

Report

# Enhancing aid architecture in the regional response to the Syria crisis

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February 2016



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ISSN: 2052-7209

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# Acknowledgements

This Policy Note was commissioned by the UNDP RBAS Sub-regional Response Facility for the Syria Crisis. The authors would like to thank the colleagues of the UNHCR-UNDP Joint Secretariat as well as Mr. Franke Toornstra, for their support in the production of this Policy Note. The authors would also like to thank ODI colleagues Christina Bennett and Romily Greenhill for invaluable contributions and support.

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# Background

As the conflict in Syria continues, its political, security, economic and social spill-over effects have intensified across the Middle East and beyond. The flow of refugees from Syria to its neighbours – Egypt, Iraq, Jordan, Lebanon and Turkey – has increased rapidly, with 4.28 million people registered in these five countries.<sup>1</sup> The generosity of these refugee-hosting governments and their citizens has been extraordinary: in Lebanon and Jordan, refugees from Syria account for one in four and one in ten of the population respectively.<sup>2</sup> As evidenced in the surge of refugees seeking asylum in Europe this year, and as repeatedly highlighted in international fora, ensuring adequate protection and assistance for what is becoming the world's largest refugee population is beyond both the capacity and the responsibility of countries in the immediate region – it is a global challenge to be addressed collectively by the international community.

Looking ahead, medium term prospects for Syria and its people are bleak. There is little indication that a solution to the conflict is imminent or that the situation on the ground may improve in the near future. UN-supported political negotiations have yet to make major progress and face huge challenges given the differing agendas of the conflict parties. Meanwhile, the Syrian regime's military offensive continues and armed opposition groups have proliferated. Most critically it is the civilian population that continues to suffer most in this conflict: more than 3,000 people were killed between September and November 2015 according to the Syrian Observatory for Human Rights, and thousands more have fled their homes in search of safety outside the country (according to the UN High Commissioner for Refugees (UNHCR), more than 500,000 refugees were registered in host countries between September and December 2015). Many refugees in the region also face challenges in relation to their security and status, have limited access to livelihoods and, in some cases, inadequate access to key services. While the majority of Syria's displaced indicate that they intend to go home as soon as conditions allow, the working assumption in this

Policy Note is that large-scale returns are unlikely within the next 3–5 years.

To date, the response on the ground has been overwhelmingly focused on meeting immediate needs. Much of the support has come from host governments and communities. In addition, over US\$7 billion<sup>3</sup> has been provided by international donors to support emergency programmes in protection, food security, health and education. While much progress has been made, such short-term efforts are inadequate and inappropriate given the protracted nature of this displacement crisis. The UNHCR cash assistance program and the WFP food voucher program both have the potential to improve the welfare of refugees in Jordan and Lebanon, but are limited by budget constraints that prevent comprehensive and longer term poverty reduction. The Regional Refugee and Resilience Plan 2015–16 (3RP) is intended to address both the humanitarian and the longer-term socio-economic impact of the crisis, enhance national ownership and facilitate multi-year, cost-effective programming. As 2015 ends, however, there remain huge challenges in addressing the medium-term priorities of affected populations and in protecting host countries' long-term development gains. These challenges relate, at least in part, to the increasing demands on donor resources made by the high number of protracted displacement crises elsewhere: according to UNHCR, 2014 saw the highest number of displaced people worldwide ever recorded, with an estimated 12.9m refugees in protracted displacement.<sup>4</sup> As noted by international and national stakeholders, the current international aid architecture is not fit for purpose (DSRA, 2015; RDE, 2015). Notwithstanding improvements made through the 3RP, particularly with the integration of a multiyear resilience component, the overall response to refugees is too short-term, externally driven and financially unsustainable. While there will remain a need to maintain humanitarian support to address the immediate and acute needs of refugees, such support needs to be part of an integrated strategy that combines

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1 <http://data.unhcr.org/syrianrefugees/regional.php>.

2 Ibid.

3 Data from the UN Financial Tracking Service – as at 1 December 2015 – <https://fts.unocha.org>.

4 The ten countries are Syria, Colombia, Iraq, Pakistan, Sudan, the Democratic Republic of Congo (DRC), Jordan, Turkey, Palestine and South Sudan (Crawford et al., 2015: 1).

short-term emergency response with more sustainable medium-to-long-term approaches and funds. Moreover, the traditional international aid architecture and mechanisms being utilised are primarily designed for less developed countries and are not appropriate for Middle Income Countries (MICs) such as Jordan and Lebanon. Pre-crisis aid<sup>5</sup> flows to these and other affected countries were not a significant proportion of national income.<sup>6</sup> Development donors have also traditionally aligned their aid with geopolitical or strategic interests in the region, resulting in disproportionate allocations of aid.<sup>7</sup> There is also a disconnect between national public investments and donor investments, with development funding largely earmarked against donors' sectoral preferences, thereby limiting flexibility to adjust allocations to the evolving priorities of host governments and affected populations.

