

Trusteeship in Multilateral Organizations: The World Bank's Experience

XXI Congreso Latinoamericano de Fideicomiso
September 2011





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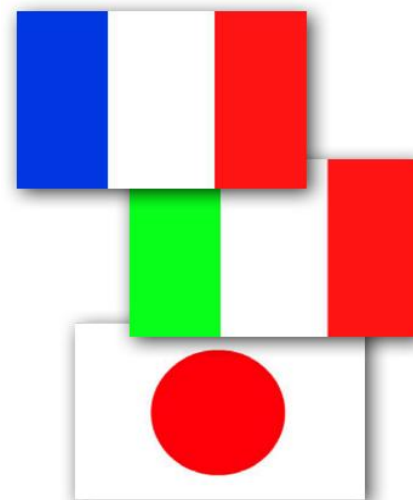
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Management of Trust Funds



Origins of the World Bank

- The International Bank for Reconstruction and Development (IBRD), called “The World Bank” was established in 1944 in Bretton Woods, New Hampshire (together with the IMF)
- IBRD’s initial mission: To rebuild Europe after the Second World War
- France was the first borrower in 1946 for \$250 million to finance post-war reconstruction
- Many developed nations, who are now donor countries, also borrowed from the IBRD, such as Austria, Australia, France, Germany, Italy, or Japan
- From the 1960s, with post-war reconstruction accomplished, the World Bank’s mission shifted towards promoting economic development and reducing world poverty





Development Thinking and World Bank Strategy are evolving

	Economic Development Thinking	Broad World Bank Strategy
1960s/70s “Project Bank”	Social and economic change with focus on poverty eradication – distributional aspects of growth mattered	Rapid loan growth for physical and human capital investments; Increasing poverty focus and wide technical expertise
1980s “Policy Bank”	Central role of markets and private sector to reestablish macroeconomic equilibrium	Policy-based Structural Adjustment Lending; Shift away from technical expertise to policy expertise
1990s “Poverty Bank I”	Proper regulatory environment – land, labor, credit – to guide markets and private sector. Country circumstances matter.	Institutional development and capacity building; Country-ownership
2000s “Poverty Bank II”	Good governance and institutional foundations – broader understanding of poverty (MDGs)	Two pillars (Investment Climate and Investing in People); Country-driven
21st Century “New Multilateralism”	Integration of development, security and Global Public Goods	Connecting country and global; Increasingly networked, agile and responsive



The World Bank Group: Five Institutions



International Bank for Reconstruction and Development - IBRD

Established 1944 | 187 Members

Fiscal year 2010 lending: \$44.2 billion for 164 new operations in 42 countries

- Supports Middle-income Countries through loans, guarantees and advisory work
- Funds itself through issuance of AAA bonds in the international capital markets



International Development Association - IDA

Established 1960 | 170 Members

Fiscal year 2010 commitments: \$14.5 billion for 190 new operations in 66 countries

- Supports the world's poorest countries through soft-loans, grants and guarantees
- Is replenished through periodic donor contributions, World Bank Group net income and credit reflows



International Finance Corporation - IFC

Established 1956 | 182 Members

Fiscal year 2010 commitments: \$12.7 billion for 528 projects in 58 countries

- Supports the private sector through loans, equity and guarantees; funds itself through AAA bonds



Multilateral Investment Guarantee Agency - MIGA

Established 1988 | 175 Members

Fiscal year 2010 guarantees issued: \$1.5 billion for 19 projects in developing countries

- Supports investors in developing countries through political risk insurance



International Centre for Settlement of Investment Disputes - ICSID

Established 1966 | 146 Members

Fiscal year 2010 cases registered: 26 cases

- Provides mediation and arbitration services for investors in developing countries



How the World Bank Operates



- 186 member countries appoint their Governors
- Governors delegate specific duties to Executive Directors, with member countries grouped in Board constituencies
- The President is elected by, and reports to, the Board of Executive Directors
- Regional VPs (Operations) – Highly decentralized, with country directors and staff in over 150 offices worldwide; staff come from 170 different nationalities
- Sectoral VPs (Networks) – Human Development, Sustainable Development, Poverty Reduction & Economic Management, Financial and Private Sector Development



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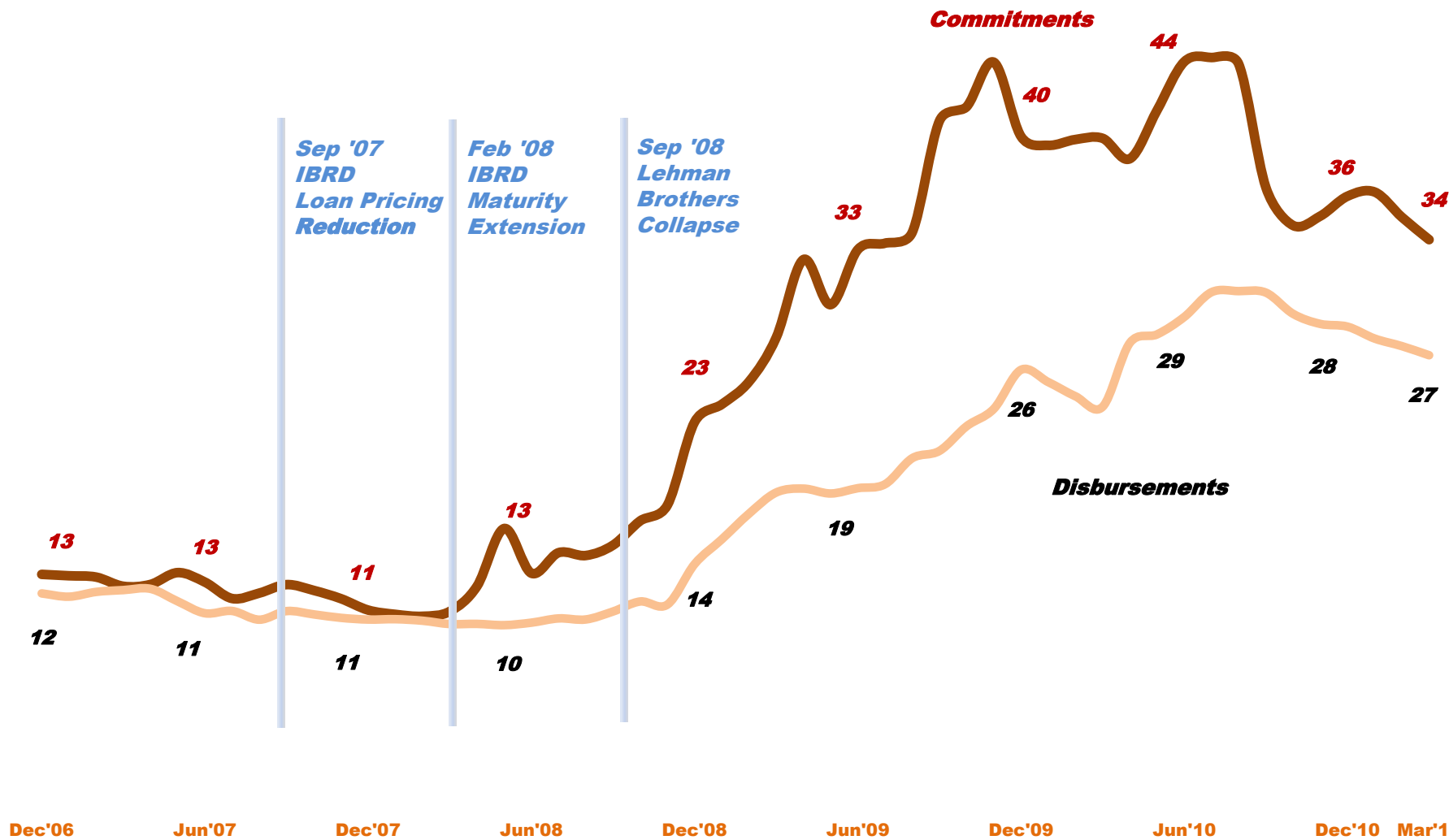
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Management of Trust Funds



