This chapter provides an overview of the role of non-core funding in the functioning of UNDP and the World Bank, primarily as it relates to trust funds. The World Bank Group is the largest single recipient of non-core funding (USD 2.7 billion in 2008) and UNDP is the second largest UN agency recipient (USD 1.8 billion in 2008). Non-core funding – often in the form of multi-donor trust funds – to UNDP and the World Bank accounts for 30% of total DAC non-core aid to the multilateral system and constitutes an important share of total resources entrusted to these agencies.
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Methodological issues

The data used for this chapter comes both from DAC members’ reports to the DAC Secretariat and from the multilateral organisations themselves. Box 3.1 explains some of the reasons why there may be data discrepancies between these two sources.

Box 3.1. Methodological issues relating to non-core multilateral ODA

The amount of core and non-core contributions reported to the DAC and the amount recorded by multilateral agencies themselves may vary. There are some practical reasons for these differences, including:

- difference in USD exchange rates used
- multi-year contributions reported in a single year
- end-of-year contributions reported in the following calendar year
- misidentification of non-core funds as “core” or vice-versa

There are also some explanations that relate specifically to UNDP and the World Bank:

UNDP considers its non-core contributions to be those resources earmarked to specific themes, programmes and activities. It does not include contributions to the 29 trust funds administered by the Multi-Donor Trust Fund (MDTF) Office of UNDP on behalf of the UN System in this figure. However, DAC members report contributions to the MDTF Office as part of their non-core ODA channelled through UNDP, since it is the Administrative Agent.

The World Bank considers the following global funds and programmes to be among its non-core contributions: the Global Fund Against AIDS, Tuberculosis and Malaria; GAVI; the International Finance Facility for Immunisation (IFFIm); the Global Environment Facility; the Multilateral Debt Relief Initiative (MDRI); and Heavily Indebted Poor Countries (HIPC). However, DAC members report un-earmarked contributions to these global funds and programs as multilateral ODA, since they are included in the list of international organisations to which official contributions may be reported as ODA (Annex E).

United Nations Development Programme (UNDP)

This section describes the core and non-core funding of UNDP, the use of multi-donor trust funds, and the effect that this mix of funding has on the organisation.

**Funding of UNDP**

UNDP, like all UN Funds and Programmes, is entirely funded by voluntary contributions, earmarked or not. Un-earmarked regular or core resources amounted to USD 1.1 billion in 2008 and non-core resources (from all sources) reached USD 3.6 billion, according to UNDP’s own records (see Table 3.1). This means that the non-core “dependency rate” is about 77%. Regular resources represent contributions to the UNDP core budget, which complies with the criteria and appropriations established by the UNDP Executive Board in support of the organisation’s multilateral mandate (including policy advisory services). Other, or non-core, resources are comprised of contributions earmarked for themes, countries, regions, and/or specific projects.

Table 3.1. DAC contributions to UNDP, 2007-08

<table>
<thead>
<tr>
<th>DAC* contributions to UNDP, 2007-08 (Nominal USD billion)</th>
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<tr>
<td>DAC statistics</td>
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<tr>
<td>2007</td>
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<tr>
<td>Core resources</td>
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<tr>
<td>Non-core resources</td>
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<tr>
<th>UNDP records</th>
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<tr>
<td>2007</td>
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<tr>
<td>Core resources</td>
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<tr>
<td>Non-core resources, of which:</td>
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<tr>
<td>- OECD DAC bilateral donors</td>
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<tr>
<td>- Multilateral donors (incl. EC)</td>
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<tr>
<td>- Local resources</td>
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<td>- Local resources</td>
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</table>

* OECD DAC bilateral donors, excluding Korea and the EC


**UNDP core resources**

Core resources are un-earmarked, voluntary contributions to UNDP’s regular budget. Between 50 and 60 governments contribute to UNDP’s core resources in a given year. Ten partner governments accounted for around 80% of core contributions in 2008. Overdependence on a limited number of major donors and the voluntary, often residual, nature of core contributions make UNDP highly vulnerable to any shifts in contributions, even from a small number of donors (UN Secretariat, 2009).

