OVERALL TRENDS

Financial intermediary funds (FIFs) represent a fast-growing business area for the Bank, accounting for the lion’s share of the Bank’s total trust fund portfolio (see Figure 14). Many FIFs have been launched in the context of G7/G8 and G20 meetings.

Figure 14. **FIF Share of Bank’s Total Trust Fund Portfolio—Funds Held in Trust (US$ billions)**

FIFs focus mainly on the provision of global public goods, particularly health and climate change.
As of the end of FY10, the Bank managed 16 FIFs. The largest FIF is the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM). The combined volume of donor contributions to FIFs, funds channeled through them, and overall funds (including cash and promissory notes) held by FIFs has grown significantly in recent years (see Figure 15).

Figure 15. FIF Portfolio: Cumulative Contributions, Commitments, and Cash Transfers (US$ billions)

Note: Figures are cumulative since the inception of the FIF portfolio. Funds held in trust include cash, investments, and promissory notes.

16 These 16 FIFs are Adaptation Fund (AF); pilot Advance Market Commitment (AMC); Consultative Group on International Agricultural Research (CGIAR); Clean Technology Fund (CTF); Debt Relief Trust Fund (DRTF); Global Agriculture and Food Security Facility (GAFSP); Global Alliance for Vaccines and Immunization Fund (GAVI Fund); GAVI Affiliate Trust Fund (GFA); Global Environment Facility (GEF); Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM); Haiti Reconstruction Fund (HRF); International Finance Facility for Immunization (IFFIm); Least Developed Countries Fund (LDCF); Onchocerciasis (Riverblindness) Fund; Special Climate Change Fund (SCCF); and Strategic Climate Fund (SCF). The establishment of the new Guyana Rainforest Investment Fund in FY11 has increased the total number of FIFs to 17. Except for the Onchocerciasis Fund, all these FIFs are managed by the Multilateral Trusteeship and Innovative Finance department in the Concessional Finance and Global Partnerships Vice Presidency (CFP).

17 Payments received by the Bank in the form of cash and promissory notes are counted as contributions, in line with the basis of commitments (for use of funds) approved by respective governing bodies of FIFs.
In FIFs, the Bank has the role of financial intermediary between the governance entity or entities and the recipients of the partnership/program. Broadly, there are two types of governance arrangements for FIFs.

- For FIFs that have a governing entity with legal capacity and responsibility for the use of funds, the Bank (as trustee) transfers funds (received from donors and managed in a trust fund) directly to multiple third-party entities according to instructions from and on behalf of the governing entity (e.g., GFATM). Adequate legal capacity is a must for the FIF’s governing body.

- In the second type of arrangement (e.g., under the Global Environment Facility, or GEF), the Bank (as trustee) transfers funds to partner entities, which then manage the funds and transfer them to the final recipients. Each partner entity applies its own policies and procedures in preparing, implementing, and supervising projects, and each is accountable to the FIF governing body for the use of funds. In this case, partner entities are required to have credible (internationally recognized) fiduciary, safeguards, and other relevant policies and capacity.

FIFs have their own governance structures and detailed legal agreements that specify the services provided by the Bank. These services come with customized business processes and control environments.

During the design of FIFs, the Bank may provide advice and support to partners on governance structures, operational arrangements, financial structuring, fiduciary controls, and risk management. Once a FIF is established, the Bank provides a set of agreed financial services to a third party—usually management of donor pledges, commitments, and promissory notes; investment management of trust fund liquidity; resource transfers\(^{18}\) to designated recipients; and financial reporting. In rare cases, the Bank provides resource mobilization support, for example, organizing and managing replenishment negotiations (e.g., for the GEF). Under some FIFs, the Bank also provides customized treasury manage-

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\(^{18}\) Include cash transfers and payments made from a FIF trust fund to eligible recipients — both internal and external.
ment or other treasury services, hedging intermediation (International Finance Facility for Immunization, or IFFIm, and Pilot Pneumococcal Advance Market Commitments, or AMC), and monetization of certified emission reductions (Adaptation Fund). Development partners and clients rely on the Bank’s technical, financial, and legal expertise in designing and establishing FIFs, as well as its highly professional Treasury services and leading-practice donor contribution management, accounting, and reporting capabilities.