Evolution of World Bank Financing

(IBRD, in USD billion, over rolling 12-month period)





World Bank Group Response to the Global Crisis: more than \$70 billion of financing in fiscal year 2010



IBRD

- Record high of \$44.2 billion committed in fiscal year 2010, four times that of 2008
- Half of 2010 lending provided through development policy operations
- Expected demand from Middle Income Countries in 2009-2011: Over \$100 billion
- IBRD expects lending constraints by 2012, unless higher demand levels come down

IDA

- Record high of \$14.5 billion committed in fiscal year 2010, +25% over 2008
- New IDA Crisis Response Window established in late 2009
- Record IDA16 replenishment agreed by 52 donor countries in December 2010, providing nearly \$50 billion over fiscal years 2012-2014

IFC

- Committed \$12.7 billion in fiscal year 2010
- Over 50% of investment projects in 2010 were in the poorest (IDA) countries
- Established the IFC Asset Management Company to mobilize external resources
- Created new funds for global trade, infrastructure, microfinance, bank capitalization



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What is a Trust Fund?

“A financing arrangement set up for accepting Contributions from one or more Donors, to be received, held and disbursed by the World Bank Group as Trustee or Administrator in accordance with agreed terms.”



3 Types of Trust Funds



IBRD/ IDA Trust Funds

- The World Bank (IBRD or IDA) as Administrator implements the development projects to be financed, usually as co-financing for World Bank loans & grants
- 2 types of funds:
 - Recipient-executed funds – World Bank appraises/ supervises clients' activities
 - Bank-executed funds – Used to finance the World Bank's own work program

Financial Intermediary Funds (FIFs)

- The World Bank as Trustee provides customized financial services, such as receiving, holding, investing and transferring funds
- Implementation of development projects is the responsibility of the FIF Implementing Agencies and Recipients, not the World Bank
- Most FIFs focus on global public goods (i.e., climate change, health, education)

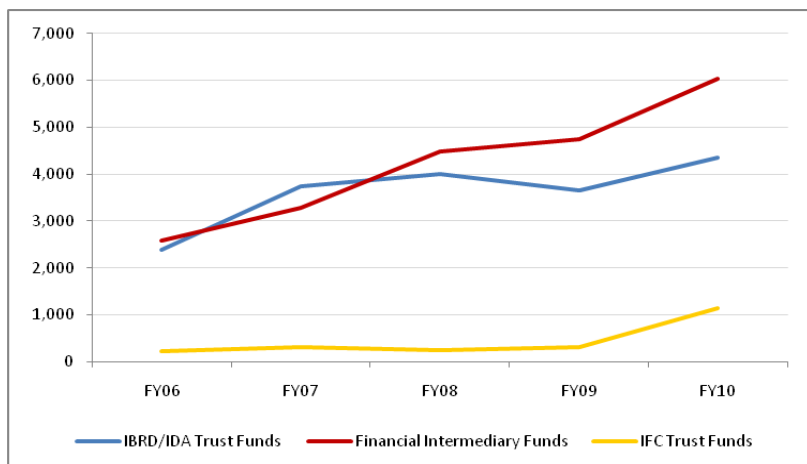
IFC Trust Funds

- The IFC, the private sector arm of the World Bank, implements the development projects to be financed
- Primarily to support IFC's advisory services to its members



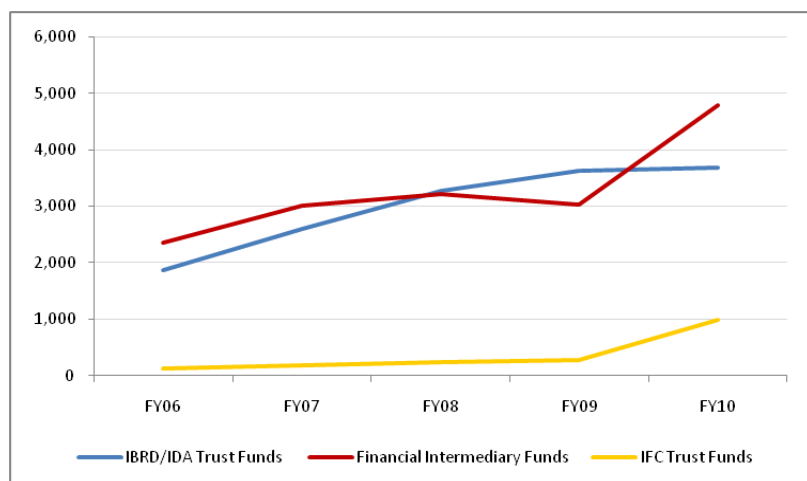
Financial Flows of Trust Funds

Donor Contributions Paid-in (US\$ Million)



- Donor inflows to World Bank Trust Funds of \$10-12 billion per year have become comparable in size to donor inflows to IDA, the World Bank's arm for the poorest
- Contributions to Trust Funds have more than doubled over the past 5 years
- Strongest growth as been for Financial Intermediary Funds (FIFs), supporting global initiatives

Disbursements and Transfers (US\$ Million)

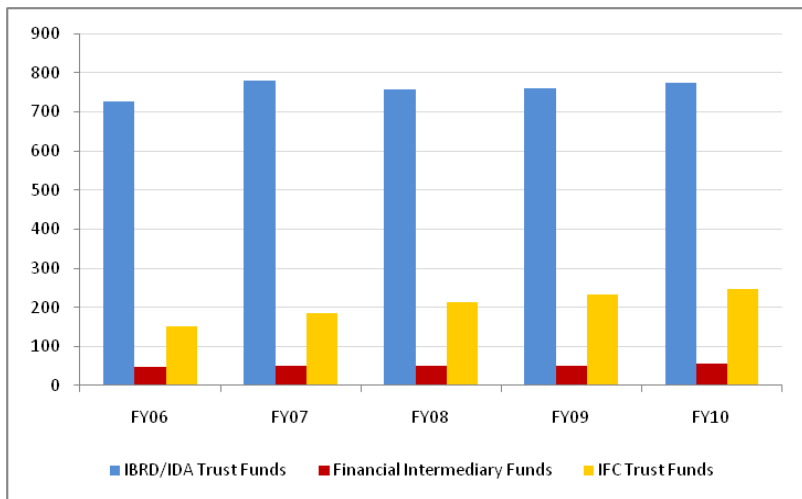


- Payments from Trust Funds to developing countries have increased in line with donor inflows
- Trust Fund co-financing (recipient-executed) accounts for some 30% of World Bank disbursements to the poorest countries
- Trust Funds also support some 25% of the World Bank's own work program (Bank-executed)



