CASE STUDY

Concessional Financing for Refugees and Host Communities in Middle-income Countries

OVERVIEW

As of end 2016, there are 22.5 million refugees around the world[1]. 84% are hosted by developing countries, who need to adapt their infrastructure and social service delivery to meet the needs of the incoming population. Financing this work is challenging. An innovative Concessional Financing Facility spearheaded by the World Bank is helping these countries overcome the challenges of financing refugee assistance and management.

Photo credit: globalcff.org

Background

Jordan and Lebanon have performed a vital global public good by opening their borders to more than two 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 (MDB's) who typically reserve the lowest-cost financing for the world's poorest nations.

Financing Objectives

Reduce the debt burden of Jordan and Lebanon by providing financing at highly concessional terms to help them invest in critically-needed physical and social infrastructure projects that benefit both refugee populations and host communities.

Leverage US$ 3-4 billion in concessional financing with US$1 billion grants.

Financial Solution

On July 28, 2016, a non-bilateral[2] trust fund for concessional financing was established. The Concessional Financing Facility for the Middle East and North Africa (CFF) is a very efficient, clean and cost-effective solution, designed 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 cost for the benefitting countries and transaction and supervision costs for the donors.

1 UNHCR Global Trends – Forced Displacement in 2016 Report
2 non-bilateral: not given from one country directly to another

How Does It Work?

- The Implementation Support Agency (ISA) and the benefitting country teams work on the project details and appraisal. After appraisal, and with an ISA supporting letter, the benefiting country submits a 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 board of executive directors (or equivalent) of the ISA for consideration and approval.
- In parallel, World Bank Treasury Financial Products team, as part of the CFF's coordination unit, works closely with the ISA team and the benefiting country, calculating the amount of funding required to reduce the non-concessional interest rate to concessional terms. The formula computes the difference between the non-concessional and concessional interest rates (called Concessionality Spread: IBRD vs IDA terms) on a net present value basis. The Concessionality 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 ISAs policies and procedures, and the funds are disbursed to the benefitting country by the ISA in line with the ISA's loan disbursement calendar.
- The project is implemented by the benefitting country, and the ISA is responsible for the downstream governance of the project.
- The benefitting country repays the ISA loan on its original terms.

World Bank's role

Created 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 stake holders, including unique legal requirements of each donor country and different pricing and tenure levels of each ISA. It is also flexible enough to adapt to the changes in the markets, pricing levels and financial characteristics of the loan.

Provided just-in-time support for the governments and the ISAs for each project: The World Bank Treasury financial advisor worked with the government and the designated ISA to:

- confirm that the project is benefitting both the refugee and the host communities;
- calculate the concessionality 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 the project's fiscal effects will fit the government's debt profile and financing needs.

Established a mechanism to receive concessional loans to fund the CFF: CFF rules and procedures, favored grants over other types of funding from the donors. But donors, such as UK and Japan, could only commit to highly concessional loans. The World Bank agreed to receive such loans, and through a market transaction, extract the concessionality out of these loans and transfer the funds to the CFF.

Reduced cost to the donors: The World Bank minimized the supervision and transaction cost to the donors due to ISAs leading the implementation with trusted safeguards in place.

Outcome

In September 2016, the Facility was expanded to the global level — Global Concessional Financing Facility (GCFF) — to help middle-income countries address refugee crises wherever they occur. As of June 30, 2017, pledges to the GCFF Trust Fund totaled the equivalent of $372.50 million, of which, signed contribution agreements amounted to $277.50 million. As the GCFF leverages donor resources, each dollar in donor grant unlocks approximately US$4 in concessional loans. As of 2016-2017, GCFF leveraged US$ 1 billion in concessional financing, funding nine projects in Jordan and Lebanon, including transport, wastewater, energy, and health projects.

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 enables the World Bank Treasury Financial Products team to develop innovative new products to help their clients maximize financing and mitigate risk

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