In 2007, the WBG introduced the Trust Fund Management Framework (TFMF) with the main goal of mainstreaming trust funds into the Bank’s strategies and business processes. The TFMF has sought to enhance the strategic relevance, risk management and controls, and efficiency of Bank-administered trust funds. Implementation of the TFMF is largely on track and is delivering results in each of the three pillars of the framework:

- **Pillar 1: Alignment with Bank strategies.** All Vice-Presidential Units (VPUs) managing trust funds now prepare annual trust fund management plans, which review the role of their trust fund portfolio in the broader context of overall VPU strategy and activities. At the country level, recipient-executed trust funds (RETFs) are increasingly discussed in Country Assistance Strategies and Country Portfolio Performance Reviews. As a result, trust funds are now more explicitly considered by both the Bank and recipients as an integral part of overall Bank country programs. A Senior Management review process is now in place with regard to the Bank’s engagement in complex partnerships. The process was used for FIFs such as the Adaptation Fund, the Climate Investment Funds, and the Pilot Advanced Market Commitment, and the recently launched Global Agriculture and Food Security Program.

- **Pillar 2: Risk management and controls.** RETFs greater than US$5 million are now subject to the same review and appraisal processes as equivalent Bank lending activities, both for investment and development policy operations. Meanwhile most Bank-executed trust funds are subject to the same controls as Bank budget expenditures. Measures have also been taken to strengthen controls, through updated guidelines for staff, enhanced risk reporting, new reviews of TF commitment authority and foreign exchange risks, and the establishment of a new financial management department in the Concessional Finance and Global Partnerships Vice-Presidency. The review processes for FIFs have been expanded and now incorporate systematic assessment—at the working level and by Senior Management—of risks and their appropriate management and mitigation.

- **Pillar 3: Cost efficiency and sustainability.** Introduction of a revised fee structure has led to significant improvements in recovering the costs the WBG incurs in administering trust funds. Information systems that support trust fund management have been strengthened, and an increasing proportion of administrative support work is being off-shored. Feedback indicates that the institutional and system enhancements are resulting in more efficient services.

Significant progress has been made in implementing the TFMF: most of the measures have been taken. However, challenges remain. In the coming months and years, the WBG will need to continue and deepen the work carried out under the three TFMF pillars. Further work is needed to address fragmentation of the trust fund portfolio at the country level, ensure that trust funds complement Bank operations and strategic priorities, and enhance corporate accountability and predictability and the sustainability of Bank-administered trust funds. Three major areas of focus will be strategic alignment, integration of operational and management systems, and portfolio sustainability.
Over recent years, some consolidation has already been achieved, notably through the expanded use of MDTFs. The next phase of consolidation will cut across all three focus areas, aiming for example to establish a more structured approach to donor relations and fundraising within the World Bank, improve the integration of trust funds into the Bank’s multiyear budget planning framework, and achieve greater alignment at the country level by consolidating trust funds around Country Assistance Strategy objectives.

Alignment of IBRD/IDA trust funds with new operational practices is a priority and will follow the Bank’s reforms on investment lending and analytic and advisory services. Trust funds will continue to be integrated into the Bank’s results agenda. The ongoing strengthening of management information systems and data reporting will continue to ensure that all stakeholders have access to accurate and user-friendly data on trust funds and other sources of concessional finance. Cost-recovery arrangements for trust funds will be regularly reviewed and adjusted as appropriate.

**FINANCIAL MANAGEMENT OF TRUST FUNDS**

When donors provide funding to the WBG to finance development projects and programs, they expect these funds to be well managed. WBG financial management covers the process of sourcing funding from donors, investing the financial assets received, and disbursing funds to recipients. Within this value chain, the WBG performs a variety of financial and risk management activities and services (see Box 3). The WBG adheres to high fiduciary standards and has in place sound financial management techniques to ensure that the funds provided by donor partners are prudently managed.

For all the funds the WBG holds in trust, it provides a core set of financial and administrative services set out in legal agreements: donor contribution management, encashment of promissory notes, investment management of trust fund assets, commitment and disbursement of funds, resource transfers to designated recipients (for FIFs), and accounting and reporting. Trust fund assets are kept separately and are not commingled with the WBG’s assets.

The financial management of trust funds starts by guiding donors through the process of making a contribution to a trust fund. Required legal documents include Framework Agreements and individual donor Administration Agreements. The Bank collects and manages the funds from donors, sending invoices to donors for their installment payments, and processing the cash and promissory note payments received. The Bank may also provide resource mobilization support, such as managing replenishment negotiations for the Global Environment Facility.