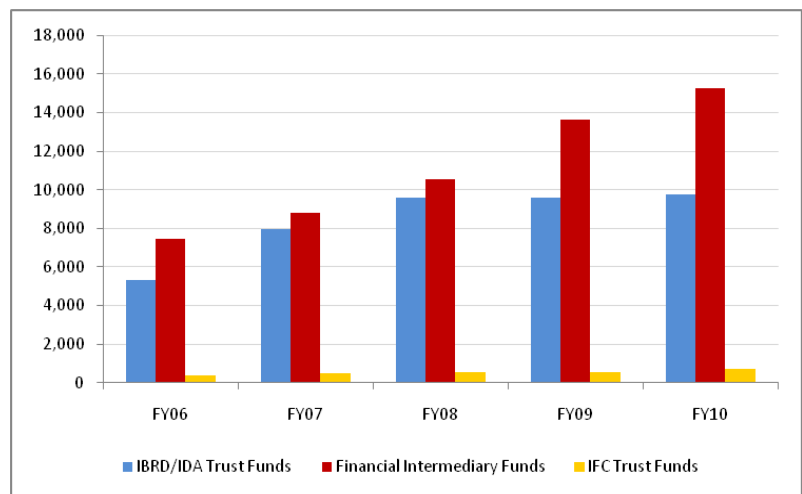
Financial Stocks of Trust Funds

Number of Active Trust Funds



- Over 1,000 active Trust Funds
- Most funds are for project co-financing of IBRD/IDA-funded activities
- Some 230 different donors, including 70 sovereigns, with funding provided in 25 different currencies
- “Fragmentation” of Trust Funds seen as an issue to be addressed through consolidation over time

Assets (cash & notes) held in Trust (US\$ Million)



- More than \$25 billion in total Trust Fund liquidity
- Majority of funding held by global initiatives (FIFs)
- Funds are invested by the World Bank Treasury in high-grade, fixed-income securities
- Capital preservation for donors is the primary investment objective



Trust Fund Donors

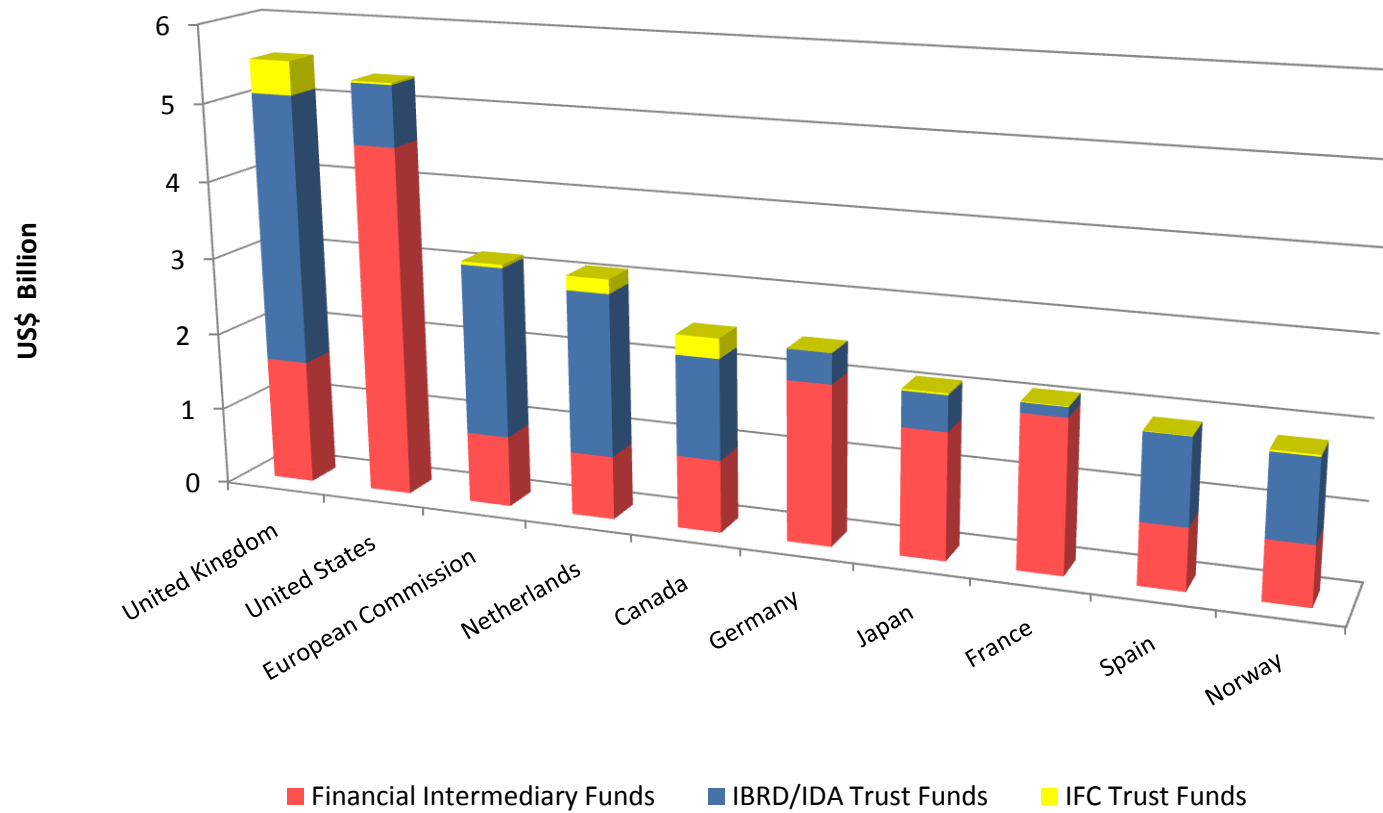
Cash Contributions to Trust Funds, by Donor Type,
Fiscal Years 2006-2010 (US\$ Million)

Donor Type	2006	2007	2008	2009	2010	Total
Sovereign governments	4,148	5,778	7,301	7,173	9,807	34,206
Inter-governmental institutions	579	790	797	492	1,032	3,690
World Bank	421	408	284	343	208	1,664
Private non-profit entities	22	250	147	268	163	849
Private for-profit organizations	21	77	162	140	114	514
Other organizations	10	12	52	59	120	253
Total	5,200	7,314	8,743	8,475	11,444	41,176



