

Executive Summary

“Trust Funds are critical for innovation, for leverage, and for achieving tangible development impact for people around the world. They are an indispensable part of the financial toolkit of the World Bank Group.”

Dirk Reinermann

Director, Trust Funds and Partner Relations

The WBG is one of the world’s largest sources of funding and knowledge for developing countries.⁶ In 2013, the WBG established the twin goals of ending extreme poverty by 2030 and boosting shared prosperity, which are part of a unified strategy to focus its activities and resources on achieving its core mission and supporting the unfinished agenda set forth by the Millennium Development Goals (MDGs)—shaping the new agenda in the context of the Sustainable Development Goals (SDGs).⁷ Central to delivering this ambitious work program and shaping the key development agenda is a new organizational structure comprised of 14 Global Practices and five Cross Cutting Solution Areas to complement the various regions and build on the comparative advantage of working as one WBG through the creation of joint World Bank–International Finance Corporation (IFC) practices.⁸

The 2016 [Forward Look—A Vision for the World Bank Group in 2030](#) refined its vision and ability to help clients achieve the SDGs and contribute to the ambitious 2030 global development agenda, while retaining its focus on the twin goals and calling for a stronger and better WBG with adequate financial capacity and flexibility to effectively respond to an evolving global context and shifting strategic priorities. The WBG is aiming to become more efficient and agile by reforming key operational, administrative, and human resources policies and practices, as reflected in the strengthened World Bank organizational structure, effective as of FY18.

Trust Funds and the Development Agenda

WBG trust funds and financial intermediary funds (FIFs) are important sources of development financing, contributing to the twin goals, responding to changing global priorities, and remaining essential to delivering on a stronger and better WBG.⁹ Trust funds form a significant part of the resource envelope of the WBG and provide predictable multiyear

6 In 2015, 23 percent of Official Development Assistance from donors in the Development Assistance Committee of the Organisation for Economic Co-operation and Development (OECD) to multilateral organizations was channeled through the WBG.

7 The WBG consists of five organizations: (i) IBRD; (ii) IDA; (iii) International Finance Corporation (IFC); (iv) the Multilateral Investment Guarantee Agency; and (v) the International Centre for Settlement of Investment Disputes (ICSID).

8 In FY18, the Cross Cutting Solution Areas were renamed as Global Themes. Since this report covers FY13–FY17, the term Cross Cutting Solution Areas is used throughout the report, except when there is a reference to FY18.

9 In this report, the WBG trust funds refer to: (i) IBRD/IDA trust funds; (ii) IFC trust funds; and (iii) Multilateral Investment Guarantee Agency trust funds; whereas the World Bank trust funds refer to IBRD/IDA trust funds and Multilateral Investment Guarantee Agency trust funds.

funding—with \$31.6 billion funds held in trust (FHIT) as of end-FY17.¹⁰ They support flexible and customizable development solutions that serve both recipients and donors, complement the WBG’s operations, pilot innovations, allow the scaling up of activities, forge new partnerships, and enable the WBG to provide assistance when its own ability to lend is limited, particularly in fragile contexts or in response to natural disasters and other emergencies. Trust funds also play a pivotal role in strengthening institutional and knowledge capabilities in previously under-addressed areas like gender, climate change, and fragility, etc., and help expand the scope and scale of annual flagship studies. Such studies provide in-depth analysis and policy recommendations on key development aspects and are widely used by many international organizations, national governments, academics, civil society groups, and other global thought leaders to support their decision making processes.¹¹

As part of the *2016 Forward Look*, the WBG has embarked on an ambitious trust fund reform agenda to ensure that trust funds continue to remain an integral part of WBG resources, reflect the highest priorities for the institution, and place a greater focus on results, with the objective of increasing efficiencies and the effectiveness of trust funded activities for WBG clients. The support of the WBG’s partners and clients remains essential to help shape this new vision and ensure the continued suitability of trust funds against evolving development priorities.

