At issue: How much trust should we put in the funds?

In 2004, the World Bank was responsible for the disbursement of over $3 billion through the 903 trust funds that it manages. This sum represents over ten per cent of total World Bank Group activity. The amount of funds being channeled through trust funds has doubled since 2000, and their growth looks set to take off as increased international aid commitments chase limited spending channels.

Recipients of these funds may see them as manna from heaven; yet if trust fund support is not additional to other aid commitments, then it replaces other Bank or bilateral programmes. Is this an optimum use of resources, or just a cacophony of voices all trying to pull the Bank in different directions?

Trust funds: the basics

In volume terms, one-quarter of trust fund payments are for technical assistance, one-third fund debt relief, and another quarter are channeled to other agencies such as the Global Fund to Fight Aids, Tuberculosis and Malaria (GFATM). Funds are used for a range of purposes: they can be for a single activity or for a broad-based on-going programme or theme. They can focus on a country, a region, or a global public good.

Sixty-one per cent of the funds are for three high profile initiatives: the Global Environment Facility (GEF), the Highly Indebted Poor Countries initiative (HIPC), and the GFATM. Other large, well-known funds include reconstruction funds for Iraq, Afghanistan and the West Bank and Gaza. Funds range in size from a minimum of $200,000 up to the $2.2 billion held in trust for the GFATM. About ninety per cent of funds come from governments, with the remainder from inter-governmental organisations and a small amount from private entities. The top contributors in 2004 were the US, EC, UK, Japan and the WBG itself.

Bank fund management under review

The Bank's role in the management of trust funds ranges from a limited fiduciary role to actual implementation of fund activities. The Bank's vice-presidential unit of Concessional Finance and Global Partnerships oversees trust fund management. Within it is the Trust Fund Operations (TFO) unit, responsible for "developing internal policies and business processes; providing centralised support and training; and managing some trust fund programmes." Separate units in the Bank are responsible for accounting, legal issues, and quality assurance and compliance.

New trust funds can be proposed by either Bank staff or donors. They are assessed for their fit with national development strategies, and Bank country assistance, sectoral and cross-cutting strategies. The funds are governed by the Bank's operational policy on trust funds which stipulates that the Bank should "only accept trust funds that support activities not traditionally financed under the administrative budget. The Bank does not accept trust funds that may present a conflict of interest."

Bank staff which lead on a particular project or programme, known as 'task managers', are dedicated to specific trust funds. They file periodic status reports to either a country director or sector manager (for country or region programmes) or a network anchor (for global programmes). Monitoring and evaluation varies according to the relative size of the fund. Any disbursements over $1 million (64 per cent of total disbursements) require an 'internal completion memorandum' summarising progress towards goals, expected results and problems during implementation. The remaining 36 per cent do not. Larger programmes require periodic independent evaluations by a consultant mandated by the fund's governing body. Bank procurement policy applies to all trust funds.

An internal review of the Bank's management of trust funds initiated in 2002 led to a number of important reforms:

- The elimination of consultant trust funds: in July 2004, the Bank board agreed to no longer accept trust funds that impose nationality restrictions on procurement. The CTF programme is being phased out by 30 June 2007;
- A move from single-purpose funds towards programmatic funds which afford greater flexibility in their use, and from single-donor to multi-donor funds to minimise the number of funds with different reporting requirements in order to reduce the administrative burden on recipients;
- The establishment of a separate compliance unit and "enhancements" to financial accounting and reporting;
- The creation of a trust fund learning and accreditation programme to "ensure that staff are trained in all aspects of trust fund management" and;
- The trust fund annual report was made public for the first time in 2005 as part of the Bank's updated disclosure policy.

The Bank was paid $33 million in trust fund administrative fees in 2004; in addition it received trust fund support of $30 million for several of its own units such as the Environmentally and Socially Sustainable Development unit, the World Bank Institute and the International Centre for the Settlement of Investment Disputes.

UK largesse

In 2003 (the latest year for which figures are available), UK support for WBG trust fund programmes and co-financing initiatives totalled $252 million. This amount is just under 50 per cent of total spending on the IFIs and represents approximately 4 per cent of total expenditure by the Department for International Development (DFID). The UK jumped from the fifth to the third largest contributor in 2004.

The largest trust fund recipients of UK monies in 2003 were the GEF ($41m), GFATM ($40m), HIPC ($15m), Afghanistan reconstruction fund ($15m), and the Public-Private Infrastructure Advisory Facility (PPIAF - see box below). In the period 1997 to mid-year 2004, the funds which received the largest UK support were, once again, GEF ($225m), HIPC ($202m), GFATM ($116m) and PPIAF ($42m), but also included the Bangladesh health and population programme ($34m) and privatisation support initiatives in Eastern Europe ($20m). Other smaller funds which received UK support include an economic stabilisation programme for the Congo ($10m), a fund to support decentralisation in Bolivia ($8m), and one for state-owned enterprise reform in Vietnam ($361,000). UK support for World Bank activities funded out of trust funds included $3.6 million for the World Bank Institute, over $2 million to support the publication of the Bank's World Development Reports, and $1.7 million for Bank trade policy research.

This summary information is made available to donors from a Bank trust fund database. Following requests from the Bretton Woods Project, DFID has agreed to make this information publicly available.

