

## EU Trust Funds for external action First uses of a new tool

### SUMMARY

Since January 2013, the new Financial Regulation applicable to the EU budget allows the European Commission to create and administer Union Trust Funds in the field of external action: these are multi-donor trust funds for emergency, post-emergency or thematic actions. The European Parliament welcomed this development in an April 2013 resolution, considering that it would allow the EU to raise the visibility of its external action and to have greater control over the delivery chain of relevant funds. The first two EU Trust Funds were created in 2014: the Bêkou EU Trust Fund (€108 million), focusing on the stabilisation and reconstruction of the Central African Republic and the Madad Fund (€542 million), dealing with the response to the Syrian crisis. As part of intensifying efforts to tackle the refugee crisis, the European Commission and Spain have also set up an Emergency Trust Fund for stability, to address the root causes of irregular migration and displaced persons in Africa. The new fund has an initial budget of €1.8 billion and targets 23 countries in the Sahel and the Lake Chad region, the Horn of Africa and North Africa. The bulk of funding has so far come from the EU budget and the European Development Fund (EDF). By comparison, Member State contributions to the Trust Funds have to date been relatively low. The European Commission and the European Parliament are therefore urging Member States to match the EU budget and EDF contributions to the Trust Funds. The Commission's aim is to increase the amounts in the Madad Fund and the Emergency Trust Fund for Africa to €1 billion and €3.6 billion, respectively.



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## Background

Since the end of the Cold War, trust funds have been increasingly used as a financing mechanism to implement international cooperation and development measures. One or more donors pool their financial contributions in a trust fund set up to respond to major challenges, such as the specific needs triggered by natural disasters, conflicts or significant pandemics. These trust funds are often managed by international organisations, with prominent examples being United Nations agencies, as well as the World Bank Group.

Analysts see trust funds as an intermediate category between bilateral and multilateral aid:<sup>1</sup> international development organisations are involved, but contributions are voluntary and earmarked for specific objectives. In addition, governance and monitoring mechanisms of the trust funds are at least partially different from those of the organisations administering them. The same paper concludes that the phenomenon has up to now complemented rather than replaced traditional aid, analysing both its opportunities (such as donor coordination, harmonisation and recipient government ownership) and its risks (such as its complexity which can make its assessment difficult, a form of bilateralisation of multilateral agencies and the only partial use of its advantages due to the predominance of single-donor trust funds).

Between 2003 and 2014, the European Union (EU) channelled €9.3 billion of its external assistance budget through the United Nations and the World Bank. Some 39% (or €3.64 billion) of this amount was in the form of contributions to multi-donor trust funds.<sup>2</sup> An additional €0.53 billion from the EU budget was allocated to multi-donor trust funds administered by other donors. Over the same period, three quarters of the total EU contributions to multi-donor trust funds focused on five topics: Afghanistan (25%); Iraq (19%); fighting AIDS, tuberculosis, malaria, and avian and human influenza (15%); Chernobyl shelter (9%); and the Indonesia tsunami and Java earthquake (6%). Expected advantages of such an intervention mechanism include higher cooperation and coordination among those financing and implementing measures in crisis and post-crisis situations that involve large volumes of aid as well as the possibility to resort to the specialised expertise and capacities of participating organisations.

As of January 2013, the financial rules applicable to external actions financed by the EU budget enable the European Commission not only to contribute financially to trust funds managed by other organisations, but also to create and administer directly such multi-donor trust funds for emergency, post-emergency or thematic actions.

## EU Trust Funds: main features

### Legal bases

Article 187 of the Financial Regulation<sup>3</sup> applicable to the EU budget is the legal basis for the creation of Union Trust Funds for external actions (hereafter 'EU Trust Funds'). The European Parliament (EP) and the Council agreed on this new article in the context of the 2012 revision of the Financial Regulation. Article 259 of the Rules of Application (RAP)<sup>4</sup> of the Financial Regulation provides more detailed provisions on the functioning of EU Trust Funds, including on reporting obligations and management of contributions.

In addition, the establishment of EU Trust Funds is also possible in the framework of the European Development Fund (EDF), a significant joint instrument of development

assistance outside the EU budget established by EU Member States.<sup>5</sup> In this case, the legal basis is Article 42 of the financial regulation applicable to the 11th EDF.<sup>6</sup>

### **General objectives and some expected advantages**

The modification to the Financial Regulation introducing the possibility for the European Commission to create and manage EU Trust Funds is meant to **enhance the international role of the EU**, as well as strengthen the visibility and efficiency of its external action and development assistance. For example, EU Trust Funds should provide the Union with better control of risks and disbursements.

