, IFFEd will develop a track record of delivering on its mandate by expanding its guarantee operations and solidifying its policy relevance. We expect the initial contributors will remain supportive and that the institution will strengthen its operations, risk management, staff, and IT systems to support execution and limit start-up-related risks. We also assume it will adhere strongly to what we consider sound

Primary Contact

Gabriel Forss
Stockholm
46-84-40-5933
gabriel.forss
@spglobal.com

Secondary Contact

Alexander Ekbom
Stockholm
46-84-40-5911
alexander.ekbom
@spglobal.com

Secondary Contact

Alexis Smith-juvelis
Englewood
1-212-438-0639
alexis.smith-juvelis
@spglobal.com

policies in governance and risk. Although we forecast that IFFEd's capital and liquidity positions will fall from extremely strong levels as it proceeds with its mandate, we expect the entity will manage these aspects very well, at levels commensurate with an extremely strong financial risk profile.

Downside scenario

We could lower the ratings if IFFEd fails to expand its business, signaling lackluster recognition of the instrument at a more widespread level, or if contingent capital contributors fail to convert their contingent contributions to cash in a timely manner in the event of a trigger event, as required under the relevant documentation.

Upside scenario

We could raise the ratings within the next 24 months if IFFEd incorporates a meaningful number of new and highly rated contributors, which would both cement its policy relevance and diversify its governance structure, while also demonstrating superior execution of its mandate through the issuance of its guarantee instrument.

Rationale

The affirmation reflects IFFEd's strengthened capital adequacy. Our assessment of IFFEd's capital position has strengthened after our recalibration of preferred creditor treatment (PCT) risk weights and changes to the single-name concentration charge under our revised criteria "Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology," published Oct. 13, 2025.

We now also regard IFFEd's CCA with the U.K. government as equity-like and incorporate parts of it into our estimation of IFFEd's TAC. On the other hand, we do not consider the guarantee from the Swedish International Development Cooperation Agency (SIDA) as sufficiently equity-like to be viewed as an ETCC but instead continue to view these contingent resources as akin to callable capital. As a result, our estimation of IFFEd's risk-adjusted capital (RAC) ratio, which we calculate at a medium-term steady-state position at year-end 2029 has strengthened, both on an intrinsic and overall basis.

We continue to balance IFFEd's extremely strong financial risk-profile against what we see as broader start-up related risks. For example, these may be linked to IFFEd's ability to expand its donor base to include additional contributors, together with the setting-up and fine-tuning of its operational functions. We consider the establishment of a solid track record of delivery under its policy mandate will be key if it is to cement its policy role and persuade additional donors to commit resources to the facility.

IFFEd's CCA from the U.K. is an irrevocable and unconditional capital agreement that commits the U.K. government to convert its contingent commitment into paid-in capital at a point in time that would support IFFEd as a going-concern. In addition to the clearly defined trigger levels, we consider it key that the CCA is underpinned by a clear legal framework that governs its enforceability and provides for its unconditionality and irrevocability. The contractual features under the agreement allow IFFEd to call on the CCA in a situation where its cash ratio (defined as liquid assets to aggregate guarantee commitment outstanding) fell below 10%, regardless of the

reason for the deficiency. The contributor donors would then have 60 days to make payments to restore the cash level to 15% of total outstanding guarantees. We regard this trigger situation as supporting the going-concern basis of IFFEd and estimate it would occur well before any call on any conventional callable capital would be made.

IFFEd is a distinctive multilateral guarantee instrument that holds a unique capital setup in support of its policy function. By design, IFFEd cannot incur debt and can never underwrite a nominal amount of guarantees that exceed its total capital stock, including its CCAs. Moreover, in terms of developing its franchise, we understand that IFFEd intends to expand its operations across five-year investment cycles, striving to achieve fresh capital resources (which are expected to include contingent capital commitments) every five years in support of further expansion of its guarantee portfolio.

Even though the U.K. CCA is not perpetual in nature, we believe it will remain in force as long as the corresponding guarantee liabilities are outstanding. We expect IFFEd will maintain a strict matching between the tenure of its outstanding guarantees (toward a multilateral lending institution [MLI] lending portfolio) with the remaining lifetime of the CCA capital that backs these guarantees. Should this matching principle erode, we could disqualify the ETCC status of the CCA.