Multi-year commitments made by a number of DAC donors have helped to enhance the predictability of UNDP’s core resources, but the majority of donors still pledge on an annual basis, even though UNDP adopted the multi-year funding framework (MYFF) in 1999 as an instrument to enhance the predictability of voluntary core resource flows and to ensure policy coherence. Some UN agencies have taken steps to decrease donor concentration and spread the burden among donor governments (see Box 3.2).
UNDP non-core resources

UNDP non-core resources are earmarked for specific themes, programmes and activities, and represent a critical complement to the regular resources base of UNDP. The overall level of non-core resources made available to UNDP as the result of numerous individual donor decisions to allocate resources to specific themes and countries was USD 3.6 billion in 2008. For the most part, non-core resources are mobilised at the country-level to meet distinct project engagements under the umbrella of UNDP’s country programmes. Consequently, non-core resources are difficult to forecast in aggregate terms and tend to be highly concentrated in a subset of partner countries. More than 60% of non-core contributions from bilateral and multilateral donors in 2008 (USD 2.7 billion) target around 20 programme countries.

The composition of non-core resources as recorded by both the DAC and UNDP is further detailed in Table 3.1 above. UNDP considers three sources of non-core funding: (i) OECD/DAC donors; (ii) multilateral partners; and (iii) local resources. In 2008, almost 40% or USD 1.4 billion of UNDP’s non-core contributions was from OECD/DAC donors. In addition, multilateral partners including the European Commission, the Global Fund to Fight AIDS, Tuberculosis and Malaria, and the Global Environment Fund entrusted USD 1.2 billion in non-core resources to UNDP in 2008. Finally, local resources annually account for some USD 1 billion of UNDP’s non-core resources (see Box 3.3).

According to UNDP, the top recipient of DAC members’ non-core contributions channelled through UNDP (not including those transiting through the Multi-Donor Trust Fund Office referred to below) is Afghanistan (USD 383 million), followed by Sudan (USD 75 million), Bangladesh (USD 68 million) and Somalia (USD 63 million).
3. NON-CORE FUNDING OF UNDP AND THE WORLD BANK

There are both inherent tensions and opportunities resulting from the mix of core and non-core funding to UNDP. In general, non-core resources tend to incur higher transaction costs for the receiving organisation, considering the time required to negotiate individual funding agreements and to comply with donor-specific monitoring and reporting requirements. All of these add significant costs to UNDP's general operations (UN Secretariat, 2009). On the other hand, the channelling of programme funds from a wide range of sources through UNDP mirrors the international funding environment and attests to the fact that it is considered sufficiently accountable for targeted activities and interventions.

The UN General Assembly has frequently stressed the importance of core resources, doing so most recently in Resolution 62/208:

“[C]ore resources, because of their untied nature continue to be the bedrock of the operational activities for development of the United Nations System and, in this regard, [the General Assembly] notes with concern that the share of core contributions to United Nations Funds and Programmes has declined in recent years.”

Indeed, while core funding from DAC donors to UNDP have been relatively stagnant, non-core resources have grown considerably, exceeding core contributions in recent years.

Non-core resources are aligned with UNDP’s mandated practice areas (poverty reduction/MDGs; democratic governance; crisis prevention and recovery; and sustainable energy and environment) and form part of UNDP’s country programmes, which are agreed with national partners and endorsed by UNDP’s Executive Board. They do not, however, fall directly under the purview of the Executive Board in the same way as core resources. Partner countries hold 24 of the 36 seats on the Executive Board, which gives them 2/3 voting power. Executive Board governance, however, is effectively bypassed in the day-to-day management of non-core resources, depending on the volume and type of funding.

Perhaps because UNDP is an organisation dependent on voluntary contributions, the top six contributors to its regular resources match almost exactly the top six non-core contributors (based on OECD DAC Secretariat analysis). This indicates that donors are not necessarily using non-core funding as a substitute to core funding. In the 2008-13 Strategic Plan endorsed by the Executive Board, UNDP aims to rebalance the ratio of core to non-core investments.

