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**CONCESSIONAL FINANCING FACILITY FOR THE MENA REGION  
FINANCIAL INTERMEDIARY FUND**

**AN INFORMATION NOTE**

**JUNE 10, 2016**

**Development Finance, Middle East and North Africa Region, and Treasury Vice-  
Presidencies**



**CONCESSIONAL FINANCING FACILITY FOR THE MENA REGION:  
ESTABLISHMENT OF A FINANCIAL INTERMEDIARY FUND  
INFORMATION NOTE**

**I. Introduction**

**1. This note provides information to Executive Directors on the establishment of a Financial Intermediary Fund (FIF) trust fund at the Bank, to support a Concessional Financing Facility (CFF) for the Middle East and North Africa (MENA) region.** The Bank will serve as trustee for the FIF, establish a Coordination Unit, and use funds from the FIF as one of the designated Implementation Support Agencies (ISAs) to provide concessionality to lending to eligible middle income countries.<sup>1</sup> Section II of this note provides background on the CFF, Section III presents a description of the CFF governance and operations and rationale for establishment of a FIF at the Bank, Section IV outlines cost recovery arrangements; and risks and mitigation actions are discussed in Section V.

**II. Background**

**2. In recent years, instability and conflicts across the MENA region have caused untold damage to the region's people, as well as its economies.** Conflict have forced over 15 million people to flee their homes, straining the social fabric and economies of countries in the region, and triggering the most significant forced displacement crisis since World War II. As of May 2016, over 4.8 million Syrians have registered as refugees with the United Nations High Commissioner for Refugees (UNHCR), and are mostly hosted in Syria's neighboring countries, significantly impacting Jordan and Lebanon. Jordan currently hosts 638,633 registered Syrian refugees, representing about 10 percent of Jordan's population. Lebanon has accepted close to 1.5 million refugees from Syria, representing over 30 percent of its total population.

**3. To address the massive financing needs of the Syrian refugee crisis, the World Bank Group (WBG) partnered with the United Nations (UN) and the Islamic Development Bank Group (IDB Group) to mobilize the international community through the MENA Financing Initiative, with the objective of delivering development financing to support refugees and host communities in Jordan and Lebanon, and strengthening coordination between humanitarian and development assistance.** This partnership was based on the realization that the refugee crisis represents not only a humanitarian crisis, but a development crisis as well. The scale of the crisis, its impact on the development agenda of host countries, and the protracted nature of forced displacement imply that humanitarian assistance alone cannot provide an adequate response. A development response with an appropriate medium to long-term horizon is long overdue and immediately needed. Current trends suggest a real risk of a continued, and possibly further amplified, crisis, and therefore additional and sustainable development financing is needed.

**4. The *International Stakeholders' Roundtable Meeting for the MENA Region* – co-chaired by the President of the WBG, the UN Secretary General, and the President of the IDB Group and which took place in October 2015 in Lima during the WBG-IMF Annual Meetings – was an important milestone in convening the international community to recognize the need to provide large scale financial support to the MENA region through innovative financing modalities.** The Roundtable Meeting established a working group, co-chaired by the WBG, the UN and the IDB Group, and with the participation of the G7, Gulf Cooperation Council (GCC) and Northern European countries, as well as several multilateral development banks (MDB) and international organizations. Following on the mandate provided by participants of the Lima

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<sup>1</sup> As with other FIFs at the Bank, these functions will be separate and provided by different units in the World Bank.

Roundtable Meeting, three working group meetings, bringing together 34 different countries and organizations, subsequently took place to develop and finalize the design of the CFF.

**5. The CFF aims to provide much-needed development support to the middle income countries most affected by refugees in the MENA region, with an initial focus on the Syrian crisis as it impacts Jordan and Lebanon.** A number of middle income countries face major development financing needs given the extraordinary costs of conflict and unrest. Middle income countries coping with significant numbers of refugees, such as Jordan and Lebanon, are beneficiaries of large amounts of humanitarian assistance, but do not have access to the medium- and longer-term development assistance required to address the scope of the challenge. Therefore, participants of the working group agreed that, in addition to ongoing development and humanitarian assistance, the international community should scale up its support in the form of more favorable medium- and longer-term development assistance to address the substantial financing needs.