Reflecting on relevant experiences from protracted displacement crises elsewhere, and current debates in the region, this Policy Note outlines a simplified but strategic approach to enhancing the aid architecture for the region, enabling flexibility in country-level implementation and responsiveness to conditions on the ground. It suggests a new partnership agreement between key stakeholders and a series of practical options with regard to financing mechanisms, coordination arrangements and the tracking and monitoring of aid (including some new options, and some already under consideration) that could help expand the range of modalities currently being used. It emphasises the need for focused and timely action for refugees, while recognising the need to maintain a simultaneous focus on both acute needs and medium term livelihood support for the foreseeable future.

The Policy Note is based on a rapid desk study of the basic information and data available. It also draws on ODI's extensive experience and analysis of humanitarian and development aid architecture in other contexts over several decades. This Policy Note is not intended as a detailed analysis of the current aid architecture, nor is it a comprehensive plan of action for the regional response. It is focused, for pragmatic reasons, on identifying a possible new overall framework and possible additional options for enhancing the aid architecture in Jordan and Lebanon, although the ideas and principles outlined here are relevant for other major refugee-hosting countries as well. Finally, this Policy Note draws upon and is intended to support on-going processes in the region that are aimed at building an aid architecture that best fits the contextual realities of this complex regional crisis. Key in this regard are the Resilience Development Forum (RDF),<sup>8</sup> held in November 2015 under the framework of the 3RP, and its outcome document, the Dead Sea Resilience Agenda (DSRA), and international finance initiatives such as that agreed in October by the UN Secretary-General and the presidents of the Islamic Development Bank and the World Bank.<sup>9</sup>

The next section makes the case for a new overall framework. This goes beyond traditional aid architecture issues to tackle some of the fundamental structural barriers to an effective medium-term response to this protracted crisis. The subsequent section turns the focus back on traditional aid architecture issues and sets out a range of potential options to improve the effectiveness of external support (including both aid and non-concessional lending), looking in particular at how to accelerate the disbursement of these resources and maximise their long-term impact.

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5 Unless otherwise stated, aid figures in this paper refer to net Official Development Assistance disbursements as defined by the OECD Development Assistance Committee (DAC). Aid figures do not therefore include non-concessional finance (from IBRD, EIB etc.). In 2013 net flows of non-concessional finance to Lebanon and Jordan were equivalent to only 20% of aid flows in each country. In Lebanon net non-concessional flows were negative as Lebanon was repaying more of its old loans than it was receiving in new loans. Source: OECD DAC and World Bank Debt Database.

6 In 2010, no country received more than 4% of gross national income in aid – Jordan was highest, at 3.6%. Most were 1% or less (Lebanon 1.2%, Egypt 0.3% and Turkey 0.1%). While Iraq had received very high levels in the past, by 2010 the aid ratio had fallen to 1.5% (and fell to 0.7% by 2013). Source: OECD DAC.

7 For example, although Jordan and Lebanon are Upper Middle Income Countries in 2010 they both received ten times more aid (as a percentage of gross income) than the two Lower Middle Income Countries in the region (Egypt and Syria). While Turkey has a similar level of income per capita as Lebanon, it received ten times less aid. Source: OECD DAC.

8 Hosted by the government of Jordan and involving national-level preparatory consultations, the RDF brought together the five refugee hosting governments in the region, international donors, multilateral systems, the private sector and civil society representatives. See <http://www.resilience-forum.org>.

9 See World Bank press release at <http://www.worldbank.org/en/news/press-release/2015/10/10/new-joint-initiative-to-mobilize-additional-support-for-refugees-in-the-middle-east-and-north-africa>.

## Box 1: International Refugee Law

The right to seek asylum is a basic tenet of international human rights law, enshrined in the Universal Declaration of Human Rights.\* A refugee is a person whose right to asylum, on the basis of a well-founded fear of persecution for reasons of race, religion, nationality, membership of a particular social group or political opinion, has been determined. International refugee law confers a range of obligations on states, as the primary duty-bearers, in regard to the provision of international protection and assistance for refugees. Specifically, the 1951 Convention relating to the Status of Refugees and its 1967 Protocol obliges states to guarantee a range of refugee rights, including the right to work and access to education, housing and the judicial system, and protects them from punishment for entering a country illegally. The principle that a refugee cannot be returned to a country where they have reason to fear persecution (*'non-refoulement'*) is a norm of customary international law and therefore binding on all states irrespective of whether they are State Parties to the Convention.\*\*, \*\*\*

Article 14 (i).

*\*\*Article 33 (1) of the 1951 Convention provides that 'No Contracting State shall expel or return ("refouler") a refugee in any manner whatsoever to the frontiers of territories where his life or freedom would be threatened on account of his race, religion, nationality, membership of a particular social group or political opinion.'*

*\*\*\*Jordan and Lebanon are not currently signatories to the 1951 Convention. They have however consistently referred to Syrians as 'refugees', and according to UNHCR both continue to provide safe haven, though the protection space is fragile.*

## Box 2: Lessons learnt from protracted displacement crises

The number of affected people (refugees and host communities) in this crisis and the sheer scale and scope of their collective needs present unique challenges. These challenges are compounded by pre-existing political and socio-economic conditions in host countries and the wider security and economic impact of the Syrian conflict on its neighbours. However, recent and historical experiences of protracted displacement in the region and elsewhere offer relevant lessons for enhancing the current aid architecture. Key lessons distilled from the wealth of available analysis include:\*

A consolidated shift from emergency response to building the resilience of individuals, communities, authorities and systems is crucial to ensuring a more sustainable, effective and rights-based response.

