

# TECHNICAL NOTE

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## Reforming the Global Financial Architecture to Address the Challenges of Refugee Hosting as a Global Public Good

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This Technical Note builds on the recommendations of the United Nations Secretary-General's High-Level Advisory Board on Effective Multilateralism (HLAB) in its report entitled [A Breakthrough for People and the Planet](#), aimed at ensuring sustainable finance that delivers for all (Shift 3). The HLAB report noted that meaningful transformation of the global financial architecture begins with defining a core set of global public goods and global commons investments. This Technical Note contributes to that call.

Focusing on recommendations one<sup>1</sup> and four,<sup>2</sup> this Technical Note unpacks the ways in which reforms of the global financial architecture can support efforts to address the challenges of forced displacement, and frames this investment as a global public good (GPG). Proposed actions include an increase in dedicated multilateral development bank (MDB) financing for refugees and host communities in low- and middle-income

countries (LMICs), reform of the MDBs to ensure a focus on GPGs, the creation of a dedicated GPG bank with its own balance sheet and governance structure, and the mobilization of political will among refugee-hosting countries to ensure that refugees and internally displaced persons (IDPs) are included in development co-operation and in financing across the Humanitarian-Development-Peace (HDP) nexus.

This Technical Note is organized in four parts. The first part provides an overview of the challenges of forced displacement and why refugee hosting should be recognized as a GPG. The second part sets out the reasons why reform of the global financial architecture is needed to address current and future global challenges that go beyond individual countries. Part three examines recent efforts to leverage global finance to support refugee hosting countries. Part four sets out five actions that are needed to ensure adequate financing for refugee hosting as a GPG.

<sup>1</sup> Shift 3, Recommendation 1: Repurpose the Multilateral Development Bank (MDB) system to catalyse a new generation of public and private investments in global public goods, development, and inclusivity.

<sup>2</sup> Shift 3, Recommendation 4: Enact governance changes at the World Bank and IMF that improve representation and credibility.

This Technical Note is an output of the UNU-CPR initiative, 'A Breakthrough for People and Planet: Building Momentum for the Summit of the Future and Beyond.'

## Refugee Hosting as a GPG

The world is facing the worst displacement crisis ever recorded.<sup>3</sup> More than 108 million people are currently forcibly displaced,<sup>4</sup> including 71 million IDPs<sup>5</sup> who are unable to return to their homes due to conflict, violence, and insecurity. Foresight models suggest that the number of forcibly displaced people will have increased by at least 5.4 million by the end of 2024.<sup>6</sup> The challenge is not just the scale of forced displacement, but the fact that this displacement is becoming increasingly protracted.<sup>7</sup> At the end of 2022, there were 57 protracted situations in 37 different host countries, with an estimated 23.3 million refugees living in conditions of protracted displacement, 7.1 million more than the previous year. Displacement lasts 20 years on average for refugees and more than 10 years for most IDPs. Some protracted situations are relatively recent, such as Venezuelans in Colombia, while others have already lasted decades, such as Somali refugees in Kenya. More than half (52 per cent) of all refugees come from just three countries – Afghanistan, Syria, and Ukraine – where there are no immediate prospects for return. Türkiye continues to host the largest number of refugees worldwide, with around 3.6 million registered Syrian refugees, along with close to 320,000 persons of concern from other nationalities.<sup>8</sup>

The Global Compact on Refugees<sup>9</sup> emphasizes the importance of greater responsibility- and burden-sharing, but when it comes to hosting refugees, the weight is not equally shared. At the end of 2022, 73 per cent of refugees were hosted by LMICs. Indeed, low-income countries (LICs) continue to host

a disproportionately large share of the global refugee population, both in terms of their population size and the resources available to them. These countries represent 9 per cent of the global population and only 0.5 per cent of the global gross domestic product (GDP), yet host 16 per cent of refugees.<sup>10</sup> This includes very large refugee populations in Uganda, Sudan, Ethiopia, Chad, and the Democratic Republic of the Congo.<sup>11</sup> The 46 least developed countries are hosting more than 20 per cent of the world's refugee population – even though they account for only 1.3 per cent of global GDP.<sup>12</sup> These are countries that are already facing significant development challenges.

The costs of hosting refugees are overwhelmingly borne by LMICs, with financing needs growing in line with increases in the number of forcibly displaced people.<sup>13</sup> In the face of an ongoing and deepening humanitarian funding gap,<sup>14</sup> most host governments in LMICs rely on substantial external financing to aid refugees, and some also seek assistance to address the needs of IDPs.<sup>15</sup> External funding is either provided to LMICs through their Official Development Assistance (ODA) allocations or through development financing in the form of grants, or more commonly, loans, sometimes provided at concessional rates. In LMICs, the need to share already limited resources among refugees and host communities may affect poverty levels and development gains in both populations, especially when the response is under-resourced. Inadequate levels of financing also have broader implications for the fragility risk of refugee hosting countries, and in turn increase the risk for secondary or new displacement movements.<sup>16</sup>

3 World Bank Group, *World Bank Group Strategy for Fragility, Conflict and Violence 2020-2025* (Washington, DC: World Bank Group, 2020). Accessible at: <https://documents1.worldbank.org/curated/en/844591582815510521/pdf/World-Bank-Group-Strategy-for-Fragility-Conflict-and-Violence-2020-2025.pdf>.