**6. The working group identified various advantages in establishing the CFF, particularly as it creates a sustainable and predictable financing platform for countries in the MENA region, in comparison to ad-hoc bilateral and individual multilateral approaches to the refugee crisis.** Moreover, the CFF provides a clear and tangible example of transcending the humanitarian-development nexus, a key message of the UN Secretary General's 2016 report "One Humanity, Shared Responsibility"<sup>2</sup>. The CFF would have the following key benefits, among others:

- **Bridges the gap between humanitarian and development assistance.** The CFF represents a coordinated response by the international community to the refugee crisis, bringing together the UN and MDBs working in the MENA region through an open platform.
- **Leverages innovative financing modalities to provide development support at more advantageous terms.** This facility would provide MENA countries access to financing at concessional levels to meet their long-term needs;
- **Strengthens the resilience of countries impacted by the refugee crisis, by assisting both host communities and refugees.** CFF financing would benefit operations that target impacted host communities and refugee populations, and would support programs that aim to create sustainable development outcomes.

**7. As a follow up to the Lima Roundtable Meeting and the three working group meetings, the WBG President, the UN Secretary General, and the President of the IDB Group convened participants from 38 countries and organizations for the *International Conference for the New Financing Initiative to Support the MENA Region*, a ministerial-level pledging session.** Eight donors (Canada, the European Commission, Germany, Japan, the Netherlands, Norway, the United Kingdom, and the United States) pledged USD 140 million in grant contributions and USD 1 billion in concessional loans, which will generate additional grant contributions, for Jordan and Lebanon under the CFF. These are initial contributions for the first year, with the clear expectation that similar levels of contributions will be made over the next five years. As was announced by the WBG President at the *Supporting Syria and the Region* conference that took place in London in February 2016, the objective is to raise USD 1 billion in grant contributions over the coming five years for Jordan and Lebanon.

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<sup>2</sup> <http://sgreport.worldhumanitariansummit.org/>

### III. Description of the Concessional Financing Facility

#### A. Purpose of the CFF

**8. The objective of the CFF is to support middle income countries impacted by the influx of refugees through the provision of concessionality to MDB financing and improved coordination.** The focus will be to provide concessionality to operations initially in Jordan and Lebanon, as the countries in the MENA region that have been most impacted by the Syrian refugee crisis at the time of CFF establishment. A decision to broaden the range of eligible countries would require consensus among all “Supporting Countries”<sup>3</sup>. Recognizing the magnitude of the refugee crisis, the CFF will provide flexibility to support various sectors, provided that operations are part of those countries’ development agendas with a demonstrated objective of supporting refugee populations and host communities. Financing may be used to provide concessionality to MDB financing operations that promote the effective delivery of basic services (e.g., education, health), strengthen and develop critical infrastructure, support social protection, promote job creation by expanding opportunities, promote private sector participation, and provide host countries with necessary budget support as it relates to the impacts of the refugee crisis. In exceptional cases (at the request of the Benefitting Country, and where the Steering Committee agrees that the exception is justified), the CFF may also provide funding for grant operations by the implementation support agencies (ISA), which include IBRD, the European Bank for Reconstruction and Development, the European Investment Bank, the IDB Group, and designated UN agencies<sup>4</sup>.

**9. Importantly, the CFF is also expected to improve coordination among partners (Supporting Countries, MDBs, Benefitting Countries, the United Nations, the European Commission, and the IMF) through joint planning and collaborative decision-making at the Steering Committee.**

#### B. Governance Structure and Operations

**10. Operations that receive support from the CFF will need to reflect the following key criteria:**

- i. Demonstrated clear objective of supporting refugee populations and host communities that have been significantly impacted by refugee shocks;
- ii. Part of the Benefitting Country’s development agenda;
- iii. Clear development impact; and
- iv. Project readiness.