### Box 3.3. Local resources that go to the UNDP

Programme country governments work with and through UNDP to implement their domestic development priorities. These “local resources” are not considered flows as such because they stay within the partner country and are not therefore included in ODA. Local resources are frequently provided to UNDP by low- and middle-income countries, mostly from the Latin and Central American region, but also from countries in other regions in recent years.

Local resources are a way for UNDP to effectively support a country’s capacity to mobilise and manage internal and external resources and to ultimately contribute to its ability to articulate and implement the MDGs. Like core and other non-core resources, local resources form part of the multi-year country programme agreed between partner governments and UNDP. They are governed and reported on in the same way as all UNDP resources at country-level.

*Source: UNDP Partnerships Bureau, 2010.*

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**Relationship of core and non-core funding**

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non-core resources as far as is possible in the current international funding environment. In a July 2010 Resolution on System Wide Coherence (General Assembly Resolution 64/289), member states agreed to introduce a new approach in order to determine the “critical mass” of core funding for funds and programmes, according to their individual mandates.

**The Multi-Donor Trust Fund Office**

The Multi-Donor Trust Fund (MDTF) Office offers a one-stop shop for donors to establish a single agreement with a single UN organisation serving as the administrative agent, instead of entering into separate agreements with each UN agency. This reduces costs and may save time both for donors and UN agencies, at least in the first instance. The first UN multi-agency MDTF was the United Nations Development Group (UNDG) Iraq Trust Fund, established in December 2003 with funds from UN entities and the World Bank. Today, 29 trust funds are managed by the UNDP MDTF Office (see Figure 3.1). The MDTF Office has taken specific, concrete steps to ensure that contributions made by donors to the various UN MDTFs it administers are kept separate and distinct from UNDP’s own accounts and operations. The MDTF Office’s deposits totalled over USD 4 billion at the end of 2009 and it has, to date, transferred just over USD 3 billion to participating organisations for implementation.

**Donor perspectives on trust funds of the MDTF Office**

Some donors (primarily small ones) appreciate the visibility that funding through the MDTF Office brings them. Romania’s participation in the Lebanon Recovery Fund, for example, might have gone unnoticed if it had given the same amount directly to a UN agency.

Figure 3.1. **Methods of providing earmarked ODA to the United Nations**

Source: OECD DAC Secretariat, 2010, based on information from the UN MDTF Office and UNDP.
entity for implementation. As a contributor to a multi-donor trust fund it has attained greater visibility. This MDTF conduit provides a streamlined process and incentives for UN entities and donors to adhere to and to promote UN reform. MDTF activities and programmes are actually implemented by over 40 UN agencies and some non-UN participating agencies. For example, in 2008 the MDTF Office transferred 21% (USD 129 million) of its funds to UNDP and 17% (USD 82 million) to UNICEF for the implementation of trust fund activities, according to the UNDP Multi-Donor Trust Fund Office.

Donor involvement in the management of MDTFs varies. While some donors request weekly updates of MDTF activities at country level or the inclusion of separate clauses in their agreements, others are satisfied just with regular reporting. Although earmarking by sector or theme (but not by specific projects) within a particular trust fund can take place at country level, a specific UN agency cannot be singled out for implementation. It may be because some bilateral donors have regulations that are not conducive to the flexible allocation of resources to UN agencies at the country level that bilateral donors continue to provide funding in parallel to One UN funds. (One UN funds were initially intended for eight countries: Albania, Cape Verde, Mozambique, Pakistan, Rwanda, Tanzania, Uruguay and Vietnam. They were recently expanded to cater to 11 more countries through “Delivering as One” funds in 2009-10, [UNDP, 2009].) DAC members encourage the use of One UN and Delivering as One Funds in eligible countries to avoid multiple transactions, but evidence suggests that their use is not yet common practice.