4 UNHCR, *Global Trends: Forced Displacement in 2022* (Geneva: UNHCR, 2023). Accessible at: <https://www.unhcr.org/global-trends-report-2022>.

5 Internal Displacement Monitoring Centre (IDMC), *Global Report on Internal Displacement* (Geneva: IDMC, 2023). Accessible at: <https://www.internal-displacement.org/global-report/grid2023/>.

6 Danish Refugee Council (DRC), *Global Displacement Forecast 2023* (Copenhagen: DRC, 2023). Accessible at: [https://pro.drc.ngo/media/4c5hxa5c/230310\\_global\\_displacement\\_forecast\\_report\\_2023.pdf](https://pro.drc.ngo/media/4c5hxa5c/230310_global_displacement_forecast_report_2023.pdf).

7 UNHCR defines a protracted refugee situation as one in which at least 25,000 refugees from the same country have been living in exile for more than five consecutive years. See: <https://www.unrefugees.org/news/protracted-refugee-situations-explained/#What%20is%20a%20protracted%20refugee%20situation>.

8 See: <https://www.unhcr.org/tr/en/refugees-and-asylum-seekers-in-turkey>.

9 The Global Compact on Refugees is a framework for more predictable and equitable responsibility-sharing, recognizing that a sustainable solution to refugee situations cannot be achieved without international cooperation. It provides a blueprint for governments, international organizations, and other stakeholders to ensure that host communities get the support they need and that refugees can lead productive lives. See: <https://www.unhcr.org/media/global-compact-refugees-booklet>.

10 See: <https://www.unhcr.org/refugee-statistics/insights/explainers/refugee-host-countries-income-level.html#FN8>.

11 The share of refugees hosted by low-income countries has decreased in comparison to the early 1990s (51 per cent in 1990, compared with 16 per cent in 2022). This can be largely attributed to the economic development of large hosting countries within the group, such as Pakistan, which were re-classified as lower-middle-income during this period. See: <https://www.unhcr.org/refugee-statistics/insights/explainers/refugee-host-countries-income-level.html>.

12 UNHCR, *Global Trends: Forced Displacement in 2022*.

13 Doreen Kibuka-Musoke and Zara Sarzin, *Financing for Forced Displacement Situations*, Reference Paper for the 70th Anniversary of the 1951 Refugee Convention (2021). Accessible at: <https://www.unhcr.org/people-forced-to-flee-book/wp-content/uploads/sites/137/2021/10/Doreen-Kibuka-Musoke-and-Zara-Sarzin-Financing-for-Forced-Displacement-Situations.pdf>.

14 The gap between financial requirements and resources currently stands at \$43 billion – the highest ever. See OCHA, *Global Humanitarian Overview 2023, Mid-Year Update* (2023). Accessible at: <https://www.unocha.org/publications/report/world/global-humanitarian-overview-2023-july-update-snapshot-31-july-2023>.

15 World Bank Group, *Forcibly Displaced: Towards a Development Approach Supporting Refugees, the Internally Displaced and their Hosts* (Washington, DC: World Bank Group, 2017). Accessible at: <https://documents1.worldbank.org/curated/en/104161500277314152/pdf/117479-PUB-Date-6-1-2017-PUBLIC.pdf>.

16 Jens Hessemann, Harsh Desai, and Yasmine Rockenfeller, *Financing for refugee situations 2018-19* (Paris: OECD, 2021). Accessible at: <https://www.oecd.org/dac/conflict-fragility-resilience/docs/financing-refugee-situations-2018-19.pdf>.

The current model of financing clearly does not work for current and anticipated patterns of forced displacement.<sup>17</sup> Reforms of the global financial architecture are urgently needed to ensure that appropriate financing is available to support refugee hosting by LMICs, which are providing a valuable GPG. These reforms must take into consideration the political challenges associated with refugee hosting, particularly where this undermines, or is perceived to undermine, country-level development objectives, and where there is a lack of political will to take on the additional loans to meet the costs of refugee hosting, even where these are made at substantially lower interest rates.

## The Need for Reform of the Global Financial Architecture

A recent confluence of global shocks has battered the LMICs and combined to derail progress on delivery of the Sustainable Development Goals (SDGs).<sup>18</sup> These shocks include the COVID-19 pandemic, national and regional conflicts, food and energy insecurity, and the triple crisis of climate change, pollution, and biodiversity loss. While the rich countries of the Global North have been able to inject trillions into their economies to counter the worst impacts of these crises, most LMICs, constrained by limited fiscal space and high borrowing costs, have been unable to invest in recovery, climate action, and sustainable development.

