

# Poverty and Policy Selectivity of World Bank trust funds

Vera Eichenauer (Heidelberg University)

Stephen Knack (World Bank)

February 2016

**Abstract:** Over the last decade, donors of foreign aid quadrupled their annual contributions to trust funds at the World Bank. This earmarking of contributions to donors' preferred recipient countries and issues has raised concerns about the alignment of trust funds with the allocation of aid by the International Development Association (IDA), the World Bank's concessional lending arm, and begs the question of a distinct role of this new aid channel. We find that the cross-country allocations of aggregate trust fund aid are poverty and policy selective. In this respect, they are much more similar to allocations from IDA than from bilateral aid. The allocations of trust fund types that are more closely controlled by donor countries - recipient-executed and single-donor trust funds - are more strongly related to the strategic interests of donor countries than trust fund aid in general. Trust funds for health and education aid are poverty and policy selective across countries, while environmental trust funds respond neither to poverty nor the quality of environmental policies.

**Keywords:** foreign aid, World Bank, trust funds, aid allocation, aid selectivity

**Acknowledgements:** We are grateful for helpful comments on previous and quite distinct versions by Christopher Kilby, Dan Honig, Andreas Fuchs, Stephan Klingenbiel, Axel Dreher, Barbara Dluhosch, and participants at the 8<sup>th</sup> Annual Conference on the Political Economy of International Organizations and at the Trust Fund Workshop at the University of Zurich. We thank Xu Lu for valuable research assistance, Christopher Kilby for sharing data on important UN votes according to the US State Department, and Buenaflora P. Cabanela and other staff at the Trust Funds and Partnerships Department (DFPTF) at the World Bank for providing and explaining the data to us. Vera Eichenauer gratefully acknowledges financial support from the Swiss Network for International Studies (SNIS). Much of the content in this paper was included in a broader paper titled " 'Bilateralizing' multilateral aid? The political economy of World Bank trust funds" and previously circulated under the title "Trust Fund disbursements to developing countries: who benefits and why?"

## 1. Introduction

Multilateral trust funds at the World Bank and at other international organizations are increasingly popular with donors of foreign aid. These new funding modalities allow donor governments to cooperate with like-minded donors only, and to earmark their aid for specific countries, sectors or objectives (as with other bilateral aid), while using the financial and implementation infrastructure of the multilateral organization hosting them.<sup>1</sup> The increasing importance of this “multi-bi” aid channel raises questions about its distinctiveness in relation to unearmarked multilateral aid and other bilateral aid, particularly with respect to country allocation patterns. Trust funds could potentially undermine the policy- and poverty-selectivity of the World Bank’s IDA (International Development Association) aid, if donors’ earmarked contributions come partly at the expense of their core contributions to IDA, and if trust fund allocations are not sensitive to recipients’ quality of governance or income levels.

In this paper, we exploit a novel and rich dataset on World Bank trust fund disbursements from 2002 to 2012 to analyze the determinants of trust fund allocations across countries, differentiating trust funds by type and sector. We specifically compare the policy- and poverty-selectivity of multi-bi aid to that of other bilateral aid and of the World Bank’s IDA disbursements. We find that trust funds are similar to IDA, and different from other bilateral aid, in being highly sensitive to recipient’s income and quality of governance. Multi-bi funds administered by the World Bank thus do not appear to undermine IDA’s allocation criteria, even if donors’ contributions to them partially crowd out their IDA contributions. We leave for future research the question of whether the increase in trust funds has had an impact on core contributions to IDA<sup>2</sup>, their potential effects on other aspects of World Bank operational policies,<sup>3</sup> and the effectiveness of trust funds relative to traditional bilateral and multilateral core aid.

The remainder of the paper is structured as follows. Section 2 provides background information on World Bank trust funds and reviews related literature. Section 3 presents some theoretical arguments concerning donor motives on allocation of trust funds. Section 4 describes the data, while section 5 discusses the methods and presents the main results for aggregate and sector-specific disbursements. Section 6 concludes.

## 2. Background and Related Literature

---

<sup>1</sup> Because trust fund contributions are earmarked, they are officially classified by the OECD DAC as bilateral aid, although multilaterals are the implementing agencies.

<sup>2</sup> Eichenauer and Hug (2014) propose a model with a multilateral agent governed by multiple principals with heterogeneous preferences to better understand the tradeoffs donors face when choosing bilateral, multilateral or trust fund aid. Assuming a fixed aid budget, their findings suggest that the possibility of trust fund contributions decreases bilateral and multilateral ‘core’ aid in most cases. During IDA replenishment negotiations, the World Bank sometimes places a moratorium on solicitations of trust funds from donors by its staff members, indicating that it believes trust funds can (partially) displace core contributions.

<sup>3</sup> Reinsberg (2015) discusses implications for the World Bank.

Over the last decade, trust funds at the World Bank have proliferated. The total number of active trust funds considered in this paper exceeded 1200, excluding the largely independent financial intermediary funds<sup>4</sup> (FIFs) and trust funds at the International Financial Corporation (IFC). These funds disbursed more than 22.5 billion USD over the fiscal years 2002-2012, our sample period.<sup>5</sup> To put this number into perspective, gross disbursements by IDA, the fund accounting for most concessional lending by the World Bank, amounted to 10.9 billion USD in the 2012 fiscal year. Figure 1 shows the significant increase in trust fund disbursements over the last decade and how its volume compares to IDA funds. Most disbursements were made to specific countries, while smaller shares are allocated to a region or for global goods. Donors are very heterogeneous in their use of trust funds to deliver their foreign aid. In the 2002-2012 sample period, the largest sovereign contributors to World Bank funds, excluding FIFs, were the United Kingdom, the European Commission, the United States, and the Netherlands.<sup>6</sup>

*Figure 1 approximately here*

According to the official narrative, trust funds fill ‘gaps in the multilateral system’ with respect to global public goods and following “emergencies such as natural disasters, disease outbreaks, and the end of armed conflict, where donors want to coordinate their bilateral aid and where the MDBs do not grant resources to engage on a sufficient scale” (IEG 2011a: 5). However, a systematic evaluation of the cross-country allocation patterns of trust fund aid is still lacking. In this paper, we focus on the criteria of policy selectivity and poverty selectivity that largely guide IDA allocations, and that reflect a widespread belief about country characteristics conducive to the productive use of aid funds.

Three actors are involved in the recent trust fund trend: donor countries, the World Bank, and recipient countries. Donor governments may use trust funds to target their foreign aid to priority countries and development issues, while, and in contrast to bilateral aid, delegating responsibility for its management and implementation to the multilateral organization. Evidence collected by the Bank’s evaluation unit (IEG 2011a) through structured interviews with fifty-five officials of eight donor countries finds that six out of eight donor countries use trust funds to target priority issues or countries. From the perspective of the multilateral organization, trust funds allow expanding its global role and operations, and increasing its staff and assets under management (IEG 2011a: 9).

From a recipient country perspective, trust funds may have several positive implications. For middle-income countries seeking technical assistance but are reluctant to borrow for this purpose, trust funds make technical assistance available at grant terms (IEG 2011a: 7). Trust funds have also supported post-conflict and post-disaster countries and territories that are ineligible to borrow from the IDA or the International Bank for Reconstruction and Development (IBRD) (e.g.,

---

<sup>4</sup> Programs funded from FIF are typically monitored by separate agencies, such as GAVI, the Vaccine Alliance, or the Global Fund, and not by World Bank staff. The Bank mainly provides financial administration for FIFs.

<sup>5</sup> The fiscal year at the World Bank runs from July 1 to June 30.

<sup>6</sup> This information is based on contributions data with donor-specific information.

Timor-Leste, Aceh in Indonesia, West Bank and Gaza). Moreover, trust funds have encouraged the provision of global public goods (IEG 2011a: viii). While multi-donor trust funds could, theoretically, improve donor coordination prior to implementation, reducing excessive and harmful donor fragmentation in the field (Huq 2010, IEG 2011a: ix), its effects on donor harmonization seem ambiguous (IEG 2011a: 43, Barakat, Rzeszut and Martin 2012: 34f.) as trust funds usually do not replace existing bilateral and multilateral projects (Barakat 2009: 112).