Supporting national and local ownership and leadership of the response can improve cost-effectiveness, facilitate greater sustainability and support wider good governance objectives.\*\*

Augmenting the technical, human, financial and infrastructural capacities of local government can help frontline responders withstand strains on local services and maintain quality and equitable access for affected populations.

Harnessing the human capital – in economic, social, intellectual and cultural terms – that refugees bring to host countries and communities requires enabling enjoyment of their full range of rights guaranteed under international law.\*\*\*

Investment in the capacities of refugees individually and collectively during displacement can enable them to more effectively contribute to the rebuilding of their home country as and when return becomes appropriate and desirable.

*\*See for example UNDG (2014); Guterres (2015); Crawford et al. (2015); IDMC (2015); World Bank (2010); RSC (2013); Aleinikoff (2015).*

*\*\*OECD DAC member countries have made a series of commitments in recent years to support national leadership and ownership of aid responses, including in the Busan Partnership for Effective Aid Cooperation (2011) and the Accra Agenda for Action (2008). Similar discussions are ongoing with respect to humanitarian donorship, including in preparation for the World Humanitarian Summit in 2016.*

*\*\*\*See for example Guterres (2015a) and forthcoming UNDP Guidance on Migration and Displacement.*



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# Overall framework: beyond aid architecture

## The 'Grand Accord': a medium-term Partnership Programme Agreement (PPA) for affected populations

A formal, medium-term (3–5 year) trilateral agreement between the major donor countries and the EU and other regional bodies, refugee-hosting countries in the region and international organisations/agencies (UN; International Financial Institutions (IFIs), regional development funds) is proposed to help build an overarching framework that is more appropriate and effective in the current context. The agreement would focus on a clear understanding of the resources available from international and national stakeholders, and how these resources could be better allocated against priorities identified by affected communities and host country authorities, and agreed with international partners. The outline below provides an overall framework at regional level that can be adapted for mutual, context-specific agreements at country level. Key principles underpinning the agreement are:

- *Global public good:* As articulated by UNHCR, international refugee protection is predicated on the concept of solidarity and burden-sharing between states. Host countries in the region have been bearing the brunt of the impact of this protracted refugee crisis and cannot be expected to continue to do so alone – all states have a shared responsibility to ensure the protection, including assistance, of refugees from Syria.
- *Value for money:* Securing greater cost-effectiveness is essential given the limited resources available, and requires providing adequate support for those refugees who choose to remain in the region (the cost

of resettlement in OECD countries, for example, is 8–20 times that of supporting refugees in the region<sup>10</sup>). Greater cost-effectiveness also requires ensuring smart investments in host countries that leave a long-term development legacy and enable self-replenishing financing.

- *Collective accountability for shared results:* Accountability is required at multiple levels from international and national stakeholders: first and foremost, from all stakeholders to affected populations, including ensuring that they determine national and local priorities; to and from national and local authorities in their leadership of the aid response; from bilateral donors to funding recipients, as well as to their domestic constituents/taxpayers; from international organisations and multilateral institutions, including the UN, IFIs, regional development funds and NGOs, to their donors and national and local partners.
- *Transparency:* As articulated in the Busan commitments, 'transparent practices form the basis for enhanced accountability' (OECD-DAC, 2011:3). Transparency involves a commitment from all stakeholders regarding increased openness, timeliness and accuracy of information on aid commitments, improved fiscal transparency and independent monitoring and evaluation.

Each of the parties to the agreement would be obliged to make formal commitments that are actionable and tracked over time. The commitments suggested below include both new actions and those that have been previously agreed but not yet fulfilled (including as part of the DSRA).

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<sup>10</sup> According to press reports refugees arriving in OECD countries cost between US\$13,000 and US\$44,000 per person per year to resettle. Press reports indicate, for example, that in Sweden the cost of resettling 160,000 refugees is 60 billion crowns per year (US\$44,000 per person per year) in Germany the costs of resettling 450,000 refugees is €5.6bn (US\$13,000 per person per year) and in Canada the costs to resettle 25,000 refugees in 2015–16 are estimated at C\$877 million (US\$25,420 per person per year) (Sources: Ibtimes (2015); DW (2015); and CBC (2015)). By contrast, 3RP budget requirements for refugees (and direct and indirect beneficiaries in local communities), equate to US\$1,315 per refugee in Lebanon and US\$1,700 in Jordan. Similar ratios emerge from analysis of relative costs at sectoral level: in the UK, unit costs for provision of primary education are US\$5,000 per pupil, compared to US\$600 in Lebanon. (Sources: National Department/Ministries of Education).

