

## **Action Document for EU Trust Fund to be used for the decisions of the Operational Board**

### **1. IDENTIFICATION**

Title/Number	EU contribution to the Concessional Financing Facility for Jordan and Lebanon (CFF)		
Total cost	Total estimated cost: EUR 160 million (grant contributions to the Jordan and Lebanon window of the CFF)  Total amount drawn from the Trust Fund : EUR 5 million		
Aid method / Method of implementation	Indirect management with the World Bank  Contribution agreement with IBRD		
DAC-code	43010	Sector	
		Multisector aid	

### **2. RATIONALE AND CONTEXT**

#### **2.1. Summary of the action and its objectives**

The overall objective of the Concessional Financing Facility (CFF) is to support middle income countries impacted by the influx of refugees and internal displaced persons through the provision of concessional loans provided by multilateral development banks. The CFF is a rather new and innovative financial tool. It is to complement the response the EU provides to the crises into the region in general and the response within Syria in particular.

The CFF complements the MADAD tool box to provide a coherent response to the crises on a regional scale. CFF is a flexible financial tool to respond to emerging needs in various sectors, which are in line with national priorities with regards to supporting refugee populations and host communities.

Selected projects may support vulnerable populations by promoting the effective service delivery of basic services (e.g., education, health), social protection, expanding economic opportunities (e.g., work permits, job creation), or that strengthen and develop critical infrastructure, promote private sector participation, and/or provide host countries with necessary budget support.

The CFF combines grants from supporting countries with loans from multilateral development banks (MDBs), bringing down the interest rate on the loans to highly concessional levels. Therefore, Jordan and Lebanon will have access to the concessional development assistance they urgently need at an affordable rate. This would allow for the Madad contribution to have a multiplier effect. The CFF establishes a sustainable, long-term and predictable financing platform for beneficiary countries. By doing so, it closes the gap between multi-year and medium term financing typically associated with development and the emergency humanitarian interventions.

The World Bank serves 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 Contributing Agreements with the Supporting Countries. The Trustee receives grant contributions into the FIF Trust Fund and provides an amount of concessional funding to the Implementing Support Agencies (among which the world Bank itself and EBRD), which is calculated on the basis of the financing conditions of the loans normally provided by the ISA concerned to the Benefitting Countries. This amount is used by the ISA to create an integrated financing package for the Benefitting Countries composed of:

- a loan following the usual term of the loans provided by the concerned ISA (which is repaid by the Benefitting Country to the ISA);
- an amount in cash, corresponding to the concessionality amount provided by the FIF to the ISA and being transferred on a pro rata basis together with the loan portions (which is not repaid).

Each financing package (loan plus fund from the CFF) will be disbursed by the ISAs following the disbursement schedules of their respective operations.

In August 2016, the World Bank submitted to members of the Steering Committee the proposal to extend the scope of the CFF. These amendments were adopted as of 8 September 2016. Therefore the CFF now has a global scope and may apply to any refugee crisis in the world. The EU Regional Trust Fund in response to the Syrian crisis, the 'Madad Fund', through the European Commission, received assurances that its pledged contribution of €5 million will remain ring-fenced for Jordan and Lebanon. The objective is therefore to provide concessionality to operations in Jordan and Lebanon, as countries in the MENA region that have been most impacted by the Syrian refugee crisis at the time of CFF establishment.

In order to contribute to the FIF, the European Commission had to create a particular legal structure because, for the time being, the rules regulating the FIF are not completely in line with the legal framework under which Madad EUTF operates. This legal structure has taken the form of the contribution agreement with EBRD already signed by the Bank the 4<sup>th</sup> of October.

Therefore, the rules of the Fund will be complemented by a bilateral arrangement between the European Commission and EBRD, as ISA. By this bilateral arrangement, the European Commission will include in the contractual agreement, and in relation to EBRD only, some additional provisions concerning, for example, the verification of the use of the Madad EUTF contribution. In light of this bilateral arrangement, the Madad EUTF contribution will be channelled to the European Bank for Reconstruction and Development (EBRD) using the notional approach. By using this approach, the Commission, as representative of the Madad EUTF, is allowed to participate in Multi-donor Trust Funds, where not all expenditures would be eligible according to the European Commission rules, by verifying that there is enough expenditure implemented in accordance with the European Commission's rules to justify the European Commission contribution. The amount of the Madad EUTF contribution will be covered by the projects implemented by EBRD.

This structure will be applicable to the Madad EUTF contribution to the FIF temporarily, until other more efficient solution will be in place.

## 2.2. Context

### 2.2.1. Context

Conflicts across the Middle East and North Africa (MENA) have created a severe forced displacement crisis with regional and global implications.