An evaluation of World Bank trust funds (IEG 2011a: 7) highlights their importance for countries in arrears or entities, where IDA is legally forbidden to engage and bilateral donors prefer not to engage alone. Looking at aggregate official aid flows, however, it is still unclear whether, and in what sectors or countries, trust fund aid substitutes for (i.e., “crowds out”) or complements multilateral or bilateral aid, or if it is additional to traditional aid. Using data on donors organized in the OECD’s Development Assistance Committee (DAC), Reinsberg, Michaelowa and Eichenauer (2015) find some evidence that earmarked or multi-bi aid is additional to multilateral aid, although their estimations may suffer from potential reverse causality and simultaneity. Also for the World Bank, but based on data only through 2009, Huq (2010) finds that the sectoral allocation of trust funds executed by recipients is “aligned” (or positively correlated) with IDA but not with IBRD disbursements.

Donor countries might prefer using trust funds rather than bilateral or multilateral aid for a number of reasons. Donors might seek to supplement IDA funding for particular countries, sectors and/or projects, and trust funds are often used to co-finance IDA projects. In other cases, bilateral donors may use trust funds to complement their bilateral programming when their aid agencies do not have sufficient presence or expertise in countries to implement programs effectively (OECD 2010: 40, 2011: 29). Donor officials state that the proliferation of trust fund aid is associated with a need for a new type of aid that is complementary to the existing multilateral and bilateral aid. They claim that multilateral core contributions to the World Bank and other MDBs cannot achieve some aims because contributions cannot be earmarked (IEG 2011a). The evaluation by the World Bank’s International Evaluation Group (IEG) (2011a: 6) thus concludes: “trust funds are a way to circumvent the allocation system of the MDBs’ [multilateral development banks] country-based business model.”<sup>7</sup>

Eligibility for IDA funds is based on being under a per capita Gross National Income (GNI) threshold and on a lack of access to non-concessionary lending. Replenishments of IDA, and IDA policies regarding allocations and other issues, are negotiated every third year by donor countries. Throughout our sample period, IDA resources were allocated according to an explicit rule taking into account recipient need (as measured by low per capita income) and the quality of economic policies and governance, where the latter is assumed to increase aid effectiveness (e.g., Burnside

---

<sup>7</sup> The IEG (2011a) also found that six out of eight donors direct aid resources through trust funds “to issues or countries of national policy or public interest” and that five out of eight donors use trust funds to influence the World Bank. A UK official stated that his government supports large global funds in climate change, health and education because of “impatience with the existing multilateral system” (IEG 2011a: 6).

and Dollar 2000, 2004). The World Bank's "Country Policy and Institutional Assessments" (CPIA) measure the quality of policies and institutions, and are the most important element in the formula determining allocations for most IDA-eligible countries.<sup>8</sup> The IDA donors, largely working in concert with Bank management and staff, determine the content of the CPIA and its weight in the allocation formula. Morrison (2013) finds that during the cold war IDA-eligible countries received more IDA commitments when they held seats on the World Bank Executive Board. However, he reports that this effect is absent after 1989, when IDA's performance-based allocation system became more formal and transparent, reducing any discretion in the process. He found no support for the hypothesis that the CPIA ratings at the core of this allocation system are influenced by the Bank's shareholders.

Not all donors, however, are equally supportive of current IDA allocation policies. For example, some donor countries have called for increasing the weight accorded to need in the allocation formula, so that countries emerging from conflict may benefit from increasing funding (see Manning 2014).<sup>9</sup> Such donors might reduce their contributions to IDA and divert them to supporting trust funds that complement IDA funding. While donors could also shift these funds to their respective bilateral aid budgets, they might want some share of it implemented by the Bank. The IEG (2011a: 6f) evaluation suggests that donors appreciate the World Bank as a trustee because of its capacity, expertise and strong working relations with governments, and reports that five out of eight donors acknowledged using trust funds to influence the World Bank. If trust fund aid is used in this way to complement the (cross-country) allocation of the IDA funds, then trust funds should be more weakly related than IDA to the quality of policies in IDA-eligible recipient countries – and the relationship could even be negative.

Trust funds are often used to respond to natural disasters and other humanitarian crises, and to fund environmental and other projects with significant spillovers across national borders that do not always conform well to IDA's country-based approach. To the extent humanitarian and cross-border problems are not correlated with per capita income and policy quality, allocations of trust funds responding to these problems are likely to be less poverty- and policy-selective than IDA allocations. For several reasons, therefore, trust funds can potentially undermine IDA's "performance-based allocation" (PBA) system intended (1) to direct more aid to countries where its development impact is likely to be greater, and (2) to create incentives for policy improvements in recipient countries.

---

<sup>8</sup> The CPIA measures numerous aspects of policies and institutions, grouped into four "clusters" or broad policy areas: (macro)economic management, structural policies, equity and social inclusion, and public sector management and institution. A detailed description can be found at <http://siteresources.worldbank.org/PROJECTS/Resources/40940-1244163232994/6180403-1372096800800/CPIAcriteria2012.pdf>.

<sup>9</sup> Donor countries can and, surprisingly, do unilaterally increase their IDA contributions beyond what is seen as their fair share (Manning 2014). These additional contributions do not increase the formal voting power of the donor, although higher voluntary contributions might function as an informal leverage effect for their preferences. It could be that these additional contributions are popular domestically (Milner 2006). For example, the United Kingdom committed more than the USA to IDA15 and IDA17 replenishments USA (Manning 2014).

Our data on disbursements by World Bank trust funds for the 2002-2012 period allow us to study whether and how trust fund aid is allocated differently from bilateral and multilateral aid, particularly with respect to policy- and poverty-selectivity. We analyze trust fund disbursements using linear regression models that account for time-invariant effects. Because motives are likely to vary with the type of trust funds (Reinsberg et al. 2015), we consider single-donor and recipient-executed trust funds separately, as types where an individual donor has the greatest control over where and how the funds are used. We also run separate tests for three sectors in which trust funds are relatively popular with donors – health, education, and environment – and where the CPIA includes specific measures of the quality of sectoral policies.

Several studies (e.g., Annen and Knack 2015; Dollar and Levin 2006) have shown that IDA disbursements are highly responsive to per capita income and to the quality of policies, as intended by the IDA performance-based allocation system. Specifically, they show that disbursements increase with the quality of policy controlling for per capita income (and population), and that they decrease with per capita income, controlling for the quality of policy (and population). Aid from some bilateral donors is also very poverty- and/or policy selective, but bilateral aid overall is much less selective than multilateral aid, and IDA is more selective than aid from most other multilaterals (Knack et al. 2011; Dollar and Levin 2006). Although multilaterals' allocations are sometimes influenced by influential donor countries' political or economic interests (e.g., Barro and Lee 2005; Kuziemko and Werker 2006, and Dreher et al. 2009a, b), those interests matter much more for bilateral aid allocations (e.g., Alesina and Dollar 2000). Both multilateral and bilateral donors' aid allocations have become more selective with respect to the quality of the institutional environment in recipient countries since the end of the cold war (Dollar and Levin 2006, Claessens et al. 2009).

Very few analyses have been done of the selectivity of World Bank trust funds. World Bank (2007) reported that “the distribution of IDA disbursements” among IDA-eligible countries does not follow a discernible performance-based or needs-based pattern. In fact, it found a negative correlation with CPIA ratings. However, that report did not explain its methodology: e.g., it is not clear whether it controlled for per capita income in testing the relationship of trust fund disbursements with CPIA ratings. A few years later, another World Bank study (Huq 2010) reported a positive but not very strong correlation between commitments per capita from recipient-executed trust funds (RETF) and the CPIA ratings, which assess recipients' policy performance and institutional capacity. Finally, an evaluation of the World Bank's implementation of its 2007 Governance and Anti-Corruption Strategy reports a positive coefficient on the CPIA rating in RETF allocation regressions. However, this positive coefficient is insignificant for RETF disbursements and only marginally significant for RETF commitments (IEG 2011b). When the sample is limited to IDA-eligible countries, CPIA is not significant even for RETF commitments. The analysis is limited to the years 2004-2010, and it uses only one of the four “clusters” (on public sector management and institutions) of policy areas in the CPIA.