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## Commitments from major donor countries, EU, other regional intergovernmental bodies:

- Institute medium-term (3–5-year) financial planning, thereby fulfilling existing commitments for predictable, multi-year funding.<sup>11</sup> Humanitarian and development finance should be integrated wherever possible, but irrespective of the source, the shift to multi-year, un-earmarked funds that can be adapted to changing conditions should be expedited to enable the expansion of resilience programmes, including those supporting capacity-building of national and sub-national systems.
- Adjust and realign pre-crisis development funding to address national priorities heightened or created by the current crisis to both protect and further long-term national development progress.
- Institute diversified medium-term finance mechanisms that are appropriate to differing national circumstances in the region, including debt relief and concessional loans, innovative mechanisms, such as using grants to leverage larger concessional loans, and exploiting public–private sector finance opportunities.
- Increase access to markets in OECD and Gulf Cooperation Council (GCC) countries by removing remaining tariff and non-tariff barriers to imports from Jordan and Lebanon (and any country where refugees account for a significant proportion of the population, for example more than 10%<sup>12</sup>). Support initiatives that reduce barriers to trade and private investment in host countries, such as improved infrastructure.
- Facilitate necessary reforms/adjustments to international institutions’/agencies’ operating mechanisms to ensure more timely and cost-effective support to the region, for instance to allow expanded non-sovereign finance for job-creating private investment from organisations such as the International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency (MIGA) (e.g. by amending rules to facilitate its support for diaspora financed projects).

## Commitments from refugee-hosting countries:

- Articulate medium-term priorities (national, sectoral) directly related to the impact of the crisis and informed by the views of refugees and affected communities.
- Make transparent the extent to which national development plans and annual budget allocations are supporting these priorities.
- Institute necessary policy and legal adjustments to facilitate increased access for affected populations (refugees and host communities) to labour markets and strengthen the environment for business growth and entrepreneurship. Actions may include:
  - formalising informal employment of refugees through fixed-duration work permits;
  - expanding/facilitating job-creating private sector investments (overseas, regional, national), including establishing special economic zones (SEZs) where refugees can invest and work, eliminating restrictions on important components and materials for local manufacturers and reducing administrative constraints to private investment; and
  - creating labour-intensive public works programmes to rehabilitate, build and maintain public assets such as infrastructure, and to create jobs for poor refugees and citizens of host countries.<sup>13</sup>
- Facilitate increased financial, technical and other support to local government (governorate, municipal) to enable delivery of equitable, quality frontline services for affected populations.
- Emphasise respect for rights of refugees within the broader framework of opening economic opportunities, including welcoming refugees, reducing punitive actions against refugee workers and ensuring dignified jobs.

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11 The DSRA asserts that ‘Donors and host governments should increasingly strive to overcome barriers to multi-year financing, and pooled funding mechanisms should continue to be utilized – bringing together humanitarian and development resources, where possible – in order to strengthen coherence and effectiveness.’

12 The Jordan 3RP 2015–16 Regional Progress Report outlines plans for support to 1.5m refugees in Lebanon (33% of the host population) and 700,000 in Jordan (11% of the host population). Ratios in other countries in the region are expected to be 2% or less.

13 Note that beneficiaries can self-select to participate in these programmes if the wage rates are set at appropriate levels.

## Commitments from international organisations (including UN agencies, IFIs, regional development funds):

- Building on current methodologies, expand and enhance community consultation processes to ensure programme priorities are responsive to the demands of refugees and host governments, and shift programme design and targeting accordingly.
- Expedite and expand efforts to build national and sub-national capacities and systems (governmental and non-governmental), including to support appropriate integration of governmental and non-governmental services.
- Expand innovative and cost-effective interagency interventions already piloted successfully (such as the interagency common cash platform in Lebanon), including both those addressing immediate needs and those that support the self-reliance of affected populations and protect and further long-term development gains in host countries.
- Mobilise incremental funding through debt and grant instruments and facilitate rapid implementation of the investments and activities that they finance or deliver.

### Box 3: Non-state service providers

Non-state service providers, including national and international non-governmental organisations (NGOs), community-based organisations (CSOs) and, particularly, the private sector are playing a significant role in the response, often acting as the main mechanism for service delivery in key areas. Expanding the capacities of these service providers, particularly local and national entities, and ensuring that their current and potential role and contributions are represented in, and inform, the aid architecture will be key to securing more effective and sustainable results for affected populations. \*