We regard ETCCs as a weaker form of equity than paid-in capital and use haircuts that depend on our foreign currency rating on the provider:

- First, we apply a 10% haircut on the $102 million contingent capital provided by the U.K. due to our 'AA' long-term rating on the U.K., in line with the discounts we disclose in our MLI ratings criteria.
- Second, in line with our methodology, we only allow for ETCCs to be included in TAC up to 50% of adjusted common equity (ACE), which, because of IFFEd's low levels of paid-in capital, is the more binding constraint for inclusion into the intrinsic RAC ratio calculation.

We consider IFFEd's capital consumption and ultimately its credit risk to be linked with the PCT of the implementing MLI. The facility will be exposed to the sovereign loan and guarantee portfolios of the four multilaterals with which IFFEd plans to establish partnerships. We assess the PCT of Asian Development Bank (AsDB), IFFEd's founding partner MLI, as very strong and no member countries are currently in nonaccrual status; while African Development Bank (AfDB), International Bank for Reconstruction and Development (IBRD), and Inter-American Development Bank (IADB) have a strong PCT assessment. By design, IFFEd would not provide portfolio support that covers the nonaccruals already in existence. In our view, this strengthens the PCT benefit that IFFEd receives and translates into an initial arrears ratio of 0%. Given that the recipient country obligors, for which IFFEd has provided guarantees, have their lending relationship with the respective MLI, we transfer the relevant PCT onto the risk weights we apply to IFFEd's guarantee exposures. We have revised these risk weights incorporating recent data on MLI loan performance, and these revisions affect sovereign exposures rated 'BB-' or below that have a demonstrated and robust PCT track record. The recalibration of PCT risk weights applied to sovereign exposures had a significant impact on IFFEd, given that the weighted average foreign currency sovereign rating in the assessed guarantee portfolio is in the BB range.

IFFEd's business expansion during 2025 has lagged its initial expectations but the expected upcoming addition of the International Bank for Reconstruction and Development (IBRD) as a partner should speed up its guarantee deployment. IFFEd's financial instrument became legally

effective in December 2024 and in 2025 the board has endorsed its first four investment cases in Asia, in cooperation with its established partner MLI, AsDB. These guarantees will take effect in 2026 and carry a multiplier factor of 4x, meaning they support an underlying portfolio of US$400 million of educational lending. While the evolution of IFFEd guarantees over 2025 has lagged its initial plan, illustrating the importance of successfully establishing the IFFEd guarantee instrument and engaging with its implementing MLI partners, we believe the upcoming inclusion of the IBRD--as a partner disbursing MLI to IFFEd--should hasten guarantee deployment over 2026-2028, with large portions going to the IBRD's lending portfolios.

We applied a medium-term scenario analysis to simulate our RAC ratio based on IFFEd's forecast balance sheet positions up to the end of 2029. Our analysis suggests that the RAC ratio will remain above 50%--incorporating our re-calibrated PCT risk weights and the inclusion of parts of the U.K.'s CCA within the TAC--comfortably in line with our assessment of extremely strong capital. We anticipate that IFFEd's capital position will stand even stronger at inception, and expect it to decline only gradually, as its guarantee service operations expand. Our recent re-assessment of IFFEd's RAC position further supports this view.

We do not regard IFFEd's $200 million guarantee from SIDA as fulfilling our requisites for ETCC, but continue to treat it as equivalent to callable capital. We anticipate that IFFEd would benefit from extraordinary shareholder support, in the form of capital, if needed. Currently, we do not factor such support into our rating because we assess IFFEd's capital adequacy at the highest level without it. Nevertheless, callable capital from IFFEd's highly rated donors would enhance our RAC ratio and could mitigate the effect on its financial profile, were its stand-alone capital adequacy to deteriorate. Unlike our treatment of ETCC, our measure of eligible callable capital for an MLI includes only those sovereigns rated at least equal to the MLI's stand-alone credit profile. For IFFEd, we would therefore not include the remaining contingent capital provided by the U.K. (outside what we factor into the intrinsic RAC ratio) but do include the callable capital from Sweden (rated 'AAA')--equal to $200 million in December 2025.The inclusion of SIDA's guarantee capital propels the enhanced RAC ratio above 100%.

Related Criteria

- Criteria | Governments | General: Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology, Oct. 13, 2025
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, April 30, 2024
- 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 2025, Oct. 22, 2025
- Supranationals Edition 2025: Comparative Data For Multilateral Lending Institutions, Oct. 14, 2025

- Abridged Supranationals Interim Edition 2025: Multilateral Lending Institutions Sector Updates, May 22, 2025

Ratings List

Ratings List	
Ratings Affirmed	
International Finance Facility for Education	
Issuer Credit Rating	
Foreign Currency	AA+/Stable/A-1+

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