**11. Funding requests will be submitted by Benefitting Countries with endorsement of the designated ISA.** For the Bank as an ISA, all types of lending operations would qualify. In exceptional cases, Benefitting Countries could request grant funding to be routed through an ISA. All funds received from the CFF would be used by each ISA in accordance with its own policies and procedures.

**12. The CFF will have a governance structure consistent with well-established FIFs, consisting of a Steering Committee, a Coordination Unit, a Trustee, and Implementation Support Agencies (ISAs).**

**Steering Committee:** The Steering Committee serves as the decision-making body of the CFF and comprises decision-making Members and non-decision-making Observers. Decisions are made by

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<sup>3</sup> Supporting Countries are those who have entered into a Contribution Agreement committing the minimum required amount to the CFF Trust Fund (USD 5 million).

<sup>4</sup> As UN Agencies do not extend loans, CFF funds would be used in these exceptional cases for grant operations that support CFF objectives.

consensus at meetings or by no objection virtually. All decisions are made by the Supporting Countries and the Benefitting Countries, with a few exceptions where conflicts of interest could arise, including the addition of new Benefitting Countries and funding allocations. The Steering Committee is co-chaired by a representative from the Supporting Countries and a representative from the Benefitting Countries.

**Coordination Unit:** The Coordination Unit supports the work of the Steering Committee by serving as a liaison between the Steering Committee, the Trustee, and the ISAs. The Coordination Unit would operate as part of the World Bank under World Bank management and applicable policies and procedures.

**Trustee:** The World Bank would serve as the Trustee for the FIF Trust Fund that supports the CFF. The Trustee administers the FIF Trust Fund for purposes of receiving funds from Supporting Countries and holds those funds in trust under the terms of Contribution Agreements with the Supporting Countries. The Trustee receives grant contributions into the FIF trust fund and provides cash transfers to ISAs for use by them to provide overall financing packages to Benefitting Countries at lower cost. Each financing package (loan plus funds from the CFF) will be disbursed by the ISAs following the disbursement schedules of their respective operations.

**Implementation Support Agencies (ISAs):** IBRD, the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), the IDB Group, and designated UN agencies<sup>5</sup> would participate in the CFF by signing Financial Procedures Agreements with the Trustee, after which they become ISAs eligible to support Funding Requests submitted by Benefitting Countries to the Steering Committee.

### C. Delivering Concessional

**13. Loans from ISAs will be combined with funds from the CFF as part of a coordinated, integrated financing package offered by each ISA to Benefitting Countries for specific projects that meet the aforementioned required criteria.**

**14. A Concessional Spread will ensure a consistent rate reduction among ISAs given the difference in pricing among them.** The Concessional Spread was calculated using the difference between IBRD fixed spread loans and IDA regular rate loans; this spread was approximately 250 bps at the time of its calculation in January 2016.<sup>6</sup> The CFF Coordination Unit will monitor this spread and publish quarterly revisions based on changes in the market interest rate (but not due to changes in IBRD fixed spread loan pricing), if any. Quarterly revisions are proposed to provide increased predictability to ISAs. In implementing CFF-supported operations, the pricing, investment, operational and other policies and procedures of each of the respective ISAs will be followed.

**15. Based on Steering Committee approvals, the trustee will transfer the cash amounts in full tranches upfront to each ISA, that will in turn transfer funds (Concessional Amount funds + Loan funds) for projects to the Benefitting Country at the time of each loan disbursement, on a pro rata basis.** The