**MDTF policies and future work**

Unlike the World Bank, which set a USD 1 million minimum threshold (up from USD 200 000) for establishing new trust funds in 2007 (World Bank, 2007a), the UNDP MDTF Office has set no such floor. This is a key concern since the costs of setting up, implementing, and monitoring a very small fund may outweigh its benefits, especially if there is no guarantee of increased funding in the future (UNDP, 2010). The MDTF Office also acknowledges a need for more experienced staff to participate in national steering committees in the implementation of MDTFs at country level. In the course of 2010, the UNDG is developing guidelines for establishing MDTFs that will address governance, evaluation and audit issues. The phasing-out of MDTFs, where relevant, is seen as an area where World Bank expertise could be relevant. Future work could look at the additionality of MDTF funding and UN agencies’ incentives for collaborating in MDTFs.

**UN Country Team Perspectives: More Co-ordinated Approaches Align with UN Reform**

Aggregate country-level funding comes from three sources, although not all countries have access to all three. These are (i) regular resources; (ii) non-core resources; and (iii) One UN country funds or other multi-donor trust funds. One UN country funds are available to the eight One UN pilot countries mentioned above, while the Expanded Delivering as One (DAO) Funding Window for Achievement of MDGs was launched in September 2008 to provide non-earmarked gap funding to additional partner countries in a fashion similar to the One UN initiative. In effect, these and other multi-donor trust funds may actually reduce transaction costs both for UN agencies and partner governments.

Two scenarios can illustrate how funding works at a country-level. The UN country teams (UNCT) sits down to look at a country’s priorities, allocate regular resources across priorities and arrive at the conclusion that there is a 20-40% funding gap. In the first scenario,
countries where multi-donor trust fund resources are not available, each UN agency is
mobilised at country- and headquarter-levels to bridge the gap with existing country-level,
non-core resources. This creates competition between agencies as each programme officer
responsible for unfunded priorities goes to the same donors to request additional funds.

In the second scenario, partner countries are eligible for either One UN or Delivering
as One funding and the process to address a funding gap unfolds differently. The reason
is that the process of bridging the gap with available trust fund resources is much more
streamlined, since it is able to draw on already assembled resources thereby reducing the
transaction costs of agencies, bilateral donors, and probably partner countries as well. In
this instance, the Resident Co-ordinator dialogue with donors at country level and partner
countries becomes the modus operandi of the UN in the field (and further enhanced when
reinforced by good leadership and a common vision).

The World Bank Group

Trust funds, or non-core contributions, have been an important instrument for channeling
donor funding to the World Bank. This section provides an overview of the types of
Bank trust funds, the Bank’s recent policies relating to trust funds, and the effect that the
mix of core and non-core funding can have on the way the organisation functions.

World Bank trust funds

In recent years, the Bank’s trust fund portfolio has grown rapidly in size and complexity.
Total trust fund disbursements in fiscal year 2008 continued to increase, reaching
USD 6.72 billion. As a share of combined Bank disbursements (IDA, IBRD, and trust
funds), trust fund disbursements grew from 16% in fiscal year 2004 to 25% in fiscal year
2008. Excluding Financial Intermediary Funds (FIFs) – arrangements for which the Bank
provides specific administrative or financial services with a limited fiduciary or operational
role – the share of trust fund disbursements grew even more rapidly, from 8% of combined
disbursements in fiscal year 2004 to 14% in fiscal year 2008 (World Bank, 2009a).
The Bank currently manages 1,045 donor contribution accounts. At the contribution level the Bank has three types of trust funds: FIFs; IFC Trust Funds; and IBRD/IDA/MIGA Trust Funds. The latter, as Table 3.2 shows, are used to finance the activities of Bank Executed and Recipient Executed Trust Funds (BETF and RETF).