Other expected advantages include a **faster decision-making process** in the selection of the measures to be implemented in comparison with traditional multiannual programmes devoted to development cooperation. This can prove crucial in emergency and post-emergency actions, the categories of measures (together with thematic actions), for which EU Trust Funds may be established.

One more potential benefit is the **leverage of additional resources** to devote to external action, since the establishment of an EU Trust Fund requires at least one additional donor. For 2014-2020, the financial resources allocated to the 'Global Europe' heading amount to €66.3 billion, which represents 6.1% of the Multiannual Financial Framework (MFF) of the EU. Over the same period, the EDF, which is outside both the MFF and the EU budget, is endowed with €30.5 billion. Donors to an EU Trust Fund may be individual Member States as well as other entities.

The pooling of resources could also **increase coordination** between different EU donors in selected areas of intervention, for example if individual Member States decide to channel at least part of their national bilateral assistance through EU Trust Funds. According to a Cost of Non-Europe report drafted for the Committee on Development of the EP,<sup>7</sup> better donor coordination between the EU and its Member States could save some €800 million per year in overhead costs associated with activities such as programming, implementation and monitoring of assistance, while increasing the overall impact of measures.

### **Establishment**

In order for an EU Trust Fund to be created, it must meet a number of conditions, including **EU added value** (its objectives can be better met at EU than at national level), **additionality** (the trust fund should not duplicate already existing and similar instruments) and **managerial advantages**.

The establishment of EU Trust Funds takes place under the new 'comitology' rules.<sup>8</sup> The European Commission submits the **draft decision to create an EU Trust Fund** to the competent committee provided for in the basic act governing the instrument, which should provide the EU's financial contribution to the new Trust Fund. By means of such committees, the representatives of the Member States control the Commission's exercise of implementing powers. The competent committee gives its opinion, applying the examination procedure provided for in [Regulation \(EU\) No 182/2011](#) of the EP and of the Council. For example, the EU Regional Trust Fund in response to the Syrian crisis, also known as the Madad Fund (see below), was created in 2014 following the positive opinion of the European Neighbourhood Instrument (ENI) Committee. The EP and the Council have a **right of scrutiny** when the draft implementing act relates to a basic act adopted under the ordinary legislative procedure.

After the adoption of the establishment and financing decisions, the following step is the signing of the **constitutive act** of the EU Trust Fund by the European Commission and the donors. The constitutive act details some important features of the Trust Fund, including its specific objectives, the rules for the composition and the internal rules of its board, as well as the duration of the trust fund, which is always limited in time. EU Trust Funds have so far all been set up for an initial 60 months (five years).

### **Implementation, governance and reporting**

Financial contributions to an EU Trust Fund are lodged in a specific bank account. EU Trust Funds are not integrated in the EU budget, but their management needs to be in accordance with the Financial Regulation to the extent necessary to ensure proper use of public resources. The European Commission is empowered to adopt delegated acts laying down detailed rules on the management, governance and reporting of the EU Trust Funds.

EU Trust Funds are implemented directly by the European Commission, which is authorised to use up to 5% of the resources pooled in a trust fund to cover its management costs. In the case of emergency or post-emergency EU Trust Funds, **budget implementation** may also be indirect, with the possibility to entrust relevant tasks to other entities, such as third countries and their designated bodies or international organisations and their agencies. In addition to the specific objectives of a given trust fund, implementation must comply with the principles of sound financial management, transparency, proportionality, non-discrimination and equal treatment.

Each EU Trust Fund has its own **governing board**, which decides on the use of the pooled resources. The board ensures representation of the donors and is chaired by the European Commission, whose positive vote is required for the final decision on the use of the resources. Member States that do not contribute to the trust fund participate as observers. An EU Trust Fund acts collectively on behalf of the EU and all the contributors to its financing.

As far as **control and audit mechanisms** are concerned, the provisions of the Financial Regulation and the RAP include a series of safeguards. For example, each year EU Trust Funds are subject to an independent external audit. In addition, the powers of the European Court of Auditors and of the Commission's internal auditor over EU Trust Funds are the same as those they exercise over the other activities of the European Commission.