¹⁰ To be able to enter legally binding long-term commitments with our developing client countries, the World Bank Board has determined that the World Bank must have certainty that it can honor those obligations. This means that the World Bank must receive the funds and promissory notes from donors before it contractually obligates itself to provide these funds to the recipient. The timing of disbursement of funds it receives from donors to recipients varies depending on the type of project. For example, large infrastructure projects require more funding up front. In many cases, funds are also released to recipients in stages, rather than all at once, for two important reasons: (i) to ensure agreed results are being delivered; and (ii) that the funds reach the intended purposes and people. This is particularly important in countries with a limited ability to manage development funds and where good governance is a challenge and enables the World Bank to play the trustee role of donor funds more diligently. Under the new cost recovery framework, fees for trust funds are charged only when the funds are disbursed (for bank-executed trust funds) or where the World Bank signs a grant agreement with the end recipients (for recipient-executed trust funds).

¹¹ Some of these flagship reports include the *World Development Report*, *Global Economic Prospects*, and the *Poverty and Shared Prosperity* series, etc.

Types of World Bank Group Trust Funds and Financial Intermediary Funds

WBG trust funds consist of IBRD/IDA trust funds, IFC trust funds, and Multilateral Investment Guarantee Agency (MIGA) trust funds. FIFs are another type of financial arrangement that support global development initiatives and partnerships.

IBRD/IDA trust funds finance activities that are implemented and supervised by IBRD/IDA through bank-executed and recipient-executed activities, and include MIGA trust funds which provide innovative insurance products. Bank-executed trust funds (BETFs) are implemented by the World Bank to support its work program. Recipient-executed trust funds (RETFs) involve funds that the World Bank passes on to an external party recipient to execute, where the World Bank normally appraises and supervises the activities. **IFC trust funds** are managed by IFC and predominantly provide resources for IFC advisory services.

IBRD/IDA trust funds finance about two-thirds of the World Bank’s advisory services and analytics. IBRD/IDA trust funds also augment the World Bank’s ability to serve its clients, disbursing about \$1 out of every \$10 to client countries over the FY13–FY17 period. Out of approximately \$16.3 billion disbursed in RETFs over the last five years, over \$10.3 billion disbursed has gone to IDA countries. From the \$4 billion disbursed in BETFs over the last five years, about \$940 million has been for activities that support IDA countries. IFC trust funds provide funding to IFC’s advisory solutions for private sector clients, especially in IDA countries, which constituted 63 percent of the advisory program in FY17. IFC’s advisory portfolio has over 700 projects spanning 100 countries with approximately \$1.7 billion disbursed over the past five years.

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 like agriculture and food security, environment and climate change, and natural disasters, etc. FIF structures are customized, depending on the needs of the partnership and agreements with the World Bank. The World Bank can play three distinct roles: (i) trustee, in which the World Bank provides a set of agreed financial

services including receiving, holding, and transferring funds to external partner entities when instructed by the FIF governing body; (ii) implementing agency (IA), in which the World Bank may be responsible for appraisal and/or supervision of projects or programs financed by the FIF; and/or (iii) secretariat, in which the World Bank provides program management and administration services to the FIF.¹²

FIFs tend to be larger than IBRD/IDA trust funds. As of end-FY17, FIF's share of FHIT amounted to 69 percent of the total amount held in trust by the WBG. FIFs allow the World Bank to support the international community in providing targeted and coordinated responses that focus on the provision of global public goods, such as preventing communicable diseases, responding to climate change, and food security. FIFs tend to be uniquely structured, often involving innovative financing and governance arrangements, as well as flexible designs which 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.

What is in the 2017 Trust Fund Annual Report?