### 3. Theoretical considerations

The World Bank allocates IDA funds among eligible recipients mainly based on its CPIA index that measures recipients' policy performance and institutional capacity,<sup>10</sup> and on per capita income. This reliance on the CPIA index reflects donors' view that resources are more likely to be used productively in countries with favorable policies and strong public management systems (e.g., Burnside and Dollar 2000, 2004). However, donors' motives when creating World Bank-managed trust funds may be very different, and the relationship between CPIA ratings and allocations of trust funds could be positive or negative. Donors might want to direct more trust funds to higher-performing countries for the same reasons as with IDA funds. Alternatively, trust funds might be a way for some donors to compensate partially for IDA's performance-based country allocations, if they perceive some lower-performing countries as under-aided.

Any impact of CPIA ratings – whether positive or negative – should apply more to IDA-eligible recipients than to other countries, because the CPIA ratings are used by the Bank only for IDA allocations. For this reason we run separate regressions for all developing countries and for IDA-eligible countries<sup>11</sup> only. Because the CPIA does not affect Bank funding to non-IDA countries, donors have no reason to compensate for any under-provision of aid to low-rated recipients.

When we focus on all recipient countries, we include a dummy for effective IDA eligibility. The dummy for effective IDA eligibility might influence the probability and size of trust fund resources with a sign that could go in either direction. On the one hand, IDA recipients might be less likely than IBRD countries or non-member states and territories to receive trust fund aid because they already benefit from IDA resources. On the other hand, bilateral donors might view IDA countries as those countries in particular need of additional resources (Knack et al. 2014) and where the Bank has an advantage in expertise, and thus channel more of their "bilateral" aid to those countries through the Bank in the form of trust funds. In many cases, trust funds are even used to "co-finance" IDA projects. If such cases are very common, trust fund aid should be positively correlated with the IDA dummy, or with net IDA flows, which we control for in some regressions.

We also control for other donor motives in establishing World Bank-managed trust funds. Bilateral donors state that they use trust funds to complement their bilateral programming when their aid agencies do not have sufficient presence or expertise in countries to implement programs effectively (OECD 2010: 40, 2011: 29), and appreciate the World Bank as a trustee because of its

---

<sup>10</sup> Lack of access to capital markets at market rates of interest is another criterion for IDA eligibility. However, the World Bank's assessments of creditworthiness are not disclosed, so we cannot control directly for this variable. We can control for per capita income and country size (population), which are likely to be important determinants of creditworthiness.

<sup>11</sup> This dummy equals one for country-year observations where there are positive IDA flows or the country is on the list of eligible IDA recipients. We apply these two criteria which are not perfectly congruent. Some countries might not want to borrow from the IDA while some countries still borrow because they are just above the eligibility cutoff (blend countries). Note that according to Huq (2010, footnote 9), financial support from IDA is not available to Sudan because of outstanding arrears. Therefore, we set the IDA eligibility dummy for Sudan to zero.

capacity, expertise and strong working relations with governments (IEG 2011a: 6f). Specifically, donors might provide funding through the Bank rather than directly in circumstances where they do not want to be present in recipient countries themselves. For example, donors might want to delegate project implementation to the Bank in fragile countries because it allows diffusing accountability about aid effectiveness, because sending bilateral staff is politically sensitive, or because donors want to act in concert through the Bank to avoid harmful fragmentation in aid activities. We test for the relationship between trust fund and bilateral aid by directly including bilateral development assistance in some regressions.

Rhetoric by donors and the World Bank also suggests that trust funds are a useful instrument in fragile contexts. We expect fragile countries to be more likely to receive aid from trust funds rather than from IDA. On the one hand, the World Bank might be restricted by its legal mandate when governments in fragile contexts change repeatedly, making it virtually impossible to negotiate programs. Fragile states also have low CPIA scores by definition, limiting the IDA resources available for this country mechanically due to the allocation rule.<sup>12</sup> On the other hand, some bilateral donors may view the IDA performance-based allocation system as under-aiding fragile countries confronted with challenging situations. Moreover, some donors might be affected more or concerned more than other donors with security, refugee and other problems associated with specific fragile- and conflict-affected states. Such donors might be geographically proximate to the fragile situation, and have high reputation or economic stakes in the fragile country, such as former colonial powers. World Bank (2007) reports that RETF disbursements to fragile states increased from \$130 million to \$679 million between fiscal years 2002 and 2006.

Donors also use trust funds to fill “gaps in the multilateral system,” in particular to provide a rapid response to “emergencies such as natural disasters, disease outbreaks, and the end of armed conflict, where donors want to coordinate their bilateral aid and where the MDBs do not grant resources to engage on a sufficient scale” (IEG 2011a: 5). We test these motives by including dummy variables for disaster-affected, post-conflict, and fragile states.

Given the multitude of motives for using trust funds, we use multivariate statistical analysis that allows assessing the relative importance of these simultaneous motives while keeping unobserved time-invariant characteristics and year-specific shocks constant.

#### **4. Data**

Our dependent variable is (logged) disbursements of trust funds to recipient countries based on the financial accounting tables of the World Bank.<sup>13</sup> In the disbursements data, recipient countries are almost always indicated but donors are unknown, so that we cannot discriminate

---

<sup>12</sup> A small number of post-conflict countries receive supplemental IDA funding for a limited number of years.

<sup>13</sup> We use the data from Reinsberg et al. (2015) as obtained from the Bank’s CFGP.

between the sources of funds.<sup>14</sup> The unit of analysis is the recipient country-year, rather than donor-recipient-year. For purposes of comparing the overall aid selectivity of World Bank trust funds to IDA and to other bilateral aid, this is the appropriate unit of analysis, because it implicitly weights larger trust fund donors more heavily in the analysis. With donor-recipient-year observations, each donor-recipient pair would receive an equal weight. If selectivity of trust fund aid differed systematically for large and small donors, selectivity coefficients could be a misleading indicator of overall selectivity.

*Figure 2 approximately here*

The structure of the disbursements data is depicted in Figure 2. The figure indicates that trust funds may differ along three dimensions: by the number of contributors (Figure 3), the country-specific, regional or global mandate, and by their execution type (Figure 4). We analyze a subset of the universe of World Bank funds, IBRD/IDA trust funds, which are most numerous. The Bank makes a technical distinction among three types of trust funds. The Bank only provides financial services to Financial Intermediary Funds (FIFs).<sup>15</sup> The number of trust funds of the International Finance Corporation (IFC) is relatively minor and has different objectives than IBRD/IDA trust funds. IBRD/IDA trust funds, the focus of this analysis, are classified further by recipient-executed trust funds (RETFs), which are implemented by a third party but supervised by the Bank, and Bank-executed trust funds (BETFs), which support the Bank's work directly. While RETFs are similar to the IDA or IBRD in terms of being disbursed to recipient countries, BETFs are more similar to Bank administrative expenses, and often but not always finance Bank activities that are not country-specific and thus not relevant for our research question (Figure 4).

*Figures 3 and 4 approximately here*

In testing for poverty- and policy-selectivity of trust funds and other aid, we control for log of population. The IDA allocation formula provides more aid to larger countries, but with an elasticity of less than one. Studies typically show a "small country bias" for IDA disbursements – i.e. aid increases less than proportionately with population – but this bias is smaller than for aid from most other donors (e.g. Annen and Knack 2015). Due to missing and low-quality data on actual poverty rates (e.g. % of the population living on less than \$2 per day), GNI per capita (Atlas method) is used as a proxy for poverty in the IDA formula. Results are robust to substituting GDP per capita (PPP), which is used more commonly in the aid allocation literature.<sup>16</sup> All three variables come from the World Development Indicators.

Aggregated and partially-disaggregated CPIA scores for IDA-eligible countries are publicly available from the World Development Indicators (WDI) since 2005, and range from a minimum

---

<sup>14</sup> The by far most important contributors to trust funds are DAC countries, accounting for eighty percent of contributions over the period of study. Non-DAC donor countries, private companies, NGOs and multilateral organizations are relatively minor contributors (see also Eichenauer 2015).