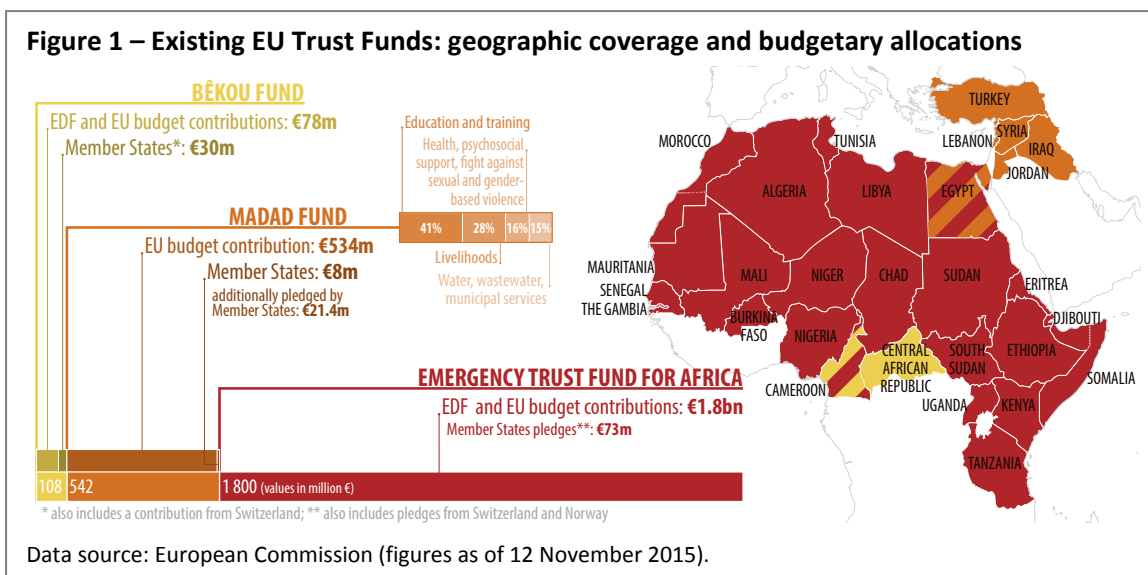
With regard to **reporting obligations**, the European Commission is to submit an annual report on each EU Trust Fund to the EP and the Council. The annual report must be exhaustive and include detailed information on the activities supported by the trust fund, their implementation and performance as well as their accounts.

### **The role of the European Parliament**

The EP has various rights in the area of EU Trust Funds. For instance, the annual reports on the activities and the accounts of the individual funds are submitted in the context of the discharge procedure, through which the Parliament ensures political scrutiny of budget implementation.<sup>9</sup> The EP (and/or the Council) may request the Commission to discontinue appropriations for a given trust fund or to liquidate it. Another example, already mentioned for the establishment phase of an EU Trust Fund, is the right of scrutiny for draft implementing acts relating to a basic act adopted under the ordinary legislative procedure.

## Existing EU Trust Funds

The first two EU Trust Funds were created in 2014: the Bêkou EU Trust Fund, focusing on the stabilisation and reconstruction of the Central African Republic and the Madad Fund, dealing with the response to the Syrian crisis. As part of intensifying efforts to tackle the refugee crisis, the European Commission has also set up an Emergency Trust Fund for stability and addressing root causes of irregular migration and displaced persons in Africa, known as the Emergency Trust Fund for Africa.



### The Bêkou EU Trust Fund

#### Background

In 2013, the Central African Republic descended into ethnic and sectarian violence, leaving more than 2.5 million people (out of a population of 4.6 million) in need of humanitarian aid and leading to the displacement of 410 000 people inside the country. At the same time, at least half a million Central Africans have sought refuge in neighbouring countries.

With the deployment of 9 000 troops and 1 580 police by the United Nations (UN), security in the country has improved.<sup>10</sup>

#### Budget and main focus

On 15 July 2014, the European Commission and three EU Member States (France, Germany and the Netherlands) signed the constitutive agreement for the EU Trust Fund for the Central African Republic, known as the Bêkou EU Trust Fund, with the aim of contributing to the stabilisation and reconstruction of the Republic. 'Bêkou' means 'hope' in Sango, the Central African Republic's main language.

