## Fact Sheet on World Bank Trust Funds

### What are Trust Funds?

Trust funds are vehicles used to manage funds contributed by development partners for specific development activities and administered by the World Bank. They are often used to promote global public goods or address global public "bads" and pilot innovations that may later be brought to scale, including at the country level. Trust funds can be tailored quickly to meet key client needs in crisis situations and fragile environments where other instruments may not be available. As of December 30, 2016, the Bank was stewarding $11 billion in trust fund resources.

The World Bank also provides financial management services for a number of international organizations and entities such as the Global Fund to Fight AIDS, Tuberculosis and Malaria and the Global Environment Facility. The resources of these institutions are managed through Financial Intermediary Funds (FIFs), which constitute a distinct subset of the Bank's trust fund portfolio.

FIFs tend to be larger than standard trust funds and, as of December 30, 2016, the Bank had $23 billion under management for 29 different organizations. The Bank serves primarily as trustee for FIFs, meaning that it receives, holds and transfers funds at the instruction of these organizations. The Bank does not oversee the end use of these funds and it is not responsible for disbursement decisions. Rather, it is the FIF governing bodies, made up of contributors to the FIF and other key stakeholders that select the implementing agencies that will receive financing, and which in turn manage the projects and programs funded by it. In some cases the Bank has been selected by the FIF's governing bodies to be an implementing agency in addition to its trustee role.

### Why World Bank Trust Funds?

Development partners can choose to channel their funds bilaterally, multilaterally or through civil society organizations. Development partners also have a wide choice of multilateral institutions, which they can entrust with their policy priorities and funds. The volume of Bank trust funds and FIFs has grown significantly in recent years, showing an appreciation by development partners of the value that the Bank offers.

Since 2010, 130 development partners, including countries and organizations, have contributed to Bank trust funds in support of a shared commitment to specific development outcomes. Some examples include:

**The Afghanistan Reconstruction Trust Fund**, set up in 2002 as a vehicle for governments to provide support to the people of Afghanistan, has played a fundamental role in paving the way for longer term investments by IDA and the country's reconstruction. It has helped increase primary school attendance from 4.3 million in 2008 to more than 7.2 million by 2014, with 39 percent girls; has provided access to electricity to 6.2 million people, to roads to 17.4 million people, and to water and sanitation to 20.3 million people. Learn more here: www.artf.af.

The **Energy Sector Management Assistance Program** (ESMAP) is a global knowledge and technical assistance program. It provides analytical and advisory services to low- and middle-income countries to increase their know-how and institutional capacity to achieve environmentally sustainable energy solutions for poverty reduction and economic growth. Supporting over a hundred activities in countries around the world at any given time, it has provided 9.2 million efficient and sustainable city bus services; 78.9 million households with a natural gas connection; and 225 million people with integrated sustainable water services. Learn more here: https://www.esmap.org.

After the Indian Ocean Tsunami in 2004, 15 multilateral and bilateral donors contributed more than $600 million to the **Multi-Donor Trust Fund for Aceh and Nias** (MDF). The MDF's objective was to support the Government of Indonesia's efforts to rebuild communities affected by the earthquake and tsunami. From 2005 to 2009, the MDF financed 26 projects focused on rebuilding infrastructure, helping communities recover, strengthening governance and capacity building, protecting the environment, and promoting economic development. Learn more here: http://www.multidonorfund.org/

**The State and Peace-building Fund** delivers catalytic and innovative work that has made larger investments more effective in areas of fragility, conflict, and violence, such as a $4.9 million pilot that laid the foundations for a $79.1 million IDA project in Eastern DRC, and a $20 million program in Somalia that led the way for the re-engagement of the international community by putting in place core government systems and capacity. Learn more here: http://www.worldbank.org/en/programs/state-and-peace-building-fund.

**The Global Infrastructure Facility** fills gaps with quality projects in emerging markets with an estimated $2-3 billion in investments during its three-year pilot phase, which is projected to increase sustainability over time, and enable collaboration and collective action on complex projects that no single institution could realize alone. Learn more here: http://www.worldbank.org/en/programs/global-Infrastructure-facility.

**The Pilot Auction Facility for Methane and Climate Mitigation** uses a market mechanism to find the best possible price to provide private investors with a financial incentive to fund projects that reduce greenhouse gas emissions. It uses existing carbon and capital market tools to pilot a model that is easy to scale up and expand for other sectors. Learn more here: http://www.pilotauctionfacility.org.

**The Trust Fund Lifecycle**

Trust funds can provide the predictable multi-year funding that is crucial for effective development. Governments in poor countries often rely on dependable finance from the Bank and its partners to provide health, education, and other investments.

To be able to enter into legally binding long-term commitments with our developing client countries, our Board has determined the Bank must have certainty that it can honor those obligations. This means that the Bank must receive the funds (or promissory notes) from donors before for it contractually obligates itself to provide these funds to the recipient. The timing of the disbursement of funds it receives from donors to recipients vary depending on the type of project. For example, projects that involve building infrastructure tend to be of a longer-term nature and disburse larger amounts in the later years of the funding cycle. Funds are released in stages, rather than all at once, for two important reasons: (1) to ensure agreed results are being delivered and (2) that the funds reach the intended people and purpose. This is particularly important in countries with a limited ability to manage development funds, and where good governance is a challenge.

Under a new policy for trust funds introduced in July 2015, fees for trust funds are charged only when funds are disbursed (for activities that the Bank implements itself) or when the Bank signs a grant agreement with end recipients (for activities implemented by recipients under Bank supervision). For FIFs, the Bank, as trustee and/or secretariat, recovers costs on the basis of actual expenses incurred for the services provided to the FIF.