Over the past five years, the United States has been the largest contributor to FIFs, accounting for a cumulative cash contribution of US$4.5 billion, followed by Germany (US$2.0 billion) and France (US$1.9 billion) (see Figure 16). In FY10, the largest cash contributions came from Japan, the United States, Germany, and the United Kingdom. The largest recipients of FIF funds (for onward transfer) were the United Nations Development Programme, IBRD, and the United Nations Environment Programme.

USE OF FUNDS

FIFs focus mainly on the provision of global public goods, particularly health and climate change (see Figure 17). Recently established FIFs have helped address food security challenges (e.g., the Global Agriculture and Food Security Facility) and natural disasters (e.g., the Haiti Reconstruction Fund).
Cumulatively, about 30 percent of country-level funding from the environment and climate-related FIFs was allocated to projects in IDA countries and 70 percent to projects in IBRD countries. In contrast, about 78 percent of country-level funding from the three main health-related FIFs—GFATM, IFFIm, and AMC—was allocated to projects in IDA countries and the rest to projects in IBRD countries.

MAJOR AND INNOVATIVE FIFS

Global Fund to Fight AIDS, Tuberculosis and Malaria

GFATM was created in 2002 to mobilize resources from the public and private sectors to fight three of the world’s most devastating diseases and to channel the money to areas of greatest need. GFATM is the largest FIF and indeed the largest trust fund (by outstanding balance) managed by the Bank. The Bank’s responsibilities are those of a limited fiscal agent; as the GFATM trustee, the Bank manages donor contributions, liquidity, and disbursements for GFATM at the direction of the GFATM secretariat. Over the last five years, annual paid-in contributions to GFATM almost doubled, annual transfers (disbursements) increased by about 200 percent, and the amount of funds held in trust more than doubled (see Figure 18). GFATM recently concluded a replenishment of its resources, obtaining pledges of US$11.7 billion in new funding for the next three calendar years (2011–2013). As GFATM has expanded, the Bank’s role as trustee has involved a steadily increasing flow of funds and rise in the number of transactions managed—during 2010, a 40 percent increase in the number of transactions processed.

Figure 18. GFATM Financial Status (US$ millions)

Cash contributions and net promissory notes
Commitments
Transfers
Funds held in trust

19 The six climate-related FIFs are GEF and its two related funds, Special Climate Change Fund and Least Developed Countries Fund, the two Climate Investment Funds (Clean Technology and Strategic Climate Fund), and the Adaptation Fund.
20 Includes IDA and IDA Blend countries.
GFATM has played a key role in reducing infections, illness, and death caused by the three biggest communicable diseases in some of the world’s poorest countries. In FY10 Ethiopia was the largest beneficiary of GFATM resources (see Figure 19).

Figure 19. Ten Largest GFATM Beneficiary Countries, FY10
(percent of total funds transferred)

Global Environment Facility

The GEF was established in October 1991 as a pilot program in the Bank to assist in the protection of the global environment and to promote environmentally sustainable development. The Bank plays three roles in the GEF: it is the GEF trustee, it is one of the GEF implementing agencies (for GEF-funded project implementation), and it hosts the GEF secretariat (which is nonetheless functionally independent from the Bank). To prevent any real or perceived conflicts of interest, these three roles are handled by three separate parts of the Bank.

As the GEF trustee, the Bank provides a range of services: management of donor pledges, commitments, and promissory notes; investment management of trust fund liquidity; resource transfers to designated recipients; and financial reporting. The Bank also provides resource mobilization support to the GEF, organizing and managing replenishment negotiations. At the GEF-5 Replenishment negotiations, completed on May 12, 2010, the contributors agreed to a financing framework of US$4.34 billion—an increase of about 39 percent over the GEF-4 Replenishment. New resources provided by donors amounted to US$3.54 billion, a 54 percent increase over the GEF-4 donor contributions. Figure 20 provides a snapshot of GEF’s financial status.