Public-Private Infrastructure Advisory Facility

The PPIAF was launched in 1999, to "improve infrastructure through private sector involvement". By March 2005, it had disbursed $89 million for 389 activities in 91 countries. The UK is the largest donor in the initiative, giving $39.2 million over the period 1999 - 2005; next was the Bank ($14.9 m), then Japan ($12m). The PPIAF is governed by a "programme council made up of contributing donors", open to organisations that contribute a minimum $250,000 per year. The structure is designed to ensure "its accountability to participating donors", and is chaired by the Bank vice-president for infrastructure.

Funds are split between initiatives in the water, energy, transport and telecommunications sectors; sub-Saharan Africa has been the largest recipient (25 per cent of funds disbursed in 2005). Activities include "policy reform, infrastructure development strategies, capacity building, consensus building and emerging best practice". By June 2005 the PPIAF "had funded the drafting of 43 sets of laws and regulations related to reform strategies and regulation for the infrastructure sector as a whole or for a particular sub-sector."

PPIAF's 2003 annual report was bullish on the benefits of the private provision of infrastructure, citing "better access, greater efficiency and greater quality", concluding that "returning to traditional public sector funding is not an option." A technical advisory panel does ex-post evaluations of selected PPIAF activities: "The panel noted that while no new areas of concern surfaced in its evaluation, the long-term impact of PPIAF-funded activities remains difficult to assess." In 2003, for example, the PPIAF spent nearly $10 million on consultant fees. On responsibility for the environmental and social impacts of PPIAF projects, the report stated: "Where an activity to be supported by PPIAF is expected to have significant potential adverse environmental or social consequences, appropriate measures must be adopted to ensure an objective and transparent assessment of those potential consequences."

PPIAF supported projects in 2004-5 include:

- $ 790,325 to provide legal advisors to the government of Laos to complete project agreements for the Nam Theun 2 dam.
- $ 290,535 to advise the government of Madagascar on "appropriate methods of private sector involvement in the provision of water and sanitation services to rural areas and small towns".
- $ 275,000 to assist the government of Swaziland to determine a concessioning strategy for the railways sector.
- $ 170,000 to support an "independent panel of experts" who will advise the Turkish government on the privatisation of energy generation and distribution.

Continuing concerns

Trust fund management raises three broad areas of concern. Firstly, there are serious questions about whether or not trust funds are the appropriate financing vehicle to address development challenges. Do trust fund objectives reflect recipient priorities? And even if they do, do they prioritise a donor-friendly method of financing over methods which emphasise local ownership? These issues were reflected by the OECD in the Paris declaration on aid effectiveness which criticised "insufficient integration of global programmes and initiatives into partner countries' broader development agendas". Despite laudable efforts on the part of Bank staff, a myriad of single-donor, single-purpose funds remain under Bank management, which may come attached with conditions on staffing, eligibility, differing evaluation requirements etc..

Secondly, where trust funds are deemed to be an appropriate financing mechanism reflecting recipient priorities, there is a further question of whether or not the Bank is best placed to play the roles it assumes in over 900 trust funds. There may be substantive reasons why other bodies, such as UN specialised agencies, regional commissions or independent thinktanks, might be better placed to play roles currently occupied by the Bank.

Streamlining Bank involvement would partially respond to the criticism by its own Operations Evaluation Department (OED) that the Bank lacks an overall strategy for the use of global trust funds: "Although the Bank is the largest manager of donor trust funds, the Bank does not have an overarching strategy for financing global programmes. Its existing criteria and processes do not add up to a strategy, and they are not rigorously applied." Concerns persist that many trust funds have been established by donor governments in an attempt to influence Bank work through the back door.

Finally, there remain concerns about the accountability of the myriad of trust funds both to the people they are supposed to help and to the citizens of those countries which are funding them. Positive in this regard was this year's precedent-setting publication of the 2004 annual report on trust funds. However, there remain serious gaps in transparency. In 2004, the third largest category of disbursements, totalling $412 million (over 13 per cent of total disbursements), were for "free-standing grants", and a further $23 million was classified as "other disbursements" - categories for which only aggregate information is available without the express consent of each relevant donor. In total, there are some 800 trust funds for which specific details are unavailable.

Recommendations

Civil society organisations need to better scrutinise the conferences, trainings, studies and reforms funded by trust funds. Many groups have been pushing for greater transparency in the assessment of different policy options and their impact on the most vulnerable. Currently such assessments may be pre-empted by analytical studies funded out of trust funds which contain structural biases towards a certain outcome: studies of water sector reform supported by the PPIAF, for example, are likely to disregard public sector reform.

As a starting point, donors must adopt the OECD-DAC's target of increasing the share of programme aid in total commitments, and raise to at least 50 per cent the share of technical assistance being provided in coordinated programmes that support national development strategies. They must also follow DFID's lead in disclosing details on all the trust funds they support either in whole or in part.

The Bank should make public previous trust fund annual reports, and be given the right by donors to publish full details on all trust funds, including single-purpose funds with smaller disbursements. Clearer rules are needed on the publication of evaluations, and a greater focus needed on development results on the ground. In its 2003 annual report on operations evaluation, the OED questioned the effectiveness of current evaluations: "typically, the external evaluations report on implementation of activities, but not on outcomes or impacts." Following on from its review of the Bank's global programmes, the OED is considering its role in the evaluation of trust fund programmes - this role should be considerably strengthened.

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