The EU Trust Fund for the Central African Republic seeks to contribute to restoring national and local administrations, re-establishing economic activity and essential services (such as electricity, transport, health and education) and stabilising the country. The activities also focus on helping neighbouring countries deal with the consequences of the crisis in the Central African Republic.

Following an initial budget of €64 million, contributions are now expected to reach a total of €108 million. The European Commission has already contributed €41 million from the EDF and the EU Humanitarian Aid (ECHO) budget and has pledged a further €37 million from various budgets, including the EDF, ECHO and thematic programmes.

Member States (France, Germany, and the Netherlands) and Switzerland have pledged a total of €30 million.

#### *Projects*

The first two projects financed by the Bêkou Fund were launched in February 2015; another four have since been added. With a budget of €15 million and an estimated one million beneficiaries, the health sector support programme being implemented by a number of international non-governmental organisations (NGOs) is currently the largest project. A project jointly implemented by the Food and Agriculture Organization (FAO) and several international NGOs to increase the food and economic resilience of 100 000 families has received €10 million. The latest project approved, in July 2015, allocates €11 million to promote economic recovery in the capital Bangui and one or two provincial cities. A further €4.5 million has gone to assist the estimated 228 000 Central African refugees in Cameroon and to ease the social tensions their presence has created in Cameroon's East and Adamawa regions. An urban rehabilitation project aiming to improve living conditions in the poor neighbourhoods of Bangui through the reconstruction of basic infrastructure has received €4.5 million, while €1.5 million has gone towards a project to improve the social and economic situation of women.

#### **The Madad Trust Fund**

##### *Background*

The conflict in Syria, which began with anti-government protests before escalating into a full-scale civil war, has been raging for four and a half years. More than 12 million Syrians have been forced to leave their homes. While the majority – an estimated 8 million – are internally displaced, more than 4 million Syrians have sought refuge in neighbouring countries. [Official figures](#) (as of 17 November 2015) from the UN's refugee agency (UNHCR) put their numbers at 2 181 293 refugees for Turkey, 1 075 637 for Lebanon, 633 644 for Jordan, 244 765 for Iraq and 127 681 for Egypt. Unofficial figures are significantly higher in some cases.

The sudden influx of large numbers of refugees puts host countries and communities under enormous strain. The [Regional Refugees & Resilience Plan in response to the Syria Crisis](#), which is based on plans developed under the leadership of national authorities in Egypt, Iraq, Jordan, Lebanon and Turkey, has put current funding needs at US\$2 billion. These are expected to rise to US\$2.5-3 billion in 2016.

##### *Budget and main focus*

On 15 December 2014, in response to the refugee crisis created by the civil war in Syria, the European Commission and Italy signed the constitutive agreement for the first ever EU Regional Trust Fund, known as the Madad Fund. Established under the European Neighbourhood Instrument (ENI), the Madad Trust Fund was set up to allow the EU and the Member States to intervene jointly to help refugees and their host communities in a manner that treats the refugee crisis as a regional crisis and permits action on a regional scale.

The Madad Fund was set up in 2014 with an initial budget of €41 million. Following developments in 2015, which has seen a dramatic increase in the number of Syrian refugees reaching Europe, the [European Commission](#) and [European Council](#) have called for a substantial increase in funding to support Syrian refugees and their host countries in the region. Consequently, the Madad Fund will have a budget of €542 million by the end of the year, including €534 million from the EU budget (European Neighbourhood

Instrument (ENI), Instrument for Pre-Accession (IPA), and the Instrument for Development Cooperation (DCI)). Member States have committed €8 million so far (Germany and Italy), and Austria, Bulgaria, the Czech Republic, Denmark, Estonia, Latvia, Lithuania and Slovakia have pledged a further €21.4 million. The [Commission](#) and the [European Parliament](#) are urging Member States to match the EU budget contribution to the Madad Fund and to increase the budget to €1 billion.

#### *First projects*

The funds initially committed to the Madad Fund (€41 million) were allocated to three programmes in the area of education, food security and livelihoods, expected to reach around 400 000 Syrian refugees and their host communities.