The Trust Fund Annual Report (TFAR) provides an overview of WBG trust funds and FIFs, with a focus on key results and impact, financial trends, and reforms. The audience for the report is both internal and external stakeholders, including existing and new donors. An interactive downloadable version of the report in the form of an e-magazine is available online.¹³

The report has been divided into two distinct sections: **(A) IBRD/IDA and IFC trust funds** and **(B) Financial intermediary funds** to differentiate between the distinctive roles and functions of the two financing mechanisms, since the majority of FIF resources are allocated to external (non-WBG) IAs.

Each section begins with an overview and achievements, followed by financial trends, and culminates with reform. By providing an overview and achievements and financial portfolio analysis, the report enables the reader to gain insights to better understand the reform efforts and the way forward.

SECTION A—IBRD/IDA and IFC Trust Funds

This section describes the critical role of IBRD/IDA and IFC trust funds in enabling the WBG to support priority development issues, complement IBRD/IDA and IFC operations, and build partnerships. It does so by highlighting three key aspects of the IBRD/IDA and IFC trust fund portfolio.

Chapter One: Trust Fund Achievements, FY13–FY17 features results stories from over 60 IBRD/IDA and IFC trust funds that cover all Global Practices, Cross Cutting Solution Areas, Regions, and IFC to demonstrate their varied role and strategic impact during the FY13–FY17 time frame. The results stories for this year's TFAR are organized around the IDA18 special themes of climate change; fragility, conflict, and violence (FCV); gender and development; governance and institutional development; and jobs and economic transformation.

Together, the IDA18 special themes represent a holistic approach to investing in growth, resilience, and opportunity to support the twin goals—eradicating extreme poverty and boosting shared prosperity, particularly in the poorest countries. These themes are directly linked to the most salient development challenges of the day. The targeted focus on these themes is designed to support the most pressing challenges in FCV situations; tackling climate challenges and development in an integrated manner; promoting competitiveness and better and more inclusive jobs—particularly for women and youth; closing gender gaps; and building strong and accountable institutions. The WBG provides a multilateral platform to align global support to client countries under these themes and strengthens the links among them, through leveraging IBRD and IDA resources and complementing them with trust funds.

In addition, the chapter also features results stories from trust funds that allow the WBG to test innovative approaches using information and communication technology (ICT) and scale them up through regular

¹² While the World Bank always acts as a trustee in all FIFs, it may not always be responsible for implementing activities or serving as a secretariat in FIF-supported program partnerships.

¹³ The online version of the 2017 TFAR can be accessed via <http://www.worldbank.org/en/publication/trust-fund-annual-report-2017>

WBG operations. A business-as-usual approach is not expected to be sufficient to achieve the twin goals and deliver on the *Forward Look*.

Climate change: The impact of extreme natural disasters is equivalent to a \$520 billion loss in annual consumption globally and forces some 26 million people into poverty each year. The WBG is committed to increasing climate financing to 28 percent of its total portfolio by 2020. The *Climate Change Action Plan*, adopted by the WBG in April 2016, lays out concrete steps to meet this commitment.¹⁴ Trust fund resources deepen the WBG's engagement in key priority areas and pave the way for innovative pilot approaches to climate action that complement IBRD/IDA and IFC operations. Some of the work carried out under trust funds includes: (i) helping countries integrate climate change into their development strategies and investment programs to help achieve the Nationally Determined Contributions (NDCs); (ii) scaling up implementation of renewable energy and energy efficiency measures; (iii) building capacity to integrate climate change considerations into the planning and design of long-term investments that expand sustainable infrastructure; (iv) boosting climate resilience through improved management of natural resources, including climate-smart agriculture and sustainable forest management to support livelihoods and economic growth, and climate-responsive social protection; and (v) fostering strong partnerships with the private sector to expand green finance approaches.