For IBRD/IDA TFs, the Bank enters into Grant and Project Agreements with the developing countries that receive the donor-provided resources. The fund balance is tracked to ensure that grant commitments for projects match available funding and donor receivables. Forecasts ensure the ability to commit grant amounts for future project disbursements. Cash flows and liquidity are managed to provide for available funds when required; disbursements to recipients are ultimately dependent on the receipt of funds from donors.

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**Box 3. Management of Trust Funds: Bank Services at a Glance**

- Financial management of TFs;
- Fees for administrative and financial services;
- Investment management;
- Intermediation services in the capital markets;
- Risk monitoring and control frameworks;
- Financial risk management;
- Information technology systems;
- Financial reporting and independent audits;
- Quality assurance and compliance monitoring;
- Independent evaluation of projects and programs;
- Governance and anticorruption agenda; and
- Access to information.
The program manager of each trust fund records and tracks allocations of funds for specific grants. Allocations can encompass grant or loan commitments, administrative budgets, fees for project supervision, and other commitments. For IBRD/IDA TFs, commitments translate into subsequent disbursements for eligible expenditures, and for FIFs, into transfers of funds to recipients.

**Fee for Administrative and Financial Services Provided**

The WBG charges a fee to recover the cost of the administrative and financial services it provides; this fee is reflected in the Administration Agreement signed with the donors. A standard or a customized fee is charged to the trust fund principal, depending on the type of trust fund, the program administration services provided, and the transaction costs involved. Fees and charges are established in accordance with the WBG policy and guidelines for recovering the full direct and indirect costs associated with administering trust funds, including the managing unit costs and central overhead costs. For FIFs, the fees for trustee, administrator, or treasury manager services are usually negotiated up front with the FIF governing bodies/donors as part of the governance document and/or Administration Agreements.

IFC charges a standard administrative fee of 5 percent of donor contributions for trust funds set up for Advisory Services, and up to 2 percent for donor investment trust funds.

**Investment Management**

Between receiving funds from donors and disbursing them to projects, the WBG prudently invests the trust fund and FIF assets in the capital markets, with the
primary objective of preserving the capital of the assets. To achieve the investment objectives, a strategic asset allocation is developed and suitable portfolio benchmarks are selected. On the basis of the WBG’s investment guidelines, investment positions are established with approved market counterparties for which credit exposure limits are established and monitored.

The assets of trust funds are invested in three tranches with different risk and return profiles. All trust funds are reviewed annually with respect to their allocation into the different investment tranches, taking into account multiyear cash flow projections for each fund and risk/return considerations. Investment returns for trust funds are analyzed monthly, and quarterly reviews assess investment policy and asset allocations.

As of end-FY10, the total liquid assets invested for trust funds, excluding AMC, stood at US$22.1 billion (US$19.9 billion at end-FY09). The average rate of return on trust fund cash and investments for FY10 was 2.19 percent (compared with 4.64 percent for FY09), reflecting the lower market yield environment. The average annual return for trust funds over three years was 4.46 percent, and over five years, 4.24 percent. Figure 29 shows the asset composition of the trust fund investment portfolio.

Intermediation Services in the Capital Markets

The Bank provides customized financial services for some FIFs. For example, for the International Finance Facility for Immunization (IFFIm), the Bank’s Treasury designed a borrowing strategy and provides execution services for IFFIm bond issues in the global capital markets. The Bank also monetizes carbon emission reductions (CERs) received on behalf of a fund; the monetization program converts CERs into cash to support commitments and disbursements to the funds’ projects. On behalf of carbon fund participants, the Bank enters into Emission Reduction Purchase Agreements. The Bank also provides foreign currency hedging intermediation services for IFFIm and the Advance Market Commitments initiative. The Bank could provide other customized financial intermediation services as required by donors.

RISK MONITORING AND CONTROL FRAMEWORKS

The WBG monitors and reports on risk at the institutional and fund level. It uses an integrated risk management framework, providing a continuous, proactive, and systematic process to analyze, manage, and communicate risks from an institutional perspective to its Board and Management.

At the fund level, the assigned task managers perform risk assessments throughout the life of the fund, providing input into the oversight and monitoring of funds. The WBG mitigates financial and operational risks through internal controls and processes to safeguard donor assets. Controls are evaluated using the internationally recognized and
widely accepted internal control framework of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The WBG regularly assesses all of its business units and works to strengthen and streamline its controls and business processes. It periodically conducts reviews to ensure that financial transaction processing adheres to high operational standards and is sufficiently segregated, with effective controls and independent oversight.