**Trust Fund Value for Money**

Trust funds offer donors unique value for money.

Trust funds provide predictable multi-year funding – vital for health, education, and other investments that create jobs and save lives. They complement and leverage World Bank Group investments, bringing resources and financial sustainability critical to help pave the way and fill gaps in the development finance architecture.

Trust funds help donors coordinate and target their scarce aid resources across multiple sectors, thus reducing aid fragmentation and the burden on recipient countries.

Donors also benefit from channeling their funding alongside projects developed and financed by the Bank, including by IDA, the World Bank's fund for the poorest countries, thus making investments more efficient and effective.

These funds provide a platform for global consensus on innovation and transformation, and offer a nimble, far-reaching, and flexible option to meet key client needs in crisis situations and fragile environments where other instruments are not suitable or available. They are often used to develop innovative approaches to development finance, such as the climate Pilot Auction Facility.

Trust funds are also used to build institutional and knowledge capabilities critical for other areas of the World Bank's work for donors. They finance close to two-thirds of the Bank's advisory and analytics work and provide on average one out of every 10 dollars disbursed to client countries. This financing has delivered more 2,000 analytics reports, for instance.

**Trust Funds Deliver**

The World Bank places a premium on development impact and is regarded as a transparent, cost-effective platform for achieving results. The World Bank was the first multilateral to establish performance-based management of resources and to adopt a results measurement framework.

For example, from 2002-2016, the Afghanistan Reconstruction Trust Fund helped create 54.6 million days of work, while the Global Facility for Disaster Reduction and Recovery has since inception helped 100 million people in 50 countries gain improved access to national and regional geospatial data; and the South-South Experience Exchange Facility has enabled knowledge assistance to 108 countries since 2008. See project examples above for more.

**Trusted Stewardship of Tax Payer Resources**

The World Bank is also a trusted, proven steward of tax payer resources. On receipt of development partner contributions to trust funds and FIFs, the Bank invests these resources in international capital markets until funds are transferred to the recipients for development projects. Such investment management aims to preserve donor funds over time, and enhance their value.

The Bank's investment strategy takes into account the characteristics of the individual trust fund such as disbursement expectation, asset size and investment objective of each donor. In an era of historic low interest rates and mindful of not putting tax payer monies at risk, donors frequently ask the Bank to pursue a low-risk investment strategy with a focus on preserving capital. Good financial stewardship also involves minimizing potential losses from adverse financial markets movements such as sudden interest rate increases, credit rating downgrade of an investment instrument or sporadic financial crises.

The Bank's Treasury judiciously employs appropriate investment strategies within an efficient, flexible, industry leading investment platform. This allows investment management for trust funds and FIFs in a way that accommodates the varying investment requirements and risk tolerances of development partners, and also provides opportunities for enhancement of investment returns over and above the primary capital preservation objective.

The trust fund and FIF investment portfolios managed by the Bank have seen solid investment performance over the past decade, and were able to weather the global financial crisis of 2008/2009 remarkably well. The returns on the trust fund portfolio reflect this prudent investment style. Over the past five years, the incremental investment income for the USD and EUR portfolios earned over their respective benchmark index is estimated to be more than $303 million.

The Bank regularly revisits the relevance of investment strategies, and makes necessary adjustments to reflect the development of the trust funds, in particular the growing asset size, changing investment objectives and risk tolerance of the development partners.

**Transparency and Accountability**

The Bank is a champion for transparency and accountability and is widely recognized by independent bodies for this work. The Bank publishes financial and non-financial information about trust funds on the Aid Flows platform (www.aidflows.org) and about FIFs on the FIF Trustee website (http://fiftrustee.worldbank.org). In addition, many Bank trust funds and FIFs maintain their own websites to report on programs and performance.

All trust funds are subject to active oversight of donors through the governance procedures agreed with the Bank for each trust fund and FIF. Donors to trust funds and FIFs have access to large amounts of financial and program information, including non-public information. There are regular meetings of the governance bodies of trust funds and FIFs, in addition to informal interaction between the Bank and donors.

The World Bank takes seriously its stewardship of scarce financial resources and is constantly seeking to improve, as recognized by the 2015 Independent Evaluation Group's update on its evaluation of trust fund and partnerships. Trust funds are subject to the same top fiduciary standards, responsible investment strategy, and robust operational procedures the World Bank applies to all its activities.

The World Bank Group vigorously manages fraud and corruption risks in the projects it finances, relying on the investigative, forensic and preventative work to root out misconduct and take swift action.

In FY15, the World Bank Board of Directors endorsed a new Cost Recovery Framework for Trust Funds, which included: (a) increased Trust Fund fees; (b) an increased Indirect Rate on personnel financed by trust funds; and, (c) moving towards full recovery of non-salary staff costs. The new approach reduces the need for costs to be covered from IDA and IBRD, and balances the value for money proposition with the long-term sustainability of trust funds.

Going forward, the Bank has begun work to develop a more strategic approach to the use of trust funds in support of the "Forward Look" and its call for a stronger and better WBG. The support of our partners remains essential, and the Bank will consult partners to help shape this new vision and ensure the use of trust funds remains fit for purpose.

The strategic approach builds on lessons from past reform efforts and envisions an end-to-end review of trust funds from fundraising, to program design and oversight/management, with the objective of improving efficiencies and the impact of trust funded activities for our clients.

*Last updated: April 18, 2017*