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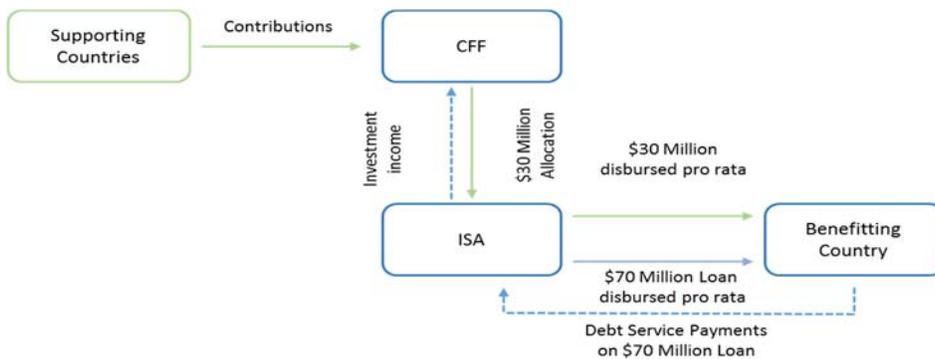
<sup>5</sup> To be coordinated by the UN Multi-Donor Trust Fund Office (MDTF-O)

<sup>6</sup> IDA's regular lending rate was chosen as a benchmark in order to calculate the initial concessional spread since it: i) is the most concessional window that IDA has, responding to Benefitting Country requests, ii) is stable over time, and iii) is well-known, providing a predictable benchmark for development partners, recipient countries and MDBs participating in the CFF. It was also agreed to use the rate for IBRD fixed spread loans and the IDA regular (which is a fixed rate by default) to make sure the two rates were comparable (fixed to fixed). Deriving a concessional level based on a variable rate (IBRD) and a fixed rate (IDA) would not have been feasible.

Benefitting Country will be responsible for repaying the ISA loan on its original terms, but not the Concessionality Amount.

**16. Chart 1 below provides an example of a USD 100 million IBRD operation financed by: i) a USD 70 million IBRD loan, and ii) USD 30 million in cash from the CFF to the IBRD that would be received by the IBRD in a trust fund (as described above), and used to make cash transfers to the Benefitting Country.** The USD 100 million would be disbursed by the ISA following project disbursement schedules. For instance, if there were four disbursement tranches of USD 25 million, each tranche would comprise USD 17.5 million from IBRD and USD 7.5 million from the CFF.

**Chart 1: Funding flow:**



**D. Rationale for the Establishment of a Financial Intermediary Fund to support the CFF**

**17. FIFs are multilateral financial mechanisms that support high-visibility international initiatives, and can accommodate multiple contributors and implementers, relying on their respective policies and procedures for implementation and use of funds transferred by the Bank in its role as trustee.** The use of the FIF structure provides a cost-effective, flexible mechanism for multiple stakeholders to support the initiative, using existing structures and systems in the Bank.

**18. The use of a FIF structure for the CFF has the following principal benefits:**

- Funds transferred to the ISAs will be used by them immediately to make funding commitments to Benefitting Countries at overall concessional levels.
- The proposed governance structure enables coordination among Supporting Countries and Benefitting Countries in the allocation of funds.

**19. An additional feature of the CFF will be the possibility to provide support to Benefitting Countries in the form of grants, through the ISAs, in support of CFF objectives.** This would be available only in exceptional cases, to be decided by consensus of the Steering Committee, i.e., at the request of a Benefitting Country, and where a Benefitting Country justifies the exception and the Steering Committee considers the exception to be justified.

#### IV. Cost Recovery

**20. The FIF will operate on the basis of full cost recovery for the Bank as Trustee and Coordinating Unit.** Costs associated with the Bank's role as ISA are expected to be minimal as the FIF's purpose is simply to provide concessionality to MDB operations, not to carry out any new operations per se.<sup>7</sup>

**21. The World Bank's costs to establish the CFF and provide Trustee and Coordination Unit services for the first 12 months are estimated at USD 300,000 for the Coordination Unit and USD 500,000 for the Trustee services.** Based on initial pledges, these Trustee and Coordination Unit costs are currently estimated to be around 0.5 percent of the contributed amount. As with other FIFs, estimated amounts are deducted from the FIF and reconciled annually based on actual staff time and expenses incurred. For the World Bank as ISA, any additional staff or other costs to process the concessionality amount would be recovered from the CFF.

