

## CASE STUDY

# Concessional Financing for Refugees and Host Communities in Middle-Income Countries

## Overcoming Challenges in Financing Refugee Assistance

### OVERVIEW

As of the end of 2017, there were 25.4 million refugees around the world.<sup>1</sup> Developing countries host 84 percent of this population, and they are striving to adapt their infrastructure and social service delivery to meet refugees' needs. To help overcome challenges associated with financing refugee assistance and management, the World Bank is spearheading the innovative Concessional Financing Facility for the Middle East and North Africa.



*Syrian Refugee boys. Photo credit: globalcff.org*

### Background

Jordan and Lebanon have performed a vital global public good by opening their borders to more than 2 million refugees fleeing war and oppression in Syria. This massive influx of people, and the cost of hosting them for a prolonged period, have put an enormous strain on the two countries. As middle-income countries, neither is eligible for concessional financing (financing at sharply reduced rates) from multilateral development banks, which typically reserve the lowest-cost financing for the world's poorest nations.

### Financing Objectives

- The World Bank sought to design a financing solution that would meet two objectives:
- Reduce the debt burden of Jordan and Lebanon and help them invest in critically needed physical and social infrastructure projects that benefit both refugee populations and host communities, by providing financing at highly concessional terms.
- Leverage US\$3–4 billion in concessional financing

through US\$1 billion in grants.

### Financial Solution

On July 28, 2016, the Concessional Financing Facility for the Middle East and North Africa (CFF) was established. This nonbilateral trust fund for concessional financing provides an efficient, clean, and cost-effective way to fill the gap between short-term humanitarian assistance and development financing. It provides Lebanon and Jordan with affordable financing to allow them to pursue their longer-term development goals.

This innovative way of channeling development assistance increased the developmental impact of donor grants and the size of projects. It also reduced financial costs for the benefiting countries, as well as transaction and supervision costs for the donors.

### How Does It Work?

- The Implementation Support Agency (ISA) and the benefiting country teams work on the project details and appraisal. After appraisal, and with an ISA supporting letter, the benefiting country submits a

<sup>1</sup> UNHCR, "Global Trends: Forced Displacement in 2017,"

financing request to the CFF coordination unit as a part of the total financing package. This request is submitted to the CFF steering committee for approval. Once approved, the project is submitted to the ISA board of executive directors (or equivalent) for consideration and approval.

- In parallel, the World Bank Treasury Financial Products team, as part of the CFF's coordination unit, works closely with the ISA team and the benefiting country to calculate the amount of funding required to reduce the nonconcessional interest rate to concessional terms. The formula computes the difference between the nonconcessional interest rate (IBRD terms) and concessional interest rate (IDA terms)—the so-called concessional spread—on a net present value basis. The concessional spread is recalculated quarterly to ensure that it reflects market movements.
- Once the funding request is approved, funds are disbursed from the CFF to the ISA in a single installment. From that moment on, the CFF funds are under the ISA's policies and procedures, and the ISA disburses them to the benefiting country in accordance with its loan disbursement calendar.
- The project is implemented by the benefiting country, and the ISA is responsible for the downstream governance of the project.
- The benefiting country repays the ISA loan on its original terms.

## World Bank's Role

The World Bank played several key roles in this project.

**1. Creation of the unique formula for calculating the concessionality.** The World Bank Treasury Financial Products team designed a unique formula for defining the concessionality in the funding amount. The formula accommodates all the stakeholders, in part by meeting the unique legal requirements of each donor country and taking account of the different pricing and tenure levels of each ISA. It is also flexible enough to adapt to changes in the markets, in pricing levels, and in financial characteristics of the loan.

**2. Provision of just-in-time support for the governments and the ISAs for each project.** The World Bank Treasury financial advisor works with governments and the designated ISA to achieve several goals:

- Confirm that the project is benefiting both the refugee and the host communities
- Calculate the concessional amount, making sure that any pricing movements in the markets are reflected in the financial application
- Review different financing scenarios before the application process
- Ensure that the project's fiscal effects will fit the government's debt profile and financing needs

**3. Establishment of a mechanism to receive concessional loans to fund the CFF.** CFF rules and procedures favor grants over other types of funding from donors. But donors such as the United Kingdom and Japan could commit only to highly concessional loans. The World Bank agreed to receive such loans, and through a market transaction extract the concessional out of these loans and transfer the funds to the CFF.

**4. Reduction of cost to donors.** By arranging for ISAs to lead the implementation with trusted safeguards in place, the World Bank minimized donors' supervision and transaction costs.

## Outcome

In September 2016, the CFF was expanded to the global level with the creation of the Global Concessional Financing Facility (GCFF), which helps middle-income countries address refugee crises wherever they occur. As of June 30, 2017, pledges to the GCFF trust fund totaled the equivalent of US\$372.50 million; US\$277.50 million of this amount was signed contribution agreements. As the GCFF leverages donor resources, each US\$1 in donor grant funds unlocks approximately US\$4 in concessional loans. As of 2016–2017, GCFF had leveraged US\$1 billion in concessional financing to fund nine projects in Jordan and Lebanon, including projects in transport, wastewater, energy, and health.

This financing solution is only one of the many ways the World Bank helps member countries become more resilient to economic shocks. IBRD's AAA credit rating, market presence, and convening power enable the World Bank Treasury Financial Products team to develop innovative new products to help their clients maximize financing and mitigate risk.