Trust Fund Donors

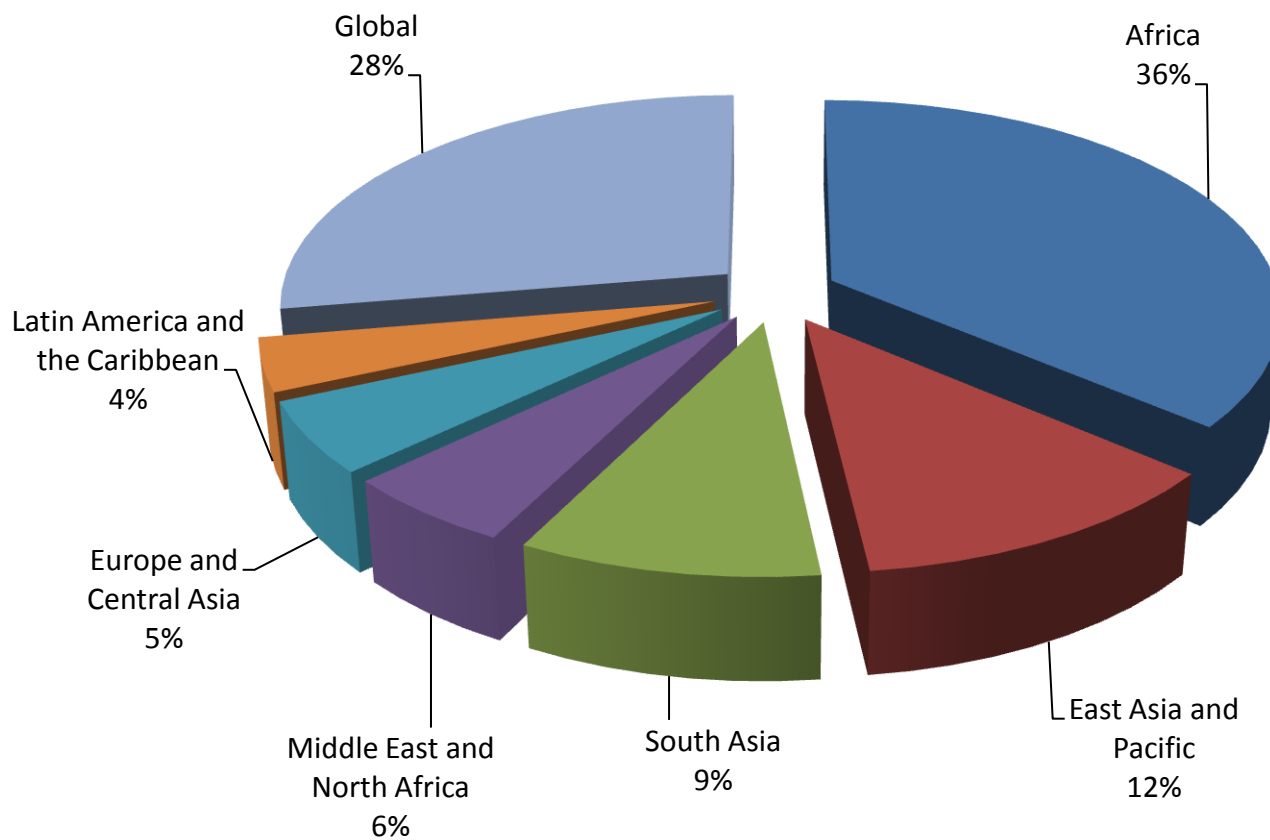
10 Largest Donors to Trust Funds: Cumulative Contributions during Fiscal Years 2006-2010 (US\$ Billion)





Trust Fund Recipients

Trust Fund Disbursements by World Region,
Fiscal Year 2010





More on global aid financing: www.aidflows.org

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Honduras Beneficiary View – World Bank Group & Trust Funds

BENEFICIARY VIEW | DEVELOPMENT INDICATORS

OECD | World Bank

Commitments | Disbursements & Project Counts | Sectors | TF Programs | TFs by Grant Types

Gross Commitments (by fiscal year in US\$M)

World Bank Group and TFs

Year	IFC	TFs	IDA	IBRD	MIGA
2007	0	15	40	0	0
2008	35	5	95	0	0
2009	165	5	65	0	0
2010	100	0	40	0	0
2011	75	5	75	0	10

Source: World Bank Group Financial Statements

Undisbursed Commitments (as of FY end in US\$M)

Undisbursed Commitments

2011

Category	Value (US\$M)
IBRD	0
IDA	255
IFC	30
MIGA	10
TF	15

Source: World Bank Group Country Exposures Document, CFR,2009

World Bank Group



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The global context for the World Bank continues to change

The world continues to change

- Global GDP increased more than 6 times in 50 years, with profound **structural changes**
- An emerging world of **multi-polar growth** requires integration and new roles for developing and transition countries (the end of the term “third world”)
- Common action is required to address unprecedented **global challenges**

The global financial aid architecture has evolved, but has also become more complex

- World Bank, IMF, Regional Development Banks, UN Agencies
- More than 150 other multilateral development agencies
- Bilateral donors and their multiple financial and technical agencies
- Private foundations and Civil Society Organizations
- Private sector playing a key role in development, with private flows to developing countries exceeding \$1 trillion before the global financial crisis
- South-South investments, experience sharing, and business/trade opportunities



New development challenges...

- International efforts to meet the **Millennium Development Goals (2015)**, especially in Africa
- Need to **integrate rising economic powers** into the international system
- Responding effectively to **more complex interactions**
 - Risks of protectionism and the resumption of global imbalances
 - Climate change
 - Concern for security (e.g. food, energy, water, and human)
 - Linking development & security in fragile and post-conflict states
 - Need for more financial regulation and supervision - while encouraging access to finance, investment and risk management
- Moving from a concept of development as charity to one of **mutual interest and inter-dependence**
- Managing risks and **anticipating potential shocks and new crises**





... while dealing with the aftermath of the global financial crisis and the risk of double-dip recession

- **Multispeed recovery:** strong growth in some countries while others still sliding. Global recovery likely to be gradual
- **Sovereign indebtedness:** European sovereign debt crisis and credit expansion in advanced country borrowing affects emerging market access to credit and costs
- **Volatile commodity prices:** resumption of oil and other commodity price increases could choke off recovery
- **Asset price bubbles:** liquidity chasing returns in better-performing markets could encourage emergence of new bubbles
- **Private capital flows will remain volatile with uneven access**
- **Extended joblessness:** job-less recovery in some advanced economics will limit scope of gains, leading to more credit losses and generating political pressures for protectionism
- **New financing requirements for countries in the Middle East** to deliver economic growth and provide social and political stability



Alignment of Trust Funds with World Bank corporate priorities

The World Bank's Post-crisis Strategic Development Priorities





Targeting the poor and vulnerable: Trust Fund support to fragile states



Examples

Afghanistan Reconstruction Trust Fund

- Coordinating donor funding for reconstruction while promoting accountability and transparency
- Raising school enrollment in grades 1-12 from 3.9 million to 6.3 million
- Number of girls enrolled in schools increased from 839,000 to 2.3 million
- Support to farmers to cultivate and re-plant some 2,400 hectares of agricultural land