### Table 3.2. World Bank trust fund typology

<table>
<thead>
<tr>
<th>IBRD/IDA/MIGA TFs</th>
<th>Financial Intermediary Funds</th>
<th>IFC TFs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Policy framework</td>
<td><strong>BETFs</strong>: Funds that support the Bank’s work program.</td>
<td><strong>FIFs</strong>: Funds that involve financial engineering or complex finance schemes, or where the Bank provides a specified set of administrative, financial, or operational services.</td>
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<tr>
<td></td>
<td><strong>RETFs</strong>: Funds that the Bank passes on to a third party and for which the Bank plays an operational role – i.e. the Bank normally appraises and supervises activities financed by these funds.</td>
<td>• Arrangements where the Bank is responsible for or supervises the activities financed by the trust fund.</td>
</tr>
<tr>
<td>Operational practice</td>
<td><strong>BETFs</strong>: TFs financing a set of activities following administrative policies and procedures for Bank budget execution. Bank implements activities.</td>
<td>• Bank as trustee is responsible for the funds until such time as it transfers the funds to third parties (which may include IBRD/IDA) who are responsible to donors or a governance entity for the use of funds.</td>
</tr>
<tr>
<td></td>
<td><strong>RETFs</strong>: TFs financing a set of activities following IBRD/IDA operational policies and procedures. Activities are implemented by recipient and supervised by the Bank.</td>
<td></td>
</tr>
</tbody>
</table>

*Source: The World Bank, 2010.*

### Non-core contributions to the World Bank

Differences in what DAC members report as non-core funding to the World Bank and what the Bank itself records vary. This is due, in large part, to the fact that the Bank includes those large multilateral funds (often FIFs) for which it is a trustee in its own records. Such funds include the Global Fund for AIDS, Tuberculosis and Malaria, the Global Environment Facility (GEF), and the Heavily-Indebted Poor Countries (HIPC) fund. Even allowing for the difference in what the WBG and DAC donors consider as non-core funding (Box 3.1), there remain significant discrepancies (see Table 3.3). These are probably due to methodological issues raised at the outset of this chapter, including under-reporting by DAC members.
Regional allocation of World Bank trust funds

The World Bank’s RETFs are those funds that are passed on to a third-party recipient and for which the Bank plays an operational role, including the appraisal and supervision of funded activities. The regional allocation of RETFs in 2008 is illustrated in the pie chart below (Figure 3.2). Sub-Saharan Africa is the first recipient (34%), followed by South Asia (26%), Middle East and North Africa (19%), East Asia and the Pacific (13%), Europe and Central Asia (5%), and Latin America and the Caribbean (3%).

- In sub-Saharan Africa, disbursements included the Education for All Fast Track Initiative (USD 183.2 million) and the Global Food Crisis Response Program (USD 65.5 million).
- In the South Asian region, the Afghanistan Reconstruction Trust Fund accounted for 80% of disbursements (USD 549.1 million).
- Middle East and North Africa trust fund disbursements included the Iraq Reconstruction Trust Fund (USD 92.7 million), and the two West Bank and Gaza trust funds (USD 109.3 million).

Figure 3.2. Regional distribution of World Bank recipient-executed trust funds, 2008


Table 3.3. DAC* non-core contributions to the World Bank, 2007-08

<table>
<thead>
<tr>
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<th>2007</th>
<th>2008</th>
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<tbody>
<tr>
<td>DAC Statistics</td>
<td>2.2</td>
<td>2.4</td>
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<tr>
<td>World Bank</td>
<td>3.3</td>
<td>3.1</td>
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<tr>
<td>of which:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IBRD/IDA Trust Funds</td>
<td>3.2</td>
<td>3.2</td>
</tr>
<tr>
<td>IFC/MIGA Trust Funds</td>
<td>0.2</td>
<td>0.3</td>
</tr>
</tbody>
</table>

* OECD/DAC members, excluding Korea and EU Institutions.

Note: Financial Intermediary Funds accounted for USD 4.5 billion in cash contributions in 2008.

Top disbursements in the East Asia and Pacific region include the Ozone Phase Out Fund (USD 59 million), and the Aceh, Indonesia Multi-Donor Trust Fund Program (USD 30.4 million).