<sup>15</sup> Our dataset does not contain the information on country allocation by FIFs, which have their own governance and disbursement systems (see Reinsberg et al. (2015)).

<sup>16</sup> Results are available from the authors upon request.

score of 1 (lowest quality policies) to a maximum of 6 (highest quality). For non-IDA countries and prior years, scores are not publicly available, but were obtained with the necessary permissions by one of the authors from internal World Bank databases. CPIA scores are not assigned in some cases after countries fall into arrears with the World Bank and are no longer classified as active borrowers. This typically is the case when the quality of policies and governance are poor, as indicated by their CPIA scores for years when they were active borrowers. In these cases, we replace the missing score with the lowest score received by any other country in this year.

Our main tests do not include other control variables, because our interest is mostly in comparing selectivity across aid sources. We control in some tests for a fragile states dummy, because some donors in recent years have given them favored status in allocating aid. A very small share of IDA funds are set aside for a handful of “post-conflict” countries that overlap considerably with fragile status. We create a dummy variable for fragile country status from the official World Bank list of fragile and conflict situations, first produced in 2006 and updated annually. When we include the fragile dummy, we limit the sample to the fiscal years 2006-2012, where the dummy equals one in those country-years in which a country was on the official lists of fragile situations.<sup>17</sup> We create a separate dummy for countries eligible for special “post-conflict” funding (World Bank 2014b). We control for (logged) bilateral aid and development aid received from official donors through channels other than trust funds and IDA using OECD/DAC data (2015) and World Bank data for (logged) IDA flows.

In robustness tests, we control for several donor-interest variables, following the literature on allocation of bilateral aid (e.g., Alesina and Dollar 2000). First, we measure geopolitical interests by the alignment of votes between recipient and donors in the United Nations General Assembly (UNGA) using data from Strezhnev and Voeten (2009). Annual measures of voting alignment range from 0 to 1 with higher values implying higher similarity and are calculated as in Kilby (2013) using all UN votes. We calculate the mean alignment of the largest three sovereign trust fund donors, the United Kingdom, the United States and the Netherlands, which we label as “the G3.”<sup>18</sup> We exclude the European Commission, the second largest donor, because its preference aggregation process is more complex (Reinsberg et al. 2014). Second, we add a dummy for a colonial relationship between a G3 donor and the recipient country. Third, commercial interests are measured by total G3 exports, using data from the IMF (2015). A thorough test of the importance of these variables in aid allocation decisions would require a different dataset, with donor-recipient-year observations. In our analysis, we merely use these as control variables.

Table 2 displays the descriptive statistics for the dependent and control variables in our sample. The average recipient country receives 1.8 USD trust fund aid per capita, a relative minor

---

<sup>17</sup> The absence of a list prior to 2006 likely reflects the lack of any influential view among donors that “fragility” was an important concept or that fragile states should be treated differently.

<sup>18</sup> In the fiscal years 2002-2012, these donors contributed 4.08, 2.47, and 2.04 billion constant USD respectively. The European Commission contributed 2.47 while Canada as the fifth largest donor contributed 1.12 billion USD.

inflow compared to average per capita aid of 6.7 USD from IDA<sup>19</sup> and 67 USD from other sources.<sup>20</sup> However, trust fund volumes have increased over the sample period and represent significant inflows for some recipient countries as indicated by the maximum value of more than 82 USD trust fund aid per capita. Average GNI per capita is 2,744 USD, which the Bank classified as a lower middle income country in the fiscal year 2012. The mean of the aggregate CPIA rating is just below the median value of 3.5, and the maximum value is almost 5. Recipient countries' education, health and environmental policy ratings range between 1 and 6 with an average value similar to the aggregate CPIA score. With regard to the political and economic variables, the data show that average voting affinity with the largest donors is slightly higher than the median value of 0.5. Total exports per capita from the G3 trust fund donors (UK, USA, and the Netherlands) vary substantially around the mean value of 202 USD per capita. The table further shows that one third of recipient countries in our sample are former G3 colonies, that fragile countries make up 17%, and IDA-eligible countries 65%, of observations.

## 5. Estimation Method and main results

This section tests the selectivity of trust fund aid, compared to IDA and bilateral aid. We use panel models with random and fixed effects without a selection stage, because almost all recipient countries receive positive trust fund disbursements at least once during our sample period. Our sample includes all recipient countries that the OECD's Development Assistance Committee (DAC) considered developing countries in a given year.

As is common in the aid allocation literature, our baseline regression model looks as follows:

$$\ln(\text{disbursements})_{i,t} = \alpha + \beta \text{CPIA}_{i,t-1} + \gamma \ln(\text{population}_{i,t-1}) + \delta \ln(\text{GNI p.C.}_{i,t-1}) + \lambda' X_{i,t-k} + \alpha_i + \sigma_t + \varepsilon_{i,t}$$

where  $i$  refers to the recipient country and  $t$  to the Bank's fiscal year. Errors  $\varepsilon_{i,t}$  are robust to heteroscedasticity and clustered at the recipient level and we include time-fixed effects  $\sigma_t$  and recipient-fixed effects  $\alpha_i$ .

Table 3 shows results with recipient- and year-fixed effects for all IDA countries (columns 1-3) and all developing countries (columns 4-6). Trust funds and IDA provide significantly higher aid to poorer and better-governed (i.e. higher CPIA) countries (columns 3 and 1 respectively). Trust fund allocations are thus much more similar to IDA than to other ODA in terms of poverty and policy selectivity.<sup>21</sup> Coefficients on (log of) GNI per capita (and on log of population) are interpretable as elasticities, so a 1% increase in per capita GNI reduces IDA flows by 1.9% (column 1) and TF aid by 2.6% (column 3). A 1-point increase in the CPIA rating (measured on a 1 to 6 scale) is associated with a nearly 20-fold increase in IDA flows ( $= e^{3.031} - 1$ ) and 7-fold increase in

<sup>19</sup> This figure is based on the sample of all developing countries. Among IDA eligible countries, the figure is 10.3 USD per capita.

<sup>20</sup> These high per capita figures are driven by island states.

<sup>21</sup> There is no statistical difference between the coefficients on the selectivity variables for IDA and TF aid, while coefficients are significantly different between trust fund aid and other aid flows (p-value=0.002 for GNI p.c. and p-value=0.023 for the CPIA score). We run SUR models to test the equality of coefficients using the *suest* command in Stata.

TF aid ( $= e^{2.101} - 1$ ). Note, however, that a 1-point increase in CPIA is very large in relative terms, equal to nearly two standard deviations.

Even for a sample that includes non-IDA countries (column 6), trust funds are very policy selective as well as poverty selective. This holds true in regressions with random effects that allow for the inclusion of time-invariant variables, as shown in Table 4. The main difference is that the estimated effects of country size are more consistent and significant. The coefficients on population for other aid types in Table 4 reflects the bias in favor of small-countries (in per capita terms) frequently noted in the literature, but this bias is nearly absent for trust fund aid, where the coefficient on population is almost one (see Fleck and Kilby 2010). When we include a dummy for fragile countries and limit the sample to the post-2005 years accordingly, we do not find that these countries receive more trust fund aid (Table 5, column 2). Moreover, the inclusion of this dummy has only trivial effects on coefficients for the selectivity variables (comparing columns 1 and 2).

Potentially, allocating aid partly for commercial and political motives could weaken the policy- and poverty-selectivity of trust funds. If so, then when we control for those factors the absolute value of the selectivity coefficients should increase, i.e. “conditional” selectivity should be stronger than “unconditional” selectivity. We include measures for commercial and political motives in Table 5 (column 3), but find the coefficients on the selectivity variables to change little compared to Table 3 (column 6). The commercial and political variables – UNGA voting alignment with the G3, and total G3 exports - are significant, with the expected positive signs. In column 4 of Table 5 we use random effects instead of fixed effects, so are able to add a second political interest variable, a dummy for former colonies of G3 donors. The colonial heritage dummy is not significant and its inclusion again has only trivial effects on the selectivity coefficients (comparing Table 5, column 4 and Table 4, column 6). The last column in Table 5 includes other aid flows and IDA aid, where the latter coefficient is positive and marginally significant.<sup>22</sup> This finding reinforces the idea that trust fund allocations look a lot more like IDA’s than like other aid. But, more importantly, it is showing that donors’ trust fund allocations are not just guided by IDA flows (including co-financing of IDA projects): even controlling for IDA flows, their trust fund allocations are separately influenced by IDA policies, namely poverty and policy selectivity.

