Financial Intermediary Funds: A Unique Instrument in the Aid Architecture

Trust Fund Reforms aim to strengthen Financial Intermediary Funds through greater selectivity, oversight and risk management.

Overview

To meet development challenges that are not sufficiently addressed by existing funds and mechanisms, the World Bank often partners with the international community to support large, global and regional initiatives. Many of these initiatives are implemented through Financial Intermediary Funds (FIFs). FIFs are independently governed financial and partnership platforms that fund projects implemented by multiple entities, typically multilateral development banks and/or UN agencies. FIFs focus on specific themes, such as climate change, the environment, health, education, migration, crisis response and debt relief. In FIFs the World Bank acts as the limited trustee, providing a well-established financial, investment management and accounting platform, and experienced specialized legal and treasury services. In addition, the World Bank is often host to the FIF secretariat and one of the implementing entities.

As of the end of FY18 there were 27 FIFs in operation, with cumulative funding of US$97.4 billion (Figure 1). The first FIF-type partnership program, the Onchocerciasis Control Program was established in 1974. The largest FIFs are the Global Fund to fight AIDS, Tuberculosis and Malaria (GFATM), the Global Environment Facility (GEF) and the Climate Investment Funds (CIFs). In FY18, FIFs transferred $6.7 billion for development projects.

Challenges arising from the Proliferation of FIFs

New FIFs are politically attractive for high profile advocacy around critical international priorities. As a result, in the last five years, eight new FIFs have been established. The recent growth in number and scope of FIFs gives rise to a number of challenges. Each FIF has its own governance arrangements separate from the governance structure of the World Bank and other development institutions, creating the potential for duplication and fragmentation of the aid architecture. Over time, the mandate of new FIFs has narrowed and increasingly risks overlapping with other FIFs, IDA and IBRD and other development initiatives. FIFs also have their own terms for access to and use of funds. This places a burden not only on the well-established implementing entities, but more importantly, on the clients, who often struggle to navigate access to different funding sources and absorb funds from multiple partners.

Consultations with development partners and the World Bank Board have revealed a common understanding - that collective action is required to reduce further fragmentation going forward. For clients, more efficient and strategic delivery of development finance would reduce the transaction costs of multiple instruments and support a greater focus on achieving results.

FIF Reforms

Greater selectivity and oversight at initiation. The Bank will engage major global fora (like the G7, G20, UNGA) to help shape initiatives upstream, taking into consideration the full suite of available responses and instruments that offer the best “fit for purpose” recommendation. Internal review processes will be strengthened for earlier senior level guidance both on fit with World Bank strategy, comparative advantages, and financial modalities, to ensure systematic
due diligence on alternative instruments before announcements are made and resource mobilization begins for a new FIF. FIF-related risk management guidance will be enhanced. Accountabilities for internal World Bank decision-making are clearly laid out for each stage in the process. New FIFs require World Bank Board approval except when the level of risk is low when assessed across multiple dimensions, including strategic, operational and financial.

**Simpler, more consistent design of new FIFs** based on experience, reducing unnecessary customization, to enable greater efficiency in supporting the FIF portfolio. The World Bank’s methodology for trustee services costing is also simplified while maintaining full cost recovery.

**A focus on WBG roles beyond trustee.** Prior reforms focused on the Bank’s role as trustee. This edition goes further, with a special focus on promoting greater clarity and understanding of the Bank’s other important roles, as host to FIF secretariats and as implementing entity. Informed by recent experience, the Bank’s hosting arrangements for secretariats has been clarified for a consistent, transparent and stable hosting environment that balances Bank risk-management needs with FIF secretariat needs to support independent governing bodies. WB Trust Fund policy, which is currently ambiguous with regard to FIFs, will clarify that WB policies apply to the World Bank in all of its roles in FIFs, including hosted FIF secretariats, utilizing World Bank staff, and where funds are received from FIFs for World Bank implementation.

**Improved lifecycle management, of individual FIFs and the portfolio as a whole,** for greater transparency and partnership. FIFs naturally evolve over time, as does the overall FIF portfolio. The new framework puts in place measures to support improved information flow and engagement after establishment. Risk assessment triggers have been identified for Bank review, to promote timely, healthy discussion, and Bank management and the Board will be kept informed of significant changes in individual FIFs. At the portfolio level the Bank will issue annual reporting, with a more analytical tri-annual FIF portfolio Review.

**Next Steps**

TF policy, and FIF directives, procedures and guidance, are now being updated, building largely on what has already been tested and found to be helpful. Communication to relevant stakeholders is also being prepared.

To learn more about FIF reform contact: Lydia Kruse Tietz +1 (202) 458-5649 or Traci Phillips +1 (202) 458-5366