*\*See for example Zyck (2014).*

# Additional options to improve delivery of aid and maximise long-term impact

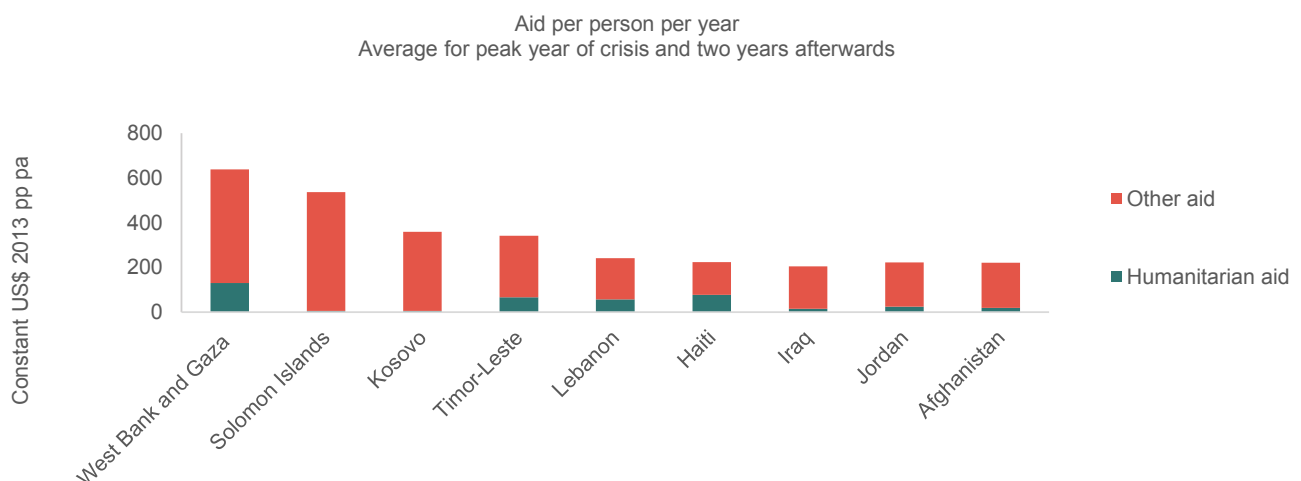
The options outlined below include both those that are already under consideration and new initiatives that have the potential to address particular challenges in the current aid response.

## 1. Allocate external support on a more objective value for money basis

Recognising what is currently happening to an extent in practice in this and other contexts, medium-term aid allocations could be based on a combination of need (the number of refugees) and available resources (i.e. the income of the host country, available donor funds). A formal model could be developed along the lines of the

allocation systems used by Multilateral Development Banks (MDBs) and some bilateral funding agencies (see Text Box 6). One feature of these models is that no adjustment is made for the higher unit costs of delivering services in richer countries (reflecting the view that richer countries are in less need of external support). Using this model, and building on the unit cost approach being used in the education sector in Lebanon (see below: Broaden the use of the unit cost approach), international financial support could be calculated using a simplified, multi-sectoral unit cost per refugee. Determining appropriate per capita costs will require consideration of a number of variables, including:

**Figure 1: Aid provided to other countries suffering protracted crises**



Source: Authors' calculations based on OECD DAC development aid database: <http://www.oecd.org/dac/stats>.

- the overall number of refugees and the number of refugees and host populations with inadequate social indicators;
- host country population, income and resources;
- indicators of how effectively and efficiently funds could be utilised;
- the identification, through host country budget processes and sector analysis, of the additional costs to public and private services due to the refugee influx; and
- comparative allocations and costs in other relevant protracted crises (see chart below).

Cost-effectiveness could be strengthened if implementing organisations were selected through competitive proposals with contracts that set out clear cost and performance obligations. This approach was successful in Afghanistan, where basic health service delivery was contracted out to local NGOs via a tendering process that included the per capita cost of health services.

Strengthening efficiency, effective service delivery and responsiveness to the needs of beneficiaries would also require independent (e.g. by private sector actors) assessments of unit and system costs, as well as the quality of outputs and outcomes.

#### **Box 4: Allocating funding by objective criteria: the MDB allocation system**

Using objective criteria to allocate financial assistance according to priorities is not a novel idea. MDBs have sought an objective process for determining country allocations that avoids politicisation and increases transparency and efficiency. These approaches are similar to the World Bank's Performance-Based Allocation System. This system determines country allocations through a formula that uses both population and Gross National Income per capita and an assessment of performance – i.e. the ability to use aid effectively. The Country Policy and Institutional Assessment is a World Bank internal expert assessment of a country's performance under four clusters – economic management, structural policies (trade, financial sector and business environment), social inclusion and governance. Over the years the Performance Based Allocation System has been adjusted to allow higher allocations for small states and 'turn-around' states affected by conflict and fragility, and smaller allocations for countries receiving grants rather than credits.

## **2. Develop new debt instruments**

Jordan and Lebanon already have high ratios of public debt to GDP in relation to countries of similar income, and have limited capacity to borrow. Prior to the Syria crisis, both countries had negative net transfers of official debt. Official borrowing from Jordan has increased substantially in recent years, but in Lebanon debt service outflows have continued to exceed official disbursements. Given their indebtedness and lack of public support for incurring debt for incremental costs related to refugees, both governments have been reluctant to borrow except on highly concessional terms. Covering the direct and indirect costs of hosting refugees on top of their underlying development priorities will require debt financing, since bilateral grants alone are unlikely to increase to fill the fiscal gap. As MICs, Jordan and Lebanon do not qualify for highly concessional loan finance, such as from the World Bank's International Development Association (IDA) window. A working group of IFIs, UN agencies and partner countries to determine financing mechanisms was established in October 2015. The work of this group is on-going, but it seems possible that bilateral grants could be used to leverage around two to three times as much IFI lending by creating concessionality through buying down debt service costs. Several mechanisms for doing this are under discussion, including creating a facility to intermediate debt finance, and which would also create an open platform for financing and coordination.