Donor countries might prefer RETFs, which are under more direct control of donors, over trust funds more generally. In particular, some BETF allocations by country are determined by staff. Therefore, RETFs could be less poverty- and policy-selective, and guided by political and commercial objective to a larger extent. Column 2 of Table 6 replicates the method and specification of Table 5, column 3, but for RETFs instead of for all TFs. In this fixed effects test, GNI per capita is not significant, and its coefficient is reduced somewhat in absolute value compared to the case of all TFs. The political and commercial variables also are not significant. In a random effects test, however, per capita income is highly significant, and political alignment is associated with significantly larger RETF allocations (Table 6, column 4). Comparing column 1 to column 2,

---

<sup>22</sup> For the IDA sample, IDA flows are significant in the fixed and random effects models.

and column 3 to column 4, in Table 6 we see that results for the selectivity variables are once more affected very little by controlling for political and commercial interests.

Single-donor trust funds could also be used by donors to support strategic interests, while multi-donor trust funds (MDTFs) should look more like IDA: other things equal, as an MDTF includes more donors, it will look more like the full set of IDA donors. Compared to an SDTF donor, donors in MDTFs should therefore have a stronger collective interest in selectivity, and in limiting the role of political and commercial factors in determining aid allocations. Columns 5-8 of Table 6 replicate columns 1-4, but for SDTFs instead of RETFs. We find some support for the hypothesis that political interests matter more for SDTFs, as coefficients on voting alignment are somewhat larger in columns 6 and 8 than in columns 3 and 4, respectively, of Table 5. These coefficients are not significantly larger, however, and selectivity for policy and poverty are still strong.

Table 7 tests whether donors use trust funds to provide extra funding for post-conflict and disaster-affected countries in a coordinated manner. We find no evidence that these motives explain trust fund allocations: neither a post-conflict dummy variable nor a measure of the number of people affected by a disaster is significantly related to TF aid.

*Figure 5 approximately here*

In Table 8, we disaggregate the data to analyze three specific sectors – education, health, and environment – that are popular among trust fund donors (Figure 5), and for which sector-specific indicators of the quality of policies (CPIA sub-ratings) are produced. For this analysis, we use the relevant sector-specific IDA disbursements, as well as the sector-specific CPIA sub-ratings. Most projects in the sample have objectives in multiple sectors, and we assign projects to the sector which has the largest sectoral share. We focus on the two sectors for which we have a respective CPIA sub-score, namely education and health. For environment, we use the theme code and the corresponding CPIA rating.<sup>23</sup> We find health and education aid to be poverty and policy selective in random effects regressions (Table 8, columns 1 and 3). While education aid is responsive also to policy improvements over time within countries (column 2), health aid is not (column 4). In contrast, environmental aid is responsive neither to policy improvements over time within countries (i.e., in the fixed effects regression reported in column 6 nor between countries (column 5). In sum, we find consistent evidence that cross-country allocation of aggregate trust fund aid is poverty and policy selective and allocated more similarly to IDA than to other aid.

---

<sup>23</sup> Criteria for the education, health and environment policy ratings in the CPIA can be found at <http://siteresources.worldbank.org/PROJECTS/Resources/40940-1244163232994/6180403-1372096800800/CPIAcriteria2012.pdf>.

## 6. Conclusion

This paper is the first to analyze the cross-country allocation of trust funds, a relatively new aid channel that can be described as a hybrid between bilateral and multilateral aid. Donor rhetoric suggests that some World Bank-administered trust funds are intended to support countries neglected by IDA for legal, political, and other reasons. Potentially, therefore, the cross-country allocation of these trust funds may compensate for the performance-based allocation of IDA funds, “diluting” the poverty- and policy-selectivity of total World Bank-administered aid. We test whether donors’ allocations of trust funds tend to favor recipients with lower per capita incomes and more favorable policy environments, as measured by the Bank’s CPIA. Results show that World Bank trust fund allocations are similar to IDA, and dissimilar to other bilateral aid (summed over all DAC donors) in terms of their policy- and poverty-selectivity.

The allocation of recipient-executed and single-donor trust funds, which are under closer control of donor countries, appears to be more strongly motivated by strategic interests of donor countries than trust fund aid in general. However, a more complete investigation of the role of donor interest variables would require a different dataset and different unit of analysis (donor-recipient pairs) than we use in this paper.<sup>24</sup> We also explore trust fund disbursements for three specific sectors, and find evidence that health and education aid, but not environmental aid, are policy and poverty selective across countries

Overall, the evidence indicates that multi-bi funds administered by the World Bank do not undermine IDA’s allocation criteria, even if donors’ contributions to them partially crowd out their IDA contributions. There is very little evidence regarding the latter issue of crowding out, and we leave for future research the question of whether the increase in trust funds has affected core contributions to IDA, and their potential effects on other aspects of World Bank operations.<sup>25</sup> The question of the additionality of earmarked funds at the aggregate level remains open as donors might just reshuffle funds away from multilateral organizations they perceive as less effective. Finally, as experience with trust fund aid accumulates, another important research question will be its effectiveness, relative to core multilateral and traditional bilateral aid, in contributing to growth and human development outcomes.

---

<sup>24</sup> Factors related to donors’ and recipients’ domestic political economies are investigated by Dietrich (forthcoming) and Eichenauer and Reinsberg (2016).

<sup>25</sup> One review of World Bank non-lending technical assistance projects rated the quality of fully-trust funded projects lower than projects that were wholly or partially Bank-financed, and concluded that the difference was attributable in part to less attention by management and staff to trust funded projects (see IEG 2011a: ch. 3).