Calls for reform of the global financial architecture have been led by the UN Secretary-General, António Guterres, who is critical of the current financial architecture which, he says, is completely outdated, does not meet current needs, and, through unfair treatment of different groups of States, promotes inequality and cements underdevelopment instead of helping to overcome it. In his recent policy brief, he argues that the global financial system established at the end of World War II to help the reconstruction of Europe and North America, is skewed towards the interests and needs of the developed world.<sup>19</sup> Sustainable development for the LMICs is not a pri-

mary objective and because decision-making is dominated by the interests of the countries of the Global North, developing countries have limited access to the financial resources they need to address the dramatic challenges they face. While the system has evolved over time, it is increasingly at odds with the needs of a world shaped by climate change and systemic risks, such as extreme inequality, and profound technological and geopolitical change. The international system is plagued with inequities, gaps, and inefficiencies that have deep roots in the global financial architecture, including:

- Higher borrowing costs for LMIC countries, preventing effective investments in sustainable development;
- Vast variation in countries' access to liquidity in times of crisis owing to a fragmented Global Financial Safety Net (GFSN);
- Dramatic underinvestment in GPGs; and
- Volatile financial markets and capital flows, repeated global financial crises and proliferating sovereign debt distress, with dire consequences for sustainable development.<sup>20</sup>

The Secretary-General's policy brief on the reform of the global financial architecture is part of the broader package of proposed innovations to multilateralism contained in the *Our Common Agenda*<sup>21</sup> report published in 2021. This report identified reform of the global financial architecture as one of the most important tasks that the UN must address. The need for reform is also recognized by others. For example, the Prime Minister of Barbados, Mia Mottley, has proposed implementation of the Bridgetown Initiative, which seeks to address immediate fiscal concerns and proposes a more structural set of reforms to help vulnerable countries become resilient to economic, climate, and pandemic shocks.<sup>22</sup> These proposals anchored the 2023 Summit for a New Global Financing Pact in Paris, which saw new commitments on global debt, recycling IMF Special Drawing Rights (SDRs), and green energy transitions. Meanwhile, the World Bank Group<sup>23</sup> and other MDBs are increasingly under pressure from their shareholders to step up and meet global challenges by earmarking resources for GPGs.<sup>24</sup>

17 OECD, "Financing for refugee situations," *OECD Development Policy Papers No. 24* (Paris: OECD Publishing, 2019). Accessible at: <https://doi.org/10.1787/02d6b022-en>.

18 Jeffrey D. Sachs, Guillaume Lafortune, Grayson Fuller, and Eamon Drumm, *Implementing the SDG Stimulus. Sustainable Development Report 2023* (Paris: SDSN/ Dublin: Dublin University Press, 2023). Accessible at: <https://s3.amazonaws.com/sustainabledevelopment-report/2023/sustainable-development-report-2023.pdf>; Shari Spiegel, "Fixing the global financial system," *SDG Action*, 11 July 2023, <https://sdg-action.org/fixing-the-global-financial-system/>.

19 United Nations, *Our Common Agenda: Policy Brief 6 on Reforms to the International Financial Architecture* (New York: United Nations, 2023). Accessible at: <https://www.un.org/sites/un2.un.org/files/our-common-agenda-policy-brief-international-finance-architecture-en.pdf>.

20 Ibid.

21 See: <https://www.un.org/en/common-agenda>.

22 See: <https://www.climatechangenews.com/2022/09/23/mia-mottley-builds-global-coalition-to-make-financial-system-fit-for-climate-action/>.

23 The World Bank Group consists of the International Bank for Reconstruction and Development (IBRD), the International Finance Corporation (IFC), The International Development Association (IDA), the International Centre for the Settlement of Investment Disputes (ICSID) and the Multilateral Investment Guarantee Agency. Where the term World Bank (rather than World Bank Group) is used in this Technical Note it refers to the IBRD and IDA.

24 The MDBs primarily fund large infrastructure and other development projects and provide budgetary support to governments. The MDBs provide non-concessional financial assistance to governments of MICs, private sector firms in developing countries, and some governments of low-income countries. The MDBs also provide concessional assistance, including grants and loans with low interest rates, to the governments of LICs. In 2022, about 40 per cent of the assistance were concessional loans and grants, and about 60 per cent were market-based loans and other types of non-concessional financial assistance.

Financing for GPGs is different from other forms of global financing because of its distinct features, most notably the fact that the benefits of GPG financing go beyond the specific interests and needs of the individual country which would ordinarily be responsible for repayment of the associated debt (Box 1).<sup>25</sup> For GPGs to be enjoyed by all – or at least the many – countries

and people need to be willing to cooperate and contribute to its adequate provision. This entails concerted action at national and regional levels, complemented by collective, international action; for example through pooled financing mechanisms where the costs of GPGs are borne by a large number of countries rather than just those which are most directly affected.

**Box 1: Distinguishing Features of GPGs (Kaul, 2020)<sup>26</sup>**

**GPGs have transnational reach and are global public in consumption.** In many cases, their effects span countries and areas beyond national jurisdictions, respecting neither national nor other human-made borders; penetrating national and other spaces unimpeded; and impacting, for better or worse, most people, whether rich or poor or living in the North or South. As economists say, these challenges are global public in consumption.

**International cooperation beyond and within national borders is essential to providing GPGs.** In many cases, GPG-type policy challenges are also global public in provision, meaning that no one actor, however powerful, will be able to self-provide a GPG such as climate change mitigation or the control of illicit trade. Rather, for anyone to enjoy the good, all – or at least many – countries and people need to be willing to cooperate and contribute to its adequate provision. This often entails concerted action at national and regional levels that is complemented by collective, international-level action. Current examples of such action are pooled financing mechanisms such as Gavi, the Vaccine Alliance; the Green Climate Fund; or UN peacekeeping operations. In other words, GPGs require taking the global into account when making national, regional, private, or personal policy choices.

**The provision and protection of GPGs may clash with the principle of sovereignty.** In a world of wide disparities, actors' preferences for dealing with certain GPGs may vary significantly. Considering this fact alongside the two aforementioned GPG properties, it becomes clear that in some circumstances, GPGs may be viewed as running counter to the notion of sovereignty, the overarching principle of the present world order. Thus, the effective functioning of international co-operation is likely to depend on it being sovereignty-compatible – that is, perceived by all concerned parties as mutually beneficial and helping to secure their policymaking sovereignty.

Forced displacement is just one of several global public 'bads' or challenges – the most widely cited of which is climate change – requiring a response which goes beyond the narrowly-defined interests of individual countries. The expectation that LMICs will meet the costs of refugee hosting through ODA undermines global interests and aspirations, including delivery of the SDGs. Moreover, there is evidence that increasing proportions of ODA are being used for refugee hosting in the rich countries of the Global North despite most refugees being hosted in LMICs. According to a recent report by the Organisation for Economic Co-operation and Development (OECD) (2023), spending on 'in-donor' refugee costs amounted to

\$31.0 billion in 2022, which represented 14.6 per cent of the total global ODA allocation that year. The provision of financing for GPGs is a pre-requisite for sustained future progress and for the reduction of poverty and inequality across and within countries.

**Developments in Forced Displacement Financing**

There have been significant shifts in thinking about how to address the financial and development challenges of forced displacement over recent years. These shifts are reflected in the New York Declaration for Refugees and Migrants,<sup>27</sup> the Global

<sup>25</sup> GPGs are goods whose effects go beyond State borders. They provide non-rivalrous and non-excludable benefits to citizens of more than two countries and in more than two different world regions. The costs and benefits produced by GPGs can spill over transnationally and can have effects at the global level. The challenge is that GPGs, by definition, benefit all people globally, irrespective of what entities provide them and bear the corresponding costs. This leads to an unfortunate distribution of costs and benefits among countries, incentivizing free-riding and leading to the observed underprovision. Furthermore, governments may not be willing to pay back loans for helping other countries if their own benefits are small. See: Leiza Brumat, Diego Caballero Vélez and Marta Pachocka, "Development as a Strategy for Extending Global Public Goods," *Global Public Goods and Sustainable Development in the Practice of International Organizations* eds. Ewa Latoszek and Agnieszka Klos (Brill, 2023), pp. 85-106. Accessible at: [https://doi.org/10.1163/9789004687264\\_006](https://doi.org/10.1163/9789004687264_006).

<sup>26</sup> Inge Kaul, "Redesigning international cooperation finance for global resilience," *Development Cooperation Report: Learning from Crisis, Building Resilience* (Paris: OECD, 2020). Accessible at: <https://www.oecd-ilibrary.org/sites/935c1ed8-en/index.html?itemId=/content/component/935c1ed8-en>.

<sup>27</sup> See: <https://www.unhcr.org/what-we-do/protect-human-rights/asylum-and-migration/new-york-declaration-refugees-and-migrants>.

Compact on Refugees (GCR)<sup>28</sup> and the Comprehensive Refugee Response Framework (CRRF),<sup>29</sup> all of which envisage innovative financing responses and increased efficiencies to reduce the financing gap. A core objective of the first Global Refugee Forum (GRF)<sup>30</sup> was to broaden the base of support and mobilize new donors to support comprehensive refugee responses. The second GRF, held in December 2023, similarly aimed to increase development financing in refugee situations, expand cooperation with bilateral development actors and MDBs, and ensure diversified and flexible financial instruments for short-term humanitarian and longer-term development efforts.<sup>31</sup> An estimated \$2.2 billion in new financial commitments by States and other actors was announced following the second GRF, including some \$250 million pledged by the private sector.<sup>32</sup>

Engagement by the World Bank and other MDBs has been key in mobilizing additional financial resources for refugee hosting. In the period 2018–19, MDBs reported at least \$2.33 billion of financing for refugee situations, corresponding to some 9.6

per cent of bilateral ODA to refugees and host communities.<sup>33</sup> Among the most notable and potentially promising initiatives are the Global Concessional Financing Facility (GCFF) aimed at refugee hosting middle-income countries (MICs) and the International Development Association’s (IDA) Window for Host Communities and Refugees (WHR).

The GCFF was launched in 2016 by the World Bank, the UN, and the Islamic Development Bank to support MICs receiving refugees as a result of the conflict in Syria. As the crisis unfolded, many Syrians sought refuge in neighbouring Jordan and Lebanon, and these two countries opened their borders, thus providing a GPG. However, the arrival of large numbers of refugees put a severe strain on their economies, service provision, and infrastructure. These MICs could not borrow from MDBs at concessional rates traditionally reserved for the poorest nations.<sup>34</sup> The GCFF was created to address this challenge. The GCFF reduces the cost of loans provided to MICs hosting large numbers of refugees to concessional levels (Box 2).<sup>35</sup>

## Box 2: The World Bank’s GCFF

The GCFF is a global financial intermediary fund (FIF) trust fund, initiated in 2016 by the World Bank and financed by donor governments that currently include Canada, the European Commission, Denmark, Germany, Japan, Norway, the Netherlands, Sweden, the United Kingdom, and the United States. The GCFF was formed to address the refugee crisis from the development side: to complement shorter-term humanitarian aid with longer-term development projects benefiting both refugees and host communities by making low-cost financing accessible to MICs hosting refugees. The World Bank acts as Trustee for the GCFF, houses the GCFF Coordination Unit, chairs the Steering Committee, and acts as one of the implementation support agencies. The current GCFF member countries are Colombia, Costa Rica, Ecuador, Jordan, Lebanon, Moldova, and most recently, Armenia. Member countries propose development projects to be implemented with one of the fund’s designated “implementation support agencies” (currently the European Bank for Reconstruction and Development (EBRD), European Investment Bank, Inter-American Development Bank (IaDB), Islamic Development Bank (IsDB), World Bank, and several UN agencies). The proposed projects are approved for interest rate buy-down using GCFF funds by a Steering Committee made up of representatives of each of the member countries, donor countries, and implementation support agencies. The funds are then allocated to approved projects as a grant alongside the existing market rate loan, bringing the overall interest rate for the project to concessional levels. In other words, the facility uses donor grants to reduce the interest rates on MDB loans to concessional levels for projects that benefit refugees and host communities.<sup>36</sup> Effectively this means that the borrowing country will be responsible for paying back the loan amount but not the interest on the loan.

28 See: <https://globalcompactrefugees.org/>.

29 See: <https://www.unhcr.org/comprehensive-refugee-response-framework>.

30 The GCR provides for a GRF 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 Compact’s goals.

31 See: <https://www.unhcr.org/sites/default/files/legacy-pdf/62c422ff4.pdf>.

32 See: <https://www.unhcr.org/global-refugee-forum-2023#:~:text=An%20estimated%20%242.2%20billion%20in,36%20million%20refugees%20displaced%20worldwide>.

33 Jens Hesemann, Harsh Desai, and Yasmine Rockenfeller, *Financing for refugee situations 2018–19*.

34 Concessional loans (credits) typically have a lower than market interest rate, a grace period, and a longer repayment period of up to 40 years.

35 See: <https://globalcff.org/>.

36 Franck Bousquet, “Financing Peace and Stability,” IMF, 27 June 2023, <https://www.imf.org/en/Publications/fandd/issues/Series/Analytical-Series/financing-peace-and-stability-franck-bousquet>.



To date, the GCFF has provided financing for \$851 million in grants and \$6.75 billion in loans. The GCFF supports countries' strategic development priorities and helps ensure that refugees are included in these national plans and priorities. It also helps secure private sector investment. It is important to remember, however, that the GCFF is only available to MICs and, to date, has benefited just six (soon to be seven) countries. The governments of most refugee hosting countries are either ineligible for the GCFF (because they are LICs) or else reluctant to use limited development financing for non-nationals,<sup>37</sup> or even alternative sources of MDB financing in the form of loans, concessional loans, or grants.<sup>38</sup> For this reason it is vitally important that refugee hosting is integrated into development planning and considered alongside the needs of host communities (see 'Action 5' below).

To address this constraint, a growing number of MDBs have established special concessional allocations for refugee hosting countries. Examples include the IDA's WHR,<sup>39</sup> the African Development Bank (AfDB)'s Transition Support Facility,<sup>40</sup> the IsDB's Global Islamic Fund for Refugees, and the EBRD's Refugee Response Plan,<sup>41</sup> among others.

The WHR<sup>42</sup> was established in 2017 to provide dedicated funding to LICs hosting large numbers of refugees. To access financing, countries must host over 25,000 refugees (or refugees must represent at least 0.1 per cent 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. Under IDA20, the WHR received a total funding envelope of \$2.4 billion, an increase from \$2.2 billion under IDA19 and US\$2 billion under IDA18, which is available to LICs as concessional loans. To date, 77 per cent of the WHR has been committed to African countries, which host 72 per cent of refugees who live in eligible LIC countries.<sup>43</sup> Eligible countries work to improve the policy and institutional environment for refugees and host communities. This enables IDA to work in partnership with countries to support refugee protection, enable freedom of movement, strengthen labour force participation, and ensure access to

education, health, and other services. An emergency support mechanism is also integrated into the window, providing 100 per cent grants for countries experiencing a sudden massive inflow of refugees.<sup>44</sup>

### Box 3: IDA's Window for Host Communities and Refugees (WHR)

In 2017, IDA established the WHR to provide dedicated funding to LICs hosting large numbers of refugees. Designed as an innovative financing mechanism, the WHR provides funding incentives for LICs to include refugees in poverty reduction efforts and other development efforts. This funding addresses humanitarian situations through a development perspective, 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. It aims to: (1) mitigate the shocks stemming from refugee inflows and create social and economic development opportunities for refugees and host communities; (2) facilitate sustainable solutions to protracted refugee situations, including through the sustainable socioeconomic inclusion of refugees in the host country or their return to the origin country; and (3) strengthen country preparedness for increased or new refugee flows. Funding is made available for operations that: (i) promote refugee welfare and inclusion in the host country's socioeconomic structures; (ii) support legal solutions and/or policy reforms with regard to refugees, for example freedom of movement, formal labour force participation, identification documents and residency permits; (iii) help ensure access to and quality of services and basic infrastructure for 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.

37 This constraint should 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.

38 Doreen Kibuka-Musoke and Zara Sarzin, *Financing for Forced Displacement Situations*.

39 IDA is the World Bank's main tool for supporting LICs with concessional financing, offering low- to no-interest rate loans and grants across a variety of sectors.

40 See: <https://www.afdb.org/en/topics-and-sectors/topics/fragility-resilience/transition-support-facility>.

41 See: <https://www.ebrd.com/refugee/refugee-response-plan.html>.

42 See: <https://www.worldbank.org/en/news/factsheet/2022/10/28/10-things-to-know-about-the-window-for-host-communities-and-refugees>.

43 Cindy Huang and Thomas Ginn, "The World Bank Window for Host Communities and Refugees: Opportunities for Learning and Expansion in Africa and Beyond," *Centre for Global Development Blog*, 1 December 2022, <https://www.cgdev.org/blog/world-bank-window-host-communities-and-refugees-opportunities-learning-and-expansion-africa>.

44 A sudden massive inflow is defined as receiving at least 250,000 new refugees or at least 1 per cent of the country's population within a 12-month period.

There has been significant progress made in MDB collaboration since the 2019 GRF.<sup>45</sup> One example is the pledge by seven MDBs<sup>46</sup> to establish a MDB Coordination Platform on Economic Migration and Forced Displacement (MDB Platform) to maximize the collective development impact of the MDBs for the benefit of the forcibly displaced and their hosts.<sup>47</sup> The MDB Platform aims to: enhance policy dialogue on economic migration and forced displacement through a common analytical framework; define priorities to best address migration and displacement; identify gaps in current MDB initiatives; facilitate an agreed approach between MDBs on technical assistance for preparation and the implementation of high-impact projects; and strengthen data and evidence to improve understanding of the development dimensions of migration and displacement. As the HLAB report notes, MDBs can serve as force multipliers: they combine experience, transparency, size, and reach in an unparalleled investment platform uniquely sensitive to regional needs. Moving forward, efforts will include more regular joint trainings and diagnostics—including through country platforms—that can be scaled up to develop a shared understanding of the drivers of forced displacement as well as coordinated approaches to collectively address these challenges.<sup>48</sup>

Beyond financing, MDBs can provide substantial support for empirical analysis and refugee-related policy development in refugee host countries, share technical expertise, introduce innovative financing and operational strategies, and support high-level political advocacy. Meanwhile, strategic and operational alignment between the World Bank Group and the UN Refugee Agency (UNHCR) has led to concrete outcomes largely generated by complementarity in programming and coordinated policy dialogue with client governments, as well as joint assessments, data analysis, and evidence-building. An example of this is the establishment of the Joint Data Center on Forced Displacement.<sup>49</sup>

## Why Further Innovation is Needed

Despite these initiatives, there remain significant gaps in financial support for refugee-hosting countries, especially LICs, to meet the needs of host communities, as well as overreliance on diminishing humanitarian assistance and on ODA from a limited number of donors.<sup>50</sup> Whilst the GCF and WHR provide new concessional loans outside of ODA, there is often reluctance among refugee-hosting countries to assume more debt at the country level in order to respond to the needs of the forcibly displaced. These countries, many of which are among the poorest in the world and themselves face significant development challenges, are effectively expected to pick up the tab for refugee hosting. Many are unwilling to borrow more to address global ‘bads,’ since doing so would mean taking on the full costs of, in this case, refugee hosting, while sharing the *benefits* with the rest of the world. More substantive innovation is therefore needed to ring-fence resources, to broaden donor engagement across the globe through innovative approaches to financing for forced displacement, and to mobilize political will for the inclusion of refugees and IDPs in development planning and delivery.

Ahead of the forthcoming Summit of the Future, when the international community will be focusing on international cooperation for GPG delivery,<sup>51</sup> this Technical Note proposes five key priority actions.

### **ACTION 1. Recognize Refugee Hosting as a Global Public Good**

GPGs are those that are available to all (“nonexcludable”) and that can be enjoyed over and over again by anyone without diminishing the benefits they deliver to others (“nonrival”). The scope of public goods can be local, regional, or global.<sup>52</sup> Whilst there are few GPGs that are ‘pure’ according to this definition, there are many contemporary challenges that are sufficiently ‘GPG-like’ in their cause and effect to be considered worthy of international cooperation and pooled financing.<sup>53</sup>

45 UNHCR, *Stocktaking Report on Multilateral Development Banks’ Engagement in Situations of Forced Displacement: Assessing Progress Made Since the 2019 Global Refugee Forum* (Geneva: UNHCR, 2022). Accessible at: <https://globalcompactrefugees.org/sites/default/files/2022-01/UNHCR%20Progress%20Report%20MDB%20Platform%20Stocktaking%20Event%20September%202021.pdf>.

46 World Bank Group, European Investment Bank, Islamic Development Bank, African Development Bank, Inter-American Development Bank, Asian Development Bank, and the European Bank for Reconstruction and Development.

47 See: <https://www.worldbank.org/en/news/press-release/2018/04/20/mdbs-launch-new-platform-to-coordinate-support-for-economic-migration-and-forced-displacement>.

48 World Bank Group, *World Bank Group Strategy for Fragility, Conflict and Violence 2020-2025* (Washington, DC: World Bank Group, 2020). Accessible at: <https://documents.worldbank.org/en/publication/documents-reports/documentdetail/844591582815510521/world-bank-group-strategy-for-fragility-conflict-and-violence-2020-2025>.

49 Ibid.

50 The bulk of global responsibility sharing for refugees and hosting communities relied extensively on the support of three main DAC donors: the United States, Germany, and the European Union. They collectively provided almost two-thirds (63 per cent) of all bilateral ODA to refugee situations.

51 The Summit of the Future brings together UN Member States, UN agencies, non-governmental organizations, civil society organizations, academic institutions, the private sector, and youth, under the theme “Summit of the Future: Multilateral Solutions for a Better Tomorrow.” The Summit provides a once-in-a-generation opportunity to enhance cooperation on critical challenges and address gaps in global governance, reaffirm existing commitments including to the SDGs, and move towards a reinvigorated multilateral system that is better positioned to positively impact people’s lives. More information available at: <https://www.un.org/en/summit-of-the-future>.

52 See footnote 24 for an extended definition of GPGs.

53 See, for example, Inge Kaul, Isabelle Grunberg, and Marc Stern (eds), *Global Public Goods: International Cooperation in the 21<sup>st</sup> Century* (New York: Oxford University Press, 1999); Inge Kaul, Pedro Conceicao, Katell Le Goulven, and Ronald U. Mendoza (eds), *Providing Global Public Goods: Managing Globalization 1<sup>st</sup> Edition* (Oxford: Oxford University Press, 2003).

Like climate change, refugee and IDP hosting should be recognized as a GPG which comes at a price that LMICs, and particularly LICs, should not have to pay given existing development, and other, challenges. The OECD and the MDBs, including the World Bank, acknowledge that refugee hosting is a GPG which requires collective action beyond the provision of support for individual countries and the effective mobilization and deployment of substantial amounts of financing.<sup>54</sup> Despite this, refugee hosting continues to be discussed largely at the individual country level rather than as a collective responsibility of the international community.

## **ACTION 2. Increase the Scale and Scope of Dedicated Financing for Refugee Hosting**

Although refugee hosting is increasingly recognized as a GPG, existing financing instruments have significant limitations as tools to engage at the necessary scale in support of forcibly displaced populations.<sup>55</sup> Funding levels need to be commensurate with the scale of the forced displacement crisis.

The first challenge is addressing the substantial and growing fiscal cost of providing assistance to displaced populations and their host communities. Some actions can be taken immediately and without any changes to the current financial architecture. These include mobilizing official financing at scale, lowering the cost of borrowing, and providing contingency financing in times of crisis. These actions should build on and significantly extend the scale and scope of dedicated concessional financing for refugee hosting currently available to LMICs under the GCFF and WHR and could include:

- **Expanding the size of the WHR and reassessing the levels of concessionality.** As noted by Cindy Huang and Thomas (2023), an additional four countries joined the pool of eligible countries between IDA19 and IDA20, but funding for the window increased only modestly. They argue that the World Bank and its partners should assess opportunities to increase the size of the WHR both during the mid-term IDA assessment (when funds can be reallocated based on obligations and need) and in the next round of fundraising

for IDA. As part of discussions on reforming and expanding MDBs to provide GPGs (see below), IDA contributors should consider the levels of concessionality offered through the WHR.<sup>56</sup>

- **Promoting WHR-like tools and approaches at other MDBs and donors.** The IADB has a dedicated grants facility for refugee hosting countries in Latin America and the Caribbean but also requires additional and predictable funding.<sup>57</sup> Other MDBs – including big players in Africa like the AfDB and the IsDB – should learn lessons from the WHR and develop robust, development-focused instruments to provide greater support to refugee-hosting countries in their regions.<sup>58</sup>
- **Moving with more ambition to ‘crowd in’ private sector investment.** The HLAB report argued that a revitalized MDB system will be necessary to catalyse a new generation of public and private investments in GPGs. Despite increased emphasis on leveraging private finance for SDG impact, including the overarching goal of ensuring that “no one is left behind,” 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,<sup>59</sup> or as a provider of employment and entrepreneurship opportunities for individual refugees.<sup>60</sup> 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 unfavourable regulatory environment. These factors have held back long-term productive investments at sufficient scale and speed to effectively mitigate risks in a shock-prone world. Blended finance<sup>61</sup> is an increasingly attractive tool to scale up funding for GPGs. It involves the targeted use of concessional financing to attract new sources of investment in projects that may otherwise be perceived as too risky for private finance. Examples of blending arrangements that have been used in forced displacement contexts include the World Bank’s GCFF (see above) and the Prospects Partnership Initiative, among others (Box 4).

54 African Development Bank; Asian Development Bank; European Bank for Reconstruction and Development; European Investment Bank; Inter-American Development Bank; Islamic Development Bank and World Bank Group, *The Forced Displacement Crisis: A Joint Paper by Multilateral Development Banks* (Washington, DC: World Bank, 2017). Accessible at: <https://openknowledge.worldbank.org/entities/publication/233503c0-9558-5106-adf7-8e54d1e7069a>.

55 Jens Hessemann, Harsh Desai and Yasmine Rockenfeller, *Financing for refugee situations 2018–19*.

56 Cindy Huang and Thomas Ginn, “The World Bank Window for Host Communities and Refugees.”

57 See: <https://www.iadb.org/en/news/idb-approves-grant-funds-countries-receiving-migrants-latin-america-and-caribbean>.

58 Cindy Huang and Thomas Ginn, “The World Bank Window for Host Communities and Refugees.”

59 World Bank Group, *Forcibly Displaced: Towards a Development Approach Supporting Refugees, the Internally Displaced and their Hosts*.