While such hybrid debt instruments are welcome, implementation will certainly face challenges in both countries: both have constitutional requirements for legislative approval of individual loans that could introduce delays before new loans are available for disbursement and, while public administrative capacity in both countries is reasonably strong, bureaucratic delays are likely unless internal and external monitoring of implementation performance is strengthened. Without close oversight by their management and flexible application, MDBs' rules for managing funds, including procurement, can also slow down implementation.

A differentiated approach between Jordan and Lebanon is also needed in accordance with their respective national contexts, as suggested below:

- *Jordan* – incremental finance could be allocated based on a unit cost per refugee to the national government that would account for all financial costs associated with hosting refugees. The government could determine how this is transferred to sectors and sub-national administrations. Complementary options for financial mechanisms include: reimbursement of debt service relief (see Text Box 6), particularly if this was accompanied by increased multilateral lending; the new hybrid loan instrument being discussed, which could be disbursed quickly as budget support; and conventional

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grants for budget support (though comparative analysis is required with expanded concessional borrowing).

- *Lebanon* – resources could be provided to the government through monthly reimbursement of debt service payments to international institutions and donor countries that could be calculated on the basis of a single unit cost per refugee financed.<sup>14</sup> This could be conditional on auditing of equivalent spend on relevant government expenditures (e.g. teachers' salaries in areas with a high refugee presence) and linked to a commitment to increase employment opportunities for refugees (see Text Box 6). The possibility of sovereign borrowing to cover incremental costs of public services due to refugees could be raised once a new government is in place, including under arrangements similar to those proposed for Jordan.

### 3. Improve the design of Multi-Donor Trust Funds (MDTFs)

Several MDTFs have been established in the region, notably in Lebanon,<sup>15</sup> but none is yet disbursing significant resources mainly due to politico-administrative bottlenecks.<sup>16</sup> The UN also launched a multi-partner trust fund, the Jordan Resilience Fund, in March 2015. The establishment of these funds is encouraging, and their limited impact so far is unfortunate. As demonstrated elsewhere, MDTFs can be a highly effective mechanism to facilitate pooled funds and risks, serve as a platform for coordinating assistance, lower the transaction costs to governments of dealing with multiple partners and align external assistance with country budget priorities and systems.<sup>17</sup> MDTFs are typically multi-sectoral; more targeted funds are possible, but multiple MDTFs increase transaction costs and may fund donor rather than country priorities and create budget distortions. While MDTFs offer potential advantages, their design and implementation is not straightforward and their overall performance has been mixed. Good examples exist, such as in Palestine and Afghanistan, which were associated with fund management

being given high priority by the managing partner.

Better management of MDTFs can be achieved through competitively selecting a fund manager, and allowing several implementation channels, including national and sub-national government and non-state actors. Other design issues – such as procurement – can be critical and repay careful consideration and development.<sup>18</sup>

### 4. Broaden the use of the unit cost approach

The unit cost approach being used for education in Lebanon has proven valuable in this as well as other contexts, and could be expanded to other sectors and to Jordan. This approach involves providing finance to an external agency on the basis of a fixed amount per beneficiary, which could provide a greater incentive for efficiency and performance from the implementing agency than currently exists. Going further, tenders for implementing agencies could be based on these unit costs, and could include independent evaluation of inputs, outputs and development outcomes.

### 5. Consider salary reimbursement

One alternative to the unit cost approach would be to provide monthly audited reimbursement of a proportion of the salaries in key service sectors such as education and health in direct proportion to the number of refugees in the population being served (e.g. if 50% of pupils are refugees then 50% of salaries are reimbursed).

### 6. Explore debt service reimbursement

Another alternative would be to provide monthly reimbursement of debt service. This would involve payment to selected creditors<sup>19</sup> against audited national budget payments that benefit host communities and could be done in proportion to ratio of refugees in the host communities. (see Text Box 6).

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14 In 2013 debt service to official creditors amounted to \$487m, of which \$264m was for multilateral creditors (World Bank, WDI database).

15 Such as the EU's three regional funding windows, the World Bank Lebanon MDTF and the UNDP-managed Lebanon Recovery Fund. See Toornstra (2015).

16 For example, every project in the World Bank Lebanese MDTF has to be approved by the Council of Ministers, according to Toornstra (2015).