World Bank multilateral outflows follow a similar geographical distribution to trust funds. For example, the majority of IDA commitments in fiscal year 2009 went to sub-Saharan Africa (56%), followed by South Asia (29%), East Asia (9%), Europe and Central Asia (3%) and, finally, Latin America, the Caribbean, and the Middle East and North Africa with 1% (World Bank, 2009b). In non-member countries such as Kosovo and the West Bank and Gaza, as well as in fragile and conflict-affected states, trust funds are the main source of World Bank financing (Box 3.6).

**World Bank trust fund policy**

In 2007, the Bank launched a series of reforms under the Trust Fund Management Framework aimed at enhancing the strategic alignment, risk management, and efficiency of Bank-administered trust funds (World Bank, 2007). As part of these reforms, the Bank increased its minimum threshold for all new trust funds from USD 200 000 to USD 1 million, knowing from experience that smaller funds are disproportionately costly to mobilise and administer since they follow the same procedures required of much larger funds. In addition, a one-time start-up fee of USD 35 000 was endorsed to cover the initial establishment costs of all new standard fee-based trust funds. Efforts are currently underway to enhance the alignment of trust funds with Bank strategies and processes.

![Figure 3.3. Components of the World Bank Group’s trust fund portfolio, fiscal year 2009](image)

Note: Data for FIF projects are based on country-level data from the Global Fund, Global Environment Facility, Least Developed Countries’ Fund, and Special Climate Change Fund, which account for about 80 percent of commitments to CFPMI-managed funds over the last two years.

**Headquarter perspectives**

Bank-Executed Trust Funds allow the Bank to scale up its analytical and advisory services, and as such can be viewed more in the context of the Bank’s overall administrative budget and other external contributions to its income (World Bank, 2007). The Sustainable Development Network of the Bank, for example, depends to a large extent on trust fund disbursements for sector or thematic work at country level. They also finance the bulk of the work leading to the preparation and supervision of stand-alone RETFs. As seen above, RETFs broadly reinforce IBRD/IDA lending patterns across sectors and thematic areas, paving the way for deeper engagement. They are also increasingly designed to act as “stand-alone” funds, e.g. for fragile states.

**Donor perspectives**

Bilateral donors tend to appreciate the visibility gained by contributing non-core resources to the World Bank, especially with regards to the larger trust funds and trust funds for fragile and conflict states. In fact, country-specific trust funds are generally directed at fragile states or for emergencies caused by natural disasters. For example, donors to these funds perceive them as additional to other “core” Bank financing. This may not be the case for some thematic or sector-specific trust funds, which may substitute rather than complement “core” Bank financing. Donors use different channels and/or instruments to fund the education sector (e.g. IDA and the Education For All Fast Track Initiative [EFA-FTI]) in LICs. Given the scale of FTI, there is a real risk that it might crowd out IDA education funding (Cambridge Education et al, 2009). World Bank data presented in a recent mid-term evaluation found that the share of primary education in total IDA education disbursements had fallen steeply from 57% in 1995-99 to 30% in 2005-9.7

As a result, it is to be expected that the Bank’s core resources are realigned towards specific sectors neglected by trust funds. In Malawi and Rwanda, for example, IDA resources appear to target growth sectors rather than the education and health sectors that are more likely to benefit from grant-financed trust funds. While these examples illustrate how core resources can be redirected by the creation of trust funds, there is no evidence that this detracts from the Bank’s core activities, which cover a wide range of sectors.

**Country-level perspectives**

IBRD/IDA trust funds finance over 1,500 recipient-executed activities. In addition, over 600 country-level projects are financed by FIFs (and implemented by other organisations). Such funding can become complicated in countries with a high number of trust funds, since government officials are less likely to have a good overview of the multiple trust fund accounts. In these instances, the Paris Declaration Principles of country ownership and the Accra Agenda for Action’s goals of alignment, transparency and predictability risk not being applied.