Financial Risk Management

Trust funds may expose recipients to credit risk if the donor contributes less than the amounts agreed in the contribution agreement and if the Bank enters into commitments on the basis of those future donor contributions receivable. To manage grant recipients’ exposure to donor credit risk, the standard practice for IBRD/IDA TFs is to enter into grant commitments based on cash proceeds received from donors. At the same time, the Bank recognizes that some donors pay in their contributions over time as the grant-financed development projects are being implemented. If grant commitments are entered into against such donor contribution receivables, system controls ensure that commitments remain within the amount of donor-signed contribution agreements, and that disbursements are subject to cash available in the trust fund. For FIFs, commitments are entered into only after cash and promissory notes have been received from the donors.

Trust funds are subject to foreign exchange risk if the currency of the donor contributions differs from the currency of grant commitment, exposing grant recipients to currency volatility with respect to the volume of development projects that a given trust fund will finance. Such market risks are identified, and measures to mitigate these risks are reviewed and approved by appropriate departments and finance committees. If a trust fund commits grants on the basis of future donor contribution receivables, Bank controls limit commitments to 85 percent of donor receivables to manage the underlying currency risk.

For FIFs, the Bank consults and advises external governing bodies on any currency risks. If requested by the governing body, the Bank may agree to hedge foreign exchange risks by arranging for intermediation of suitable market transactions.

Information Technology Systems

The WBG uses integrated IT systems that provide end-to-end financial transaction processing. Transactions include the recording of replenishment and contribution agreements, calls of resources from donors, foreign exchange, allocation of investment income, disbursement of funds, and associated reporting to donors in accordance with underlying agreements. The IT systems provide data and customized reporting to donors, implementing agencies, and secretariats, as part of the WBG’s fiduciary responsibilities. The WBG is making significant investments in information security, continuously strengthening the governance and security of its IT systems.

Donors have access to several system applications offering financial information on their contributions to trust funds. Two web-based applications are the Donor Center in the Bank’s Client Connection website and the Aidflows application. The Donor Center is a secure website managed by the Bank that provides each donor with detailed information about its trust fund portfolio (except for contributions to FIFs). Monthly unaudited financial reports can be generated for each donor agency. It may be accessed by going to http://clientconnection.worldbank.org and clicking on “Login.” Those who wish to register as a new user should contact their agency’s Donor Center Administrator.

Aidflows is a tool to visualize how much development aid is provided and received around the world. Users can select individual donor countries (providing the aid) and beneficiary countries (receiving the aid) to track the sources and uses of aid funding. The WBG and the OECD have partnered to make global data on aid funding easily accessible and to raise the transparency of aid. Aidflows may be accessed at www.aidflows.org.
Quality Assurance and Compliance Monitoring

The WBG dedicates teams and units to provide results measurement and quality assurance for trust fund operations. Monitoring of compliance with applicable WBG policies and procedures includes periodic compliance testing of financial transactions for trust funds—part of the overall control framework through which the WBG provides donors the assurance that its policies and procedures are being followed.

Independent Evaluation of Projects and Programs

The World Bank’s Independent Evaluation Group—which reports directly to the Bank’s Executive Directors and is not part of Bank Management—carries out regular evaluations of World Bank-financed development projects and RETF projects and programs. These evaluations are designed to derive lessons from experience and to offer an objective basis for assessing outcomes and results of development projects and programs. The lessons drawn from evaluations are disseminated publicly.

Governance and Anticorruption Agenda

The World Bank is continuously working to strengthen governance and financial oversight in its partner countries where development projects are being implemented. The World Bank’s governance and anticorruption agenda, a core pillar in these efforts, features capacity-building measures to help member countries combat corruption as well as measures to protect and enhance the integrity of the World Bank’s operations.

The World Bank’s Integrity Vice Presidency plays a central role in the fight against corruption, investigating allegations of fraud and corruption and of possible staff misconduct. It provides guidance to World Bank staff and clients for building preventive measures within development projects, including customized advice and training.
Access to Information

The World Bank’s Policy on Access to Information for IBRD and IDA became effective on July 1, 2010. The new policy moves the Bank from an approach that spelled out what information would be publicly available, to one that enables public availability of all information in the Bank’s possession that is not on a clear list of exceptions, including information about trust funds and partnerships.

Types of documents that are now routinely disclosed include Administration Agreements between the Bank and trust fund donors as well as Grant Agreements between the Bank and recipients of trust fund grants. Donor contributions made to each trust fund and aggregate commitments and disbursements made from each trust fund to specific activities or countries are types of financial information that are routinely disclosed.