17 For example, see DFID (2013).

18 For more details of the issues involved in challenging contexts see DFID (2013) and Coppin et al. (2011).

19 This could include IFIs and bilateral debt owed to donor countries.



### Box 5: Reimbursable bilateral and multilateral debt service

The concept of reimbursing debt service is straightforward. A donor agrees to reimburse an element of a country's debt service payments against evidence that the saving the country thereby makes is used to finance a programme in the country that both the donor and the government agree is a priority. The mechanism for reimbursing bilateral debt service is also straightforward, requiring a transfer within the donor country (typically from the Ministry to Finance to the creditor institution, such as an export guarantee agency). Reimbursing multilateral debt service would, however, require a new funding mechanism, preferably based on the approach developed to deliver multilateral debt relief under the Multilateral Debt Relief Initiative (MDRI) element of the wider Heavily Indebted Poor Countries (HIPC) process. Under MDRI each multilateral institution (e.g. International Monetary Fund (IMF), the World Bank, Regional Development Banks) created a trust fund. Bilateral donors contributed to these funds, which were then drawn upon as and when a debt payment to the institution fell due from a HIPC country. As the trust fund would cover the cost of the debt payment, the HIPC country was then able to use this saving to fund increased spending on other items in the budget. The overall requirement was to engage in an IMF programme, and overall poverty spending had to increase in line with the debt savings made.

In this case, reimbursable debt relief could instead draw on more recent ex-post reimbursement instruments, such as USAID's Fixed Amount Reimbursable Agreement (FARA) instrument. This builds on the success of the Afghanistan Reconstruction Trust Fund (ARTF), a multi-donor fund which has disbursed US\$6.9bn of donor funding on salaries, other government operating costs and investments (ART, 2015). The ARTF employed an accounting firm to monitor a risk-based sample of disbursements on non-investment costs ex post; costs which did not pass scrutiny or the government's own budget requirement were not covered by the Fund. Under a FARA arrangement, USAID agrees to finance some budget items, but only releases the funds after an audit has been done to verify that the budget items have been spent. Such audits are done on a monthly or quarterly basis. In the same way, matching funds for reimbursing debt service would only be released when auditors had confirmed expenditure on programmes benefiting refugees/host communities (e.g. direct cash transfers or wages for work under public works schemes). This post-audit release process has a number of advantages. For instance, if there are any audit queries the amount of debt service that donors reimburse could be scaled back automatically. Such an approach would also ensure government ownership of the programmes benefiting refugees/host communities as all expenditure would have to be budgeted for and spent through government systems (with additional external audit oversight and possibly additional fiduciary safeguards).

The administration costs would be relatively small as there would only need to be one trust fund in each multilateral institution. The costs of auditing productive safety net programmes would be relatively low and would have the additional benefit of ensuring that funds in pre-existing schemes were reaching the intended beneficiaries

*This draws on ideas developed by Bird et al. (2015), which looked at innovative approaches for accelerating the development and disbursement of large-scale aid programmes in the context of climate change.*

## 7. Introduce a new multilateral facility for any country providing temporary support to refugees

In the past the IMF and the World Bank have developed special facilities to provide support for key groups of countries, for instance HIPC debt relief and Ebola support. These facilities have been financed by a combination of additional funds channelled through separate trust funds and from the IFIs' own resources (gold sales, IDA profits). A facility to support countries that are temporarily hosting exceptional levels of refugees is currently being considered by the Financing Working Group. Design criteria could include:

- available to any developing country;
- refugees have to account for a minimum of 10% of the population; maximum access to the fund only occurs where refugees account for more than 30% of the population;
- refugees must be registered by UNHCR;
- funding is for a maximum of five years, declining over this period;
- support is conditional on the country giving permission for refugees to work;
- funding would be limited to the unit cost of a relevant basket of services provided by government to local communities before they hosted refugees;
- funding from the facility would be given only where other additional external funding sources are insufficient to cover the costs of providing these services;
- funding can be provided up to 12 months retrospectively;
- funding can only be spent on programmes identified by host governments and endorsed by relevant UN agencies, the World Bank/IMF; and
- funding would be conditional on the establishment of virtual funding mechanism to ensure that all relevant flows are reported on; where additional funding is sought for host government-funded programmes, the baseline funding pre-crisis must be clearly identified.

### Box 6: Virtual fund mechanisms

Many of the countries that received multilateral debt relief in the 2000s through the HIPC initiative had weak financial management systems but wanted to be able to demonstrate that savings from debt relief were being spent on poverty reduction programmes. Many of these programmes were already being financed by the governments from their own tax revenues, supplemented by donor finance (including project or sector budget support and general budget support). A tracking mechanism was therefore needed to monitor the additional spending as soon as debt relief started to flow. A virtual fund mechanism is a way to track all resources supporting poverty programmes – continued funding from government and new debt relief – and all spending on poverty programmes at national and sub-national level. Virtual fund mechanisms has also been used to manage oil revenues in some contexts and, for example in Argentina, to ensure proportion of telecoms revenues are used to fund additional public services.

- Based on other country experiences, a virtual fund mechanism could facilitate:
- identification of pro-poor programmes (on the basis of the priorities identified in a national plan);
- identification of a baseline for government spending before additional external resources are provided;
- mapping of specific resources to the spend on specific programmes, from multiple funding sources;
- monitoring and reporting on all resources mobilised and all expenditure financed; and
- monitoring of the performance of a defined set of expenditures (without having to cover all government expenditures).