Almost half of the funds, €17.5 million, finance action in Turkey. The Ministry of Education and UNICEF have received €12.5 million to provide more than 200 000 Syrian refugee children in Turkey with additional Arabic teaching, psychosocial support, educational materials and refurbished school facilities. In addition, through funding for the World Food Programme (WFP) and the Turkish Red Crescent (€5 million), more than 41 000 vulnerable Syrian refugees will receive monthly food vouchers until April 2016.

The second programme has €12 million to use in seeking to provide Syrian youths whose studies were interrupted by the armed conflict with access to further and higher education. In cooperation with higher education providers in the region, the programme hopes to reach up to 20 000 young Syrians in Lebanon, Jordan, Iraq, Turkey and Syria, through scholarships and enrolment in short-cycle higher education courses. This programme contributes directly to the implementation of the '[EU regional strategy for Syria and Iraq as well as the ISIL/Da'esh threat](#)', which calls upon the Madad Fund to support ways to increase higher education opportunities for Syrian students.

The third programme targets both refugees and local residents in 90 communities in Lebanon, Jordan, Iraq and Turkey that are hosting particularly large numbers of refugees. With a budget of €10 million, the overall objective of the programme is to mitigate the destabilising effects of the refugee crisis in these communities, by increasing the short-, medium- and long-term economic opportunities of the target population. The '[EU regional strategy for Syria and Iraq as well as the ISIL/Da'esh threat](#)' specifically calls for the use of the Madad fund to provide 'stabilisation and resilience aid to refugee and host communities in Iraq, Lebanon, Jordan, Turkey and Egypt'.

The Trust Fund Board is expected to meet again in early December 2015 to approve the next round of programmes. Education and training, livelihoods, health and water/municipal services have been identified as priority areas. In line with the [Declaration of the high-level Conference on the Eastern Mediterranean – Western Balkans Route](#), it is expected that the Fund will be extended to Western Balkan countries also affected by the Syrian refugee crisis.

### **Emergency Trust Fund for Africa**

#### *Background*

With an [average gross domestic product](#) (GDP) per capita of just over US\$1 000 (World Bank figures for 2011-2015), the 18 countries of the Sahel region and Lake Chad area and the Horn of Africa are among the poorest in the world (EU-28 average: US\$34 000). Many countries in these regions have been plagued by years of armed conflict, political instability and terrorist threats. Many have also experienced environmental degradation

due to climate change; governance structures and institutions are weak. Economic prospects, in particular for young people, are bleak or non-existent.

North African countries have become transit, and sometimes final, destinations for migrants from other parts of Africa. Even though the average GDP per capita in the five North African countries is significantly higher (US\$4 500) than in many other parts of Africa, economic and political conditions still push people to leave.

In 2014, asylum-seekers from the Sahel region and Lake Chad area, the Horn of Africa and North Africa made up nearly 20% of the total number of persons seeking asylum in Europe.

#### *Budget of the fund and main focus*

On 20 October 2015, the Commission adopted the [Decision](#) to establish the European Union Emergency Trust Fund for stability and addressing root causes of irregular migration and displaced persons in Africa. The establishment of the Trust Fund is an integral part of the European Agenda on Migration, and one of the 'immediate operational, budgetary and legal measures' to manage the refugee crisis [announced](#) by the Commission on 23 September 2015. The Trust Fund will target Burkina Faso, Cameroon, Chad, the Gambia, Mali, Mauritania, Niger, Nigeria and Senegal (Sahel region and Lake Chad area), Djibouti, Eritrea, Ethiopia, Kenya, Somalia, South Sudan, Sudan, Tanzania and Uganda (the Horn of Africa) and Morocco, Algeria, Tunisia, Libya and Egypt (North of Africa).

The European Commission and Spain signed the constitutive agreement of the Trust Fund during the [Valletta Summit on Migration](#) (11-12 November 2015), where the EU met with key African countries to discuss migration and the refugee crisis.

The Emergency Trust Fund for Africa has an initial budget of €1.8 billion, more than three-quarters of which comes from the EDF; in addition, money has been redirected from different financial instruments under the EU budget, mainly the ENI. As of 12 November 2015, [Member States](#) had pledged a total of just over €73 million, with contributions ranging from €15 million (The Netherlands) to €50 000 (Bulgaria, Latvia, Lithuania and Slovenia). Norway and Switzerland have pledged a further €8 million. The Commission and the European Parliament are urging Member States to also match the contributions from the EU budget and the EDF to the Emergency Trust Fund for Africa and to increase the total available resources to €3.6 billion.