Fragility, conflict, and violence: With more than two billion people living in countries where development outcomes are affected by FCV, the WBG is addressing the sources of instability and building resilience by emphasizing prevention and early action, addressing gender disparities, and fostering humanitarian-development-peace partnerships, including with the private sector. Trust fund resources support this work by: (i) enabling the WBG to scale up its response to the forced displacement crisis through increased financing, knowledge, and analytics, and greater collaboration with humanitarian-development-peace partners; (ii) deepening the WBG's understanding of FCV contexts and building a solid evidence base for effective engagement

and programming; (iii) promoting FCV-sensitive approaches and ensuring operational and financial rapid response to protracted and recurring crises; (iv) promoting innovative financing mechanisms that are tailored to different FCV contexts and enabling the WBG to strategically use trust fund resources to work in non-IDA eligible countries; and (v) forging dynamic partnerships with the United Nations, European Union, multilateral development banks, and international nongovernmental organizations (NGOs) and other non-state actors.

Gender and development: Gender parity is a prerequisite to achieving sustainable development and has a direct bearing on growth, competitiveness, and the future readiness of economies and businesses worldwide. The WBG is committed to advancing gender equality across sectors and has begun implementing its *WBG's Gender Strategy (FY16–23)*, which charts an ambitious course focusing on tangible interventions that reach real-world results, by implementing operations that narrow opportunity and outcome gaps between males and females.¹⁵ Trust fund resources complement IBRD/IDA and IFC operations by ensuring that WBG staff, clients, policy makers, and partners have the data, knowledge, and evidence needed to design effective gender programs and policies. They not only support the priorities of the *Gender Strategy* overall, but are important catalysts for innovation, for scaling up approaches proven to work, and for expanding the frontiers of the gender equality agenda. Some of this work includes: (i) reducing gender gaps in accessing basic health, education, and social protection services; (ii) removing constraints to enable women and girls to effectively participate in the labor force; (iii) promoting women's ownership and control of assets critical for their economic growth; and (iv) enhancing women's participation in decision making processes involving service delivery and tackling gender-based violence.

Governance and institutional development: More than half of the global population expresses distrust in government institutions. Governance and institutional development forms a core part of the work of the WBG as it relates to all sectors. The WBG helps client countries build capable, efficient, open, and accountable institutions for inclusive development by

¹⁴ The World Bank *Climate Change Action Plan* can be accessed at <http://bit.ly/CCAActionPlan>

¹⁵ The *WBG's Gender Strategy* can be accessed at <http://bit.ly/WBGGenderStrategy>

adopting a long-term, integrated, and multi-sectoral approach to public sector reform. Trust fund resources draw on the WBG's convening power and technical expertise to complement IBRD/IDA operations and help countries develop practical solutions to address complex governance challenges. Trust funds support client countries by: (i) enhancing public financial management by improving collection, administration, and efficient use of resources; (ii) strengthening public administration capacity, including enhancing performance and transparency of state-owned enterprises and strengthening accountability mechanisms; and (iii) promoting citizen engagement through citizen feedback mechanisms for greater transparency and inclusiveness.

Jobs and economic transformation: Among those who do participate in the labor market, around 200 million people are unemployed, including 75 million youth under the age of 25. The WBG adopts a comprehensive approach to its work on jobs and economic transformation to develop programs that create jobs in the formal sector, improve the quality of informal jobs, and facilitate access to jobs for vulnerable and marginalized groups to improve earnings, labor productivity, and employment rates. Trust funds complement WBG operations by leveraging technical expertise and resources to develop innovative solutions that are aimed at: (i) strengthening macro and regulatory policies to create an enabling environment for businesses to grow and create jobs; (ii) implementing labor regulations, income protection, and active labor market programs that extend to most of the labor force; and (iii) helping to design and deliver comprehensive, integrated, and high-impact jobs strategies that involve all relevant sectors in client countries.