Iraq Trust Fund

- Financing reconstruction and capacity-building programs, despite difficult security conditions
- Construction and repair of 213 schools, benefiting 52,000 students; distributing 82 mill. text books
- Construction and repair of 15 hospitals and rehabilitation centers
- Rehabilitation of water treatment plants for 300,000 people
- Education, training and capacity building of government staff

Trust Funds for Sudan/ Southern Sudan

- Supporting the two governments, following Sudan's 2005 Comprehensive Peace Agreement
- Rehabilitation of 446 km of rail lines, re-establishing vital rail links
- Construction and repair of 246 schools and training of 2,300 teachers
- Construction and repair of 180 health facilities and training of 1,900 health professionals
- Rehabilitation of 332 water points for 500,000 people



Creating Opportunities for Growth: Trust Fund support for private business



Examples from IFC

Business Taxation

- Issuing tax identification numbers to 100,000 firms in Sudan
- Upgrading web-based IT infrastructure for filing business taxes

Public Procurement

- Advising on successful public tenders in which private operators were selected, thereby producing \$2 billion in fiscal benefits for governments and enabling \$3.4 billion in investment

Eco-investments

- Supporting an EcoEnterprise Fund venture capital fund, investing in businesses that protect the environment and conserve biodiversity, creating jobs

Corporate Governance

- Advising businesses on improving their corporate governance
- Training some 18,000 individuals in some 6,000 entities

Management Training

- Enabling some 50,000 individuals in some 4,000 entities to receive management training
- Additional 11 million business training sessions delivered through the internet

Sustainable Energy

- Lighting Africa has contributed to a 50% reduction in retail prices of off-grid lighting products
- Program-supported companies provided more than 500,000 people with improved services



Promoting Global Collective Action: Trust Funds supporting global public goods



Examples

The Global Fund

- Established in 2002 to fight AIDS, Tuberculosis and Malaria
- Through December 2010, the Global Fund approved \$21.7 billion of total funding, and \$13 billion has been disbursed for HIV, Tuberculosis and Malaria control projects and programs
- The World Bank acts as Trustee handling financial transactions including liquid asset investments

Immunization (IFFIm)

- International Finance Facility for Immunization (IFFIm), established in 2006
- A supranational institution issuing bonds to fund immunization programs in 70 poor countries
- Received government pledges worth \$6.2 billion to back AAA-rated bond issuance
- The World Bank serves as Treasury Manager for IFFIm, arranging issuance of IFFIm bonds

Global Environmental Facility

- Largest funder of projects focused on global environmental challenges among 180 countries
- Focus on biodiversity, climate change, international waters, land degradation, and the ozone layer
- Cumulative funding of \$9.5 billion since inception in 1991
- The World Bank acts as Trustee, hosts the Secretariat and is one of 10 Implementing Agencies

Climate Investment Funds

- Established in 2008 under the UN Framework Convention on Climate Change
- Offers funding for clean technology projects and pilot approaches in developing countries
- Received government funding (loans and grants) of \$2.5 billion to date
- The World Bank acts as Trustee, hosts the Secretariat and is one of 6 Implementing Agencies



Strengthening governance, managing risk and responding to crises through Trust Funds



Examples

Governance Partnership Facility

- Launched in 2008 to enhance governance and accountability in developing countries
- Promotes in-country dialogue between governments and citizens, opens up government budgets for public review, provides for fiscal expenditure monitoring and enhances spending transparency
- The World Bank joins the UK, the Netherlands and Norway in this partnership

Global Food Price Crisis Response Program

- Established in 2008 to reduce the negative impact of high food prices on the poorest
- Supports developing country governments to design policies to address food price volatility and contribute to agriculture sector growth and productivity, with a focus on Africa
- Some \$1.5 billion has been made available in total, reaching some 38 million people

Global Trade Liquidity Program

- Established in 2009 by IFC to address the shortage of trade financing due to the global financial crisis
- Innovative structure to infuse liquidity into trade finance markets, catalyzing global trade growth
- Benefiting thousands of importers and exporters in SMEs in developing countries
- More than \$6.5 billion of trade has been supported through some 4,600 transactions

Avian and Human Influenza Facility

- Part of the global coordinated action to respond to the threat of avian influenza
- Helps developing countries who lack adequate domestic resources and capacity to control diseases
- Includes rapid assessments of influenza threats and strengthened disease surveillance
- Has led to competent handling of recent H1N1 and H5N1 outbreaks in developing countries



More on World Bank Group results: www.worldbank.org/results

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118,000 km of roads constructed or rehabilitated

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[IDA: Fund for the World's Poorest >>](#)

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Bhutan: Country Profile

Over 20 years, 55,000 people have received improved infrastructure services, and 1,993 households have new water connections.

[Results profile](#)

MULTIMEDIA



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- [▶ Core Sector Indicators](#)
- [▶ Impact Evaluation](#)

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The World Bank is a vital source of financial and technical



To see results mapped out globally: www.maps.worldbank.org



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Mapping for Results

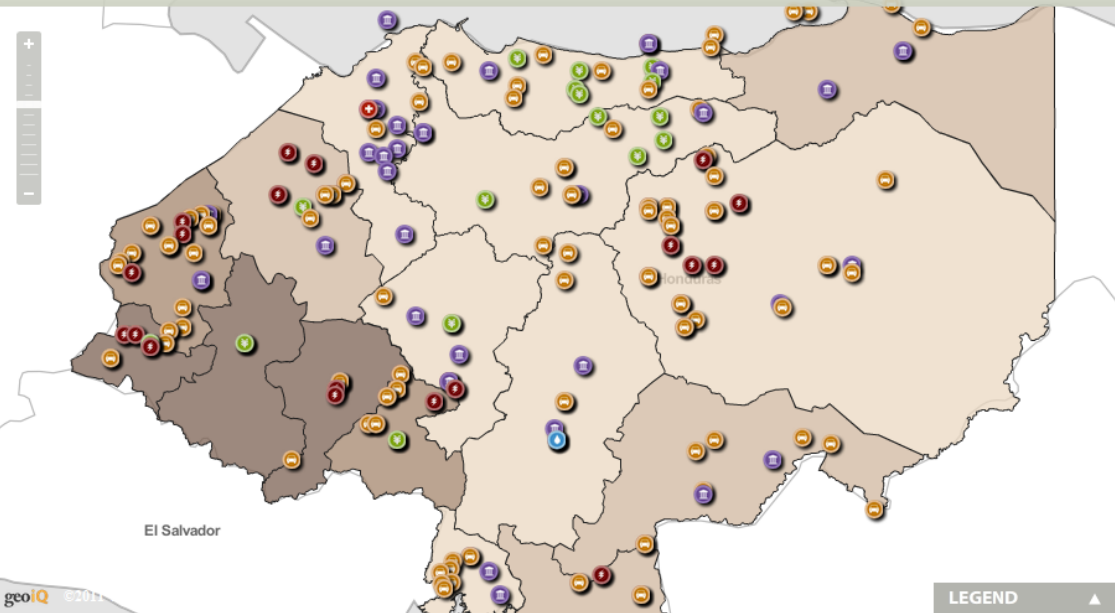
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▶ HONDURAS