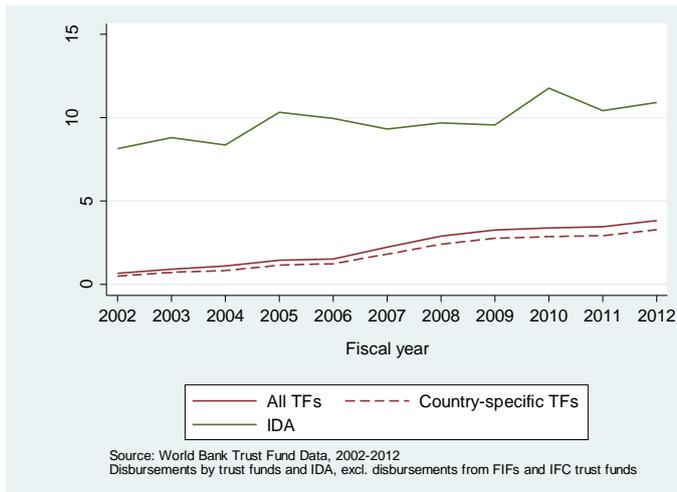
## Bibliography

- Alesina, Alberto and David Dollar (2000). Who gives foreign aid to whom and why? *Journal of Economic Growth* 5(1): 33-63.
- Annen, Kurt and Stephen Knack (2015). On the delegation of aid implementation to multilateral agencies. World Bank Policy Research Working Paper No. 7455.
- Barakat, Sultan (2009). The failed promise of multi-donor trust funds: Aid financing as an impediment to effective state-building in post-conflict contexts. *Policy Studies* 30(2): 107-126.
- Barakat, Sultan, Kathryn Rzeszut, and Nick Martin (2012). What is the track record of multi-donor trust funds in improving aid effectiveness? An assessment of the available evidence. University of London, EPPI-Centre Report No. 2005, Institute of Education.
- Barro, Robert and Jong-Wha Lee (2005). IMF Programs: Who is chosen and what are the effects? *Journal of Monetary Economics* 52(7): 1245-1269.
- Burnside, Craig and David Dollar (2000). Aid, policies and growth. *American Economic Review* 90(4): 847-868.
- Burnside, Craig and David Dollar (2004). Aid, policies and growth: Reply. *American Economic Review* 94(3): 781 – 784.
- Claessens Stijn, Danny Cassimon, and Bjorn Van Campenhout (2009). Evidence on changes in aid allocation criteria. *World Bank Economic Review* 23(2): 185-208.
- Dietrich, Simon (forthcoming). Donor political economies and the pursuit of aid effectiveness. *International Organization*.
- Dollar, David and Victoria Levin (2006). The increasing selectivity of foreign aid: 1984-2003. *World Development* 34(12): 2034-2046.
- Dreher, Axel and Sarah Langlotz (2015). Aid and growth. New evidence using an excludable instrument. CEPR Discussion Paper No. 10811.
- Dreher, Axel, Jan-Egbert Sturm and James R. Vreeland (2009a). Development aid and international politics: Does membership on the UN Security Council influence World Bank decisions? *Journal of Development Economics* 88(1): 1-18.
- Dreher, Axel, Jan-Egbert Sturm and James R. Vreeland (2009b). Global horse trading: IMF loans for votes in the United Nations Security Council. *European Economic Review* 53: 742-757.
- Eichenauer, Vera Z. (2015). Trust funds: DAC donors contribute, most non-DAC donors don't. First Tranche Blog by AidData. February 20.
- Eichenauer, Vera Z. and Bernhard Reinsberg (2016). What determines earmarked funding to international development organizations? Evidence from the new multi-bi dataset. Presented at the Political Economy of International Organization Conference, Salt Lake City, January 2016.

- Eichenauer, Vera Z. and Hug, Simon (2014). The politics of special purpose trust funds. Presented at the Political Economy of International Organization Conference, Princeton, February 2014.
- EM-DAT (2014). The international disaster database. Centre for Research on the Epidemiology of Disasters. Accessed on June 16, 2014: <http://www.emdat.be/database>
- Fleck, Robert K. and Christopher Kilby (2010). Changing aid regimes? U.S. foreign aid from the Cold war to the War on Terror. *Journal of Development Economics* 91: 185-197.
- Huq, Wahida (2010). Analysis of Recipient Executed Trust Funds. CFP Working Paper Series 5. Concessionary Finance and Global Partnerships Vice Presidency, World Bank, Washington DC.
- IEG (2011a). An evaluation of the World Bank's trust fund portfolio: Trust Fund support for development. Washington DC: Independent Evaluation Group.
- IEG (2011b). World Bank country-level engagement on governance and anticorruption: An evaluation of the 2007 Strategy and Implementation Plan. Washington DC: Independent Evaluation Group.
- IMF (2015). Direction of trade statistics (DOTS). Washington, DC: International Monetary Fund. Download on May 20.
- Kilby, Christopher (2013). The political economy of project preparation: An empirical analysis of World Bank projects. *Journal of Development Economics* 105: 211-225.
- Knack, Stephen, Colin Xu and Ben Zou (2014). Interactions among donors' aid allocations: Evidence from an exogenous World Bank income threshold. World Bank Policy Research Working Paper No. 7039.
- Knack, Stephen, Halsey Rogers and Nick Eubank (2011). Aid quality and donor rankings. *World Development* 39(19): 1907-1917.
- Kuziemko, Iliana and Erik Werker (2006). How much is a seat on the Security Council worth? Foreign aid and bribery at the United Nations. *Journal of Political Economy* 114(5): 905-930.
- Manning, Richard (2014). The multilateral aid system: An assessment following the major replenishments of 2013. WIDER Working Paper No. 110.
- Milner, Helene (2006). Why multilateralism? Foreign aid and domestic principal-agent problems. In D. G. Hawkins et al. (Eds.), *Delegation and agency in international organizations*. New York: Cambridge University Press.
- Morrison, Kevin M. (2013). Membership no longer has its privileges: The declining informal influence of Board members on IDA lending. *The Review of International Organizations* 8(2): 291-312.
- OECD (2015). Official Development Assistance data. Paris: Organisation for Economic Co-operation and Development.

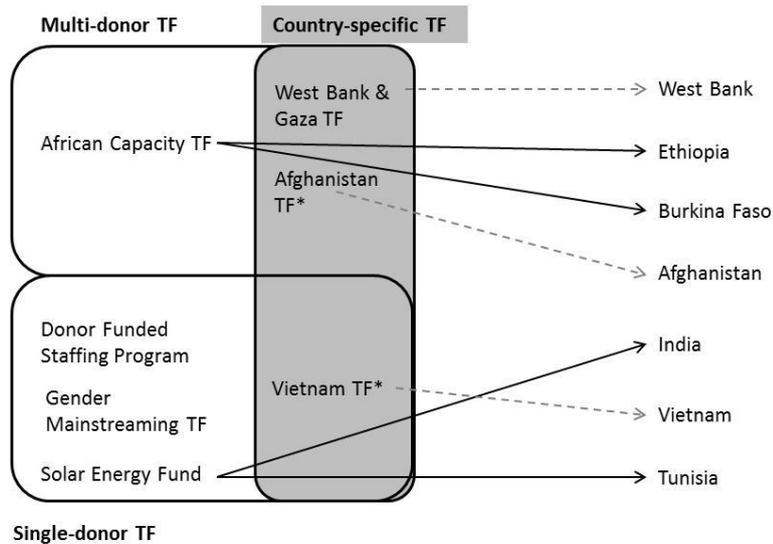
- OECD (2011). 2011 DAC report on multilateral aid. Paris: Organisation for Economic Co-operation and Development.
- OECD (2010). 2010 DAC report on multilateral aid. Paris: Organisation for Economic Co-operation and Development.
- Reinsberg, Bernhard (2015). The implications of multi-bi financing on international development organizations: The example of the World Bank. In Mahn, T., Negre, M., and Klingebiel, S. (Eds.) *Fragmentation or Pluralism? The Future of Development Cooperation Revisited*. Basingstoke: Palgrave MacMillan.
- Reinsberg, Bernhard, Katharina Michaelowa, and Vera Z. Eichenauer (2015). The rise of multi-bi aid and the proliferation of trust funds. In Arvin, B. M. & Lew, B. (Eds.) *Handbook on the Economics of Foreign Aid*. Cheltenham: Edward Elgar.
- Reinsberg, Bernhard, Katharina Michaelowa and Stephen Knack (2015). Which donors, which funds? The choice of trust funds by bilateral donors at the World Bank. World Bank Policy Research Working Paper 7441.
- Michaelowa Katharina, Bernhard Reinsberg and Christina Schneider (2013). When international organizations delegate: The politics of earmarking European Union aid in multilateral aid institutions. Mimeo.
- Strezhnev, Anton and Erik Voeten (2009). United Nations General Assembly voting data V7. Downloaded on August 17, 2014 from: <http://hdl.handle.net/1902.1/12379>. World Bank (2014a). Fragile situations lists. Washington DC: World Bank. Accessed on August 20, 2014: <http://go.worldbank.org/BNFOS8V3S0>.
- OECD/DAC (2015). Creditor Reporting System. Paris: Organization for Economic Cooperation and Development.
- World Bank (2014a). List of Fragile Countries. Washington DC: World Bank Development Finance department memo. World Bank (2014). Countries eligible for IDA post-conflict allocation. Washington DC: World Bank Development Finance department memo, updated April 2014.
- World Bank (2007). *A management framework for World Bank administered trust funds*. Washington, DC: World Bank. <http://documents.worldbank.org/curated/en/2007/09/8618148/management-framework-world-bank-administered-trust-funds>.
- World Development Indicators (2015). World Development Indicators. Washington DC: World Bank.

