**Trust Fund Reform**
**2018 Spring Meetings**

We are working to ensure that trust funds remain a strong pillar of World Bank Group resources. Continuing to improve their design and use supports our twin goals and the 2030 agenda as envisioned in the Forward Look: it is essential to a better, stronger World Bank Group.

**The World Bank: IBRD and IDA**

Trust funds are an important source of development finance and partnership. They provide support for global public goods, fragile and conflict-affected states, disaster prevention and relief, global partnerships, and knowledge and innovation. Complementing IDA and IBRD financing, trust funds account for about 10 percent of Bank disbursements to our clients (20 percent to IDA countries). Nearly half of all trust fund disbursements to clients go to fragile states. Trust funds are particularly critical to the knowledge agenda, financing about two-thirds of all Advisory Services and Analytics activities.

Over the past 15 years, reforms have delivered solid fiduciary controls and integrated trust funds into the Bank's operational and administrative processes. But most trust funds remain very small: just 10 percent of them account for more than 75 percent of the total value of the Bank's trust fund portfolio. These large funds show a clear link to high priorities for the Bank, such as fragile states (Afghanistan, Liberia), global themes (gender, climate change), and support for achieving the SDGs (water, energy). This leaves a long tail of smaller, highly customized trust funds. While some have provided vital support for innovation and knowledge, their fragmentation makes them less aligned with top priorities. They also have high transaction costs – for fundraising, trust fund establishment, governance, and reporting.

Trust fund reforms aim to strengthen the link between funding and strategic priorities and to improve efficiencies. We envision a future portfolio structured around fewer, larger "umbrella" programs that could include multiple "associated" trust funds, with a strong focus on results and lower transaction costs through coordinated governance and reporting. This will elevate the dialogue with our partners around shared priorities and mutually desirable outcomes. All Global Practices and Regions would establish a limited (but not centrally mandated) number of programs to support their highest priorities, which will channel most trust fund resources. Activities that do not fit into these programs would be supported with simpler, nimbler trust funds using fully standardized features (governance, reporting, results). These new instruments will better integrate their funding into the World Bank's strategy and business planning processes, and to ensure that we remain responsive to partners' needs and priorities.

The Bank is implementing these reforms in an iterative process. Roll-out of the new instruments will start with a pilot phase in the second half of 2018, with a few GPs and Regions. Lessons from the pilots and feedback from partners and clients will be reflected in the final design of the programs and standard trust funds, before they launch Bank-wide in mid-2019. In parallel, the Bank is developing measures to improve processes and systems, which will be implemented starting in mid-2018.

**IFC**

IFC works closely with key development partners to help create markets and incubate new approaches through advisory services and concessional lending (blended finance). Trust funds provide a critical source of financing for IFC advisory services, which help governments improve conditions to attract

private capital (structuring PPPs, building capital markets, implementing reforms) and work with companies and financial institutions to help the private sector grow (improving governance, productivity, and environmental sustainability; accessing new markets or financing). Trust funds for blended finance help lower the risk of investment and let IFC invest in projects that are not feasible solely on a commercial basis. Through trust funds, IFC collaborates with more than 30 governments and 20 foundations, corporations, and multilateral and institutional development partners.

IFC is improving how trust funds support IFC 3.0 and Maximizing Finance for Development. Reforms aim to strengthen alignment with strategic priorities; better integrate trust funds into budgeting, planning, and portfolio management; and increase efficiencies in management and reporting. With these efforts, IFC seeks to ensure strategic allocation of various funding sources: bilateral partner funds, the IDA Private Sector Window, the Capital Markets Advisory Window, and its own budget. IFC and the Bank are also working to improve collaboration through the Maximizing Finance for Development approach by ensuring that joint projects are supported by trust funds that are easily accessible by both institutions.

**FIFs**

The Bank is also reviewing its approach to Financial Intermediary Funds. These can be an important instrument for issue advocacy, partnerships, and collective action by building on the comparative advantages of multiple implementing entities and facilitating coordination. The number of FIFs has grown substantially and continues to evolve, raising governance and strategic risks for the Bank and the overall aid architecture. The Bank will document lessons learned to highlight the value proposition of this unique partnership mechanism, ensure that best practices inform the design of FIFs, and improve risk management.