CHAPTER 6

Financial Intermediary Funds Reform

6.1 Introduction

The World Bank is a premier international development institution and working in partnership with other organizations is critical to meeting many development challenges—in particular to address global public goods. The World Bank has been able to support collective action on a number of global and regional issues through the different roles it has played in supporting FIFs. The partnerships supported by FIFs leverage, very often through innovative arrangements, a variety of public and private resources in support of international initiatives and enable the international community to provide a direct and coordinated response to global priorities.

6.2 Opportunities and Challenges

FIFs offer significant opportunities for the World Bank to participate in and promote a collective response to global and regional development challenges. FIFs support the World Bank's ability to scale up country operations in areas like global public goods, such as climate resilience, environmental commons, and crisis response, where more traditional country investments often face negative externalities.

Global and regional challenges such as climate change, health epidemics, food security, conflicts, and migration suggest that FIFs will continue to play an important role in facilitating collective action and close collaboration with others. FIFs are seen by multiple stakeholders, including development partners and recipient countries, as important financing mechanisms for advancing the global development agenda. In some FIFs, like the GPE, the CIF (CTF and SCF), and the GEF, the World Bank is not only a trustee but also host to the secretariat and an IA (along with IFC, in some cases), increasing visibility and a focus on issues of global development importance. The World Bank has provided a platform for coordinating financial and operational responses with donors and other IAs. The larger FIFs have also brought substantial funding to client countries. In other FIFs, the World Bank has provided much appreciated trustee services to separate legal entities like the GFATM, the IFFIm for GAVI, the GCF, while not engaging (or prior to engaging) as an IA.

While the World Bank reaps significant rewards from its engagement in FIFs, as a financial instrument, FIFs can also create a number of challenges. FIFs often respond to calls for action and fill gaps in development assistance and typically have an issue specific focus with a governance and decision-making structure separate from that of other multilaterals that participate in the delivery of the development mandate. FIFs can thus contribute to fragmentation of the aid architecture if the creation of new FIFs is not considered within the larger architecture.

FIFs can also raise governance issues for the World Bank. When the World Bank provides the secretariat function for a FIF, the hosted FIF relies on the World Bank for legal personality. The World Bank becomes, for instance, the hiring entity for staff and the signatory to contractual arrangements under its own policies and procedures. However, the role of the World Bank in FIF governing bodies is often weak and limited to that of an observer. Thus, World Bank management and the World Bank Board have limited say in decision making. This could potentially create substantial governance challenges in case of conflicts between the policies of the World Bank and those adopted for the partnership supported by a FIF. This could happen, for example, when the World Bank-hosted FIFs consider establishing innovative financing arrangements that could potentially impact the World Bank's balance sheet.

In some cases, the World Bank is asked to establish FIFs to play a financial trustee role only, without leveraging the World Bank's operational capacity. Engagement in such FIFs might not be a strategic use of World Bank expertise, capacity, and senior management involvement, since the FIF is not designed to support the World Bank's efforts to achieve its strategic goals. The same might be the case for FIFs for which the World Bank renders secretariat services but only has a minor role as an IA. And, in some cases, the FIF's implementation modalities may be moving away from the current World Bank business/operational model by becoming more complex, while the World Bank is gearing toward more agile approaches.

6.3 Summary of Past Phases

In 2011, the Independent Evaluation Group conducted an evaluation of the World Bank's portfolio of partnership programs, including FIFs.[172] Among the areas for improvement, the review highlighted the need for greater selectivity in determining when the World Bank should engage in FIFs and the need to further strengthen risk management and corporate oversight over such engagements. Also, the Independent Evaluation Group called on the World Bank to review its experience with FIFs to ensure that practices for accepting and managing FIFs were adequate.

In response to Independent Evaluation Group's recommendations and based on the World Bank's own experience, the World Bank developed a new Framework for Partnership Programs and FIFs in 2013.[173] The framework takes a "lifecycle" approach based on three phases: (i) identification, preparation, and approval; (ii) operational and portfolio management of ongoing partnership programs; and (iii) planning and managing possible exits. The framework places an emphasis on consistent processes, strategic engagement, oversight, and risk management. The World Bank has further documented the procedures for the implementation of the framework approach in management directives, which include an outline of the steps to be followed for review and approval of new FIFs and change management of existing FIFs (i.e., significant changes that impact the World Bank's roles, responsibilities, and accountabilities), guidance on communication for FIFs, accreditation frameworks for IAs under FIFs and Terms of Reference for World Bank staff representing the Trustee in FIF governing bodies. [174, 175, 176] However, implementation has not been systematic, in part due to broader changes in the World Bank's operational structure following the endorsement of the Framework. In addition, past FIF reform efforts focused mainly on improving the policy framework around the individual roles played by the WBG in FIF as trustee, secretariat to the governing body, and IA, with the role of the WBG as host receiving limited attention.

6.4 The Way Forward

The opportunities and challenges summarized above are not entirely new and have, to varying degrees, begun to be addressed by the FIF reform efforts in the past phases of the reform. In the next phase of the reform, which is under way, with active participation from Global Practices, Global Themes, Regions, and IFC, the focus will be on increasing FIF alignment with the World Bank's corporate and operational strategies and risk management needs both at entry and over the lifecycle. While preliminary recommendations regarding what needs to be done, and how, have been discussed internally in the World Bank, these will be subjected to and refined through consultations with donors and clients starting in the first quarter of 2018. Implementation of the recommendations is expected to start at the beginning of the World Bank's FY19.

172 *An Evaluation of the World Bank's Trust Fund Portfolio* (http://bit.ly/IEGTF), prepared by Independent Evaluation Group in 2011.

173 *Management Framework for World Bank Partnership Programs and Financial Intermediary Funds: Strategic Engagement, Oversight, and Management* (http://bit.ly/IEGPartnership), prepared by Development Finance Vice Presidency in 2013.

174 FIFs Guidebook 2013, prepared by Development Finance Vice Presidency in 2013.

175 *Guidance—Terms of Reference for Bank Staff representing the Trustee in FIF Governing Bodies,* prepared by Development Finance Vice Presidency (http://bit.ly/FIFGuidance) in 2015.

176 *Management Framework for Financial Intermediary Funds* (http://bit.ly/FIFProcedure), prepared by Development Finance Vice Presidency in 2013.