#### V. Risks and Mitigation Measures

**22. The overall risk to the Bank of the establishment of the FIF has been rated low.** The key risks identified and mitigation measures proposed are as follows:

- ***Risk #1: There is a risk that underlying operations benefitting from concessional support of the CFF may not be implemented rapidly due to countries' approval processes for loans, the fragile operating environment or other reasons, thus delaying disbursement of the Concessionality Amount to the Benefitting Country, combined with expectations that the CFF is accountable for the progress of the underlying operation.*** In order to mitigate this risk, the documentation and communications with stakeholders will make clear that the MENA CFF is accountable for making the terms of ISA operations more favorable, and not for the progress of the underlying project. Additionally, only concessional funding requests for underlying operations that clearly demonstrate the criteria, *inter alia*, of project readiness and are part of the country's development agenda will be considered by the Steering Committee for funding allocations.
- ***Risk #2: Investment losses by ISAs. The ISA holds the undisbursed balances until the loan is fully disbursed, with risk of potential investment losses or losses from currency fluctuations over time.*** The Financial Procedures Agreements between the Trustee and the ISAs will require the ISAs to invest any funds held in accordance with their policies and procedures and exercise the same care and diligence as would be taken with their own resources. ISAs, including the World Bank, are not responsible for making up short falls from investment losses or currency fluctuations as long as they follow their applicable policies and procedures.
- ***Risk #3: The risk that CFF funds are not used for their intended purpose of providing a lower-cost project financing package to Benefitting Countries.*** This will be mitigated through embedding funding from the CFF into the overall financing package for each project and disbursing CFF funding alongside disbursements of the associated ISA project loan. The use of project funds will be closely monitored by each ISA. The ISAs will be required to report on the overall financial impact of the CFF on a project-by-project basis.

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<sup>7</sup> Under the new Bank Directive on Cost Recovery (Section IV), no fee is applied on transfers to other entities within the World Bank Group or on transfers of funds for the purpose of debt reduction of IBRD/IDA loans, credit interest payments, or fees.

**ANNEX 1. RESULTS FRAMEWORK**  
**Concessional Financing Facility Results Framework<sup>8</sup>**

<b>Objective:</b> The objective of the CFF is to support middle income countries impacted by the influx of refugees through the provision of concessionality to MDB financing and improved coordination.			
	Description	Source	Frequency
<p><b>Indicator 1:</b> Amount of grant contributions raised  <u>Baseline:</u> 0 (2016) (<i>initial pledges made in April 2016 of US\$140 million in grant contributions and US\$1 billion in loans that will generate additional grant contributions</i>)  <u>Target:</u> US\$1 billion in grant contributions (2021)</p>	Amount (USD) raised in grant contributions from Supporting Countries for the CFF	CFF Coordination Unit	Annual
<p><b>Indicator 2:</b> Amount allocated by the CFF per year  <u>Baseline:</u> 0  <u>Target:</u> US\$150-200 million (yearly)</p>	Total concessionality amount (USD) approved by the CFF for eligible activities in the Benefiting Countries on a yearly basis	CFF Coordination Unit	Annual
<p><b>Indicator 3:</b> Amount of total MDB financing made on concessional terms from the CFF  <u>Baseline:</u> 0 (2016)  <u>Target:</u> US\$3 billion in concessional MDB financing (2021)</p>	Total amount of MDB financing made on concessional terms due to the CFF for projects addressing the impact of refugees	CFF Coordination Unit based on reporting by Benefiting Countries and ISAs	Annual
<p><b>Indicator 4:</b> Share of respondents from Benefiting Countries, ISAs, and Supporting Countries who indicate that the CFF is making a useful contribution to coordination efforts (yearly)</p>	Percent of respondents indicating that the CFF is making a useful contribution to coordination efforts around donor assistance to address the impact of refugees	CFF Coordination Unit based on responses to Annual Satisfaction Survey	Annual

*N.B. The results of the Underlying Operations in addressing the impact of refugees in the Benefiting Countries will be provided separately for informational purposes.*

<sup>8</sup> Draft pending final review by the CFF Steering Committee