20 financed activities working in **240** mapped locations

BASE MAP: MALNUTRITION ▶
ACTIVITIES: BY SECTOR ▶

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FINANCED ACTIVITIES BY SECTOR

\$339.28 Million

- Transp...rtation - \$79.81m
- Public...Justice - \$72.37m
- Energy... mining - \$46.01m
- Water...tection - \$44.75m
- Health...ervices - \$44.72m
- Education - \$14.91m
- Indust...d trade - \$14.40m
- Agricu...orestry - \$12.90m
- Finance - \$9.41m
- Inform...cations - \$0.00m

MORE DATA ▶

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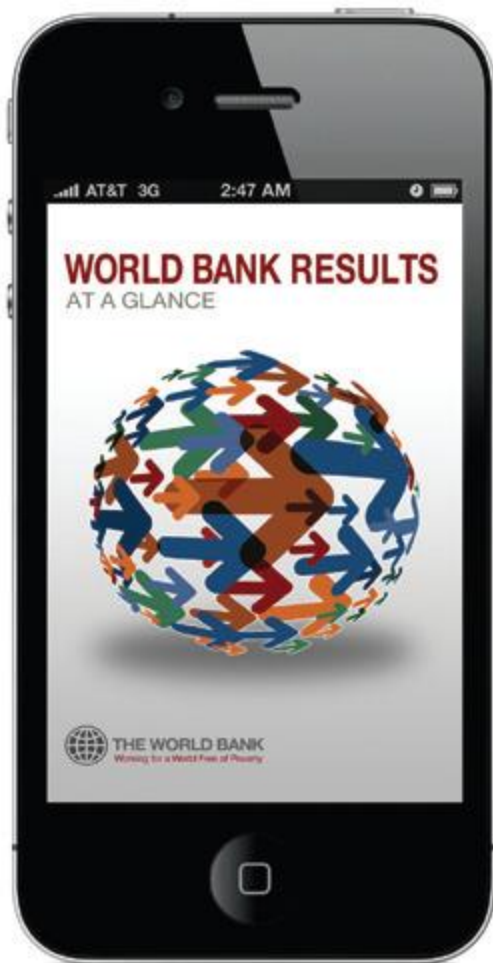
HONDURAS

Honduras is a lower middle-income country with a huge wealth gap and a past of military rule and corruption. On the political side, it is a relatively young democracy which left behind a series of past military regimes and has experienced eight consecutive democratic election processes since 1982. World Bank project are designed to remove long-standing structural barriers to growth, by modernizing the public sector and improving the performance of economic and social services; improve rural productivity and generate

Title	Project ID	Amount	Sector	Approval Date	Product Line
HONDURAS ROAD RECONSTRUCTION AND IMPROVEMENT II	P109058	\$48.6 million	Transportation	Jun-2008	IBRD/IDA



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For more information, go to bit.ly/wbresultsapp



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World Bank Trust Fund Financial Management Services at a Glance



- Financial transactions with donors and recipients
- Cost recovery through fees for services
- Investment management of Trust Fund assets
- Intermediation services in the capital markets
- Risk monitoring and control frameworks
- Management of financial risks
- Information technology systems
- Financial reporting and independent audits
- Quality assurance and compliance monitoring
- Independent evaluation of projects and programs
- Governance and anticorruption agenda
- Access to information policy
- World Bank Open Data



The Trust Fund Processing Cycle





4 Primary Financial Risks for Trust Fund Programs

I. Liquidity Risk

- On aggregate, Trust Funds administered by the WB hold more than \$20 billion in liquidity
- Liquidity covers about 3 years of aggregate Trust Fund disbursements
- Liquidity risk is considered low, even though liquidity held by individual funds is not fungible across other funds
- Risk mitigation: Daily cash flow monitoring, aided by timely donor contributions

II. Investment Risk

- Donors' cash contributions have outpaced grant disbursements on Trust Funds
- The World Bank invests these resources in the capital markets until funds are disbursed
- Investment risk arises from changes in market interest rates and credit spreads, causing changes in bond prices and yields
- Risk mitigation: Conservative risk limits, combined with tailored investment horizons

III. Donor Funding Risk

- Some donors provide their cash funding over time
- If donor funding is delayed, or reduced, grant recipients may receive less resources than expected
- Donor funding risk arises if the World Bank approves grants before donor contributions have been paid in
- Risk mitigation: Best practice is to limit grant commitments to funds already received from donors

IV. Currency Risk

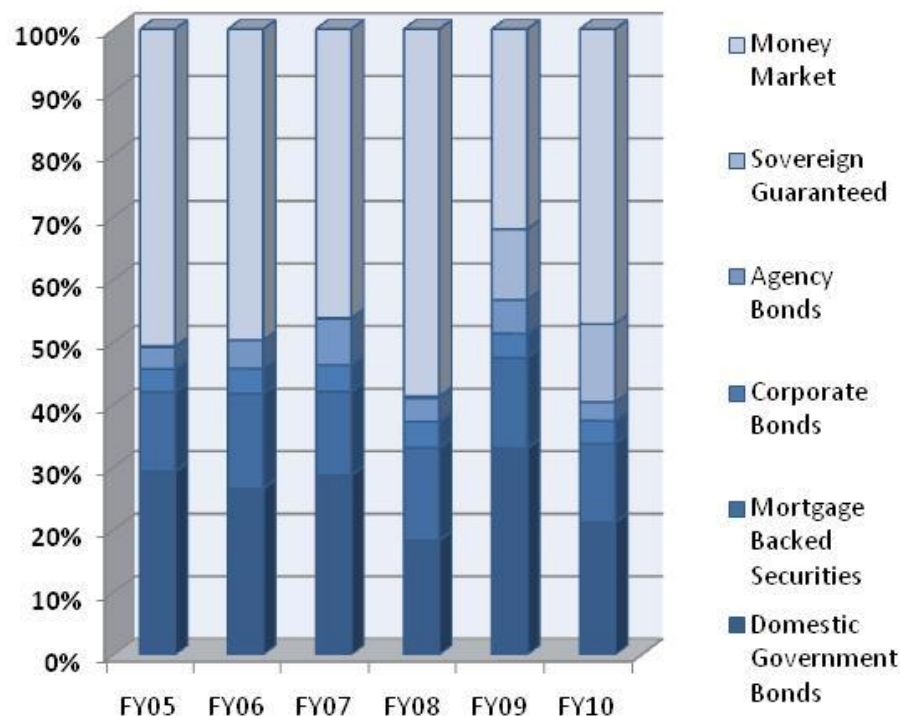
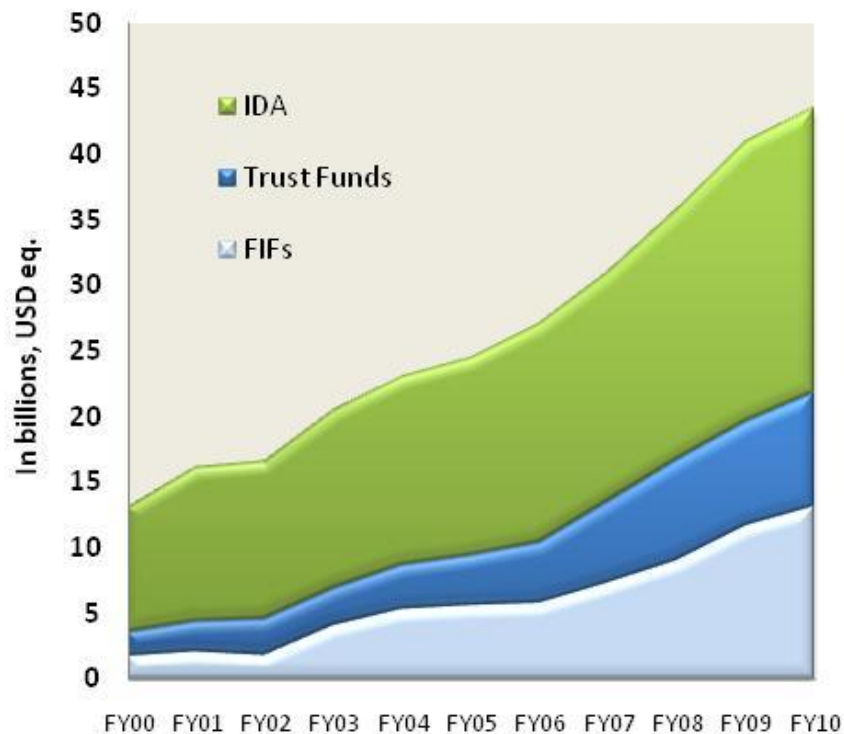
- Most donors provide funding in currencies other than US dollars
- Most recipient grants are committed in US dollars. This results in a currency mis-match for Trust Funds.
- Currency exposure arises if the World Bank approves grants before donor contributions have been paid & converted
- Risk mitigation: Limiting grants to 85% of future donor contributions, until funds are paid in