- Over 15 million refugees and internally displaced persons (IDPs) have flooded across the MENA region. In Lebanon, Syrian refugees represent 25% of the total population; in Jordan, they represent about 15%;
- The refugee crisis is a major economic and social shock to hosting countries who are providing a global public good. Host countries are providing “asylum space” and public services to this vulnerable population, in areas such as education, health, water and waste management;
- The situation 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 – such as food aid, temporary shelter, and basic access to services – 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 financing is needed.

**Middle-income countries in the MENA region face a major development financing gap** given the costs of providing basic services to refugee populations. Many of the countries in the region, such as Jordan and Lebanon, are middle-income, and thus do not have access to development financing at concessional terms, similar to the terms provided by World Bank IDA financing. In addition to ongoing humanitarian and development assistance, these countries need to be able to borrow on concessional terms for critical investments that will enable them to continue to effectively host and provide basic public services to the refugee population while at the same time preserving development gains for their own populations.

This is also expected to exacerbate the implementation of the Compacts for Lebanon and Jordan. As part of the revised European Neighbourhood policy, Partnership Priorities for Lebanon and Jordan were defined including a 'Compact' adopted by the European Council defining commitments in facing the impact of the Syria crisis. In Lebanon, the Compact is expected to ensure an appropriate and safe environment for refugees from Syria, while in Jordan, the Compact is expected to create employment for both Jordanians and Syrians by stimulating investments in Jordan and increasing exports to the EU.

**Therefore, there is an urgent need for additional and complementary financing:**

- There is a significant need for international assistance to finance critical investments to safeguard the development gains – human, social and economic capital – of both host countries and refugee communities.

- Today the needs of impacted countries far exceed the financing provided. Jordan estimates its financing gap for 2016-2018 to be \$8.25 billion. This year's Regional Refugee and Resilience Plan (3RP) estimated that \$5.8 billion is needed for the refugee-hosting countries (with the majority needed in Lebanon and Jordan). However, if past funding levels are an indication, no more than 50% of the funding is expected to be available.

### 2.3. Lessons learnt

International development finance for refugees has been constrained by the nature of available financing instruments. The forced displacement crisis is in urgent need of financing instruments that can respond to its sub-regional and global implications. The unfolding crisis in MENA shows that events in origin countries, countries of first asylum, and eventual destination countries are intrinsically linked.

Through responses to other global challenges, such as climate change and the fight against communicable diseases, key lessons could be directly applicable to the refugee crisis. For instance, blending loans and grant funding to increase overall concessionality can be critical in designing effective financing approaches aimed at linking humanitarian to development interventions.

### 2.4. Complementary actions

The EU Regional Trust Fund in response to the Syrian crisis, the 'Madad Fund', aims to bring a more coherent and integrated EU response to the crisis by merging various EU financial instruments and contributions from Member States into one single flexible and quick mechanism. The Madad EUTF primarily addresses longer term resilience needs of Syrian refugees in neighbouring countries, as well as the hosting communities and their administrations – humanitarian aid being provided directly by ECHO.

Thanks to the Madad EUTF contribution of €5 million to the CFF, the European Union, through the European Commission, is now in the Steering Committee of the CFF and the World Bank is an observer to the Madad EUTF Board.

### 2.5. Donor co-ordination

The Madad Trust Fund Management is in the lead in order to ensure coordination with MS contributing to the fund.

The CFF **is expected to improve coordination amongst partners** (supporting countries, MDBs, benefitting countries, the United Nations, European Commission, IMF, etc.) through joint planning and collaborative decision-making at the Steering Committee.

## INTERNATIONAL

The European Commission regular hosts meetings of the Core donor group on Syria, which unite the key bilateral donors to the Syrian crisis in the field of resilience and recovery funding.

## REGIONAL

At a broader level the EU is actively contributing to overall donor co-ordination under the auspices of the United Nations in the framework of the 3RP that integrates humanitarian, development and macro-fiscal interventions to increase coherence between humanitarian and development and national and regional priorities.

## COUNTRY

EU Delegations are leading coordination with EU Member States and respond to the coordination platforms established for the various National Response Plans to the refugee crisis.

### 3. DETAILED DESCRIPTION

#### 3.1. Objectives

The **Overall Objective** of the action is to support alternative finance sources for crisis affected countries such as Jordan and Lebanon..

Its **Specific Objectives** are to:

- to scale up development support at more advantageous terms by leveraging innovative financing modalities;
- to strengthen the resilience of Jordan and Lebanon by assisting host communities and refugees;
- to support programs and policy reforms in areas such as education, health, and job creation to create sustainable development outcomes.

#### 3.2. Expected results and main activities

The **expected results** are:

- Jordan and Lebanon have access to increased volumes of financing at concessional levels to meet their long-term needs and prevent increasing their debt burden in the short-term.
- A coordinated response by the international community to provide concessional financing through various MDBs and United Nations agencies operating in the MENA region.
- Increased EU visibility with partners across the region through its participation to the CFF.