Innovations through information and communication technology: New technologies are one of the key driving forces behind innovations in development and are routinely being introduced and adopted to improve the lives of the poor and help client countries achieve sustainable growth and development. The WBG continuously strives to accelerate innovations in development by testing and scaling up innovations in different global and local contexts, documenting successes and failures, incorporating these lessons into operations and knowledge work, and facilitating their widespread awareness and use for transformational impact. Trust funds provide the

flexibility needed to support a wide range of innovations in ICT, including: (i) assisting fragile and conflict-affected situations; (ii) building effective identification systems for the provision of basic services; (iii) increasing financial inclusion for those without access to formal finance; (iv) strengthening public financial management; and (v) improving water resource management. While these themes are not exhaustive, they demonstrate the potential use of trust funds in supporting innovations through ICT across the WBG's work.

Chapter Two: Financial Trends of World Bank Group Trust Funds, FY13–FY17

provides a systematic analysis of key statistics and financial trends of the IBRD/IDA and IFC trust fund portfolio. As of end-FY17, the WBG FHIT was \$10.5 billion after peaking at \$11.3 billion at end-FY15.¹⁶ IBRD/IDA trust funds accounted for 85 percent of the FHIT. Total cash contributions to WBG trust funds declined during the five-year period, dropping to \$3 billion in FY17—the lowest point over the past five years. Disbursements and cash transfers of WBG trust funds remained relatively stable over the past five years, fluctuating between \$4.4 billion in FY13 and \$4.2 billion in FY17.

The number of standard trust funds decreased from 597 in FY13 to 544 in FY17, as part of the World Bank's consolidation efforts toward multi-donor trust funds (MDTFs) and programmatic trust funds. IBRD/IDA MDTFs have seen a steady year over year increase over the past five years, increasing from 52 percent as of end-FY13 to 61 percent as of end-FY17. The share of programmatic IBRD/IDA trust funds increased from 64 percent in FY13 to 70 percent in FY17. Sovereign governments remain the largest contributors to IBRD/IDA trust funds, accounting for 76 percent (\$2.1 billion) of total cash contributions received in FY17. The United Kingdom was the largest donor in cumulative cash contributions to IBRD/IDA trust funds between FY13–FY17 (\$3.4 billion), followed by the European Union (\$1.8 billion) and the United States (\$1.7 billion).

The number of IFC trust funds decreased over the past five years from 290 as of end-FY13 to 217 as of end-FY17, mainly due to IFC's efforts to consolidate the trust fund portfolio. Cash contributions for IFC trust funds decreased from \$375 million in FY13 to

¹⁶ FHIT are comprised of cash and investments and promissory notes receivable.

\$268 million in FY17, while disbursements decreased from \$357 million in FY13 to \$300 million in FY17. IFC trust funds received cash contributions predominantly from sovereign donors. Switzerland was the largest sovereign cash contributor to IFC advisory services trust funds, accounting for 13 percent of total cumulative cash contributions received between FY13–FY17, followed by the United Kingdom and the Netherlands.

The FY17 TFAR adds several new graphs and figures compared to the previous version, along with footnotes and endnotes to present a more comprehensive analysis of the trust fund portfolio after a five-year gap in the preparation of the report, and to set a foundation for the ongoing discussions regarding trust fund reform.

Chapter Three: Trust Fund Reform provides an overview of the ongoing World Bank-wide trust fund reform efforts to strengthen the link between trust funds and the WBG’s strategic priorities, improve corporate oversight, and increase efficiencies to contribute to the *Forward Look* vision of a stronger and better WBG. Successive trust fund reforms in the past have made significant progress in transitioning trust funds to World Bank operational, financial, and administrative controls, aligning trust funds with broader World Bank strategies and priorities, strengthening corporate oversight over the trust fund lifecycle, and improving integration of trust fund resources into budget planning to reduce costs and better manage risks. The new vision for structural trust funds reform ensures that trust funds remain a strong pillar of World Bank resources for the next decade, around fewer and larger individual funds that reflect the highest priorities for the institution, reduced transaction costs, more efficient use of resources, stronger results focus, and more active strategic management at the corporate, Global Practice, and Region levels. The preliminary design of the new phase of reform is under way, with active participation from Global Practices, Global Themes, Regions, and IFC. Donors and clients will be consulted on the reform’s initial recommendations in the first quarter of calendar year 2018, with the objective to start implementation at the beginning of FY19. This chapter includes only high-level messages related to the ongoing trust fund reform, as these are still preliminary and subject to change based on external consultations.