In countries which may have small IDA allocations, due either to their populations (e.g. small island Pacific states) or their modest levels of performance (e.g. post-conflict countries), allocations may be supplemented through the use of country-specific trust funds for additional financing. For fragile and conflict-affected countries without active IDA portfolios, additional resources to bridge the gap towards reconstruction may come from, for example, the State and Peace Building Fund, although in these situations the World Bank may also be constrained by its more limited engagement (see Box 3.6).
3. NON-CORE FUNDING OF UNDP AND THE WORLD BANK

Box 3.5. World Bank trust funds in Indonesia

Trust funds are an integral part of the World Bank Group’s support to Indonesia, where over 26 country-specific trust funds and 24 global and regional trust funds co-exist. The trust fund portfolio includes both country-specific multi-donor trust funds (USD 891 million) and single-donor trust funds (USD 237 million).

These trust fund arrangements generate 231 grant activities that must be prepared, monitored, and supervised by both the Bank and the government. In addition, the majority of trust funds (recipient-executed) require a legal agreement between the government and the World Bank. This is an additional burden on both the World Bank’s country-level infrastructure and on the Ministry of Planning/Finance.

Some of the large multi-donor trust funds include programmes to respond to natural disasters and conflicts (Aceh, Java Reconstruction Fund), and partnerships to support poverty reduction efforts, basic service delivery (including education), decentralization, public financial management, and trade and investment. There are also some recent and planned contributions for climate change (e.g. in forestry and geothermal), including support from the Climate Investment Funds.

Some of the features of the trust fund program in Indonesia:

- Indonesian institutions – both governmental and non governmental – implement a large majority of the trust-funded work in Indonesia, which is in line with the World Bank’s strategy to invest in Indonesian institutions. The government uses its own budgeting system for Recipient-Executed Trust Funds whenever sectoral or line ministries implement activities.
- The World Bank conducts regular reviews with the government of Indonesia of the trust fund portfolio, as part of the Country Portfolio Performance Review (CPPR), to ensure that results are being achieved and are consistent with the Country Partnership Strategy.
- Governing bodies of large trust fund programmes (such as the Multi-Donor Fund for Aceh) include representatives of the Ministry of Planning, other donors, and multilateral organisations (including the World Bank). NGOs and civil society are also involved as non voting members.


Box 3.6. The World Bank’s State and Peacebuilding Fund

The State and Peacebuilding Fund (SPF) of the World Bank, supported by the Netherlands, Norway and Australia, was established in 2008 to replace the Post-Conflict and Low-Income Countries under Stress (LICUS) Funds. Its purpose is to:

1. support measures to improve governance and institutional performance in countries emerging from, in, or at risk of sliding into crisis or arrears
2. support the reconstruction and development of countries prone to, in, or emerging from conflict

Support is given to conflict-affected states for stabilisation efforts. Reconstruction efforts primarily take place in countries with either no or minimal IDA portfolios. SPF funding complements World Bank financing and provides support to countries in arrears for small and urgent activities not easily funded under regular Bank credit or grant operations. The SPF also supports two countries in arrears: Zimbabwe and Somalia.

As of March 2010, over half of the amounts of approved SPF projects were for Africa (USD 30.5 million). Overall, some of the largest approved projects (USD 5 million) were for Colombia, Guinea-Bissau, Haiti, Iraq, and Zimbabwe. To date, the Netherlands, Australia and Norway have contributed USD 19 million to the SPF.

In this way, trust funds also serve to provide “blend” financing terms when they inject concessional financing into IBRD countries or change the credit/grant mix in IDA countries, somewhat complicating the World Bank disbursement picture. Specific cases such as transitional, non-creditworthy (or even non-member) post-conflict situations also require tailor-made grants and finance.

**UN and World Bank trust fund collaboration**

Both UN and World Bank multi-donor trust funds operate in most fragile, conflict-affected, and transition states. Where they appear to attract funding from the same donors and respond to similar demands, it is tempting to ask why a single funding channel is not the preferred option. In some cases, competing demands may not be satisfied by a single channel or institution, as discussed in the example of Afghanistan in Box 3.7.

