CHAPTER 4

Overview of Financial Intermediary Funds

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4.1 Introduction

The World Bank has a large and growing portfolio of FIFs. The total cumulative funding to FIFs as of end-FY17 amounted to $89.7 billion, since the establishment of the first FIF. Over the last decade, the number of active FIFs has more than doubled from 12 in FY08 to 26 as of end-FY17. From FY13–FY17, six new FIFs were established while three FIFs were closed during this period.

With FIFs, the World Bank generally supports the international community in providing a platform for multiple IAs to take collective action. Over the years, FIFs have enabled the World Bank to engage in new and urgent corporate and global priorities, such as environment and climate change, food security, fighting communicable diseases, pandemics, natural disasters, addressing the recent refugee crisis, and supporting women’s entrepreneurship and empowerment. FIFs are customized depending on the needs of the partnership, and often the World Bank has developed innovative financing models to maximize funding through the involvement of the private sector.

4.2 Examples of Financial Intermediary Funds

This section features four brief examples of FIFs that maximize development finance, pilot innovative financing, and support partnerships. For every FIF which is highlighted below, many other equally impactful FIFs exist. Given the scale and diversity of the FIFs portfolio, it is not possible to highlight all FIFs in this report.147

The Pandemic Emergency Financing Facility (FY16)148

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The Pandemic Emergency Financing Facility (PEF) breaks new ground by providing the first ever insurance-like mechanism for pandemic risk, offering coverage to all low-income countries eligible for financing under IDA. The World Bank (IBRD) issued Pandemic Bonds and entered into Pandemic Insurance derivative contracts to provide resources from the financial markets to the PEF in the event of a qualified outbreak. Through the provision of public funds to the amount of $117 million, the total amount of risk transferred to the private markets was $425 million.

The PEF is a quick disbursing financing mechanism that provides surge funding to enable a rapid and effective response to a large-scale disease outbreak, thereby preventing its escalation. Eligible countries can receive timely, predictable, and coordinated surge financing if affected by an outbreak that meets predefined activation criteria.

147 Visit http://fiftrustee.worldbank.org
148 Refers to the year of establishment of the FIF.
Global Concessional Financing Facility (FY17)

The objective of the Global Concessional Financing Facility (GCFF) is to support middle-income countries impacted by the influx of refugees through the provision of new concessional financing, which eligible countries would not otherwise have access to, and improve coordination for development projects addressing the impact of the influx of refugees. GCFF: (i) bridges the gap between humanitarian and development assistance by enhancing coordination between the United Nations, multilateral development banks, refugee host countries, and donors to address shared priorities; (ii) strengthens resilience of countries impacted by the refugee crises by assisting both host communities and refugees; and (iii) supports policy reforms and programs in areas such as education, health, and job creation to create sustainable development outcomes.

Pilot Auction Facility for Methane and Climate Change Mitigation (FY15)

The Pilot Auction Facility for Methane and Climate Change Mitigation (PAF) is an innovative climate finance model to stimulate investment in projects that reduce greenhouse gas emissions, while maximizing the impact of public funds and leveraging private sector financing.

The key objective of the PAF is to demonstrate a new, cost-effective climate finance mechanism that incentivizes private sector investments and action in climate change in developing countries by providing a guaranteed minimum price on carbon reduction credits. The guaranteed minimum price is delivered through the auctioning of put options supported by donor funding. The nature of the put option means that the facility’s resources will only be disbursed after the emission reductions have been independently verified, making the PAF a “pay for performance” facility. The put options will be embedded into puttable bonds issued by the World Bank. The World Bank’s obligation under the bonds will be backed by the PAF.
Climate Investment Funds (FY09)

The Climate Investment Funds (CIF), which includes the Clean Technology Fund (CTF) and Strategic Climate Fund (SCF), has received $8.0 billion in contributions since 2008 from donor countries. By FY17, the CIF is providing 72 developing and middle-income countries with resources needed to manage the challenges of climate change and reduce their greenhouse gas emissions. The CIF is comprised of four funding programs:

The CTF, with $5.4 billion of contributions received from donors since 2008, is supporting transformation in developing and emerging economies by providing resources to scale up low carbon technologies with significant potential for long-term greenhouse gas emissions savings. Between FY13–FY17, CTF has provided $2.9 billion to support project implementation in clean technologies such as renewable energy, energy efficiency, and clean transport. These investments have mobilized $11.5 billion in cofinancing and supported a cumulative installed capacity of 1.8 gigawatt of renewable energy projects, resulting in cumulative greenhouse gas reductions of 2.1 million tons of carbon dioxide equivalent.