Investment Management for Trust Funds

- Total donor funds under management by the World Bank are approaching \$50 billion
- Half of total donor liquidity managed relates to Trust Funds including Financial Intermediary Funds
- Funds are invested in the currency of grants for recipients to manage FX risk; for Trust Funds, 90% is invested in USD

- Capital preservation is the primary investment objective for Trust Funds
- Eligible assets include top-rated sovereign, sovereign-guaranteed and agency bonds, plus AAA-rated corporate bonds, MBS and ABS. No equities are being held (yet).
- 30% -50% of Trust Fund liquidity held in bank deposits

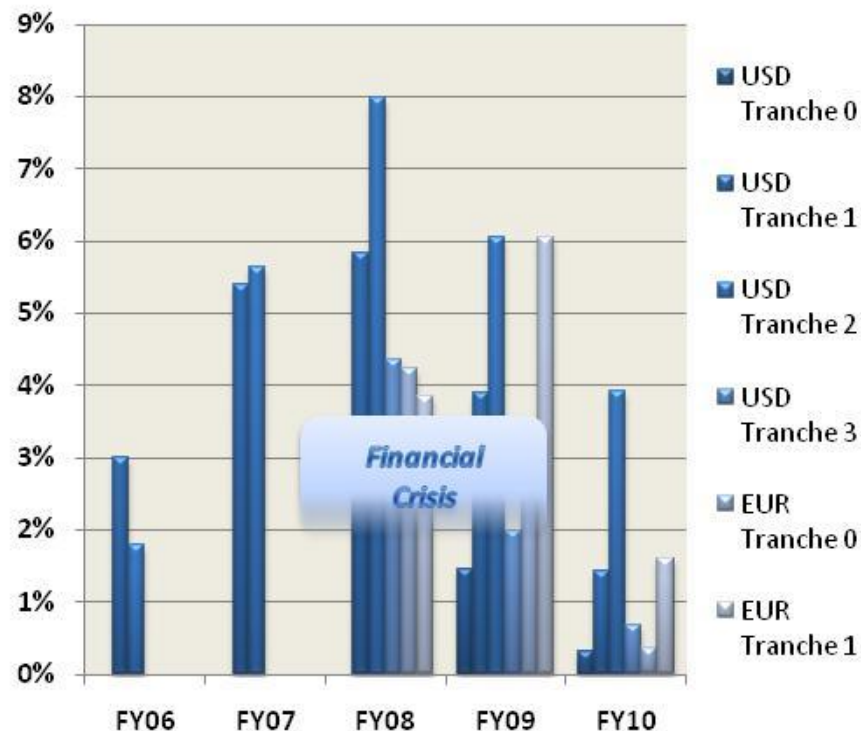
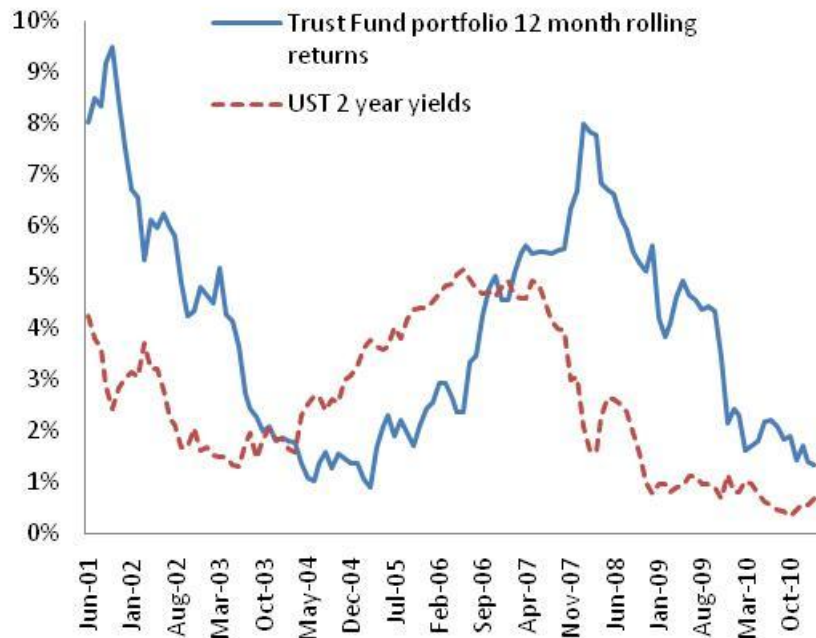




Investment Management for Trust Funds (continued)