One of the recommendations from the “Good Humanitarian Donorship”, a commissioned review of humanitarian financing instruments, is that donors should not rely exclusively on any single funding modality. Nonetheless, dual administrative systems can add complexity and, sometimes, delay, as has been amply documented in the case of Southern Sudan where eight different pooled mechanisms were created to fund largely overlapping recovery priorities (OECD, 2010d). It is, therefore, important for donors to discuss how to make arrangements compatible with further calls for alignment, harmonisation, and predictability.

**Box 3.7. UNDP and World Bank multi-donor trust funds**

The division of labour between the trust funds of the World Bank and the UN on the ground is not always obvious. In some cases, both organisations fund similar activities. In the case of Afghanistan, hindsight provides some insight into the complementary efforts of World Bank and UN trust funds, even if their action was not as clearly defined or as evident as when they were first established.

In the beginning of 2002, the Afghan Interim Authority did not have the domestic resources to pay civil servants or offer basic social services. Because UNDP already had a strong presence in Afghanistan, it was quickly able to provide short-term funding to the most important measures for re-establishing the civil service (recruitment, payment of salaries of teachers and other civil servants, winterisation of government buildings, procurement of office equipment, vehicles for ministers) by setting up the Afghanistan Interim Authority Fund (AIAF).

The AIAF lasted for a period of six months, until arrangements for longer-term budget support and reconstruction were in place. At the same time, donors endorsed the concept of an Afghanistan Reconstruction Trust Fund (ARTF) to be administered by the World Bank. By May 2002 the ARTF had began operating under two windows to continue funding recurrent costs, to invest in infrastructure, and to provide budget support in the context of Afghanistan’s temporary National Development Framework.

Since World Bank-administered funds cannot finance security-related activities, which are critical for any successful, durable implementation of ARTF activities, the Law and Order Trust Fund for Afghanistan (LOTFA) was established by UNDP. The LOTFA operates in parallel to the ARTF to ensure the remuneration of police staff and to support the rehabilitation and operationalisation of police facilities in close co-ordination with the Ministries of the Interior and Finance. Both the ARTF and the LOTFA continue to operate today.

*Source: OECD, 2010d.*
At the end of 2008, a number of UN Funds and Programmes and Specialised Agencies and the World Bank developed and agreed on an instrument (including the Fiduciary Principles Accord) to facilitate the two-way transfer of funds for crisis and post-crisis situations. Funds could be transferred from a World Bank-administered trust fund to a UN organisation or from a UNDG trust fund to the World Bank. This arrangement enables the recipient to apply its own regulations, rules and procedures – including those relating to procurement, audit, and programme support costs – when managing these funds.

Main findings

- UNDP non-core funding is used for the same thematic areas as its core funding. Funding to the Multi-Donor Trust Fund Office helps align donors and UN agencies at a country-level, e.g. through the One UN funds.
- World Bank non-core flows help diversify its portfolio to countries where loan instruments are unavailable – e.g. due to arrears or because recipient countries are non-members.

Notes

1. All numbers cited are based on DAC members’ reports to the Creditor Reporting System.
2. With the exception of the UN Peacebuilding Fund (Window 1), which is eligible to receive multilateral ODA.
3. Norway, the Netherlands, Sweden, the United States, the United Kingdom, Japan, Denmark, Canada, Spain, and Switzerland. (Source: UNDP)
4. Does not include the United States, which chose to be removed from the VISC.
5. For 2009 and 2010, the UNDG approved Malawi, Papua New Guinea, Bhutan, Kiribati, Samoa, Botswana, Lesotho, Comoros, Sierra Leone, Kyrgyzstan and Montenegro.
6. The major funds in this category include the Heavily Indebted Poor Countries Initiative (HIPC), The Global Environment Facility (GEF), the Global Fund to Fight AIDS, Tuberculosis and Malaria, Carbon Funds, and the International Finance Facility for Immunisation (IFFIm).
7. In parallel, commitments show a strong growth in the share of general education, from 5% in 1990-4 to 32% in 2005-9, and in support to secondary education, from 9% to 17% over the same period (Cambridge Education et al, 2009, page 36).