SECTION B—Financial Intermediary Funds

This section focuses on the management and financial aspects of the FIF portfolio to highlight key programs, sectors, and innovations, and summarizes key aspects of FIF reform.

Chapter Four: Overview of Financial Intermediary Funds summarizes the key characteristics and varying roles the World Bank plays in managing FIFs. Twenty-nine FIFs have been established to date. Over the years, the FIF instrument has enabled the World Bank to engage in new areas of work, allowing the World Bank to develop innovative financing models to maximize funding through the involvement of the public and the private sectors. Recent examples of such FIFs include the Pandemic Emergency Financing Facility (PEF), the Global Concessional Financing Facility (GCFF), and the Pilot Auction Facility for Methane and Climate Change Mitigation (PAF).

Chapter Five: Financial Trends of World Bank Financial Intermediary Funds, FY13–FY17

provides key statistics and financial data to analyze the financial trends in the FIF portfolio. The FHIT for FIFs continued to increase during the past five years, reaching the highest point of \$21.1 billion as of end-FY17, of which approximately \$724 million was transferred to the World Bank to implement activities. Contributions averaged \$7.7 billion, while cash transfers remained relatively steady with an average annual transfer of \$6.8 billion during the past five years. The largest amounts of funds are held in four FIFs and account for 80 percent of the total FHIT by FIFs across the five-year period. The top ten donors contributed \$32.3 billion to FIFs in the last five years, comprising 36 percent of the total contributions. The United States remains the largest donor to FIFs, followed by the United Kingdom and Japan.

Chapter Six: Financial Intermediary Funds Reform

highlights the different opportunities and challenges in managing FIFs in the World Bank and how the ongoing FIF reform will help build on these opportunities and address these challenges. The number of active FIFs and the amount held in trust by the WBG continues to increase, underscoring the importance of carefully considering the use of FIFs as an instrument for funding and partnership arrangements among other instruments offered by the World

Bank to clients and shareholders. The preliminary design of FIF reform currently under way in the World Bank aims to: (i) better align the use of FIFs with the World Bank's corporate and operational strategies; (ii) strengthen corporate oversight; and (iii) ensure that the World Bank's engagement with FIFs serves the interests and priorities of the clients. Donors and clients will be consulted on the reform's initial recommendations in the first quarter of calendar year 2018, and these are presented as high-level recommendations in this chapter given their preliminary nature.

Annexes: Annexes 1 and 2 include a list of all donors from the largest to the smallest who have contributed to WBG trust funds and to the FIFs over the past five years, respectively, to acknowledge the contribution of all donors. Annex 3 includes the Glossary of Key Terms used throughout the TFAR. Annex 4 includes a list of trust funds included in Chapter One (in order of appearance).

FY17 Single Audit Report: The FY17 Single Audit Report, along with the unqualified opinions from the

independent auditor, are not included in the TFAR unlike previous times. This can be accessed at www.worldbank.org/financialresults.¹⁷

This annual report is not designed to be read cover to cover. It has been organized in a way that readers both internal and external to the WBG can consult the detailed Table of Contents and quickly reference the sections and/or chapters of relevant interest. Hyperlinks are provided in the Table of Contents to easily access the relevant section, chapter, box, or figure in the main body of the report.

Our hope is that the report proves to be an informative and insightful document that provides an overview of trust funds and demonstrates the critical role trust funds play in supporting the WBG's activities, innovations, and partnerships around the world, and the future reforms which will make the value proposition of trust funds even stronger.

¹⁷ The "Single Audit Report" is the WBG Modified Cash Basis Trust Funds Report on Internal Control over External Financial Reporting and Combined Statements of Receipts, Disbursements, and Fund Balance and includes the independent auditors' reports.