#### *Planned projects*

With money from the Trust Fund, the EU is hoping to address a wide range of ills, so that living conditions improve and encourage people to stay in their countries of origin, rather than undertake the perilous journey to Europe and an uncertain future. High on the agenda are improvements in stability and security in the countries concerned, better governance, economic development, food security and the delivery of basic services. Money from the Fund will also be used to strengthen the countries' capacity to manage migration, including readmitting and reintegrating irregular migrants that have not been granted asylum in Europe.

Money from the Trust Fund will go to projects focusing on:

- The creation of employment opportunities, especially for young people and women;
- The provision of basic services for local populations, including health and education;
- Measures ensuring food and nutrition security and enhancing environmental



sustainability;

- Measures to improve migration management, including efforts to prevent irregular migration;
- Measures to fight the trafficking of human beings and the smuggling of migrants;
- Improvements in governance, through conflict prevention measures and support for the rule of law; and
- Capacity building in support of security and development as well as law enforcement, including border management.

### European Parliament view

In an [April 2013 resolution](#), the EP welcomed the fact that the new Financial Regulation of the EU introduces the possibility to create Union Trust Funds, considering that this development allows the EU to raise the visibility of its external action as well as to have more control over the delivery chain of relevant funds. At the same time, the EP requested reporting from the Commission on the effectiveness of EU Trust Funds.

In its October 2015 [reading](#) of the 2016 EU budget, the EP increased the appropriations set by the Council for external actions (Heading 4), calling for the additional appropriations to be used to provide extra funding for the two EU Trust Funds dealing respectively with the Syrian Crisis and the root causes of irregular migration in Africa as well as for immediate assistance via the United Nations' Refugee Agency (UNHCR) and the World Food Programme. In addition, the Parliament called on individual Member States to deliver on their promises and complement the EU's financial contribution to the trust funds with their own contributions.

At the same time, the EP noted that the Madad Trust Fund and the Emergency Trust Fund for Africa were established because the EU budget lacks the resources and the flexibility needed to address such crises promptly and comprehensively. On this basis, the EP called for a more holistic solution to be agreed in the framework of next year's review/revision of the 2014-2020 MFF, with a view to increasing the effectiveness and reactivity of humanitarian and development assistance available under the EU budget. The EP also wishes to see a successful merger of these resources with the EDF and bilateral aid provided by Member States.

On 25 November 2015, the EP [noted](#) that Member States had not yet met their financial pledges for the Africa Trust Fund and the Syria Trust Fund as well as to UN agencies supporting refugees. Parliament regretted that a compromise could not be reached to use the savings in the national contributions to the 2015 EU budget for this purpose, but expected that Member States would honour their previous pledges.

### Main references

[European Union Public Finance \(5th Edition\)](#), European Commission, 2014.

Websites of European Commission [DG DEVCO](#) and [DG NEAR](#).

### Endnotes

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- <sup>2</sup> [Information note on multi-donor trust funds supported by the European Union](#), European Commission, Directorate-General for International Cooperation and Development – EuropeAid, March 2015.
- <sup>3</sup> [Regulation \(EU, Euratom\) No 966/2012](#) of the European Parliament and of the Council of 25 October 2012.
- <sup>4</sup> [Commission Delegated Regulation \(EU\) No 1268/2012](#) of 29 October 2012.
- <sup>5</sup> For more details on the EDF: [European Development Fund – Joint development cooperation and the EU budget: out or in?](#), D'Alfonso A., European Parliament, European Parliamentary Research Service, 2014.

- <sup>6</sup> [Council Regulation \(EU\) No 2015/323](#) of 2 March 2015.
- <sup>7</sup> [The Cost of Non-Europe in Development Policy: Increasing coordination between EU donors](#), Nogaj M., European Added Value Unit, European Parliament, 2013; [Quantifying the economic benefits of increased EU donor coordination](#), Bigsten A., 2013.
- <sup>8</sup> The same applies to their extension and liquidation.
- <sup>9</sup> For a short overview, see: [Discharge procedure for the EU budget: Political scrutiny of budget implementation](#), D'Alfonso A., European Parliamentary Research Service, European Parliament, 2014.
- <sup>10</sup> [IHS Connect country reports, Country outlook: Economic: Short-term outlook: Analysis – Central African Republic](#), 1 October 2015.

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