Operations that receive support from the CFF are subject to the following selection criteria:

- Clear and appropriate objectives to support refugee population and host communities in Jordan and Lebanon;
- Priorities of Jordan or Lebanon response plans;
- Clear and tangible impact of the project; and

- Project readiness.

Funding requests will be submitted by Jordanian or Lebanese government with endorsement of the designated ISA. For the Bank as an ISA, all types of lending operations would qualify.

### **3.3. Risks and assumptions**

The key risks identified and mitigation measures proposed are as follows:

- There is a risk that projects 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 project. In order to mitigate this risk, the documentation and communications with stakeholders will make clear that the CFF is accountable for making the terms of ISA operations more favourable, and not for the progress of the 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;
- Investment losses by the ISA. 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 ISA will require the ISA to invest any funds held in accordance with its 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;
- 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 ISA project loan. The use of project funds will be closely monitored by ISA. ISA will be required to report on the overall financial impact of the CFF on a project-by-project basis as foreseen in its Operational Manual;
- There is a hypothetical risk that EBRD will not be awarded by the Steering Committee projects covering the full amount of the EUTF contribution. However, already USD 2 million have approved by the CFF in July 2016 for the EBRD's Ain Ghazal project. Given the foreseen duration of the fund, it is reasonable to assume that EBRD will receive funding for at least EUR 5 million;
- There is a risk of over-indebtedness of beneficiary countries. This will be mitigated by ensuring that projects funded through this action will benefit from the most favourable degree of concessionality;
- There is a risk that the same project be submitted concomitantly to the CFF, and to the Madad. In order to mitigate this risk, the European commission through its

financial participation to the CFF is part of the governance structure of the fund, and the World Bank is attending Board meetings of the Madad as an observer. This will ensure exchange of information and pipelines and avoid double-funding issues.

### 3.4. Cross-cutting issues

The European Commission has committed to move towards a Rights-Based Approach in its development cooperation and external financial assistance through the adoption of Council Conclusions on 19 May 2014 welcoming the adoption of the Commission Staff working document "Tool-Box A Rights-Based Approach, Encompassing All Human Rights for EU Development Cooperation". Therefore, actions funded through the EU contribution will have to take into account EU policy objectives in terms of protection of human rights, e.g. by making sure adequate safeguards are in place in the implementation process.

### 3.5. Stakeholders

#### CFF status of pledges and contributions as of 15 September 2016:



Concessional Financing Facility  
Status of Pledges and Contributions as at 10 October 2016  
(in millions)

Contributor	Currency	Pledged		Signed Contribution (in currency of contribution)					Total		Lebanon / Jordan
		Amount	USDeq a/	Window				Total	Total (USDeq a/)		
				Global	Lebanon / Jordan	Jordan	Lebanon				
Canada	CAD	20.0	15.1	-	-	-	-	-	-	-	-
Denmark	DKK	100.0	15.0	-	-	-	-	-	-	-	-
European Commission	EUR	5.0	5.6	-	-	-	-	-	-	-	-
Germany	EUR	20.0	22.3	-	20.0	-	-	20.0	22.3	6.1	-
Japan b/	USD	110.0	110.0	-	50.0	-	-	50.0	50.0	10.0	-
Japan	JPY	d/	-	-	-	-	-	-	-	-	-
Netherlands	EUR	25.0	27.9	-	10.0	-	15.0	25.0	27.9	-	-
Norway	NOK	82.0	10.1	-	82.0	-	-	82.0	10.1	8.2	-
Sweden	SEK	180.0	20.8	-	-	-	-	-	-	-	-
United Kingdom b/	USD	40.3	40.3	-	-	40.3	-	40.3	40.3	-	-
United States	USD	75.0	75.0	-	-	25.0	-	25.0	25.0	-	-
<b>Total</b>			<b>342.1</b>					<b>175.7</b>		<b>24.3</b>	

a/ using exchange rates as at 10 October 2016

b/ grant amounts only are reported

c/ represents actual USD receipt

d/ Japan pledged to provide JPY 100bn in additional concessional loans that may be used by IBRD to generate additional grant contribution amounts.

#### Governance of the CFF:

The CFF has 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 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 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.