Figure 20. GEF Financial Status
(US$ millions)
Climate Investment Funds

The Climate Investment Funds (CIFs), interim instruments that became operational in 2010, comprise two funds: the Clean Technology Fund (CTF), and the Strategic Climate Fund (SCF). The CTF is designed to scale up investments in low-carbon technologies, and the SCF supports various programs to test innovative approaches to climate action. Donor countries have pledged over US$6 billion to the CIFs. The CIFs include sunset clauses linked to agreement on the future of the climate change regime. The Bank serves the CIFs in three capacities: as trustee to administer the CTF and SCF; as one of six implementing agencies to implement programs and projects financed by the CIFs; and as the administrative unit to support the work of the CIFs. As trustee for the CIFs, the Bank provides such services as management of donor pledges, commitments, and promissory notes; investment management of trust fund liquidity; resource transfers to designated recipients; and financial reporting.

One of the unique features of the CIFs is that contributors can provide funding to them in the form of grant or capital contributions, and for CTF, concessional loan contributions. Both funds are able to provide concessional loans, grants, and guarantees to recipients through the multilateral development banks (MDBs), which return reflows (principal repayment, interest, fees or any other reflow of funds) received from recipients to the trust funds. Figure 21 presents a snapshot of the CIFs’ financial status.

Recently established FIFs help address food security challenges and natural disasters.
International Finance Facility for Immunization

The IFFIm, established in 2006, has successfully raised US$2.8 billion from the capital markets (of which US$0.2 billion was for refinancing of maturing bonds) for financing the immunization programs of the GAVI Alliance. By issuing bonds backed by future donor commitments (IFFIm’s assets are long-term, legally binding grant agreements from sovereign donors), IFFIm makes more money available now for vaccine purchase and delivery in the poorest countries. IFFIm’s funding costs are closely comparable to those of MDBs. Figure 22 presents a snapshot of IFFIm’s financial status and demonstrates IFFIm’s “frontloading” of financing, which enabled significant commitments and disbursements in the early years, using proceeds from the bond issuances backed up by future donor payments. It is estimated that IFFIm funding will help prevent the deaths of about five million children between 2006 and 2015 and of another five million adults thereafter. As IFFIm’s treasury manager, the Bank provides the following services: development and execution of market-based financing strategies and funding operations; multidonor grant and payment tracking; liquidity and investment management; risk monitoring and asset-liability management; and accounting and reporting.

Figure 22. IFFIm Financial Status (US$ millions)

21 Formerly the Global Alliance for Vaccines and Immunization.
22 Includes purchase and delivery of the pentavalent vaccine against diphtheria, tetanus, pertussis, hepatitis B, and Hib. IFFIm also supports immunization initiatives to combat measles, yellow fever, poliomyelitis, and maternal and neonatal tetanus.
Pilot Pneumococcal Advance Market Commitment

The AMC was launched in 2009 with donor commitments of US$1.5 billion backed by the IBRD. Its aim is to accelerate the creation of a viable market for pneumococcal vaccines. The Bank, which helped design the AMC and took on AMC donor risk on its own balance sheet,23 provides a range of financial services to AMC donors: management of donor pledges, commitments, and promissory notes; investment management; resource transfers to designated recipients; and financial reporting. Donor financing is used to cover the incremental costs of vaccine production for developing countries. The AMC is implemented through the GAVI Alliance, and vaccine procurement is carried out through UNICEF.

Because the AMC’s structure involves donor contributions that are backed by the IBRD, AMC commitments (i.e., the allocation of the AMC subsidy to the Supply Agreements for vaccines) are made against the total amount of US$1.5 billion pledged by donors to the AMC. Figure 23 presents a snapshot of the AMC’s financial status.

Initial indications from the pilot AMC’s early implementation stages are that this innovative partnership is well on its way toward meeting its main planned outcomes. It is estimated that AMC funds will help immunize nearly 700 million infants, directly preventing about 2.8 million deaths through 2020 during the AMC itself. In addition, the accelerated introduction of pneumococcal vaccines is likely to prevent another 4.9 million deaths. The AMC is results-driven in that payments are made only for vaccines that work well in the poorest countries. It is also demand-led in that it is designed to respond to specific requests from developing countries.

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23 AMC transactions are recorded in IBRD books and disclosed in IBRD financial statements.