

A World Bank Facility makes funding affordable for countries hosting refugees

The **Global Concessional Financing Facility (GCFF)** funds projects for refugees in middle-income countries. The World Bank Treasury helped create the Facility's financial framework that provides a low-cost and streamlined financial and administrative solution for all stakeholders.

Background

When countries get a sudden influx of refugees, they struggle to expand their infrastructure and social services to accommodate the new population. However, mobilizing financing for such expansions is not easy for middle-income countries (MICs), as they don't have access to concessional loans reserved for the poorest nations.

To assist MICs financially through such crises, the international donor community and Multilateral Development Banks (MDBs) typically provide low-cost financing by establishing trust funds. These trust funds lower the cost of borrowing by using donor grants alongside MDB loans.

Yet, this trust fund option had several drawbacks to the objectives set by stakeholders. (i) The cost of administering trust funds, as high as 4 percent, reduces the net funds available for the project. (ii) The separate disbursement of grants and loans prevents true-blending of financial resources and creates accounting challenges.

Another option would be for the donor to give bilateral grants to the beneficiary directly. But this increases costs for the donor, as it requires the donor to oversee the implementation process in the beneficiary country.

In 2016, in partnership with four other MDBs, the World Bank established the GCFF as a low-cost, straightforward, and robust solution for lending to MICs that host refugees.



Photo Credit: GCFF

GCFF Financial Objectives

- Provide the lowest possible cost to all stakeholders while accommodating donor and MDB constraints
- Achieve a streamlined, robust, and equitable financial structure with a single flow of funds through one financial institution (for both grant and loan in one single disbursement)
- Adapt to market conditions and the changing financial landscape

Financial Solution

GCFF provides financing at the lowest possible cost to the beneficiary. The donor grant received by the GCFF is used to bring the regular pricing level of the MDB down to the concessional level (the lowest possible financial cost) for that particular beneficiary. To that end, the GCFF uses a **unique formula** for defining the concessionality in the funding amount.¹

The low-cost loan is treated just like any other loan of the partnering MDB. For example, in the case of the IBRD, the beneficiary can fully customize the terms and conditions in line with any other [IBRD Flexible Loan](#).

¹ To determine the amount of donor contributions for a project, each MDB starts by calculating the 'concessionality spread.' This spread is the difference between a fixed market reference rate and the variable spread of the MDB (for 18–20-year Average Repayment Maturity), minus the IDA (International Development Association) rate. The concessionality amount for a given loan is calculated by applying the concessionality spread on the MDB loan amount. This

result is capped at the maximum percentage of concessionality—it cannot be higher than the IDA concessionality percentage. The spread is calculated every quarter by the World Bank Treasury. The formula accommodates concessional loans in addition to the grants in line with the lending policies and legal requirements of each donor country.

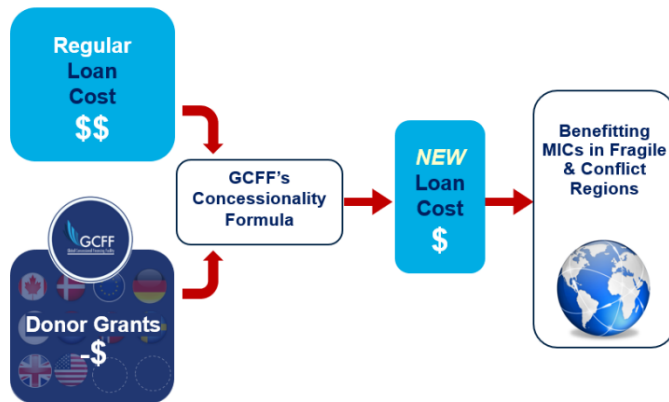


Figure 1: The donor grants are used to bring the MDBs' regular pricing levels down to concessional levels, using a Concessionality Formula.

As an additional cost-saving, GCFF's structure **reduces the administrative cost** by leveraging the MDB employees to manage the GCFF, who only allocate hourly charges as needed (administrative costs for GCFF are 1.5 percent on average as opposed to 4 percent for trust funds). As a result, a more significant percentage of the donor funds is devoted to supporting the project rather than its administration.

GCFF lowers the operational cost for the donors as MDBs integrate GCFF projects into their own loan operations with the same oversight procedures. This eliminates the need for the donors to have ground operations for managing fund disbursement and monitoring the project.

GCFF achieves a single flow of funds.

Unlike the trust fund mechanisms, under the GCFF, the MDB simultaneously disburses both the loan and grant amount. The simultaneous disbursement reduces transaction and monitoring costs since GCFF grants are truly blended with the MDB loans, benefitting from the same MDB infrastructure.

GCFF adapts to changing financial landscape.

In 2021, the GCFF was extended for five more years (GCFF II). Its dynamic financial framework allows it to expand to cover more fragile and conflict regions and welcome more MDBs and donors. The financial formula was adjusted to transition away from LIBOR to new reference rates. Also, the formula was made more equitable to accommodate for shorter maturity terms.

World Bank Treasury's Role

- The Treasury team spearheaded the development and approval of GCFF's financial framework. This required close collaboration and knowledge sharing with internal stakeholders, such as the World Bank Group Finance and Accounting (WFA), Fragility, Conflict & Violence General Practice, and Legal Vice Presidency, Development Finance, country teams; as well as external stakeholders such as the donors, partner-MDBs and numerous institutions of the benefitting countries (incl. governments, central banks, state-owned enterprises).
- The team created and improved a unique formula for calculating the concessionality and revised the formula in line with the changing financial landscape and lessons learned.
- The team established an innovative mechanism (i) to receive concessional loans in addition to the grants and (ii) to make room for the lending policies and legal requirements of each donor country.
- The team provided just-in-time support for the governments and the partner-MDBs for each project. Since 2016, the team has supported GCFF concessionality calculations for 20 projects, leveraging more than USD 5.5 billion in concessional financing from different MDBs through USD 750 million of GCFF financing.

Outcome

Extended to 2026, the GCFF continues to help MICs in fragile and conflict regions to borrow at concessional levels. On May 9, 2022, Moldova joined the ranks of previous beneficiaries: Colombia, Ecuador, Jordan, and Lebanon. The financial framework is appropriately dynamic to accommodate qualifying beneficiaries due to the recent refugee crisis in Europe.

Given the straightforward, robust, and equitable structure of GCFF, the Inter-American Development Bank joined the five original MDBs. Following the success of GCFF, other facilities, such as the Global Public Goods Window, the International Finance Facility for Education (IFFed), and the Global Risk Financing Facility, have been modeled after the same financial framework as established by the World Bank Treasury team.