**Estimated costs of Trustee services and Coordination Unit as of 28 July 2016:**

**Table 1: FY17 Trustee estimated costs and expenses (USD)**

<b>Trustee Services</b>	<b>USD</b>
Financial and Trustee Management	130,000
Accounting	100,000
Legal Services	115,000
Investment Management*	50,000
<b>TOTAL</b>	<b>395,000</b>
Note: Estimates include all overhead costs and will be adjusted based on actual costs incurred	
*fixed fee of 3.5bps on the average annual balance in the trust fund	

**Table 2: FY17 Coordination Unit estimated costs and expenses (USD)**



<b>Coordination Unit Services</b>	<b>USD</b>
Program Management (Coordination Unit)	220,000
<i>Legal Services</i>	<i>83,000</i>
<i>Treasury Services</i>	<i>68,000</i>
<i>Coordination and Administration</i>	<i>89,000</i>
Travel	120,000
Contractual Services and Meetings	20,000
<b>TOTAL</b>	<b>380,000</b>
<b>Note:</b> estimates include all overhead costs and will be adjusted based on actual costs incurred.	

#### **4. IMPLEMENTATION ISSUES**

##### **4.1. Financing agreement, if relevant**

In order to implement this action, it is not foreseen to conclude a financing agreement with the partner country, referred to in Article 184(2)(b) of Regulation (EU, Euratom) No 966/2012.

##### **4.2. Indicative operational implementation period**

The indicative implementation period of the action is 24 months. Moreover, the latest date for implementation is 15 December 2019, the end of the legal duration of the EUTF.

##### **4.3. Implementation components and modules**

This action will be implemented through indirect management with the World Bank CFF.

A contribution agreement signed between the European Union, represented by the European Commission, and the International Bank for Reconstruction and Development, acting as Trustee of the World Bank Trust Fund supporting the Concessional Financing Facility (MTO 069029)

##### **4.4. Indicative budget**

<b>Component</b>	<b>Amount in EUR thousands</b>
Indirect management Contribution to the International Bank for Reconstruction and Development (CFFT)	<b>5,000,000</b>

\* Communication and visibility funds will be included in the various components Performance monitoring

## **4.5 Performance monitoring**

Monitoring shall be ensured primarily through EU Delegations in-country and in particular with the assistance of specific Trust Fund field & liaison officers posted within the EU Delegations. In addition, the EU Trust Fund is planning to launch an independent M&E exercise to accompany all Fund programmes and ensure that targets are met and lessons learnt can be incorporated into other EUTF actions. This will be covered through a separate Action Fiche 'External Monitoring and evaluation for the EUTF in Response to the Syrian and Iraq Crisis, the Madad fund (Regional)'.

The purpose of the Madad EUTF Monitoring and Evaluation Framework would be to assess, across various levels, the degree to which the Overall Objective of the Trust Fund has been achieved.

The Madad Trust Fund M&E Framework will assess the effective delivery of programmes, contribute to improved project design, and develop a knowledge base of 'what works' to allow for continuous improvement of aid delivery. Above all and in the spirit of the Agenda for Change, the Madad Trust Fund M&E Framework aims to ensure upward and downward accountability and transparency of EU support towards the Madad Trust Fund Board and end beneficiaries, respectively.

The Trust Fund and actions financed by it are subject to the monitoring and evaluation rules applicable to EU external programmes, in order to ensure the respect of the principles of economy, efficiency and effectiveness, as per Article 13 of the Agreement Establishing the Madad Trust Fund.

## **4.6 Evaluation and audit**

Projects shall carry out an obligatory final evaluation, and one external audit per year. Whenever possible, evaluations will be jointly carried out by partners. This will also contribute to harmonise further and higher education support to Syrian refugees and to the host countries in the region, in order to make technical co-operation more effective in line with current EU guidelines.<sup>1</sup>

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audits or expenditure verification assignments for one or several contracts.

## **4.7 Communication and visibility**

While communication and visibility of the EU is a legal obligation for all external actions funded by the EU, to date the visibility of the EU's support to the Syrian crisis, in particular in neighbouring countries affected by the crisis, has been insufficient. The public perception is that the EU is not addressing the Syrian crisis, when in fact it is the largest donor. The lack of visibility to the EU's actions weakens the EU's political traction in the region and its standing in Europe.

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<sup>1</sup> EC Guidelines No. 3, *Making Technical Co-operation More Effective*, March 2009.

Therefore, communication and visibility is an important part of all Madad Fund programmes factored into the implementation in order to underline its importance at all stages of the planning and implementation of the Programme.

All visibility actions by Madad Fund implementing partners outside areas of conflict should be stepped up. Each implementer will have to draw up a comprehensive visibility and communication plan for their respective target country/community and submit a copy for approval to the Madad Fund and relevant EU Delegation. The related costs will be covered by the budgets of the contract as part of the project.

The measures shall be implemented by the implementing consortium/ia, its contractors, and/or its grant beneficiaries. Appropriate contractual obligations shall be included in, respectively, procurement and grant contracts.

The Communication and Visibility Manual for European Union External Action together with specific requirements to highlight the Madad Trust Fund shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations.