Reference Paper for the 70th Anniversary of the 1951 Refugee Convention

Financing for Forced Displacement Situations

Doreen Kibuka-Musoke and Zara Sarzin

July 2021

Abstract:

Substantial financing is required to respond to forced displacement crises, and there is an upward trend in financing requirements. Host countries frequently rely on a mix of external financing sources to respond to displacement crises, but long-term requirements for external assistance are not sustainable in the global context of slow economic growth and fiscal pressure, exacerbated by the COVID-19 pandemic and global economic downturn. In this paper, we examine the trends in humanitarian and development financing for forced displacement situations, describe the current financing instruments and modalities that are used in forced displacement contexts, and examine the prospects for innovative financing mechanisms to reduce the financing gap, diversify sources of financing, improve the timeliness and flexibility of financing, mitigate risk, and strengthen incentives for results. We conclude by outlining a way forward to respond to the challenges identified in our analysis.

Table of Contents

Context

Forcibly displaced people affect the public finances of their host countries. Refugees and asylum seekers add to government expenditures by consuming services and in some settings they may also contribute to government revenues by paying fees and taxes. For example, in situations where refugees and asylum seekers are able to secure jobs in the formal sector or start formal enterprises, they may pay income or business taxes, and in some settings they may contribute to other sources of tax revenue such as consumption taxes. The movement of Internally Displaced Persons (IDPs) may also precipitate unexpected government expenditures in settlement areas to accommodate new arrivals and provide them with services. These fiscal consequences—the effects on government expenditures and revenues—are distinct from the broader economic impacts of forced displacement.

Fiscal costs associated with hosting forcibly displaced populations are likely to be larger in the short term. There are likely to be substantial initial costs associated with the reception, registration and transit of forcibly displaced people, largely borne by host governments in high-income countries, and often by humanitarian agencies in low- and middle-income countries. Forcibly displaced people require shelter and accommodation, security and protection, food and nutrition, access to essential infrastructure (water, sanitation, energy, roads), and basic services (health care, education and social welfare), necessitating large investments in infrastructure and service delivery in the short term. Costs are likely to be higher for vulnerable groups, such as pregnant women or unaccompanied minors, who require specialized assistance. In some host countries, typically high-income countries, new asylum seekers and refugees may also be provided with additional integration services following their arrival in the host country (such as language classes and job search assistance).

In the long term, if forcibly displaced people are able to work and engage in livelihood activities to become more self-reliant, the fiscal cost borne by host governments is likely to taper off. Evidence from the voluntary migration literature suggests that the long-term fiscal impact of immigrants, and their descendants, have the potential to be positive in the long term.[1] However the same may not be true for asylum seekers and refugees, many of whom are not permitted to work. Forcibly displaced people may also face other impediments to establishing livelihoods and becoming self-reliant. Consequently, in many protracted displacement crises, the cost of providing for the basic needs of displaced populations does not diminish greatly over time.

Substantial financing is required to respond to forced displacement crises, and there is an upward trend in financing requirements. Most host governments in low- and middle-income countries rely on substantial external financing to provide assistance to asylum seekers and refugees, who are not citizens, and also seek assistance to address the needs of IDPs (World Bank, 2017). Financing needs have grown over the last decade in line with increases in the number of forcibly displaced people; the total number of forcibly displaced people has doubled since 2010. By the end of 2019, there were more than 79.5 million people forcibly displaced due to conflict and violence—including 26 million refugees, 4.2

[1] In the United States, for example, immigrants' children are among the strongest economic and fiscal contributors in the population (Blau & Mackie, 2016).

million asylum seekers, 3.6 million Venezuelans displaced abroad and 45.7 million IDPs—the majority living in low- and middle-income countries. Assistance to affected populations is often required over much longer periods of time as protracted displacement crises become more prevalent. Additionally, there have been increases in the overall cost of delivering assistance, due to substantial increases in the numbers of forcibly displaced people in settings with high unit costs of delivering assistance, for example in middle-income countries like Lebanon and Jordan, and in countries like South Sudan where there are very high logistical costs (FHF, 2015). Additional financing for host communities may also be necessary, especially in contexts where there are large influxes of forcibly displaced people relative to the size of the host population, as well as in low-resource and marginalized settings where there are poor and vulnerable host communities.

Financing requirements for forced displacement situations include a mix of humanitarian, development and peace-building priorities. Forced displacement crises are increasingly protracted,[2] with refugees remaining in displacement for an average duration of over 10 years (Devictor & Do, 2016), and they frequently occur in fragile and conflict-affected countries. These conditions necessitate a range of interventions to address the root causes of displacement, mitigate the adverse socioeconomic impacts of forced displacement on host communities, and to achieve durable solutions for the displaced themselves—typically involving the full range of humanitarian, development and peace-building actors.

Host countries frequently rely on a mix of external financing sources to respond to humanitarian crises, comprising: government aid to developing countries in the form of Official Development Assistance (ODA);[3] private donations; and private sector investment, including foreign direct investment, commercial lending, and remittances. Host countries may also draw on domestic resources. For example, in 24 countries with recurrent humanitarian appeals in 2017,[4] external funding accounted for 42 percent of total country resources (Development Initiatives, 2019). In these 24 countries, remittances accounted for the largest portion of external financing in 2017 (37 percent), followed by developmental ODA (20 percent),[5] foreign direct investment (12 percent), long-term commercial debt (11 percent), and humanitarian assistance (8 percent) (Development Initiatives, 2019).[6] Countries with recurrent humanitarian appeals have significantly lower domestic public resources per person and significantly lower levels of commercial inflows per person,[7] but they receive more developmental ODA and humanitarian assistance than other countries (Development Initiatives, 2019).

---

[2] An estimated 77 percent of refugees were living in protracted refugee situations at the end of 2019 (UNHCR, 2020). UNHCR defines a protracted refugee situation as one in which 25,000 or more refugees from the same nationality have been in exile for at least five consecutive years in a given host country.
[3] ODA is government aid designed to promote the economic development and welfare of developing countries. Aid may be provided bilaterally, from donor to recipient, or channeled through a multilateral development agency. It may include grants, concessional loans and technical assistance.
[4] Countries with appeals in both 2017 and for one or more of the preceding years.
[5] Developmental ODA excludes ODA disbursements relating to humanitarian purpose codes.
[6] Proportions vary across countries. For example, Ethiopia has been more successful in attracting foreign direct investment (21 percent of external resources in 2015), while Nepal received large amounts of remittances (80 percent of external resources in 2015) (Development Initiatives, 2017).
[7] In countries with recurrent humanitarian appeals, commercial sources of financing accounted for 27 percent of all international inflows in 2017, compared with 74 percent in other developing countries (Development Initiatives, 2019).

Only a small proportion of external financing is allocated specifically for forced displacement situations. According to results from the *Financing Refugee-Hosting Contexts Survey*, between 2015 and 2017, members of the Organisation for Economic Co-operation and Development (OECD)'s Development Assistance Committee (DAC) contributed US$26 billion in ODA to programs that supported refugees and host communities: US$7.5 billion in 2015, US$9.2 billion in 2016, and US$9.3 billion in 2017.[8]

The majority of financing for forced displacement situations is humanitarian financing. Roughly two-thirds of DAC member ODA financing for forced displacement crises was in the form of humanitarian assistance and one third was in the form of development assistance. Other categories of external financing, even if not directed specifically to displacement crises, may nevertheless contribute towards overall improvements in the welfare of displaced populations and their host communities. For example, FDI may provide essential resources for expanding economic opportunities for the forcibly displaced and host communities, while remittances may help host communities adjust to the initial shock of refugee inflows (World Bank, 2017).

Long-term requirements for external assistance are not sustainable. External actors are often expected to provide financing to cover the basic needs of large numbers of displaced people over many years, as displacement crises are frequently protracted. Arguably, these financing requirements are not sustainable in the global context of slow economic growth and fiscal pressure, exacerbated by the COVID-19 pandemic and global economic downturn (World Bank, 2017).

The COVID-19 global pandemic has compounded the challenges faced by fragile and conflict-affected countries, putting additional pressure on humanitarian and development systems. Not only is the pandemic increasing the number of people in need and consequent funding requirements, but it is also affecting the capacity of donor governments to respond to requests for assistance.[9]

---

[8] There are currently 30 DAC members: Australia, Austria, Belgium, Canada, Czech Republic, Denmark, EU, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Korea, Luxembourg, The Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, the United Kingdom, and the United States.

[9] For example, bilateral donors decreased aid commitments by 17 percent between 2019 and 2020, including a 5 percent reduction in ODA commitments (Development Initiatives, 2020). At the same time International Financial Institutions (IFIs) have increased aid commitments by 31 percent, largely driven by increases in ODA which grew by 139 percent between 2019 and 2020 (Development Initiatives, 2020).

Closing the humanitarian financing gap: Recent initiatives

Over the last five years, there have been several important initiatives to close the humanitarian financing gap and ensure a more efficient and effective use of available resources.

The ***Future Humanitarian Financing dialogue process***[10] culminated in a 2015 report that called for an upgrade of the humanitarian response architecture as well as innovative approaches to securing additional and predictable financing for recurrent humanitarian costs.

Concerned with the growing humanitarian requirements, the then United Nations (UN) Secretary-General appointed experts to a ***High Level Panel on Humanitarian Financing*** tasked with finding solutions to the humanitarian financing gap. The panel recommended: (a) reducing financing needs by addressing the root causes of humanitarian crises; (b) deepening and broadening contributions to humanitarian aid; and (c) bringing donors and implementing organizations together in a 'Grand Bargain' to improve the efficiency of humanitarian assistance (UNSG HLP, 2016).

The Grand Bargain was launched in mid-2016 at the occasion of the World Humanitarian Summit and now includes 63 Signatories[11] representing over 80 percent of all donor humanitarian contributions and more than three quarters of humanitarian aid received by aid organizations (Grand Bargain Secretariat, 2020).[12] The Grand Bargain sets out 51 commitments to improve the efficiency and effectiveness of humanitarian assistance and to better link humanitarian and development programming. Donors commit to increase collaborative multi-year planning and funding, reduce the earmarking of donor contributions,[13] and harmonize and simplify reporting requirements. In return, aid organizations commit to reduce duplication and management costs, undertake periodic functional expenditure reviews, improve joint and impartial needs assessments, include beneficiaries in decisions that affect them, and enhance engagement between humanitarian and development actors. Donors and aid organizations also commit to greater transparency, more support and funding tools for local and national responders, and increase cash-based programming (Grand Bargain, 2016).[14]

The 2019 ***DAC Recommendation on the Humanitarian-Development-Peace Nexus***, includes several principles relating to humanitarian and development financing. These emphasize the importance of joint analyses to inform collective outcomes, and mobilizing the full range of financial flows to close the humanitarian financing gap.

---

[10] An initiative supporting the Inter-Agency Standing Committee (IASC) Humanitarian Financing Task Team, led by a steering group comprising CAFOD (Caritas England and Wales), World Vision International, and the UN Food and Agriculture Organization (FAO).
[11] 25 Member States, 11 UN Agencies, five intergovernmental organizations and the International Red Cross and Red Crescent Movement, and 22 NGOs.
[12] The Grand Bargain in its original configuration (work streams co-convened by pairs of donor governments and aid organizations) is supposed to be complete by mid-2021, five years after its launch. The future of the Grand Bargain is being discussed amongst the signatories.
[13] The aim is to achieve a global target of 30 percent of humanitarian contributions that is non-earmarked or softly earmarked by 2020.
[14] The agreed target is to increase funding to local and national responders to at least 25 percent of humanitarian funding by 2020.

In parallel with the international dialogue on humanitarian financing, international consensus has also coalesced around several principles for the financing of refugee crises in particular, recognizing the global public good provided by host governments and the imperative for more equitable burden and responsibility sharing.

In September 2016, UN Member States adopted the ***New York Declaration for Refugees and Migrants*** that includes a commitment to provide "humanitarian financing that is adequate, flexible, predictable and consistent, to enable host countries and communities to respond both to the immediate humanitarian needs and to their longer-term development needs." The declaration envisages innovative financing responses and increased efficiencies[15] to reduce the financing gap.

The Declaration also lays out elements of a ***Comprehensive Refugee Response Framework*** based on the principles of international cooperation and on burden and responsibility sharing. The *Comprehensive Refugee Response Framework* emphasizes: (a) mobilizing adequate financial and other resources to meet the immediate and ongoing needs of refugees and host communities; (b) ensuring financing is prompt, predictable, consistent and flexible; (c) extending financing schemes to middle-income host countries; (d) establishing development funding mechanisms; (e) protecting the environment and strengthening infrastructure in host countries; and (f) increasing efficiencies, while increasing accountability to ensure that funds reach intended beneficiaries.

The 2018 ***Global Compact on Refugees*** adopted by the UN General Assembly aims to provide a basis for predictable and equitable burden and responsibility sharing among Member States and other relevant stakeholders.[16] The *Global Compact on Refugees* is not legally binding and its implementation will rely on voluntary contributions from Member States.

The *Global Compact on Refugees* provides for a ***Global Refugee Forum*** where States and other relevant stakeholders come together every four years to share good practices and pledge financial support, technical expertise, and policy changes to help reach the goals of the *Global Compact on Refugees*. A key objective of the first *Global Refugee Forum*, which took place in December 2019, was to broaden the base of support and mobilize new donors to support comprehensive refugee responses. Pledges of financial support from states and other actors came to over US$2 billion, plus more than US$250 million from the private sector (UNHCR, 2020).

Finally, building on the *DAC Recommendation on the Humanitarian-Development-Peace Nexus*, the International Network on Conflict and Fragility (INCAF), a network of DAC members working in fragile and conflict-affected contexts, adopted the ***Common Position on supporting comprehensive responses in refugee situations***, which sets out principles for addressing humanitarian assistance, development, and peace interventions in

---

[15] Such as reducing management costs, improving transparency, increasing the use of national responders, expanding the use of cash assistance, reducing duplication, increasing engagement with beneficiaries, reducing earmarked funding and harmonizing reporting (United Nations General Assembly, 2016).
[16] Including but not limited to: international organizations within and outside the UN, including those forming part of the International Red Cross and Red Crescent Movement; other humanitarian and development actors; international and regional financial institutions; regional organizations; local authorities; civil society, including faith-based organizations; academics and other experts; the private sector; media; host community members and refugees themselves.

refugee contexts. The principles underline the importance of financing that supports an enabling policy environment for protection in refugee hosting countries, as well as policies that promote refugee self-reliance.

Box 1: Principles for the financing of forced displacement situations

The following principles for the financing of displacement situations can be distilled from the initiatives described above:

- There should be more equitable burden and responsibility sharing among countries, recognizing the global public good provided by countries hosting forcibly displaced populations.
- Financing should be adequate to meet the immediate and long-term needs of forcibly displaced people and their host communities. Aggregate humanitarian and development financing should be expanded, including through new sources and the engagement of the private sector, in order to close the financing gap.
- Financing should be as predictable and flexible as possible. Host government planning, financing and service delivery models also need to be flexible to meet the needs of forcibly displaced populations and host communities.
- Donor and recipient organizations need to work together to improve the transparency, efficiency and effectiveness of assistance (e.g. through harmonized and simplified reporting requirements, collective needs assessments and analyses, reduced duplication and management costs, increased use of cash-based programming, and increased engagement with beneficiaries).
- Local and national responders (governments, communities, Red Cross and Red Crescent National Societies and local civil society) should receive an increased proportion of financing.
- Financing should go hand-in-hand with, and incentivize, an enabling policy environment for the protection of forcibly displaced populations, as well as policies that promote their self-reliance.
- Funding should be as concessional as possible to reduce the fiscal burden on host countries.

Data constraints

Despite the emerging international consensus on closing the humanitarian financing gap and more equitable burden and responsibility sharing for refugee crises, there are no global estimates of financing requirements for forced displacement crises, nor comprehensive data on humanitarian and development resources allocated to support forcibly displaced people and host communities. Detailed data on the cost of protecting and assisting displaced populations and mitigating adverse impacts on host communities are crucial for assessing progress towards the burden sharing commitments in the *Global Compact on Refugees*, making comparisons across donor and recipient countries, and assessing the cost-effectiveness of humanitarian and development interventions.

Data on humanitarian assistance are incomplete and reflect inconsistent definitions and methodologies. Data collection is fragmented across a number of organizations,[17] relies on voluntary reporting by humanitarian donors and implementing organizations,[18] and does not capture the full range of financing flows.[19] Additionally, definitions and methodologies vary across data sources, for example there is variation in the criteria for what can be included as humanitarian assistance, and data are not necessarily comparable over time or across donor and recipient countries (Development Initiatives, 2020).

There are no comprehensive estimates of humanitarian and development contributions allocated to forcibly displaced populations. Aggregate figures for humanitarian assistance include contributions across the full spectrum of humanitarian crises, not just displacement crises, and there is scant data on aggregate development contributions for displaced populations and their host communities. A survey of OECD DAC members in 2019 provides some basic estimates of ODA between 2017-2019 allocated towards programs supporting refugees and their host communities, however this information is not comprehensive,[20] and there is no process in place to gather this data on a regular basis. In 2019, the United Nations High Commissioner for Refugees (UNHCR) established an online Refugee Funding Tracker (RFT), which is intended to be a 'one stop shop' platform compiling all financial data related to refugee programs.[21] However, this platform relies on voluntary reporting and only captures funds received through Refugee Response Plans (RRPs); it does not capture funds received under OCHA-led humanitarian response plans

---

[17] Aggregate humanitarian data are compiled annually in Development Initiative's Global Humanitarian Assistance (GHA) report, which consolidates data from OECD DAC, the UN Office for the Coordination of Humanitarian Affairs (OCHA)'s Financial Tracking Service (FTS), reports from UN agencies and NGOs on private humanitarian funding, and data from the Central Emergency Response Fund (CERF) on contributions from public donors. FTS captures international humanitarian assistance from OECD DAC donors to countries not eligible for ODA and international humanitarian assistance from donors outside the OECD DAC (Development Initiatives, 2020).

[18] OECD DAC data capture obligatory reporting of ODA from OECD DAC members (according to definitions established by DAC) as well as voluntary reporting by some other governments and most multilateral organizations. UN OCHA's FTS also relies on voluntary reporting by humanitarian donors and implementing agencies.

[19] Both the OECD DAC and UN OCHA's FTS capture only a small proportion (likely to be less than 10 percent) of private contributions (Development Initiatives, 2019).

[20] For example it does not include non-DAC member contributions nor financing from multilateral development banks.

[21] The Refugee Funding Tracker can be found at http://www.refugee-funding-tracker.org.

(which include IDPs) and does not capture funding allocated by multilateral development banks for forced displacement situations.

There are little data on domestic spending by host governments and communities on forcibly displaced populations.[22] There are no universal standards or systems for reporting domestic spending by host governments on displacement crises. OECD DAC data include some data on domestic expenditures on asylum seekers and refugees in donor countries, which are reported as international humanitarian assistance. Some countries that are not DAC members, such as Turkey, also report domestic expenditures on refugee populations as part of their humanitarian assistance. However, expenditure by the majority of countries hosting the largest numbers of forcibly displaced people is not reported to DAC (Development Initiatives, 2019). The lack of data partly reflects the challenges of identifying relevant expenditures, which tend to be spread across various ministries and agencies at central government level, and across various sub-national government entities.

Finally, there is no tracking of expenditures to ultimate beneficiaries—forcibly displaced populations and their host communities. Global estimates of humanitarian assistance identify only the initial recipients of humanitarian assistance, which include multilateral organizations (primarily UN agencies), the International Red Cross and Red Crescent Movement, non-governmental organizations (NGOs), and public sector entities. Initial recipient organizations tend to pass on a large proportion of their funding to partner implementing organizations, and the lack of data does not permit the identification of subsequent and ultimate beneficiaries. Consequently there are no data on the funding received by frontline implementing agencies and service providers, how this funding is allocated across sectors or geographical locations, or the ultimate beneficiaries of humanitarian assistance (disaggregating the various crisis-affected population groups). This makes it impossible to assess the cost-effectiveness of humanitarian interventions to support forcibly displaced populations and host communities.

[22] Excluding expenditures on asylum seekers and refugees in donor countries reported as international humanitarian assistance.

Domestic spending by host governments, local organizations and host communities

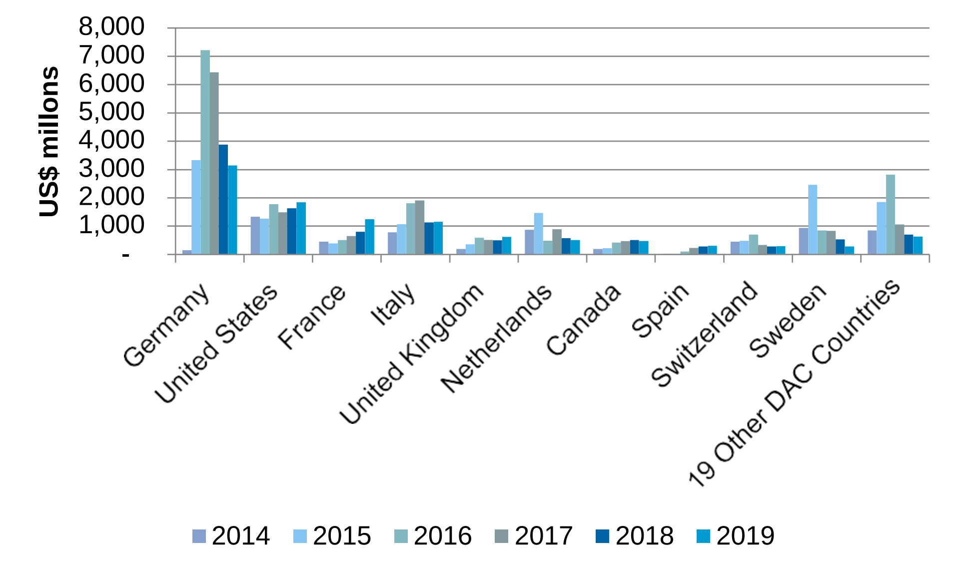
Host governments, local organizations and host communities make substantial contributions towards the protection and assistance of displaced populations, drawing on domestic revenue sources and making in-kind contributions. Host governments and communities are often the first to respond to inflows of forcibly displaced people, providing land for settlement and other material assistance, ensuring security, and laying the groundwork for international assistance. Most of this assistance is not quantified or reported, and consequently domestic spending is largely 'invisible' and excluded from global estimates of assistance to forcibly displaced populations.

Most of the available estimates on domestic spending on hosting asylum seekers and refugees are for high-income countries, and estimates are not robust. OECD DAC member countries are allowed to report "in-donor refugee costs" as ODA, including expenditures on refugees and asylum seekers in the first 12 months of stay such as temporary accommodation, food, medical care, administrative costs and refugee resettlement programs.[23] Analysis shows that in-donor refugee costs for DAC members increased substantially in 2015 due to the inflows of asylum seekers to Europe. Preliminary figures for 2019 indicate that total in-donor refugee costs for DAC countries are nearly US$10.5 billion, with Germany, the United States, France and Italy accounting for 70 percent of these costs. The OECD estimates that the average cost of processing and accommodating asylum seekers in Europe is around €10,000 per application, excluding integration services provided during the asylum phase (OECD, 2017). Other rough estimates suggest that the cost of processing and accommodating refugees and asylum seekers could range from 0.01 percent of Gross Domestic Product (GDP) in the United States to 1.35 percent of GDP in Sweden.[24]

[23] Expenditures on detention centers, border security and patrol, and the costs of returning rejected asylum seekers are excluded from ODA. Expenditures on asylum seekers after their application is rejected, and refugees in transit to other countries for resettlement are also excluded from ODA.

[24] In 2015, Germany received 900,000 asylum seekers and spent €16 billion (0.5 percent of GDP), Sweden received 163 000 asylum seekers and spent €6 billion (1.35 percent of GDP), the United States spent US$1.56 billion during fiscal year 2015 (0.01 percent GDP) on administrating its refugee resettlement program, and Canada's resettlement program for 25 000 additional Syrian refugees in 2014/15, was estimated to cost CAD 510 million over 6 years (OECD, 2017).

Figure 1: OECD DAC Members – In-Donor Refugee Costs 2014-2019



Source: OECD

There are few estimates of the cost of hosting refugees in low- and middle-income countries. In 2019, Turkey voluntarily reported to DAC humanitarian assistance of US$7.6 billion, of which the majority is spending on Syrian refugees within Turkey. In Jordan, the IMF estimated that additional spending due to the influx of Syrian refugees exceeded 1 percent of GDP per annum from 2013 to 2015 (IMF, 2017). In Uganda, it cost an estimated US$277 per refugee per annum, equivalent to US$323 million in FY 2016/17, of which initial reception, integration and transit accounted for 17 percent of costs, and broader integration accounted for 83 percent of costs (UNDP, 2017).

Sub-national governments and local communities often bear a significant portion of these costs. In high-income countries, fiscal transfers to local government authorities are frequently used to fund refugee-related costs at the sub-national level, however the extent to which fiscal transfers cover the true cost of refugees is debated (OECD, 2017). In low- and middle-income countries, intergovernmental fiscal transfer systems should ideally take into account the additional sub-national expenditures associated with hosting refugees and IDPs. In Uganda, for example, efforts to integrate the delivery of education, health and water services to refugees and their host communities within the local government system are to be supported by increased fiscal transfers to refugee-hosting local governments (by including the number of refugees in the allocation formulae).

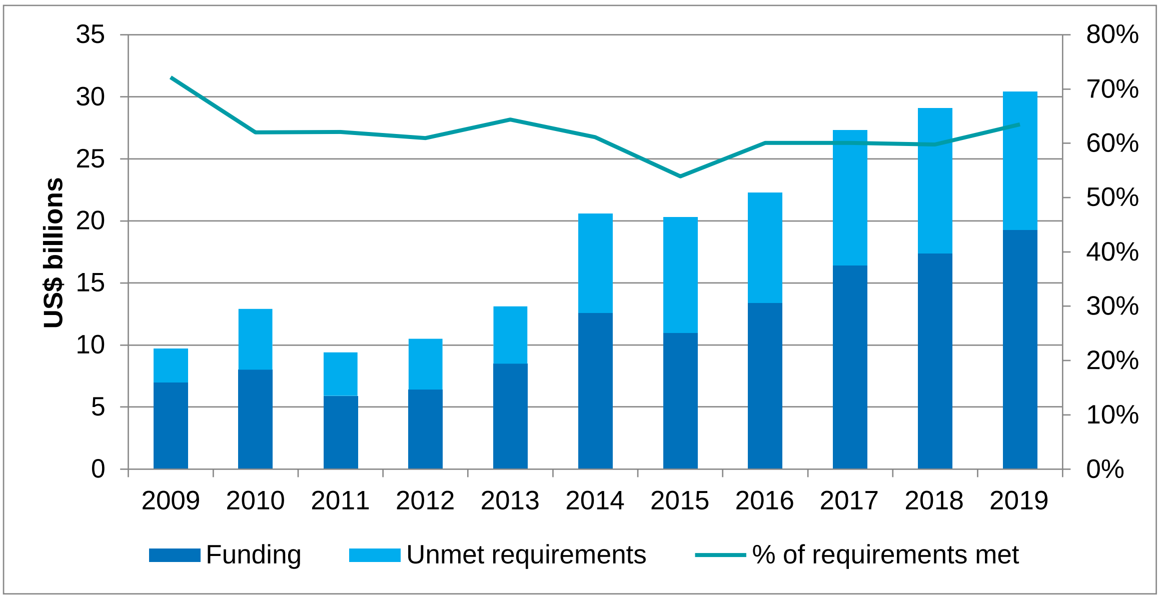
Humanitarian financing for forced displacement situations

Trends in humanitarian financing requirements and financing gaps

There is an upward trend in humanitarian financing requirements as indicated by data on UN-coordinated humanitarian appeals.[25] While there are no global estimates of total humanitarian needs (either in terms of people in need or funding requirements), data on UN coordinated appeals provide some indication of the trend in overall humanitarian needs.[26] In 2009, funding requirements for 22 UN-coordinated appeals totaled US$9.7 billion, of which US$7 billion was met by international donors (Development Initiatives, 2010). By 2019, the latest year for which data is available, funding requirements for UN-coordinated appeals had increased more than threefold, reaching an unprecedented US$30.4 billion, covering an estimated 215.6 million people living in 69 countries (Development Initiatives, 2020). The crisis in Yemen alone required over US$4 billion, while the crisis in Syria required over US$3 billion (Development Initiatives, 2020).

Whilst there has been an upward trend in financing requirements within UN-coordinated appeals, the funding gap has remained relatively constant, hovering around a third of financing needs. In 2019, funding committed through UN-coordinated appeals rose to a record high of US$19.3 billion, representing 64 percent of funding requirements, leaving a third unfunded (Development Initiatives, 2020).

Figure 2: Funding of UN Coordinated Appeals, 2009 - 2019

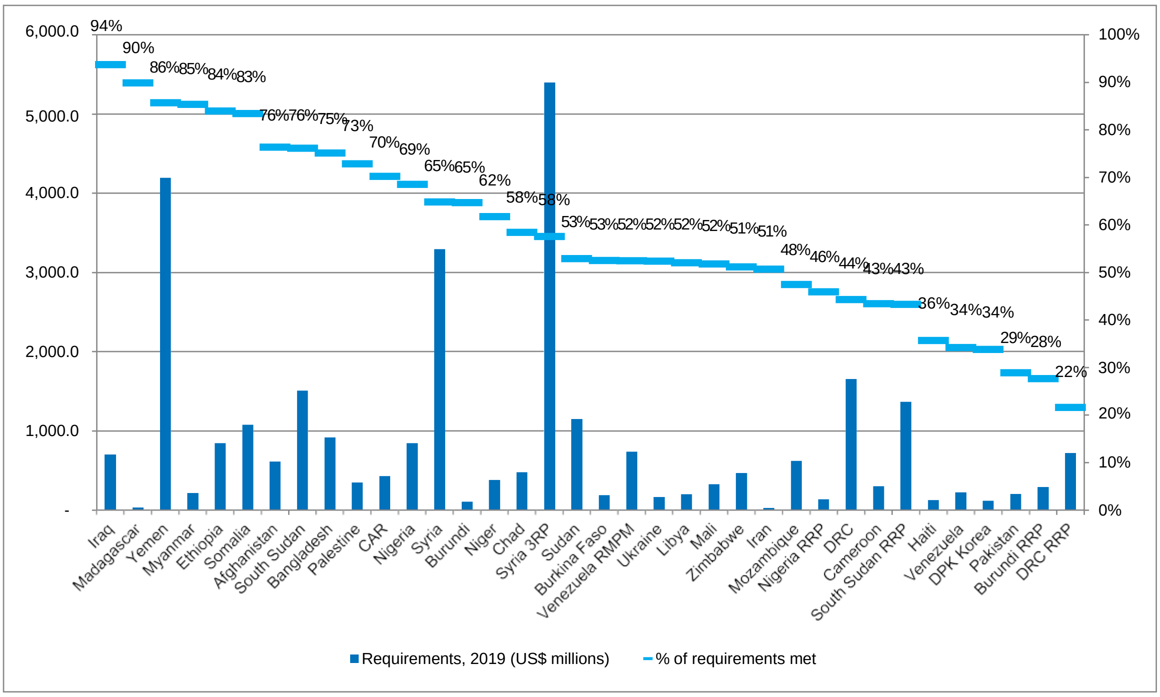


Source: Development Initiatives (2020)

[25] UN-coordinated humanitarian appeals include humanitarian response plans and appeals wholly or jointly coordinated by UN OCHA or UNHCR, including strategic/humanitarian response plans, flash appeals, joint response plans and regional refugee response plans. Data on humanitarian financing are compiled by Development Initiatives based on data from UN OCHA's FTS and UNHCR.
[26] International donors contribute substantial amounts to humanitarian crises, agencies and projects that are outside the scope of the UN appeals process, either bilaterally or directly through implementing organizations.

The level of donor response to UN appeals varies widely across humanitarian crises. For example, in 2019, eight appeals (Iraq, Madagascar, Yemen, Myanmar, Ethiopia, Somalia, Afghanistan and South Sudan) were over 75 percent funded, while 11 appeals received less than half of what was requested (Mozambique, Nigeria RRP, DRC, Cameroon, South Sudan RRP, Haiti, Venezuela, DPK Korea, Pakistan, Burundi RRP, DRC RRP) (Development Initiatives, 2020).

Figure 3: Coverage for UN appeals, 2019



Source: Development Initiatives (2020)

The majority of humanitarian assistance committed through the UN appeals process is directed towards countries affected by protracted conflict and displacement. Countries affected by conflict and displacement (34 of 42 countries for which data is available) accounted for 96 percent of UN funding requirements (US$28.6 billion) and 97 percent of total funding (US$18.4 billion) in 2019. Of the 34 countries affected by conflict and displacement, 24 countries have protracted crises, accounting for 87 percent of funding requirements (US$ 25.8 billion) and 89 percent of total funding (US$16.8 billion) in 2019.[27]

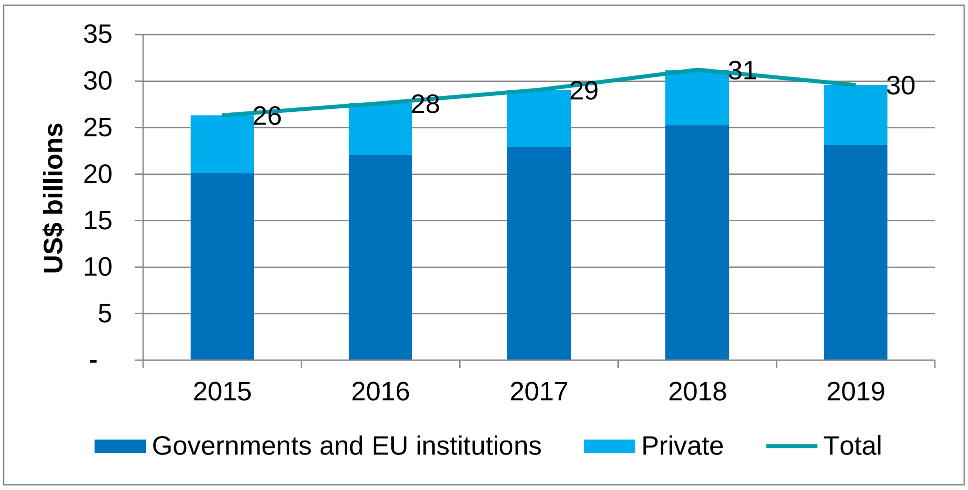
[27] Data collated by Development Initiatives (2020) on funding for UN appeals (excluding countries with less than 0.7 million people in need) allow some analysis by type of crisis (conflict, displacement, natural disaster), by length of crisis (whether protracted, defined as countries with at least five consecutive years of UN-coordinated humanitarian or refugee response plans as of 2019), and by risk of escalating need for international assistance from COVID-19 pandemic.

Trends in global international humanitarian assistance

The total amount of international humanitarian assistance is much larger than the assistance committed solely through UN-coordinated appeals. UN-coordinated appeals represent a collective request to international donors for crisis funding for UN agencies, a number of international NGOs and in some cases governments. However, not all crisis-affected countries, aid organization and aid projects are represented in UN-coordinated appeals. For example, there are many aid organizations, including the International Federation of Red Cross and Red Crescent Societies (IFRC), International Committee of the Red Cross (ICRC), and large NGOs such as Médecins Sans Frontiers (MSF) that carry out their fundraising independently of the UN process. Some international donors have a preference for contributing assistance outside the UN appeals process, in particular governments in the Middle East and North Africa and Latin America give large proportions of their funding outside the UN appeals process.

Over the last five years, total international humanitarian assistance has averaged US$29 billion per year, composed of US$23 billion in contributions from governments and European Union (EU) institutions, and US$6 billion in private contributions (Development Initiatives, 2020).[28] Moreover, amounts reported as international humanitarian assistance are only a small proportion of total ODA—in 2019 international humanitarian assistance was just 15 percent of total ODA (Development Initiatives, 2020).

Figure 4: Overall levels of international humanitarian assistance



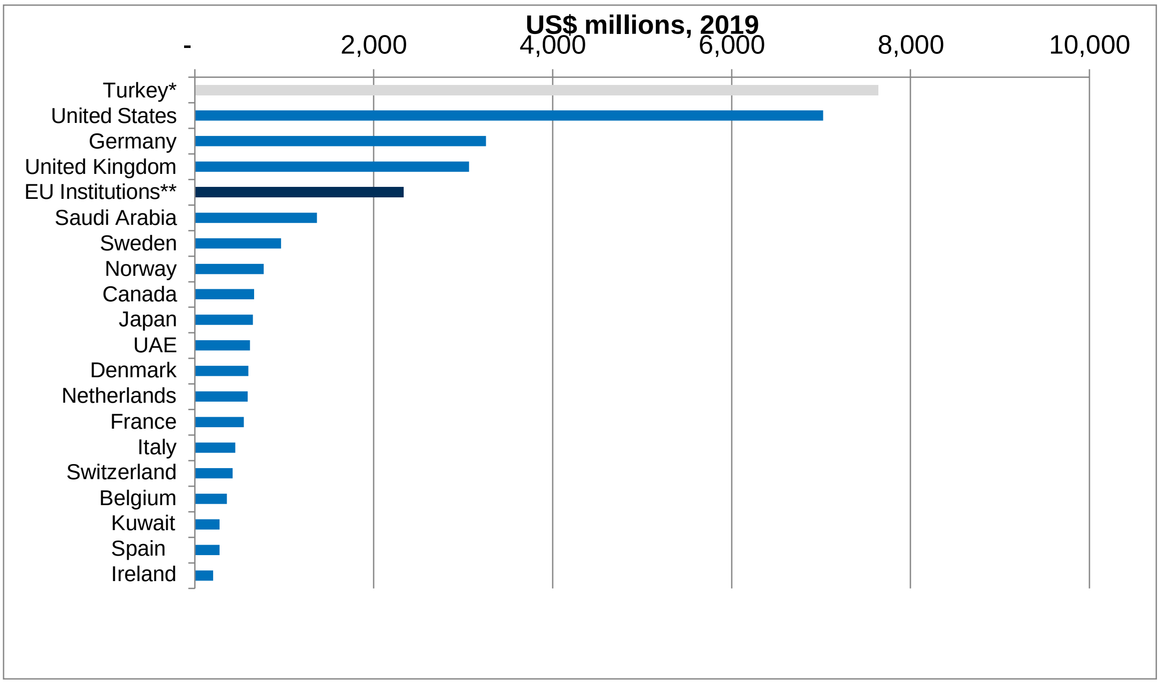
Source: Development Initiatives (2020)

A small number of donors regularly contribute the majority of international humanitarian assistance. In 2019 the 20 largest donors provided 97 percent of all international humanitarian assistance (Development Initiatives, 2020). The three largest donors of international humanitarian assistance in 2019—the United States, Germany and the United Kingdom—contributed 58 percent of all international assistance from public donors (Development Initiatives, 2020). The significance of humanitarian assistance provided by these donors relative to the size of their economies varies. For example the

[28] Private donors include individuals, trusts and foundations, companies and corporations, and national societies among others.

United States contributes just 0.03 percent of its Gross National Income (GNI), Germany contributes 0.08 percent of its GNI, and the United Kingdom contributes 0.11 percent of GNI (Development Initiatives, 2020). Only eight donor countries contribute over 0.1 percent of GNI as international humanitarian assistance.[29]

Figure 5: Largest contributors to international humanitarian assistance

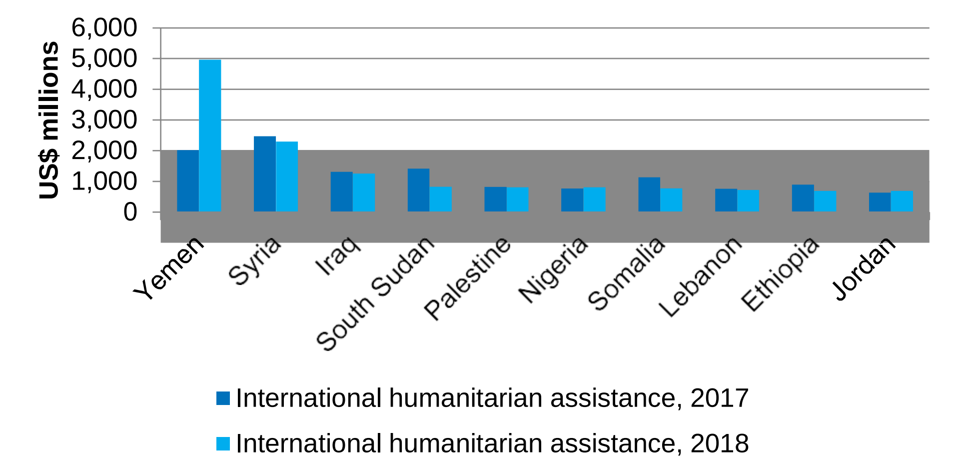


Source: Development Initiatives (2020)
Note: Turkey's international humanitarian assistance largely consisted of expenditure on Syrian refugees within Turkey. Contributions of EU member states include an imputed amount of the EU institutions' expenditure.

A small number of countries receive a large proportion of total humanitarian assistance. For more than a decade, the 10 largest recipients of country-allocable international humanitarian assistance have received just under two-thirds of the global figure (Development Initiatives, 2020). In 2019, the 10 largest recipient countries accounted for 44 percent of international humanitarian assistance. The largest recipient country, Yemen, received 16 percent of all international humanitarian assistance in 2019.

[29] Kuwait, Saudi Arabia, Norway, Sweden, Denmark, Luxembourg, UAE, and United Kingdom (Development Initiatives, 2020).

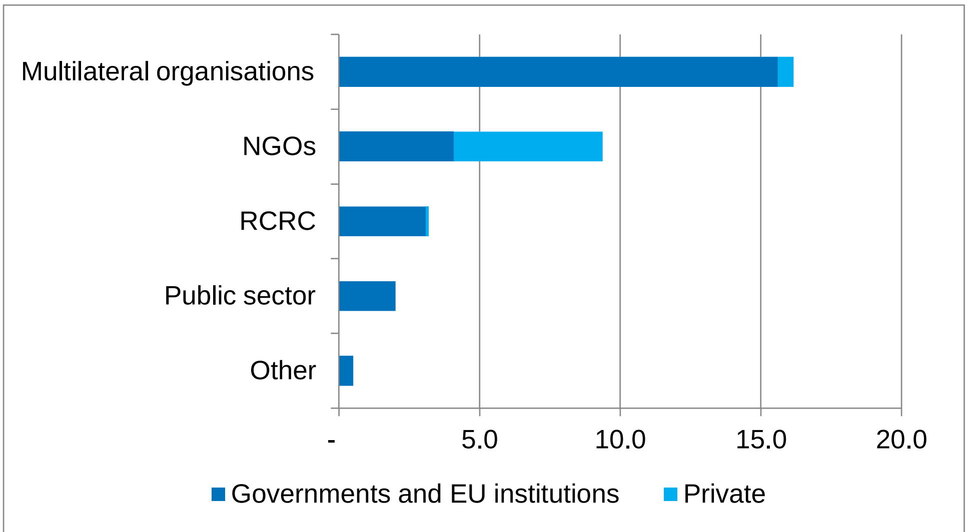
Figure 6: Largest recipients of international humanitarian assistance, 2017 and 2018



Source: Development Initiatives (2020)

Over half of international humanitarian assistance is channeled through multilateral organizations. International donors may make contributions through various channels, including multilateral organizations, NGOs, Red Cross and Red Crescent Movement, and the public sector. The majority of contributions from government donors go to multilateral organizations,[30] and the majority of private contributions go to NGOs.[31] These initial recipient organizations may deliver assistance themselves or pass it on to other implementing partner organizations. Lack of data does not permit any analysis of the ultimate recipients of international humanitarian assistance and so **it is not possible to identify the proportion of international humanitarian assistance that benefits displaced populations and host communities**.

Figure 7: Channels for international humanitarian assistance, 2019



Source: Development Initiatives (2020)

[30] 62 percent in 2018, the latest year for which data is available (Development Initiatives, 2020).
[31] 89 percent in 2018, the latest year for which data is available (Development Initiatives, 2020).

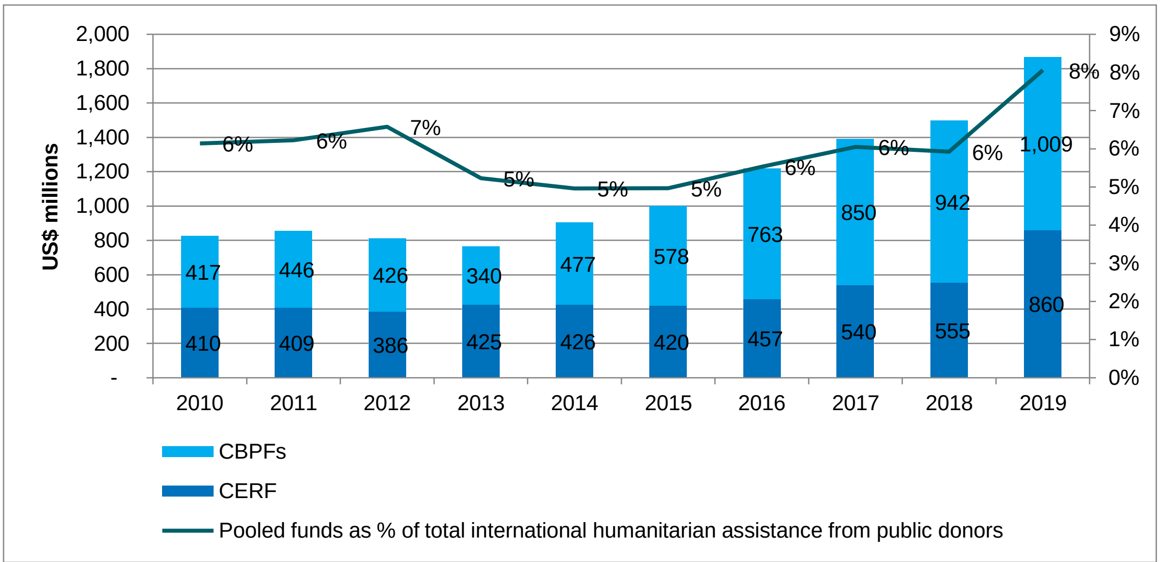
Only a proportion of international humanitarian assistance is allocated towards refugees and host communities. International humanitarian assistance responds to the full spectrum of humanitarian crises and people in need, not just conflict-induced displacement crises and the needs of refugees, IDPs, and their host communities. In 2017, for example, it was estimated that DAC members contributed humanitarian assistance of US$6.5 billion in ODA towards programs supporting refugees and their host communities (Forichon, 2018).[32]

Current humanitarian financing instruments used in displacement contexts

Humanitarian Pooled Funds

UN and NGO pooled funds combine contributions from government and private donors to enable more flexible humanitarian responses. They include global funds such as the UN's Central Emergency Response Fund (CERF), country-specific funds such as the UN's Country-Based Pooled Funds (CBPF), as well as thematic funds such as UNFPA's Humanitarian Thematic Fund and Save the Children's Emergency Fund. The 2019 UN Development System (UNDS) Funding Compact endorsed by the UN General Assembly recognizes the importance of pooled funds and sets specific targets to broadening and deepening contributions to these vehicles.[33] A small group of country donors is responsible for the majority of contributions to UN pooled funds (Development Initiatives, 2020). While total funding to UN pooled funds has more than doubled since 2003, nevertheless UN pooled funds continue to represent only a small proportion of government humanitarian contributions (just 8 percent in 2019).

Figure 8: Contributions to UN Pooled Funds, 2010 – 2019



Source: Development Initiatives (2020)

[32] This amount represented 70 percent of ODA allocated towards programs supporting refugees and their host communities.

[33] Member States committed to: (1) doubling their share of non-core contributions to pooled funds for development-related activities from 5 percent in 2017 to 10 percent by 2023; (2) increasing the number of pooled fund contributors to 100 by 2021 (from 59 in 2017); and (3) fully resourcing two key flagship funds, the UN Joint SDG Fund and the Peacebuilding Fund (DHF, 2020).

Box 2: UN Central Emergency Response Fund (CERF) and Country-Based Pooled Funds (CBPFs)

CERF has provided more than US$6 billion since its creation in 2006 (UN OCHA, 2020). In 2019, funding to CERF reached US$860 million (Development Initiatives, 2020),[34] and the fund made US$539 in allocations across 49 countries. This included around US$339 million for urgent aid in new or deteriorating emergencies, and $200 million for assistance to an estimated 14.4 million people in 23 critically underfunded and neglected crises (UN OCHA, 2020).[35] A large proportion of CERF funds are used to address the humanitarian consequences of forced displacement. In 2019 CERF funds assisted an estimated 18 million people affected by displacement (61 percent of all people targeted) including 6.1 million IDPs, 3.2 million refugees, 1.9 million returnees and 6.8 million people hosting displaced populations (UN OCHA, 2020). CERF funding to the Venezuela Regional Refugee and Migrant Crisis, for example, allowed UN agencies and partners to provide urgent assistance to more than 170,000 of the most critically affected refugees and people in host communities in Brazil, Colombia, Ecuador and Peru (UN OCHA, 2020).

There are 18 CBPFs that respond to country-specific needs, with funds managed locally by the UN's Humanitarian Coordinator and allocated to a range of implementing partners (Development Initiatives, 2020). In 2019, CBPFs allocated more than US$1 billion, more than doubling total allocations since 2015.[36] However, funding to CBPFs represents just 4 percent of government humanitarian contributions in 2019. CBPFs are the largest source of direct funding to national and local NGOs. NGOs continued to receive the bulk (71 percent) of CBPF funding in 2019, with funding to local and national NGOs increasing to almost 25 percent of total CBPF funding (Development Initiatives, 2020).

Progress on Grand Bargain commitments

Tangible progress on the Grand Bargain commitments has been made in several areas. The fourth Annual Independent Report (AIR) of the Grand Bargain commitments was published in June 2020, providing an assessment of collective progress made by signatories during 2019. It highlights several areas where tangible progress has been made. Since 2016, signatories have collectively doubled the volume of cash programming in humanitarian settings to US$5.6 billion by the end of 2019, with evidence of consequent efficiency and effectiveness gains. There has been a general shift in policy towards more localized responses, including a measurable increase in the number of signatories meeting the 25 percent target for providing funding to local actors as directly as possible (10 signatories in 2019), but there has been no comparable collective effort to strengthen the capacities of local and national responders to absorb additional international funding. There was continued progress towards improving the quality of joint needs analyses and related planning. Progress was also made in instituting greater transparency in the publication of funding and activity data, with 85 percent of signatories publishing some data on their funding and activity to the International Aid Transparency Initiative (IATI) Standard by the end of 2019, and 45 percent of signatories reporting that they used IATI data in some way during 2019.

---

[34] This figure is slightly different to the figure for total contributions of US$835 million in the CERF annual report for 2019.
[35] Organizations that are the largest recipients of CERF funding are the WFP, UNICEF, FAO, UNHCR, IOM, and UNFPA (UN OCHA, 2020).
[36] Four CBPFs accounted for half of the CBPF allocations in 2019: Yemen (23 percent, US$244 million), Syria Cross-border (11 percent, US$118 million), South Sudan (7.8 percent, US$82 million) and Iraq (7.6 percent, US$79 million) (Development Initiatives, 2020).

There was no clear increase in the predictability of funds committed through multi-year frameworks. The number of donors reporting having met or exceeded the target of 30 percent of their humanitarian funding allocated as unearmarked or softly earmarked funding, increased from seven in 2018 to 11 in 2019, and seven donors have reported year-on-year increases in the volume of multi-year funding that they provide (Metcalfe-Hough, Fenton, Willitts-King, & Spencer, 2020). Notwithstanding this progress, the typical modalities for multi-year funding (i.e. multi-year framework agreements with staggered annual releases of funds on the basis of annual performance assessments) may limit its predictability since aid organizations do not have sufficient guarantees of future funding to enable them to implement longer-term approaches. It is also unclear how much of the increased volume of unearmarked or softly earmarked funding is allocated directly to aid organizations rather than via pooled funds, which then effectively earmark those funds against specific objectives (Metcalfe-Hough, Fenton, Willitts-King, & Spencer, 2020). In fact, aid organizations reported very limited increases in the volume of unearmarked funds they receive, and even if they do receive flexible funds, they often earmark funds against specific objectives when they pass funds on to implementing partners.

There remain substantial challenges in moving towards the original goals of the Grand Bargain, with very limited substantive progress on some of the core commitments (Metcalfe-Hough, Fenton, Willitts-King, & Spencer, 2020). In particular, there has been a lack of progress on reducing duplication and management costs with periodic functional reviews. While a large number of donor signatories (87 percent) reported progress on reducing individual donor assessments, evaluations, verifications, risk management and oversight processes, there is little evidence that these efforts are having a tangible impact. Additionally, while a harmonized and simplified reporting template has been devised (the “8+3 narrative reporting template”), just six signatories (9 percent) had rolled the template out globally to their downstream NGO partners by the end of 2019. The 2019 AIR also notes that ownership and accountability for the transformation envisaged by the Grand Bargain remains variable, with most of the progress made by a core group of signatories.

Development financing for forced displacement situations

While development organizations have distinct objectives and modalities, their efforts complement those of humanitarian organizations in forced displacement settings. Most development organizations aim to address the medium-to longer-term socioeconomic dimensions of forced displacement crises, as part of their broader poverty reduction mandate. In forced displacement settings, development assistance typically aims to gradually reduce the needs and vulnerabilities of forcibly displaced populations and their host communities by making durable improvements in their circumstances. Consequently, development finance is typically used to fund investments or support policy reforms, rather than covering emergency consumption needs of displaced populations or government recurrent costs, with a focus on interventions that can be sustainable by reducing the requirements for external assistance (World Bank, 2017).

There are very little data on the overall levels and trends in development financing for forcibly displaced populations and host communities. Addressing the poverty and vulnerability of refugees, IDPs, and host communities is a development issue critical to achieving the Sustainable Development Goals (SDGs), and consequently is central to the mission of bilateral and multilateral development actors. However, there are very little data or analysis of the overall sources, amounts, channels and recipients of development assistance dedicated to forcibly displaced populations and their host communities.

The available data suggest that development assistance is currently only a small proportion of total resources devoted to refugee situations. A 2019 survey of ODA contributions by DAC members found that in 2017, they contributed development assistance of US$2.8 billion towards projects and programs supporting refugees and host communities, compared with humanitarian assistance of US$6.5 billion contributed to refugee situations (Forichon, 2018). The predominance of humanitarian financing for refugees and their host communities is evident across all geographical regions (Forichon, 2018). However, some DAC members—including Germany, Turkey, Spain, Hungary, Czech Republic, and Slovenia—have contributed more development funds overall than they have humanitarian assistance (Forichon, 2018). The survey shows that development funds as a percentage of ODA going to refugee-hosting contexts has increased from 23 percent in 2015 to 30 percent in 2017 (Forichon, 2018). DAC members are also integrating issues related to refugees into their development policies (Forichon, 2018).[37] These figures exclude financing from multilateral development banks (MDBs), such as the World Bank, which are increasing allocations for refugees and their host communities.

[37] The Financing Refugee-Hosting Contexts Survey received 29 responses from DAC members in total. 25 participated in the New York Declaration and negotiations on the Global Compact on Refugees, 21 made decisions to integrate refugee-related issues into their development policies, and 20 advocated for refugee issues

Current development financing instruments used in forced displacement contexts

Special concessional allocations

Most host governments are reluctant to use limited concessional financing for non-nationals. MDBs can provide financing to government clients in the form of loans, concessional loans (known as 'credits'),[38] or grants, usually as part of fixed country allocations. However, most host governments are reluctant to borrow on non-concessional terms or use limited concessional financing or grant allocations to support non-nationals, which has constrained the ability of MDBs to channel support to refugees. This constraint does not apply to IDPs, returned refugees, and people living in host communities, who are citizens, and who should be able to benefit from the usual country allocations.[39]

To address this constraint, many MDBs have established special concessional allocations for refugee-hosting countries. Examples include the World Bank's IDA 18 Sub-window for Refugees and Host Communities (RSW) and IDA19 Window for Host Communities and Refugees (WHR), the African Development Bank (AfDB)'s Transition Support Facility,[40] the Islamic Development Bank (IsDB)'s Grant Facility to support countries with large and sudden intraregional migration inflows,[41] and the European Bank for Reconstruction and Development (EBRD)'s Refugee Response Plan, among others.

[38] Concessional loans (credits) typically have a lower than market interest rate, a grace period, and a longer repayment period of up to 40 years.
[39] While IDPs, returned refugees and host communities can, in principle, be covered by country allocations, their needs may be greater due to displacement (World Bank, 2017).
[40] Established in 2008 as an operationally autonomous entity within AfDB (initially called the Fragile States Facility), the Transition Support Facility has mobilized more than UA 2 billion additional development finance.
[41] In 2019, the IADB Board of Governors approved US$100 million from its Grant Facility, with additional resources to be provided by the donor community, to support countries that have received large inflows of refugees or migrants (IADB, 2019). Grant funds will be combined with regular IDB loan operations of US$800 million. Eligible countries include Belize, Chile, Colombia, Costa Rica, Ecuador, Guyana, Panama, Peru and Trinidad and Tobago.

Box 3: World Bank IDA 18 Regional Sub-Window for Refugees and Host communities (RSW) and IDA 19 Window for Host Communities and Refugees (WHR)

The RSW was established in 2017 to provide dedicated funding to low-income countries hosting large numbers of refugees, with a view to scaling up the World Bank's development approach to forced displacement, and supporting host government commitments to enact policy change and address the socioeconomic dimensions of refugee situations.

The RSW, which allocated US$1.85 billion in highly concessional financing,[42] has been succeeded by the US$2.2 billion WHR.[43] US$1 billion of the WHR is allocated for COVID-19 responses during FY21 in full grants regardless of a country's debt distress risk level,[44] and US$1.2 billion is available for commitments in FY22 and FY23, provided on financing terms broadly the same as for the RSW.[45]

The RSW and WHR support interventions that focus on the medium- to long-term development needs of refugee and host communities. The specific objectives are to support refugee hosting countries to: (i) mitigate the shocks caused by refugee inflows and create socioeconomic development opportunities for refugees and host communities; (ii) facilitate sustainable solutions to protracted refugee situations including through the sustainable socioeconomic inclusion of refugees in the host country and/or their return to countries of origin; and (iii) strengthen country preparedness for increased or new refugee flows (World Bank, 2019).

Priority initiatives may include operations that: (i) promote refugees' welfare and inclusion in the host country's socioeconomic structures; (ii) support legal solutions and/or policy reforms with regard to refugees, e.g. freedom of movement, formal labor force participation, identification documents and residency permits; (iii) help ensure access and quality of services and basic infrastructure to refugees and host communities; (iv) support livelihoods in host community areas; (v) support policy dialogue and activities to facilitate and ensure the sustainability of refugee returns; and (vi) strengthen government finances where these have been strained by refugee inflows.

To access financing, countries must host over 25,000 refugees (or refugees must represent at least 0.1 percent of the population), adhere to an adequate framework for the protection of refugees, and have in place a strategy or plan that describes concrete steps, including policy reforms, towards long-term solutions that benefit host communities and refugees.[46]

---

[42] RSW was introduced as part of the IDA 18 replenishment, covering commitments made from July 1, 2017 to June 30, 2020. The overall allocation fluctuated during IDA 18: the initial envelope of US$2 billion was increased to US$2.2 billion at the IDA 18 mid-term review, then reduced to US$1.7 billion at the 2019 Annual Meetings, and by the end of IDA 18 landed at US$1.85 billion with around US$300 million in excess demand that was postponed to early IDA 19.
[43] WHR is part of the IDA 19 replenishment, covering commitments made from July 1, 2020 to June 30, 2023.
[44] Countries are assessed by the IMF and World Bank to be in debt distress when the country is already experiencing difficulties in servicing its debt (e.g. they have arrears, ongoing or impending debt restructuring, or indications of a high probability of a future debt distress event).
[45] For countries at high risk of debt distress, financing is provided on grant terms. For countries at low to moderate risk of debt distress, funding is provided 50 percent in grants and 50 percent in the applicable credit terms of the country. Financing is provided on 100 percent grants to countries that experience a sudden massive inflow of refugees, defined as receiving at least 250,000 new refugees or at least 1 percent of its population within the last 12 months. The RSW could finance up to five-sixths of the project amount, with a sixth contributed from a country's regular Performance-Based Allocation (PBA). WHR can finance up to 90 percent of the total project amount, with at least 10 percent from the country's PBA.
[46] A national cap of US$500 million per country will be applied. A minimum allocation of US$10 million was introduced to provide countries that have notional allocations of less than US$10 million with a minimum level of financing to have impact at a certain scale.

14 countries were eligible for the RSW,[47] which collectively host 6.3 million refugees. Thirty-five projects will benefit from US$1.85 billion in RSW resources, with a total project value of US$3.4 billion. Sectors and themes covered include education, health, social protection, access to jobs, water and sanitation. The WHR pipeline is taking shape, with US$326.5 million approved in Q1 FY21 for projects in Chad, Ethiopia and Uganda. Ten projects targeting an additional US$332.5 million are being prepared in Burundi, Djibouti, Ethiopia, Mauritania and Uganda. Discussions are ongoing at the country level on an additional 14 projects in nine countries.

RSW financing and the accompanying policy dialogue have been instrumental in supporting countries' development responses to refugee management (World Bank, 2019). In Ethiopia, dialogue led to the adoption of reforms that transition from an encampment model and offer refugees socioeconomic rights, including to move freely, work, and access services (World Bank, 2019).[48] In Cameroon, Chad, Niger, the Republic of Congo, and Uganda, the World Bank is supporting the transition from humanitarian to national service delivery of health, education, and social protection. In Bangladesh, the World Bank is helping the government to adopt a medium-term approach to their emergency response by strengthening systems to respond to the Rohingya crisis. In Rwanda, the World Bank helped the government to adopt a Strategic Plan for Refugee Inclusion to expand refugee access to services and economic opportunities and is now supporting its implementation. In Pakistan, dialogue is underway on more predictable terms of stay for some Afghans and on economic inclusion by enabling refugees to open bank accounts (World Bank, 2019).

Collaboration between the World Bank and UNHCR on the RSW has led to tangible outcomes, including strengthened humanitarian-development complementarity in programming, coordinated policy dialogue with client governments and close monitoring of the protection environment in recipient countries (World Bank, 2019).

Blended finance

Blending arrangements are increasingly used for assisting middle-income countries to meet the cost of hosting large displaced populations, recognizing the global public good that they are providing. Blending involves combining a grant with a loan to lower the interest cost of the loan or provide more lenient repayment terms. These arrangements are especially attractive for middle-income borrowing countries, which previously did not have access to concessional financing. Examples of blending arrangements that have been used in forced displacement contexts include the European Investment Bank (EIB)'s Economic Resilience Initiative[49] and the World Bank-administered Global Concessional Financing Facility (GCFF), among others.

[47] Bangladesh, Burkina Faso, Burundi, Cameroon, Chad, Djibouti, DRC, Ethiopia, Mauritania, Niger, Republic of Congo, Rwanda, Pakistan and Uganda. Up to five more countries may become eligible for the WHR (World Bank, 2019).

[48] The *Ethiopia Economic Opportunities Program* supports the government's approach to development solutions for refugees, while expanding jobs and economic opportunities to benefit both Ethiopians and refugees. The passage of the Refugees Proclamation, which provides a range of rights for refugees, including the right to move freely, work, access education, obtain legal documentation and open bank accounts, was a condition of project effectiveness.

[49] The Economic Resilience Initiative (ERI) was launched by the EIB in 2016 to address the challenges in Southern Neighborhood States and the Western Balkans posed by forced displacement and migration, economic downturns, political crises, droughts and flooding. Donor contributions blended with EIB financing enable the EIB

Box 4: The Global Concessional Financing Facility (GCFF)

GCFF was launched in 2016 on the initiative of the UN, IsDB and the World Bank to reduce the cost of borrowing for middle-income countries hosting large numbers of refugees. By combining donor contributions with MDB loans, GCFF enables eligible middle-income countries that are facing refugee crises to borrow at concessional rates. GCFF was originally focused on Jordan and Lebanon, which as middle-income countries could not borrow from MDBs at concessional rates reserved for low-income countries (GCFF, 2019). In September 2016, the scope of GCFF was extended to include eligible countries anywhere in the world. Subsequently Colombia and Ecuador have been added as benefitting countries.

As of April 2020, GCFF pledges from Supporting Countries and the European Commission amounted to US$773 million, of which it has disbursed US$604 million in Concessionality Amounts, supporting 15 projects in Jordan, Lebanon, Colombia and Ecuador worth over US$3.8 billion (GCFF, 2020).[50] GCFF funds are disbursed first to Implementation Support Agencies (ISAs),[51] which in turn disburse funds to Benefitting Countries in parallel with the disbursement of the ISA loan. The disbursement of GCFF funds alongside the ISA loan effectively makes the ISA loan concessional.

The GCFF supports projects in a range of sectors, provided they benefit both refugees and host communities, including projects that: (i) promote effective delivery of basic services; (ii) expand economic opportunities (e.g. through job creation programs, issuance of work permits, or crowding in of private investment); (iii) build or strengthen critical infrastructure; and (iv) provide host countries with vital budget support to better manage the fiscal and humanitarian impact of the mass influx of refugees.

Projects supported by GCFF are already delivering tangible results for forcibly displaced people and their host communities. For example, in Jordan, the *Economic Opportunities for Jordanians and Syrian Refugees Program for Results* has had a transformative effect on economic opportunities for Syrian refugees and host communities, with substantial increases in the number of employed Syrians,[52] the emergence of home-based businesses,[53] and improved working conditions in the garment sector. In addition to increasing school enrollments of Syrian refugee children, the *Jordan Education Program for Results* has incentivized the Ministry of Education to include Syrian refugees in the policy priorities and reforms for the Jordanian education system as an integral part of that system. For example, when government decided that KG2 enrolment should be universal for five-year-olds, this policy included Syrian five-year-olds as well. In Colombia, the *Second Fiscal Sustainability, Competitiveness and Migration Development Financing* has led government to take two policy actions in support of Venezuelan migrants and refugees. It has adopted measures to regularize the legal status of irregular Venezuelan migrants into the national economy, and to facilitate their access to the labor market and basic services such as

---

to support investments that generate positive socioeconomic returns but may otherwise not be funded, due to fiscal constraints, poor financial returns or high risk. Blending grants with EIB loans lowers the overall cost of investments, allowing national and local authorities to implement much-needed investments while ensuring fiscal sustainability. Under ERI, more than 59 projects have been approved for a total of €5.26 billion in investment. The initiative is expected to provide a total of €15 billion in extra financing.

[50] The Jordan Emergency Health Project and Jordan Emergency Health Additional Financing are counted as one project.

[51] Countries prepare funding requests jointly with and ISA including the World Bank, IDB, EBRD, EIB, and in exceptional cases several UN agencies.

[52] Employed Syrians increased from about 50,000 to 100,000-150,000, including 45,000 with a work permit.

[53] Nearly 1,000 home-based businesses have started or formalized their activities, with 60 percent female owners.

education and health. The government has also approved a medium-term National Policy to, inter alia, develop a roadmap for the integration of migrants from Venezuela that includes health, education, water and sanitation, support for children, and housing services as well as services to productively integrate them into labor markets.

Multi Donor Trust Funds (MDTFs)

MDTFs pool resources from donors into a single fund that is usually administered by a MDB. MDTFs typically benefit from the administrator's convening power, and from its fiduciary, management, and oversight systems. They provide a platform for broad-based partnerships, donor coordination, knowledge sharing, and harmonization amongst contributing donors, but not necessarily beyond the MDTF. They can reduce transactions costs for donors, who can piggyback on the administrator's technical and fiduciary expertise, as well as for recipients, which are not subject to multiple fiduciary rules and reporting requirements. Their governance structure varies but it usually involves a combination of donors, stakeholders in beneficiary countries, and the fund administrator. MDTFs can be structured in many ways, and they provide a flexible vehicle to address global or regional issues.

MDTFs can complement the lending programs of MDBs but there is no clear evidence that they contribute additional global development assistance. MDTFs can complement the traditional lending programs of MDBs in contexts where financing needs exceed MDB's country-based allocation limits (e.g. Afghanistan),[54] there is demand for fast and flexible grant funding to catalyze future MDB lending (e.g. the World Bank-administered Global Program on Forced Displacement Trust Fund and the State and Peacebuilding Fund),[55] and in cases where MDBs cannot engage because the country is in arrears or there is no country program, often in post-conflict contexts (e.g. World Bank-administered trust funds in Sudan, South Sudan, Liberia, Somalia and Zimbabwe). However, there is no clear evidence that MDTFs have added to global ODA (IEG, 2011).

World Bank-administered MDTFs have been used extensively in fragile and conflict-affected situations, including countries affected by forced displacement. World Bank-administered MDTFs in FCS have been effective mechanisms for donor coordination, have insulated the technical aspects of project design and implementation from political considerations, and reduced transaction costs for capacity stretched recipients (IEG, 2011). However, they have also encountered a number of implementation challenges, notably: capacity building was not as effective as anticipated, possibly reflecting the use of parallel structures for initial implementation; differences in approach between the World Bank and UN were difficult to reconcile; and donors' interest in channeling resources through Bank-managed trust funds—to ensure high fiduciary standards and focus on results—was in some cases inconsistent with their desire for rapid implementation of emergency operations (IEG, 2011). MDTFs with clear governance arrangements and that complemented World Bank country programs were more successful (IEG, 2014).

---

[54] The Afghanistan Reconstruction Trust Fund (ARTF) pools donor funds and is the largest source of on-budget financing for the country's development.
[55] The GPFD and SPF are two of several TFs that supports analytic work that informs IDA operations, for example by supporting strategic and policy dialogue with clients on forced displacement. The SPF can also provide seed funding to single-country MDTFs and can pilot innovative approaches.

Box 5: Global Program on Forced Displacement (GPFD) Trust Fund

GPFD was established in 2009 to spearhead the World Bank's contribution to an enhanced development response in forced displacement situations. Since its inception, GPFD has worked closely with a broad range of external stakeholders as well as with various operational units within the World Bank to engage in global debates and to support the design and implementation of effective development programs in forced displacement settings.

Until 2015, GPFD focused on building partnerships and producing analytics that informed later interventions. In 2016-2017, GPFD further articulated the World Bank's approach to forced displacement in the flagship report *Forcibly Displaced: Toward a Development Approach Supporting Refugees, the Internally Displaced, and Their Host* and by supporting the preparation of World Bank Group Development Committee paper on Forced Displacement and Development. Since then, GPFD has been increasingly engaged in supporting the further development and operationalization of this agenda at both global and country level, including through resources made available under GCFF, RSW and WHR.

Trade preferences

Trade preferences—such as lower or zero tariffs offered to a trading partner—can boost host government initiatives to expand employment opportunities for refugees and host communities and attract private sector investment. Efforts to promote the self-reliance and integration of refugees are often linked to proposals to employ refugees in Special Economic Zones (SEZs) with financial support from donors and private investment, and in some cases supported by trade preferences for products manufactured in them (Arroyo, 2018). Trade preferences can magnify the benefits of providing work permits to refugees by stimulating new investments and job opportunities, while at the same time creating an additional incentive for host countries to integrate refugees in the labor market (Elliott & Arroyo, 2019).

Trade preferences were a feature of the EU-Jordan Compact, which encountered a number of implementation challenges. As part of the EU-Jordan Compact, the EU agreed to increase its financial assistance to Jordan and ease the rules of origin (ROO) that it applies to Jordanian exports for firms in the SEZ hiring 15 percent of Syrian refugees in their workforce. In return the government committed to facilitate the access of Syrian refugees to formal employment and its educational system (Arroyo, 2018). The compact faced several implementation challenges, with limited formal job creation for Syrian refugees, partly due to the fact that SEZs were located far from where most Syrian refugees were settled and offered working conditions and wages that were often unsatisfactory (Huang & Gough, 2019). To address these constraints, ROO terms were extended to qualifying companies outside of SEZs, once Jordan has granted 60,000 active work permits to Syrian refugees (Huang & Gough, 2019).

Several factors are critical to the successful application of trade preferences in displacement contexts. Critical success factors for the successful application of trade preferences in displacement contexts include: (a) attractive trade preferences adopted for a sufficient period of time; (b) sufficiently competitive companies to qualify for preferential treatment; (c) appropriately skilled refugees to work in targeted sectors; and (d) attractive incentives (pay, transportation allowances, working conditions, cultural attitudes) for refugees to work in targeted zones or sectors targeted by the trade preferences (Arroyo, 2018). Host countries should also remove regulations (e.g. sectoral quotas or work permit restrictions) that restrict the economic inclusion of refugees in targeted sectors (Arroyo, 2018). The application of trade preferences may be limited in refugee-hosting contexts given that many host countries already benefit from preferential access to developed country markets and further improving their preferential access would erode the value of the preferences already granted to other vulnerable countries also deserving protection (Arroyo, 2018).

Modalities of development financing

Investment project financing

Investment project financing is the most common form of development financing in forced displacement situations. Investment project financing provides loans, concessional loans (credits) or grants to directly finance activities (inputs) supporting the forcibly displaced or their hosts. For example, out of 35 operations receiving financing from the World Bank's RSW, 33 operations use only Investment Project Financing. Out of 12 World Bank operations receiving financing from GCFF (excluding additional financing as well as pipeline and cancelled projects), five operations use Investment Project Financing.

Budget support

Budget support is widely used by MDBs and increasingly for bilateral ODA. Budget support is a form of financial assistance (in the form of either loans, credits or grants) that supports a medium-term development program and is provided directly to a recipient government's budget on a regular basis, using the country's own public financial management systems. Budget support is usually linked to sector or national policies rather than to specific project activities or budget line items. It requires prior discussion and agreement over public expenditure priorities, fiduciary and other safeguards, and coordination amongst donors. Budget support is often the preferred instrument in countries with adequate public finance management capacity, since it helps to strengthens country systems, ensures better donor coordination, and lowers transaction costs compared to fragmented, earmarked project financing (Tuluy, 2018).

Out of 12 World Bank operations receiving financing from GCFF (excluding additional financing as well as pipeline and cancelled projects), four operations use Development Project Financing (budget support) instruments. One of these operations, the *Jordan Second Programmatic Energy and Water Sector Reforms Development Policy Loan* is focused specifically on policy actions in the energy and water sectors to improve financial viability and efficiency, to avoid trading off future fiscal and sector resiliency against the immediate demands of accommodating Syrian refugees. Large Development Policy Financing operations in Jordan,[56] Colombia,[57] and Ecuador[58] support broad policy programs to drive

[56] The Jordan First Equitable Growth & Job Creation Programmatic Development Policy Financing supports a broad policy program to drive growth and job creation. It includes measures that benefit Syrian refugees by waiving work permit fees for them, increasing economic opportunities through work permit issuance in select sectors, introducing a minimum wage, and strengthening social assistance institutions. Other indirect benefits may arise from the support to the development of services and small and medium enterprises (SMEs), a reduction in barriers in the labor market, as well as the implementation of a secured transactions regime, which will make borrowing easier for those without property.

[57] The Colombia Second Fiscal Sustainability, Competitiveness, and Migration DPF aims to sustain Colombia's efforts to facilitate access to jobs and basic social services for Venezuelan migrants and refugees, as well as the

growth and job creation, including measures to regularize the status of Syrian refugees and Venezuelan migrants displaced abroad.

Budget support may be justified in refugee hosting countries, since refugee inflows result in unplanned increases in public expenditures that exceed amounts provided for in national budgets (Tuluy, 2018). Budget support could be used to meet these additional costs without jeopardizing other critical expenditures (Tuluy, 2018). Refugee-hosting countries would need to have adequate public finance management capacity at central and local levels to effectively and efficiently absorb and account for the additional resources (Tuluy, 2018). Support could be provided to strengthen public financial management systems through complementary capacity building and technical assistance.

Budget support could be linked to policy actions that are critical to addressing the specific vulnerabilities of forcibly displaced people (for example by facilitating their economic inclusion) or supporting host communities. This could be done by linking budget support to the achievement of specific milestones in the *Comprehensive Refugee Response Framework*.

Outcome-based financing

Outcome based financing, such as the World Bank's Program for Results (PforR) instrument, is increasingly being used to support development results in forced displacement contexts. Outcome-based financing involves beneficiary governments implementing programs through their own systems, with donor funding provided when pre-agreed targets are met. This has proven an effective way to focus on results rather than inputs, and to promote the use of country systems.

---

communities that are hosting them. Specific policy measures include efforts to regularize the status of over 260,000 migrants.

[58] The Ecuador Second Inclusive and Sustainable Growth Development Policy Financing supports Ecuador's efforts to promote fiscal sustainability and foster private sector development while protecting vulnerable groups and integrating migrants in a complex environment. It will also help to finance future actions for promoting the integration of Venezuelan migrants.

Box 6: World Bank Program-for-Results (PforR)

Several development operations supported by financing from RSW and GCFF use PforR modalities.

The Ethiopia Economic Opportunities Program includes U$308 million of PforR financing to support a subset of the government's Job Compact Program[59] including expenditures related to the government's refugee management program and industrialization strategy, as well as initiatives to promote investment and improve investment climate, including improving labor productivity. Disbursements are linked to a number of indicators such as the number of refugees with access to economic opportunities.

The Uganda Support to Municipal Infrastructure Development Program – Additional Financing expands support to eight districts that have faced a high influx of refugees, with disbursements linked to municipal government performance on institutional and service delivery themes.

Since 2016, the *Economic Opportunities for Jordanians and Syrian Refugees PforR* has been supporting the implementation of the economic opportunities component of the Jordan Compact, which aims to improve job and entrepreneurship opportunities for Jordanians and Syrian refugees. The operation also supports labor market reforms to enable more formal and legal participation of Syrian refugees in the labor force as well as better working condition in the industrial sector.

Improving Quality of Health Care Services and Efficiency in Colombia aims to improve the quality of health care services and improve efficiency of health expenditures, and contributes to improving access to quality healthcare services for Venezuelan migrants who are regularly registered through the special residency permit (PEP) program. Through this PforR, 225,250 migrants from Venezuela will be affiliated to the mandatory health insurance through the social security system and will be provided with the same rights to access healthcare services as any Colombian citizen.

The *Jordan Education Reform Support Program* seeks to improve the quality of education for both Jordanian and Syrian refugee children by expanding access and improving quality of early childhood education, improving teaching and learning conditions, reforming the student assessment and certification system, and strengthening the education system management.

[59] Signed by the government of Ethiopia and international partners in 2016 and led by the EIB along with the World Bank, United Kingdom and other EU nations, the compact offers a US$500 million package to build two industrial parks that will employ 100,000 people, 30 percent of whom will be refugees; it also includes government policy changes granting refugees expanded employment rights by issuing work permits for the parks.

Current state of private sector financing

Private sector engagement in forced displacement settings has yet to materialize at scale. To date, the private sector has engaged in forced displacement crises primarily as a contractor, by delivering goods and services as part of agreements with UN agencies and donors (World Bank, 2017). The private sector has typically been reticent to invest in displacement contexts due to perceived weakness in the human capital base, poor infrastructure, high investment risk (political, security), and unfavorable regulatory environment. Unless these challenges are addressed, the private sector response is likely to remain below its potential.

There are opportunities for greater private sector engagement in a broad range of activities. Several studies have estimated the market potential and identified business opportunities in displacement contexts. For example a study of the market potential for financial service providers (FSPs) in Rwanda found that refugees have as much potential to generate profit for FSPs as typical low-income Rwandan customers (BFA Global, 2018). In Kenya, studies have shown that there is already a thriving informal economy in Kakuma refugee camp, with opportunities in energy related products (generation, charging, fuel) and mobile banking (IFC, 2018). In the Dadaab refugee camps in northeastern Kenya, opportunities were identified in vegetable and fruit production and in waste management and recycling (UNHCR and ILO, 2019). In Bangladesh, studies have identified several viable areas for business investment in Cox's Bazar including in clean energy, seafood, fruit and handicrafts (Sun, John Speakman, & Huang, 2019).

Wang and Cakmak (2021) provide a detailed discussion of private sector approaches in forced displacement settings in their background paper, "Private Sector Initiatives in Forced Displacement Contexts: Constraints and Opportunities for a Market-based Approach".

Prospects for innovative financing mechanisms

Innovative financing mechanisms may provide new opportunities to raise additional financing and diversify sources of financing for forced displacement situations—however little progress has been made in realizing this potential. For several years there has been much enthusiasm about the prospects of exploiting innovative financing mechanisms to raise additional financing for forced displacement situations and diversify sources of financing. In addition, some of these instruments have been touted as possible mechanisms for mitigating risks, improving the timeliness and flexibility of financing, or strengthening incentives for results. While some instruments (such as contingency financing mechanisms) are well-established tools for development financing, they have yet to be applied in forced displacement contexts. **Many of the proposals—particularly those for managing risk—are a long way from gaining traction.**

Reducing the financing gap: Potential new sources of additional financing

Taxes and levies

Globally coordinated taxes or levies (for example on international financial or currency transactions, international air travel, carbon emissions, or arms exports) have been proposed to raise funds for global public goods. Proponents of these taxes and levies argue that even a very low rate of tax could raise substantial revenues if it is applied to a large tax base.

Levies on airline tickets and carbon emissions are already being used to raise additional development financing for health and climate initiatives, and could provide a model for raising funds for refugee and migrant crises. For example, a solidarity levy on airline tickets implemented by France, which was later adopted by a number of other countries (including Cameroon, Chile, Congo, Guinea, Madagascar, Mali, Mauritius, Niger, and the Republic of Korea) provides 70 percent of funding for UNITAID[60] as well as additional financing for the International Finance Facility for Immunisation (IFFIm) (FHF, 2015). Another example is the levy on certified emission reductions (CERs) issued by the Clean Development Mechanism (CDM), which finances the climate Adaptation Fund.[61]

Islamic philanthropy

Islamic philanthropy, in the form of Zakat and Waqf,[62] are estimated to be significant sources of charitable funds. For example, it is estimated that the collection and distribution of zakat from domestic sources and remittances in 20 of 39 Organization of Islamic Cooperation (OIC) Member States could lift the extreme poor (those living on less than US$1.25 per day) above the poverty line (World Bank, 2016). UNHCR estimates that global Zakat giving is currently US$76 billion annually, and could potentially reach US$356 billion, if proper mechanisms are established for Muslims to safely fulfill their Zakat obligations (UNHCR, 2019). Islamic philanthropy is already being mobilized by UNHCR to provide cash and in-kind assistance to refugees and IDPs in eight countries.

---

[60] Unitaid is an international organization that invests in innovations to prevent, diagnose and treat HIV/AIDS, tuberculosis and malaria, and to improve access to diagnostics and treatment for HIV co-infections such as hepatitis C and human papillomavirus (HPV).
[61] The Adaptation Fund was established in 2001 to finance adaptation interventions in developing country Parties to the Kyoto Protocol that are vulnerable to the adverse effects of climate change.
[62] Zakat is a compulsory annual levy on the wealth of the rich that is directed by Islamic law to flow to the poor and the needy, while Waqf is a trust established when the contributor endows in perpetuity a stream of income accruing to a property for a charitable purpose (World Bank, 2016).

Box 7: UNHCR's Refugee Zakat Fund

Recognizing that more than 60 percent of displaced populations originate from OIC Member States, in 2019 UNHCR launched its Refugee Zakat Fund, building on its existing Zakat program. The fund allows individuals and institutions to fulfill their Zakat obligations through a globally trusted structure, governed by UNHCR, with 100 percent of contributions delivered directly to the most vulnerable refugees and IDPs. It is fully Sharia-compliant; backed by fatwas from leading Islamic scholars and institutions, and subject to strict governance, to ensure transparency. Zakat compliance requires that beneficiaries are identified through an annual vulnerability assessment, no fees or wages are deducted from Zakat funds so that the funds in their entirety go directly to eligible beneficiaries. UNHCR covers overhead costs from non-Zakat contributions.

In 2019, the fund assisted over a million beneficiaries in eight countries. In 2019 Zakat partners and individuals donated US$43.2 million in Zakat funds, equivalent to approximately 12 percent of UNHCR's expenditure on cash and in-kind assistance activities identified as Zakat-compliant in the eight targeted countries (UNHCR, 2020) UNHCR estimates that at its full potential in 2020, the fund could assist up to 2.2 million beneficiaries and distribute US$482.7 million in the eight target countries (UNHCR, 2020).

Crowdfunding

While currently concentrated in high-income countries, the crowdfunding market is estimated to grow rapidly in developing countries. Crowdfunding involves raising small financial contributions from a large number of people, usually online without financial intermediaries, for a project or venture. Contributions may be in the form of investments (debt or equity) or philanthropic donations, although the latter represents only a small share of global crowdfunding volumes (Shneor, Zhao, & Flåten, 2020). The crowdfunding market is estimated to be worth US$16 billion, largely concentrated in North America and Europe (World Bank, 2015). In developing countries, which host the majority of forcibly displaced people, the crowdfunding market is still in its infancy, estimated to be only US$327 million in 2015, just 2 percent of the global total (World Bank, 2015).[63] However, the World Bank estimates that the crowdfunding market in the developing world will grow rapidly to US$96 billion by 2025, 1.8 times the size of the global venture capital industry (World Bank, 2013).

There has been limited use of crowdfunding for humanitarian responses (FHF, 2015). In 2015, an estimated US$430 million was raised through crowdfunding platforms for projects in developing countries, of which 'disaster relief' was the eighth largest category with approximately US$27 million of funding (Development Initiatives, 2017). Crowdfunding platforms, such as Kiva (see Box 8 below), could potentially be leveraged by entrepreneurs among asylum seeker, refugee and IDP communities to access investments that they can use to start their own micro enterprises.

[63] The African crowdfunding market was estimated to be only US$70 million, accounting for less than half of 1 percent of global crowdfunding activity and about 21 percent of emerging market activity (World Bank, 2015).

Box 8: Kiva crowdfunding platform

Since 2016, crowdfunding platform Kiva (https://www.refugees.kiva.org/) has made US$14.4 million in loans to 17,746 refugees, IDPs and host community members, the majority in Colombia, Lebanon and West Bank and Gaza. Loans are raised in US$25 increments and are collected until the borrower's full loan request is crowdfunded. Kiva then provides interest-free capital to local financial institutions (field partners), which in turn facilitate loans directly to the borrower. Kiva has demonstrated that refugees repay their loans at rates similar to non-refugee borrowers (96 percent repayment rate), challenging perceptions that refugees are riskier borrowers. Kiva now intends to launch the Kiva Refugee Investment Fund (KRIF) to mobilize institutional impact investors to scale up its lending to forcibly displaced people and their host communities. The target is to provide 200,000 borrowers with micro loans. Kiva has also launched Kiva Protocol, which aims to help refugees create a digital identity and build a credit history.

Enabling rapid responses to shocks: Contingency financing and risk insurances

Contingent financing

Contingent financing gives countries access to financing immediately after an exogenous shock, such as a natural disaster. Contingent financing can provide incentives for prevention and preparedness activities and have proven to be effective in helping countries respond rapidly to shocks and to mitigate their overall costs. Contingent financing can take the form of a self-standing contingent loan, such as the World Bank's Development Policy Loan (DPL) with a Catastrophe Deferred Drawdown Option (Cat DDO), or an ex-ante emergency component of a standard investment operation, such as the World Bank's Contingent Emergency Response Components (CERC) in Standard Investment Projects (see

Box 9 below).

In forced displacement situations, contingent financing could potentially be used to help host countries adjust to the initial displacement shock, including by strengthening prevention and preparedness (World Bank, 2017). To date, the World Bank’s contingent financing instruments have not been used for conflict-induced displacement shocks, but are regularly used to secure funding for natural disasters and have recently been activated in response to the COVID-19 pandemic.

Box 9: World Bank's Development Policy Loan (DPL) with a Catastrophe Deferred Drawdown Option (Cat DDO)

The World Bank's DPL with a Cat DDO is a contingent financing instrument that provides immediate financing to countries to address shocks related to natural disasters and/or health-related events. Funds become available for disbursement after the drawdown trigger—typically the member country's declaration of a state of emergency—is met. For low-income (IDA) borrowing countries, governments can draw a maximum of US$250 million or 0.5 percent of GDP, whichever is lower.[64] For middle income (IBRD) countries, governments can secure up to US$500 million, or 0.25 percent of GDP, whichever is lower. Since the instrument was introduced in 2008, 29 IDA and IBRD operations have incorporated a CAT-DDO.

Box 10: World Bank's Contingent Emergency Response Components (CERC)

The World Bank's CERC components are prepared in advance of an emergency and embedded in standard investment operations. The objective of such components is to improve the capacity of the borrowing country to respond to an unforeseen emergency. Contingent components can be either fully funded or designed as a contingent window, into which funds can be reallocated from other project activities in the event of an emergency. For IDA-eligible countries, ex ante funding of contingent components comes from a country's IDA allocation, but following a major natural disaster, additional funds can be made available.

Risk insurances

Customized insurance instruments and risk pooling mechanisms could potentially be used in some displacement situations, building on experiences with disaster risk management.[65] Various proposals have been made to structure insurance contracts to respond to refugee shocks, through a combination of guarantees, insurance instruments, and risk pooling, but the costs of such contracts are likely to be high (World Bank, 2017). It would be necessary to define and model the 'loss' that is to be covered by the contract, and to carefully manage associated moral hazard risks (World Bank, 2017). However, there has been little progress in developing risk insurances for forced displacement crises.

[64] IDA clients with limits below US$20 million may request a Cat DDO up to a maximum of US$20 million.
[65] Various insurance tools are available that offer payouts in the event of natural disasters. Sovereign disaster risk financing can provide payouts to national and subnational governments to meet unexpected costs caused by disasters, agricultural insurance can help to protect the livelihoods of farmers and pastoralists, and social protection programs can be triggered or expanded in response to disasters.

Managing risk: Impact bonds and risk-sharing and guarantees

Impact bonds

Impact bonds allow private investors to assume the risk that would otherwise prevent a government or implementing agency from undertaking an innovative or high-risk development program (Center for Global Development). Social impact bonds or development impact bonds harness capital from private investors (foundations, pension funds, Islamic investors etc.) for socially responsible investments (World Bank, 2017). Investors provide upfront capital to a government (in the case of a social bond) or implementing agency (in the case of a development bond) for a particular development program. If the development program is successful (assessed against pre-agreed socioeconomic indicators of success) the investors are repaid capital and a pre-determined bonus or interest payment by the issuing government (Social Impact Bonds) or implementing agency (Development Impact Bonds) (Courtenay Cabot Venton, 2019). If the development program fails to achieve results the investor receives no interest and loses part of the capital investment. The higher the risk associated with the investment, the greater is the financial return required by investors (Center for Global Development).

To date, there has been limited use of impact bonds in developing countries,[66] and they have not been used extensively in humanitarian settings. While these instruments have not been used extensively in humanitarian settings, they could be considered as a mechanism for financing urban, social, or environmental services or jobs for the forcibly displaced and their hosts (World Bank, 2017). A potential drawback is increased complexity and cost of designing, implementing and monitoring the instrument. In addition, the risk transfer comes at an additional cost that is paid to investors as a return over and above the cost of the development project (Gustafsson-Wright & Osborne, 2020).

Box 11: ICRC Humanitarian Impact Bond

ICRC is the first humanitarian organization to raise funds through an ‘impact bond’, or private placement of capital (ICRC, 2017). Initial payments by ‘social investors’ (including New Re, part of Munich Re Group) are used by the ICRC to fund the construction and operation of three physical rehabilitation centers in Nigeria, Mali and Democratic Republic of Congo. After five years, ‘outcome funders’' (governments of Belgium, Switzerland, Italy, the and la Caixa Foundation) will pay the ICRC based on the results achieved, as verified by independent auditors. These funds will then be used to pay back the social investors partially, in full or with an additional return, depending on how well the ICRC rehabilitation centers perform. If the new centers perform poorly, then the social investors will lose a portion of their initial investment.

[66] The Brookings Institute keeps track of impact bonds globally, with their November 2020 snapshot covering 195 impact bonds in 33 countries, including 184 social impact bonds and 11 development impact bonds (Brookings, 2020). 17 of these bonds are contracted in developing countries, supporting outcomes in health, education, employment, social welfare, agriculture and environment (Brookings, 2020).

Risk-sharing and guarantees

Guarantees and other risk-sharing instruments can support private sector investments and commercial financing in situations of high uncertainty, and have the potential to be used in forced displacement contexts. Private sector engagement is critical to generate the type of investment needed to provide opportunities for the forcibly displaced and to help host communities manage shocks. Yet, the business environment in many host countries remains challenging. Investors can often purchase guarantees for a fee (premium) from large private insurers or alternatively from national or multilateral investment guarantee agencies, such as the World Bank Group's Multilateral Investment Guarantee Agency (MIGA). The guarantees provide investors with protection against certain political risks (expropriation, breach of contract, currency inconvertibility, war and civil disturbance) or credit risks (default on payment obligations on bonds, loans, trade finance, and other financial instruments) (World Bank, 2017).

Box 12: The World Bank Group's MIGA and the IDA Private Sector Window

MIGA, part of the World Bank Group, provides guarantees (insurance) for cross-border investments into developing countries. Over the past decade (FY10–19) an average of 10 percent of MIGA's new guarantee volume, or US$353 million annually, was in Fragile and Conflict-affected Situations (FCS) (IEG, 2020).

MIGA's guarantees protect investors against the risks of transfer restriction, expropriation, war and civil disturbance, breach of contract, and non-honoring of financial obligations. Investors making cross-border investments in MIGA member countries can apply for coverage up to a maximum insured amount of US$250 million per project, for a term of up to 15 years (20 years in occasional cases). Annual fees (premiums) are in the order of approximately 1 percent of the insured amount.

Under IDA 18, the World Bank Group introduced a US$2.5 billion IDA-IFC-MIGA Private Sector Window to catalyze private sector investment in IDA-only countries, with a focus on fragile and conflict-affected states (FCS). The facility was continued under IDA 19 at the same funding level of US$2.5 billion. It includes the US$500 million MIGA Guarantee Facility (MGF), which provides political risk insurance (covering non-commercial risks such as expropriation, currency transfer restriction and inconvertibility, war and civil disturbance, and breach of contract on key project agreements covering government obligations). The facility can be used when MIGA has reached exposure limits, or private market capacity does not exist, is insufficient or costly.

Focusing on results: Loan buy downs

Loan buy downs

While loan buy downs have not yet been used in displacement contexts, there is potential to do so. A buy down is an innovative financing mechanism that involves a third party donor agreeing to wholly or partially pay off a loan if agreed development results are achieved. An independent reviewer assesses whether the agreed results have been achieved, and if so, funds for the buy-down are released. Buy downs have been used by the World Bank in Nigeria and Pakistan to finance polio vaccinations. Following the successful completion of the polio eradication program, third party donor funding (from the Bill & Melinda Gates Foundation, Rotary International and the UN Foundation) was used to 'buy down' the net present value of the credits (concessional loans), effectively converting these credits into grants.

Conclusion: Challenges and potential way forward

This final section distils five key challenges for the efficient and sustainable financing of displacement crises, and identifies broad actions to address these challenges.

The first key challenge is the substantial and growing fiscal cost of providing assistance to displaced populations and their host communities. There are growing numbers of forcibly displaced people, who are increasingly living in situations of protracted displacement, and often alongside impoverished host communities. In the context of slow global economic growth and fiscal pressures, compounded by the global COVID-19 pandemic and economic downturn, requirements for external assistance to meet the long-term needs of displaced populations and their host communities are likely to be unsustainable. Closing the financing gap requires concerted action to:

- Reduce financing needs by redoubling efforts to address the root causes of displacement crises.
- Ensure more equitable burden and responsibility sharing across countries, recognizing that host countries are providing a global public good.
- Ensure aggregate financing for forced displaced crises is adequate to meet humanitarian needs as well as the longer-term development needs of forcibly displaced people and host communities.
- Mobilize additional development resources for forced displacement crises including: expanding concessional financing and grant allocations for low-income countries, expanding blended finance facilities for middle-income countries, and employing multi-donor trust funds where lending programs are not available or appropriate. Funding should be as concessional as possible to reduce the debt burden on host countries. Financing strategies should be consistent and sustainable within a country's macro-fiscal framework.
- Expand the use of guarantees and other risk-sharing mechanisms to attract private sector investment.
- Exploit the full range of potential financing sources to reduce the financing gap, including innovative financing instruments, some of which have been employed successfully in other development contexts.

The second key challenge is the lack of comprehensive data on financing for forced displacement situations. Despite the emerging international consensus on closing the humanitarian financing gap and more equitable burden and responsibility sharing, there are no global estimates of financing requirements for forced displacement crises, nor comprehensive data on humanitarian and development resources allocated to support forcibly displaced people and host communities. Detailed data on the cost of protecting and assisting displaced populations and mitigating adverse impacts on host communities are crucial for assessing progress towards the burden sharing commitments in the Global Compact on Refugees, making comparisons across donor and recipient countries, and assessing the cost-effectiveness of humanitarian and development interventions. To address these data gaps, efforts are required to:

- Improve the quality of collective needs assessments and estimates of financing requirements for forced displacement crises.

- Establish a centralized platform and harmonized standards for reporting humanitarian and development contributions for forced displacement situations, including domestic spending by host governments.

- Establish a regular, system-wide process for monitoring expenditures (inputs), outputs and results to determine effectiveness and efficiency of interventions to protect and assist forcibly displaced populations and host communities. This would make it possible to calculate and compare the costs of interventions across countries, identify good practices and potential cost savings.

Third, **host governments, local organizations and host communities in developing countries often shoulder the initial burden of providing emergency assistance**. They make substantial contributions towards the protection and assistance of displaced populations, drawing on domestic revenue sources and making in-kind contributions. To better support local and national responders in displacement crises, efforts are required to:

- Improve the timeliness, predictability and flexibility of financing for forced displacement situations.

- Ensure that a host government-led *Comprehensive Refugee Response Framework* provides the mechanism for coordinating donor and government planning and financing strategies.

- Redouble efforts to fulfill the Grand Bargain commitments. In particular, donors should increase collaborative, multi-year (predictable) planning and funding, and reduce earmarking of contributions.

- Pilot contingent financing modalities to help potential host countries prepare for future displacement shocks.

- Ensure local and national responders receive an increased proportion of financing. Financing should be complemented with capacity building to ensure that local and national responders can absorb additional funding.

- In low- and middle-income countries, intergovernmental fiscal transfer systems should take into account the additional sub-national expenditures associated with hosting refugees and IDPs.

The fourth key challenge is the inefficiencies in humanitarian and development financing. The potential savings from the Grand Bargain commitments was estimated at US$1 billion over five years, but have yet to be realized. A system of ‘pass-through funding’ is pervasive, particularly in the humanitarian sector, whereby funding is passed from the initial recipient organization down to a frontline implementing organization, sometimes through one or more intermediary organizations. To increase the efficiency of humanitarian and development assistance, efforts are required to:

- Review the system of pass-through funding to understand the implications for costs and benefits, with a view to reducing duplication and management costs.

- Require greater transparency on the part of recipient organizations to account for how funds are being used and to demonstrate impact.

- Harmonize and simplify indicators for reporting on progress and outcomes, supported by independent monitoring and verification.

A final challenge relates to the legal and policy framework in host countries, which affects the scale and duration of financing requirements (in particular around the right to work), as well as the effectiveness development financing. The fiscal costs of hosting refugees and asylum seekers are so high, in large part, because they are prevented from working in many host countries or face other legal impediments to establishing livelihoods. Addressing this challenge requires action to:

- Ensure that development financing goes hand-in-hand with, and supports, an enabling policy environment for the protection and self-reliance of forcibly displaced people. Financing for displacement crises should focus not only on meeting the needs for humanitarian assistance and development investments but also on supporting the adoption of a sound legal and policy framework governing the management of displaced populations. A legal and policy framework that promotes the inclusion and self-reliance of displaced populations, through employment and freedom of movement, could potentially reduce the scale and duration of fiscal impacts on host countries and communities, and consequent financing requirements.

- Increase focus on development initiatives and policy reforms that reduce the needs and vulnerabilities of forcibly displaced populations and their host communities.

- Pursue policy and regulatory action in high-income countries as well, including commitments around increasing quotas for resettlement of refugees, increasing humanitarian and development financing, reducing earmarking and increasing multi-year financing and increasing market access.

References

Arroyo, H. T. (2018). Promoting Labour Market Integration of Refugees with Trade Preferences: Beyond the EU-Jordan Compact . *EUI Working Papers RSCAS* (42).

BFA Global. (2018). *Refugees and Their Money: The Business Case for Providing Financial Services to Refugees .*

Blau, F. D., & Mackie, C. (Eds.). (2016). *The Economic and Fiscal Consequences of Immigration.*

Brookings. (2020). *Brookings Impact Bonds Snapshot –November 1, 2020 .*

Center for Global Development. (n.d.). *Investing in Social Outcomes: Development Impact Bonds* . Retrieved November 9, 2020, from Center for Global Development: https://www.cgdev.org/page/investing-social-outcomes-development-impact-bonds-0

Courtenay Cabot Venton, J. R. (2019). *Innovative Financing fro Responses to Refugee Crises.*

Development Initiatives. (2010). *Global Humanitarian Assistance Report 2010.*

Development Initiatives. (2017). *Global Humanitarian Assistance Report 2017.*

Development Initiatives. (2019). *Global Humanitarian Assistance Report 2019.*

Development Initiatives. (2020). *Global Humanitarian Assistance Report 2020.*

Development Initiatives. (2020). *How is aid changing in the Covid-19 pandemic?*

Devictor, X., & Do, Q.-T. (2016). How Many Years Have Refugees Been in Exile? *Policy Research Working Paper* (7810).

DHF. (2020). *Financing the UN Development System - Time to Walk the Talk.*

Elliott, K. A., & Arroyo, H. T. (2019). Using Trade Preferences to Support Refugees and their Hosts.

FHF. (2015). *Looking Beyond the Crisis.*

Forichon, K. (2018). *Financing Refugee-Hosting Contexts: An analysis of the DAC's contribution to burden- and responsibility-sharing in supporting refugees and their host communities .* OECD.

GCFF. (2019). *GCFF Annual Report 2018-2019.*

GCFF. (2020). *GCFF Progress Report July 1, 2019 – April 15, 2020 .*

Grand Bargain Secretariat. (2020). *About the Grand Bargain*. Retrieved October 15, 2020, from Inter-Agency Standing Committee: https://interagencystandingcommittee.org/about-the-grand-bargain

Grand Bargain. (2016). *The Grand Bargain – A Shared Commitment to Better Serve People in Need.*

Gustafsson-Wright, E., & Osborne, S. (2020). *Do the benefits outweigh the costs of impact bonds.* Brookings.

Huang, C., & Gough, K. (2019, March 11). *The Jordan Compact: Three Years on, Where Do We Stand?* Retrieved November 9, 2020, from Center for Global Development: https://www.cgdev.org/blog/jordan-compact-three-years-on

IADB. (2019, May 7). *IDB.* Retrieved October 26, 2020, from IDB approves grant funds for countries receiving migrants in Latin America and Caribbean : https://www.iadb.org/en/news/idb-approves-grant-funds-countries-receiving-migrants-latin-america-and-caribbean

ICRC. (2017, September 6). *The world's first "Humanitarian Impact Bond" launched to transform financing of aid in conflict-hit countries*. Retrieved November 11, 2020, from ICRC: The world's first "Humanitarian Impact Bond" launched to transform financing of aid in conflict-hit countries

IEG. (2020). *The International Finance Corporation's and Multilateral Investment Guarantee Agency's Support for Private Investment in Fragile and Conflict-Affected Situations.*

IEG. (2011). *Trust Fund Support for Development An Evaluation of the World Bank's Trust Fund Portfolio.*

IEG. (2014). *World Bank Group Assistance to Low-Income Fragile and Conflict-Affected States.*

IFC. (2018). *Kakuma as a Marketplace.*

IMF. (2017). *Jordan Selected Issues, IMF Country Report No. 17/232.*

Metcalfe-Hough, V., Fenton, W., Willitts-King, B., & Spencer, A. (2020). *Grand Bargain annual independent report 2020.*

OECD. (2019). *DAC Recommendation on the Humanitarian-Development-Peace Nexus.*

OECD. (2017). Who bears the cost of integrating refugees. *Migration Policy Debates* (13).

Shneor, R., Zhao, L., & Flåten, B.-T. (Eds.). (2020). *Advances in Crowdfunding.*

Sun, I. Y., John Speakman, & Huang, C. (2019). *How Business Can Invest in the Future of the Rohingya and Host Community In Bangladesh.*

Tuluy, H. (2018). *An Assessment of Financing Options for Refugee-Hosting States A Briefing note.*

UN OCHA. (2020). *CERF Annual Results Report 2020 edition.*

UN OCHA. (2020). *Global Humanitarian Overview 2020.*

UNDP. (2017). *Uganda's Contribution to Refugee Protection and Management.*

UNHCR and ILO. (2019). *Doing Business in Dadaab Report: Market Systems Analysis for Local Economic Development in Dadaab, Kenya.*

UNHCR. (2020). *Global Trends - Forced Displacement in 2019.* UNHCR.

UNHCR. (2020). *Islamic Philanthropy 2020 Annual Report.*

UNHCR. (2020, January). *Summary of participation and pledges at the Global Refugee Forum*. Retrieved 2020, from UNHCR: https://www.unhcr.org/5e20790e4

UNHCR. (2019). *UNHCR*. Retrieved November 9, 2020, from UNHCR unveils the Refugee Zakat Fund, a global Islamic finance structure to help displaced populations worldwide: https://www.unhcr.org/hk/21715-unhcr-unveils-the-refugee-zakat-fund-a-global-islamic-finance-structure-to-help-displaced-populations-worldwide.html

United Nations General Assembly. (2016). New York Declaration for Refugees and Migrants.

UNSG HLP. (2016). *Too Important to Fail: addressing the humanitarian financing gap.*

World Bank. (2015). *Crowdfunding in Emerging Markets: Lessons from East African Startups.*

World Bank. (2013). *Crowdfunding's Potential for the Developing World.*

World Bank. (2016). *Forced Displacement and Development.*

World Bank. (2017). *Forcibly Displaced - Toward a Development Approach Supporting Refugees, Internally Displaced Persons and Their Hosts.* World Bank.

World Bank. (2019). *IDA18 Impementation Status and Proposed Reallocations.*

World Bank. (2020). *IDA18 Regional Sub-Window for Refugees and Host Communities*. Retrieved October 13, 2020, from World Bank Group: https://ida.worldbank.org/replenishments/ida-18replenishments/ida18-regional-sub-window-for-refugees-host-communities

World Bank. (2016). *Islamic Finance - A Catalyst for Shared Prosperity.*

World Bank. (2019). *Special Theme - Fragility, Conflict and Violence.*

World Bank. (2020). *Window for Host Communities and Refugees*. Retrieved October 13, 2020, from World Bank Group: https://ida.worldbank.org/replenishments/ida19-replenishment/windows-host-communities-refugees