## 8. Strengthen coordination arrangements

As highlighted in a recent UNDP study, a plethora of coordination mechanisms and fora is already in place at regional and country level, involving a range of actors at national, local, cross-sectoral and sector level, but these are not necessarily appropriate for a protracted crisis (Toornstra, 2015). Coordination around implementation of this agreement should be based on the medium-term priorities identified, with international aid programmes fully integrated into national/government-led plans. It should also be host government-led, ensure appropriate representation of affected populations (refugees and host communities), including national and sub-national platforms, and utilise existing fora/coordination mechanisms as appropriate to avoid duplication. Given the complex agendas at play, it may be preferable to tender for independent secretariat services for coordination. As per experience in other crises (for instance the 2010 Haiti earthquake), it may be useful to appoint a high-level ‘neutral’ eminent person as coordinator of the agreement. This individual could be charged with bringing stakeholders together and facilitating high-level political coordination aimed at driving implementation forward.

## 9. Improve tracking and monitoring

Monitoring progress made against commitments and tracking financial flows is crucial to a more effective and appropriate aid response over the medium term, as highlighted in global aid effectiveness principles (for example the Busan Partnership for Effective Aid Cooperation). Progress is being made in Jordan and Lebanon to facilitate improved tracking of aid flows in relation to national plans, but efforts may need to be expedited/expanded to facilitate implementation of this new agreement (Toornstra, 2015). Key elements in this regard may include:

- Establishing/improving a centralised aid-tracking system at national level, with appropriate secretariat services (selection through a competitive process may enhance effectiveness and cost-efficiencies).
- Instituting independent monitoring and evaluation of results and value for money. Such an audit would go beyond the normal financial audit by assessing outputs in relation to costs, the quality of these outputs and the outcomes of the programme in terms of the impact on the wellbeing and livelihoods of refugees and the host population.<sup>20</sup> Utilising a monitoring body with a high degree of public trust and which has no conflict of interest will be key.

20 Examples of independent public auditors include the UK’s National Audit Office and the US Special Inspector General for Reconstruction in Afghanistan and Iraq. These national institutions are independent of government, and report directly to their parliamentary bodies on the use of public funds (in the NAO’s case this includes all public expenditure, not just ODA).



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More broadly, a ‘virtual’ funding mechanism would provide an effective and transparent framework for tracking and monitoring all sources of external support in this dynamic context. This would be much less bureaucratic and more flexible than a formal pooled fund. It would not require existing funding streams to change or for humanitarian and development funding streams to be merged. Rather, it would provide a transparent reporting process to show how additional funding from

a wide range of sources (including host countries’ own resources) was being used in the crisis response. It would also facilitate coordination by having an independent chair and independent technical secretariat. This concept could build on the model of virtual funding mechanisms used in HIPC countries for transparently managing debt relief, aid flows and governments’ own financed expenditures (see Text Box 6.<sup>21</sup>

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21 The new Financial Intermediary Fund (FIF) would hopefully be a key source of finance. It could potentially provide the overall framework for all funding. However, particularly if the FIF is to become the predominant source of funding, it is likely to take some time before it is fully operational. The IMF and World Bank Ebola facilities were relatively easy to set up as they focused solely on providing additional/faster funding from each institution. They did not attempt to coordinate or channel other bilateral and humanitarian flows. Past experience of merging all funding sources into single MDITs suggests that it takes years to achieve – and in many cases is never fully achieved. In view of the urgent need for a more coordinated approach, a virtual fund mechanism would seem a sensible pragmatic step. This could become more formalised over time.

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# Conclusion

There is common agreement that the existing aid architecture for the Syria regional crisis requires radical revision. Consultations between key international donors, host governments and multilaterals, particularly as part of the RDF process, are generating innovative approaches that have the potential to be truly transformative in this and other protracted contexts.

ODI's analysis suggests that a new 'Grand Accord' that goes beyond traditional aid issues to encompass trade and employment would be helpful in providing the foundation for overcoming some of the structural barriers to a more effective response to the Syria crisis. It would also provide the conceptual basis for drawing on some of the nine options for new approaches and actions outlined here, some of which are already being developed within the region, that would strengthen the current aid architecture, ensuring that it addresses the needs of these Middle Income Countries and takes account of their different administrative, economic and social realities. An agreement of this kind could ensure that international support is provided:

- on a scale commensurate with the global benefit host countries are providing, based on appropriate

calculations and allocated to where it is most needed and will have most impact;

- on a medium-term basis to reflect the dynamic nature of this protracted crisis;
- in a more coordinated and transparent manner at sub-national, national and regional levels that ensures accountability for shared results through national plans, reinforced by independent monitoring and tracking mechanisms;
- on the basis of a unified assessment of refugees and host communities' priorities;
- through innovative and diversified financing and delivery mechanisms, including new facilities that increase access to affordable IMF and MDB finance, using new salary and debt reimbursement mechanisms that would better integrate external support with long-term national development efforts; and
- aimed at facilitating sustainable, self-replenishing finance that meets the needs of affected populations in the medium term, including by exploiting the potential of refugees to make greater contributions to local and national economies that benefit the communities and countries so generously hosting them.

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ISSN: 2052-7209

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