**Figure 1: Disbursements by IDA and World Bank trust funds**



**Figure 2: Data structure and types of trust funds**

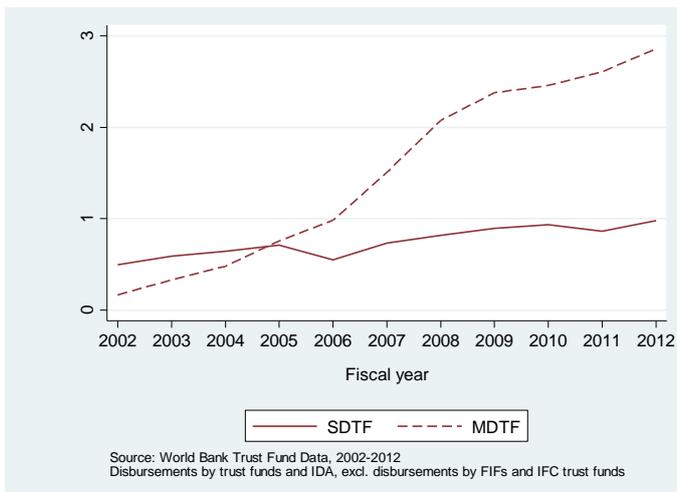
**Disbursement data**



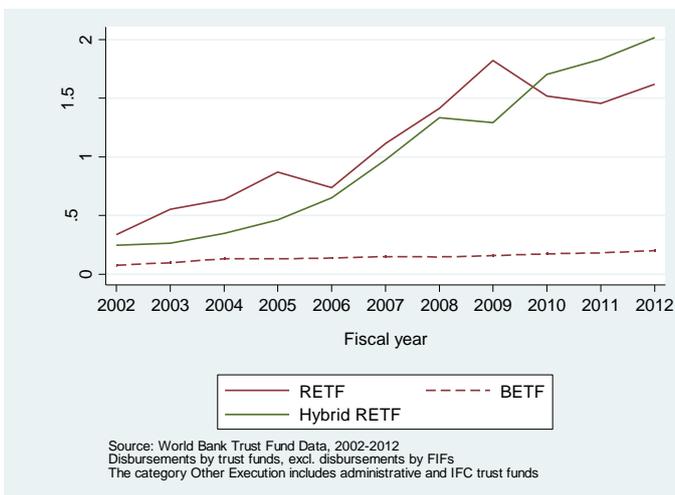
**Figure 3b:** Illustration of disbursement data for various trust funds (TF) types. \* mark recipient-executed trust funds (RETF).

Note: Choice of recipients and allocation choices of trust funds are fictive. The Donor Funded Staffing Program and Gender Mainstreaming trust funds are not allocated to specific countries but support Bank programs.

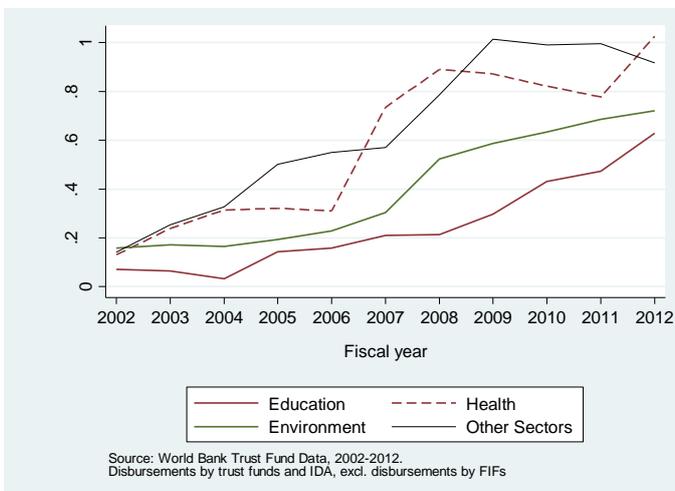
**Figure 3: Disbursements by single- and multi-donor trust funds**



**Figure 4: Disbursements by execution type**



**Figure 5: Trust fund disbursements by sectors**



**Table 1: Descriptive statistics**

	Sample mean	Standard deviation	Minimum	Maximum
<i>Aid flows per capita</i>				
Trust fund aid per capita	1.84	6.68	0.00	82.36
IDA aid per capita	6.73	11.50	0.00	138.62
Other aid per capita	66.70	180.78	0.00	2469.26
<i>Performance variables</i>				
GNI per capita, constant USD	2744.19	2742.63	131.02	14531.77
Population in millions	42.08	156.48	0.01	1344.13
overall CPIA rating	3.43	0.57	1.40	4.91
CPIA, Education	3.54	0.68	1.00	6.00
CPIA, Health	3.50	0.67	1.00	6.00
CPIA, Environment	3.31	0.65	1.00	6.00
<i>Political economy variables</i>				
Voting affinity in UNGA (G3)	0.56	0.15	0.21	0.92
Total exports per capita, USD (G3)	203.06	431.72	1.12	4817.60
Former colonies (G3)	0.35	0.48	0.00	1.00
<i>Other control variables</i>				
Total disaster affected (3-year total)*	2048	14209	0	185932
Fragile countries	0.02	0.16	0.00	1.00
Post conflict situation	0.17	0.38	0.00	1.00
IDA eligible countries	0.65	0.48	0.00	1.00
Note: * In thousands				

**Table 2: Variable sources and definitions**

Variable	Definition	Original Source
Trust fund disbursements	Disbursements by World Bank trust funds (logged, FY, *)	Trust Funds and Partnerships Department at the World Bank
Bilateral aid disbursements	Official Development Aid disbursements (logged, *)	DAC, Table DAC2a ODA Disbursements
GNI per capita	Gross national income, Atlas method (logged,*)	World Development Indicators (2015)
GDP per capita	Gross domestic product per capita in PPP (logged, *)	World Development Indicators (2015)
Population	Population of recipient and donor countries (logged)	World Development Indicators (2015)
IDA aid	ODA by the International Development Association (IDA) (logged, FY, *)	World Bank data from S. Knack
IDA dummy	IDA eligible countries and IDA recipient countries (incl. blend countries, FY)	S. Knack and IDA aid data
G3 Colonial Heritage	Former colony of a G3 donor (US, UK, Netherlands)	CIA Factbook and other sources
G3 UNGA voting alignment	Voting alignment with G3 donors in United Nations General Assembly, calculated as Kilby (2013)	Streznev and Voeten (2009), important years from Christopher Kilby
Exports	Total value of exports from G3 donors to recipient country (logged,*)	IMF DOTS (2015)
CPIA scores	Aggregated and sector-disaggregated Country Policy and Institutional Assessment scores (1-6)	Aggregated CPIA since 2006 from World Development Indicators (2015); Other scores from S. Knack
Post conflict situation	Dummy equals one for country-years eligible for IDA special allocations for post-conflict countries	World Bank (2014b)
Fragile state dummy	Dummy equals one for country-years classified as fragile situation by the World Bank	Own coding based on World Bank (2014a)
Disaster affected (total)	Number of disaster-affected people in the recipient country, moving 3-year total (contemporaneous, once and twice lagged, logged)	EM-DAT: The OFDA/CRED International Disaster Database
DAC recipients	Historical list of DAC recipients (1997-2013)	Dreher and Langlotz (2015)

Notes: Data in calendar years if not marked as fiscal year (FY). \* Values are transformed to 2011 constant USD using the GDP-Deflator from World Development Indicators (2015).

**Table 3:** Comparison of poverty and policy selectivity across TF aid, IDA, and other aid, fixed effects

	1	2	3	4	5	6
GNI p.c. (ln)	-1.899** [0.828]	0.778 [0.815]	-2.599*** [0.821]	-1.028** [0.508]	1 [0.963]	-3.510*** [0.790]
CPIA score	3.031*** [1.013]	-0.324 [0.887]	2.101*** [0.769]	1.953*** [0.717]	-0.827 [0.855]	2.606*** [0.804]
Population (ln)	3.082 [2.523]	-0.019 [3.291]	2.653 [3.200]	3.034 [1.975]	-5.658 [6.255]	2.035 [2.750]
IDA eligible	- -	- -	- -	15.538*** [1.506]	-3 [2.544]	0.678 [1.043]
Dependent variable	IDA	Other	TF	IDA	Other	TF
Sample	IDA	IDA	IDA	All	All	All
Estimation	FE	FE	FE	FE	FE	FE
R-Squared overall	0.27	0.05	0.329	0.594	0.048	0.353
# Observations	900	900	900	1,375	1,375	1,375
# Countries	89	89	89	133	133	133

**Notes:** The dependent variables is the natural logarithm of the aid type noted in the bottom of the respective column and covers the Bank's fiscal years 2002-2012.

Robust standard errors in parentheses clustered at the recipient country level.