The SCF serves as an overarching framework to support three targeted programs to pilot new approaches with potential for scaled-up action aimed at specific climate change challenges or sectoral responses. Targeted programs under the SCF include:

1. The Scaling Up Renewable Energy in Low-Income Countries Program (SREP) is demonstrating the economic, social, and environmental viability of renewable energy in developing countries. SREP has provided $0.4 billion during FY13–FY17 for supporting scaled up deployment of renewable energy solutions to increase energy access and economic opportunities.

2. The Pilot Program for Climate Resilience (PPCR) assists national governments in integrating climate resilience into development planning across sectors and stakeholder groups. PPCR has provided $0.8 billion during FY13–FY17 to put plans into action and pilot innovative public and private sector solutions to pressing climate-related risks.

3. The Forest Investment Program (FIP) supports efforts of developing countries to reduce deforestation and forest degradation and promote sustainable forest management that leads to emissions reductions and enhancement of forest carbon stocks. FIP has provided $0.4 billion during FY13–FY17 for countries to address the drivers of deforestation and forest degradation both inside and outside of the forest sector.
4.3 The World Bank’s Role in Financial Intermediary Funds

The World Bank’s distinctive role across FIFs is the provision of financial intermediary services, as trustee of the funds. As trustee, the World Bank provides a set of agreed financial services that include receiving, holding, and investing contributed funds, and transferring them when instructed by the FIF governing body. Under some FIFs, the World Bank also provides customized treasury management or other agreed financial services; examples include bond issuance, hedging intermediation, and monetization of carbon credits. FIF trusteeship does not involve overseeing or supervising the use of funds. This is the role of the IAs that receive funding and are responsible for project or program implementation. Services provided to FIFs by the World Bank as trustee are provided on a full cost recovery basis. Revenues received by the World Bank for FIF trustee services amounted to $14.5 million in FY17.

In addition to its trustee role, the World Bank often hosts FIF secretariats and serves, alongside other entities, including IFC, as one of the IAs to which the trustee transfers resources. In a few cases, the World Bank has also contributed to FIFs as a donor.

For some FIFs, the World Bank has been deeply involved in conceptualization, design, and fundraising, e.g., for the CIF, GEF, Women Entrepreneurs Finance Initiative (We-Fi), PEF, and International Finance Facility for Immunisation (IFFIm). For others (e.g., GFATM), the World Bank operational teams provide downstream technical assistance to build local capacity for implementation. In cases where the World Bank has been selected as an IA by the FIF governing body, resources may be received by the World Bank operational units for the implementation of activities through IBRD/IDA trust funds. In general, because different entities play different roles within the FIF structure, a key aspect of governance is the clear separation of roles and responsibilities within the World Bank.

The World Bank’s technical, financial, and legal expertise are often employed in designing and establishing FIFs. This includes legal and treasury services, donor contribution management, accounting, reporting capabilities, prudent financial management policies, procedures, and internal controls. The investment of liquid assets of FIFs is managed by the World Bank’s Treasury, with the primary objective of capital preservation. An emphasis has also been placed on information technology systems infrastructure to support FIFs. The World Bank uses integrated information systems that provide end to end financial transaction processing and support FIF governing bodies, IAs, and secretariats with the required data and customized financial reporting.

4.4 Characteristics of Financial Intermediary Funds

FIFs are financial arrangements that typically leverage a variety of public and private resources in support of international initiatives, enabling the international community to provide a direct and coordinated response to global priorities. Most FIFs have supported global programs often focused on the provision of global public goods, such as preventing communicable diseases and responding to climate change. FIFs often involve innovative financing and governance arrangements, as well as flexible designs that enable funds to be raised from multiple sources, both sovereign and private. Funds can be channeled in a coordinated manner to a range of recipients in the public and private sectors through a variety of arrangements.
There are two basic models in the World Bank’s trusteeship portfolio:

• The World Bank provides trustee services to an independent external legal entity. Under this model, in some cases, the World Bank also serves as IA like in the Green Climate Fund Trust Fund (GCF), and in other cases, it does not, like in the Consultative Group on International Agricultural Research (CGIAR).

• The World Bank provides trustee services to FIFs, which are hosted by the World Bank and do not have their own legal personality (and under this model, the World Bank also hosts FIF secretariats). While the World Bank also serves as IA in most cases under this model, it is not always necessary, depending on the specific design and objective of the FIF (e.g., PAF which by its innovative design does not have any IA per se but where the World Bank issues bonds to support the PAF’s performance-based payments).

Furthermore, the World Bank has agreed to provide some FIFs in both models with innovative financial services (e.g., PEF, IFFIm).