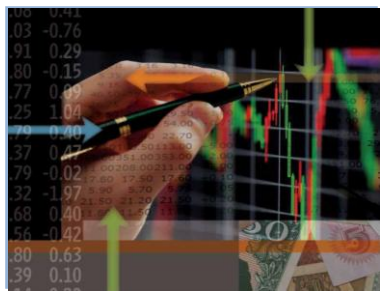
- Trust Fund portfolio returns averaged around 4.5% over the past decade
- Average portfolio duration is between 1 and 2 years, with some 90% invested in USD and the balance in Euros
- Falling (rising) USD market yields lead to rising (falling) Trust Fund yields until funds are re-invested at new market levels

- Trust Fund liquidity is primarily allocated to 3 tranches: Cash (tranche 0), 1-year horizon (tranche 1) and 3-year horizon (tranche 2), driven by cash flow projections for each fund
- Funds are invested to limit the probability of negative returns to 1% over the investment horizon, based forward interest rates





An evolving environment for Trust Funds administered by the World Bank



Donors

- Facing tighter fiscal conditions, reinforcing need for results, efficiency, transparency, re-prioritization and consolidation

Recipients

- Interested in faster, simpler and less fragmented approach to Trust Funds, consistent with global aid effectiveness principles

World Bank Board

- Requesting a holistic approach to Trust Fund reforms, including greater accountability and oversight

World Bank Management

- Pursuing modernization of Business Program: results-focused, open and accountable, efficient and flexible

WB Evaluation Group

- Suggesting a more structured approach for mobilization and deployment of Trust Funds (more multi-donor and thematic funds, more selectivity)



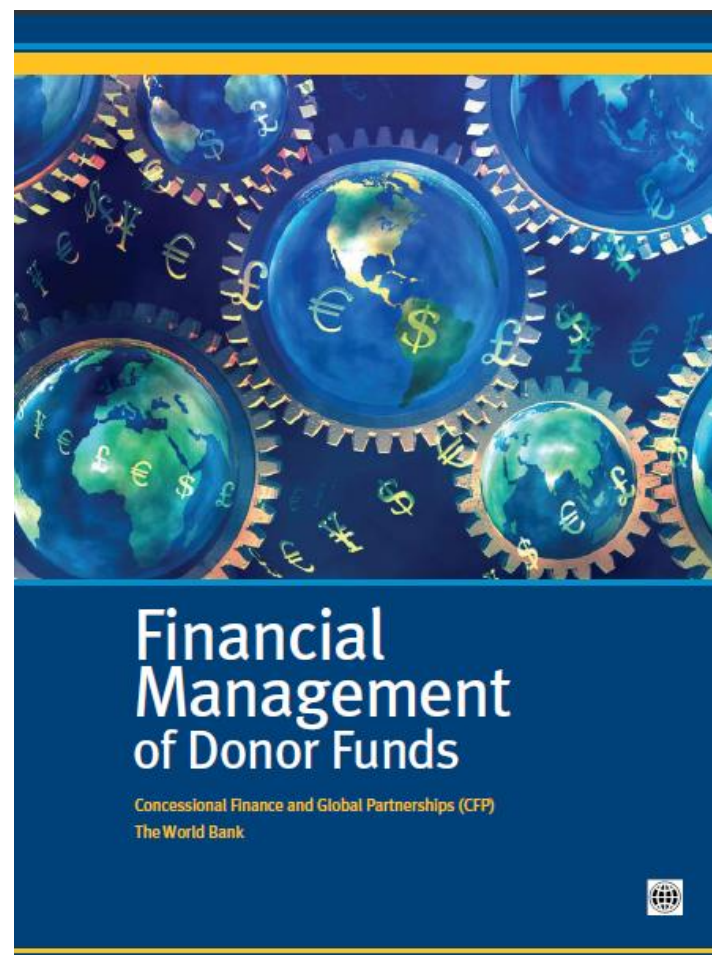
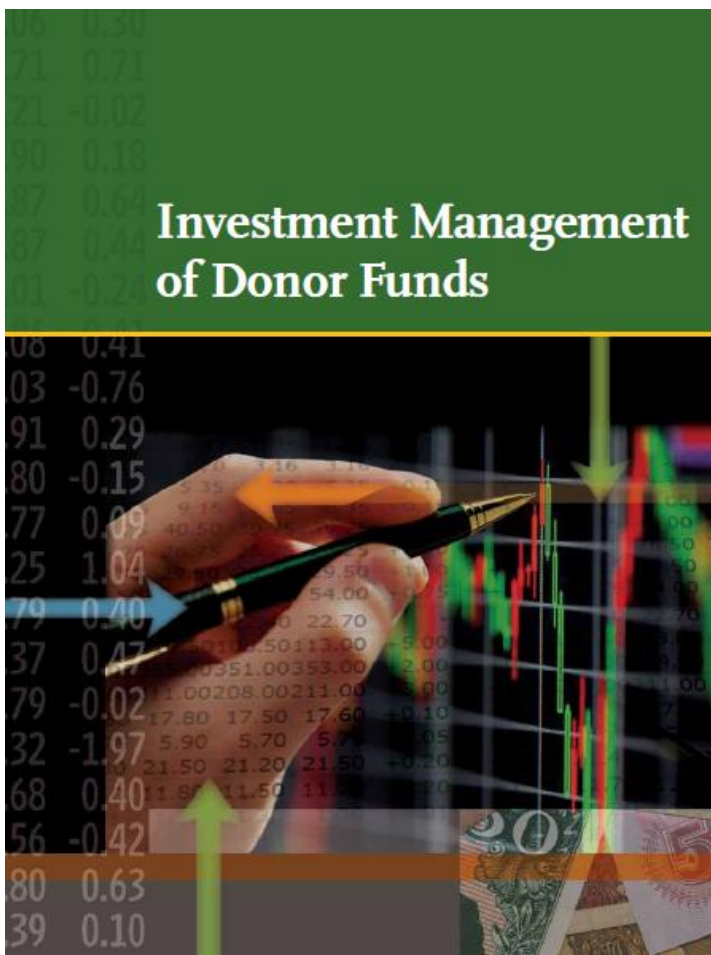
Elements of Trust Fund Reform



<p>I. Strategic Alignment</p> <p>Ensure that Trust Fund activities support the achievement of overall World Bank strategies</p>	<p>Alignment of IBRD/IDA TFs with country and sector strategies</p> <p>Enhanced donor fundraising coordination and consolidation</p> <p>Senior Management Reviews for large Trust Funds</p>	
<p>II. Systems and Process Integration</p> <p>Mainstream Trust Fund activities further into overall operational and business processes</p>	<p>Stronger integration of Bank-executed Trust Funds into budgeting and planning</p> <p>Better alignment of IBRD/IDA TFs with World Bank operations reforms and the results agenda</p>	
<p>III. Portfolio Sustainability</p> <p>Manage the Trust Fund portfolio efficiently and sustainably</p>	<p>Reviewing cost recovery arrangements for Trust Funds</p> <p>Simplification of processing steps for IBRD/IDA TF s</p>	
<p>IV. Risk Management and Oversight</p>	<p>Broaden and deepen financial risk management for Trust Funds</p> <p>Enhance financial reporting and data integration of Trust Funds</p>	



More on Financial Management of Donor Funds: www.worldbank.org/cfp





Thank You