\* p<0.10, \*\* p<0.05, \*\*\* p<0.01

**Table 4:** Comparison of poverty and policy selectivity across TFs, IDA, and other aid, random effects

	1	2	3	4	5	6
GNI p.c. (ln)	-1.538*** [0.487]	-0.483 [0.379]	-1.432*** [0.496]	-0.997*** [0.316]	-0.321 [0.550]	-1.926*** [0.457]
CPIA score	3.347*** [0.876]	-0.545 [0.505]	1.872*** [0.665]	2.028*** [0.614]	-0.567 [0.533]	1.852*** [0.637]
Population (ln)	0.711*** [0.242]	0.565*** [0.153]	0.976*** [0.229]	0.549*** [0.190]	0.403** [0.184]	0.975*** [0.181]
IDA eligible	- -	- -	- -	15.464*** [0.850]	0.447 [1.248]	0.062 [0.692]
Dependent variable	IDA	Other	TF	IDA	Other	TF
Sample	IDA	IDA	IDA	All	All	All
Estimation	RE	RE	RE	RE	RE	RE
R-Squared overall	0.377	0.145	0.351	0.805	0.083	0.361
# Observations	900	900	900	1,375	1,375	1,375
# Countries	89	89	89	133	133	133

**Notes:** The dependent variables is the natural logarithm of the aid type noted in the bottom of the respective column and covers the Bank's fiscal years 2002-2012.

Robust standard errors in parentheses clustered at the recipient country level.

\* p<0.10, \*\* p<0.05, \*\*\* p<0.01

**Table 5: Robustness checks**

	1	2	3	4	5
					-
GNI p.c. (ln)	-5.018***	-5.023***	-3.829***	-2.297***	3.351***
	[1.397]	[1.401]	[0.815]	[0.493]	[0.809]
CPIA score	3.602**	3.553**	2.397***	1.706***	2.329***
	[1.522]	[1.579]	[0.814]	[0.599]	[0.851]
IDA eligible	0.853	0.851	0.799	0.768	-1.479
	[1.078]	[1.078]	[1.175]	[0.641]	[1.496]
Population (ln)	4.059	3.933	1.129	0.478*	1.545
	[4.440]	[4.422]	[2.766]	[0.265]	[2.752]
Fragile situation	-	-0.144	-	-	-
	-	[0.510]	-	-	-
G3 UNGA-Alignment	-	-	6.182*	8.453***	-
	-	-	[3.625]	[2.446]	-
Total G3 exports (ln)	-	-	0.627**	0.553**	-
	-	-	[0.311]	[0.216]	-
G3 colonial heritage	-	-	-	-0.65	-
	-	-	-	[0.522]	-
Other aid (ln)	-	-	-	-	-0.013
	-	-	-	-	[0.024]
IDA aid (ln)	-	-	-	-	0.137*
	-	-	-	-	[0.081]
Dependent variable	TF	TF	TF	TF	TF
Sample	>2005	>2005	All	All	All
Estimation	FE	FE	FE	RE	FE
R-Squared overall	0.332	0.332	0.348	0.371	0.357
# Observations	887	887	1,332	1,332	1,375
# Countries	133	133	128	128	133

**Notes:** The dependent variables is the natural logarithm of trust fund aid and covers the Bank's fiscal years 2002-2012.

Robust standard errors in parentheses clustered at the recipient country level.

\* p<0.10, \*\* p<0.05, \*\*\* p<0.01

**Table 6:** Recipient-executed and single-donor trust funds

	1	2	3	4	5	6	7	8
GNI p.c. (ln)	-1.643 [1.173]	-1.842 [1.227]	-1.388** [0.582]	-1.738*** [0.658]	-3.247*** [0.821]	-3.128*** [0.847]	-1.764*** [0.410]	-1.663*** [0.455]
CPIA score	2.994*** [1.046]	2.834** [1.089]	2.227*** [0.804]	2.345*** [0.720]	3.369*** [0.913]	3.478*** [0.951]	2.492*** [0.707]	2.585*** [0.677]
IDA eligible	-0.334 [2.375]	-0.26 [2.475]	3.305*** [1.178]	4.089*** [1.107]	1.159 [0.944]	1.182 [1.018]	0.488 [0.685]	1.174* [0.630]
Population (ln)	11.039* [5.792]	11.010* [6.061]	0.913*** [0.191]	0.706** [0.332]	-1.132 [2.943]	0.096 [3.093]	0.829*** [0.152]	0.761*** [0.269]
G3 UNGA-Alignment	-	6.234 [7.509]	-	16.301*** [4.825]	-	7.501* [4.251]	-	9.690*** [2.667]
Total G3 exports (ln)	-	0.658 [0.498]	-	0.321 [0.303]	-	0.051 [0.379]	-	0.073 [0.247]
G3 colonial heritage	-	-	-	-0.623 [0.785]	-	-	-	-0.995* [0.537]
Dependent variable	RETF	RETF	RETF	RETF	SDTF	SDTF	SDTF	SDTF
Sample	All	All	All	All	All	All	All	All
Estimation	FE	FE	RE	RE	FE	FE	RE	RE
R-Squared overall	0.115	0.108	0.238	0.31	0.173	0.431	0.494	0.531
# Observations	1,375	1,332	1,375	1,332	1,502	1,453	1,502	1,453
# Countries	133	128	133	128	134	128	134	128

**Notes:** The dependent variables is the natural logarithm of the TF aid noted in the bottom of the respective column and covers the Bank's fiscal years 2002-2012.

Robust standard errors in parentheses clustered at the recipient country level. \* p<0.10, \*\* p<0.05, \*\*\* p<0.01

**Table 7:** Selectivity with respect to disaster- and conflict-affected countries

	1	2	3	4
GNI p.c. (ln)	-2.516**	-3.046***	-1.409***	-1.810***
	[1.015]	[0.864]	[0.546]	[0.325]
CPIA score	2.235***	2.229***	1.851**	1.770***
	[0.847]	[0.807]	[0.727]	[0.606]
Population (ln)	2.983	4.183	0.705***	0.856***
	[3.677]	[3.069]	[0.229]	[0.172]
Post-conflict country	-0.516	-0.2	-0.871	-0.908
	[0.988]	[0.877]	[1.965]	[2.251]
Affected (ln)	0.11	-0.012	0.117	0.005
	[0.078]	[0.068]	[0.073]	[0.064]
Dependent variable	TF	TF	TF	TF
Sample	IDA	All	IDA	All
Estimation	FE	FE	RE	RE
R-Squared overall	0.259	0.297	0.293	0.327
# Observations	768	1,156	768	1,156
# Countries	86	127	86	127

**Notes:** The dependent variables is the natural logarithm of trust fund aid and covers the Bank's fiscal years 2002-2012.

Robust standard errors in parentheses clustered at the recipient country level.

\* p<0.10, \*\* p<0.05, \*\*\* p<0.01

**Table 8:** Sector-specific selectivity of trust fund aid

	1	2	3	4	5	6
GNI p.c. (ln)	-1.471*** [0.380]	-1.751* [0.986]	-1.137*** [0.410]	-1.474 [0.956]	0.139 [0.304]	-0.764 [0.560]
Population (ln)	1.116*** [0.169]	14.082*** [4.562]	1.313*** [0.163]	10.011* [5.290]	1.466*** [0.149]	14.493*** [2.732]
CPIA, education	1.707*** [0.454]	1.654*** [0.553]	- -	- -	- -	- -
CPIA, health	- -	- -	0.857* [0.459]	0.834 [0.621]	- -	- -
CPIA, environment	- -	- -	- -	- -	0.061 [0.285]	-0.186 [0.363]
Dependent variable	TF	TF	TF	TF	TF Environmen t	TF Environmen t
Sample	Education	Education	Health	Health		
Estimation	RE	FE	RE	FE	RE	FE
R-Squared overall	0.242	0.163	0.24	0.204	0.29	0.296
# Observations	1,367	1,367	1,368	1,368	1,368	1,368
# Countries	132	132	132	132	132	132

**Notes:** The dependent variables is the natural logarithm of the aid type noted in the bottom of the respective column and covers the Bank's fiscal years 2002-2012.

Robust standard errors in parentheses clustered at the recipient country level.

\* p<0.10, \*\* p<0.05, \*\*\* p<0.01