60 See for example: <https://www.worldbank.org/en/programs/private-sector-for-refugees>.

61 Blended finance is the strategic use of development finance for the mobilization of additional finance towards sustainable development in developing countries. It attracts commercial capital towards projects that contribute to sustainable development, while providing financial returns to investors. This innovative approach helps enlarge the total amount of resources available to developing countries, complementing their own investments and ODA inflows to fill their SDG financing gap. It holds the potential to unlock significant private sector finance necessary to fill the SDG finance gap, especially if applied in coordination with technical assistance, policy reforms, and market development initiatives. See: <https://www.oecd.org/dac/financing-sustainable-development/blended-finance-principles/>.



#### **Box 4: The Prospects Partnership Initiative as an Example of Blended Finance**

In 2019, the Government of the Netherlands spearheaded a new Prospects Partnership Initiative to respond to the growing refugee crisis in East Africa and the Middle East and North Africa.<sup>62</sup> The partnership brings together the International Finance Corporation (IFC) the International Labour Organization, UNHCR, the UN Children’s Fund, and the World Bank to support refugees and host communities in Egypt, Ethiopia, Iraq, Jordan, Kenya, Lebanon, Sudan, and Uganda. In 2021, IFC, in partnership with the Netherlands, launched a new \$17.5 million blended finance investment facility as part of the initiative, which aims to help de-risk and increase the financial viability of high impact projects benefiting refugees and their host communities. The blended finance facility seeks to de-risk investments, alleviate first-mover costs, and create new markets where the involvement of the private sector is currently nascent. The core objectives are: to unlock and catalyse private sector financing for innovative and scalable investments to address economic and social challenges of refugees and their host communities; to enable new and emerging private sector approaches and solutions for refugees; and to provide demonstration effects for the private sector on the commercial viability of refugee-focused investments.

It follows that MDBs need to steer an appropriate course in terms of their financial structure, the terms on which funding is made available to developing countries and emerging economies, and capacity-development. The following reforms are needed:

- **Provision of GPGs and delivery of the SDGs should be at the heart of the global financial architecture**, alongside the twin goals of poverty alleviation and shared prosperity. This requires the World Bank and other MDBs to explicitly make financing for GPGs and delivery of the SDGs an explicit part of their mandates, as recommended by the HLAB report.<sup>63</sup> This vision was endorsed at the 56<sup>th</sup> Annual Meeting of the Board of Governors of the Asian Development Bank in 2023, as well as in the 2023 G7 Hiroshima Leaders Communiqué, any many State interventions during the 2023 UN High-Level Political Forum. Inclusion of GPGs in the World Bank’s mandate is an existing commitment of the Evolution Roadmap<sup>64</sup> which now needs to be put into practice. The World Bank’s shareholders must provide it with regular capital increases to effectively discharge this expanded mission. Failure to invest in GPGs, and the institutions that finance them, will erode donor credibility as well as trust in the multilateral system.<sup>65</sup>
- **There needs to be a massive scale-up of affordable and long-term financing for investments in sustainable development.** Today the MDB system is a fraction of its historical size, less than one-fifth of the 1960 funding level relative to GDP, despite investment needs that are orders of magnitude higher.<sup>66</sup> First, the MDBs must massively expand the volume of lending, including concessional lending. This can be achieved through increasing their capital bases, better leveraging existing capital and the implementing recommendations of the G20 Capital Adequacy Framework Review, and re-channeling SDRs through MDBs. Second, MDBs must improve the terms of their lending, including through longer-term lending (with loans over 35–50 years), lower-interest rates, more lending in local currencies, and the inclusion of all vulnerable countries in lending programmes. Expanding the scale of development financing and improving lending terms would also support the UN Secretary-General’s call for an SDG Stimulus.<sup>67</sup>

#### **ACTION 3. Reform the MDBs to Ensure a Focus on GPGs and SDG Delivery**

LMICs are being increasingly impacted by crisis – including the highest levels of forced displacement ever. At the same time, increased borrowing costs make it difficult for countries to service debt and acquire additional financing. A fundamental reform of the international financial architecture is therefore crucial for effective development financing and to support the provision of GPGs and delivery of the SDGs. This is one of the greatest challenges of multilateralism.

MDBs are key in this context. Their purpose is to strengthen the protection of GPGs while promoting sustainable economic development and fostering worldwide or regional cooperation.

62 See: [https://www.ilo.org/global/programmes-and-projects/prospects/WCMS\\_725066/lang-en/index.htm](https://www.ilo.org/global/programmes-and-projects/prospects/WCMS_725066/lang-en/index.htm).

63 See HLAB, “Shift Three. Global Finance. Ensure Sustainable Finance that Delivers for All,” *A Breakthrough for People and Planet: Effective and Inclusive Global Governance for Today and the Future* (New York: United Nations University, 2023). Accessible at: [https://highleveladvisoryboard.org/breakthrough/pdf/56892\\_UNU\\_HLAB\\_report\\_Final\\_Shift3.pdf](https://highleveladvisoryboard.org/breakthrough/pdf/56892_UNU_HLAB_report_Final_Shift3.pdf).

64 World Bank, *Evolving the World Bank Group’s Mission, Operations, and Resources: A Roadmap* (Washington, DC: World Bank, 2022). Accessible at: <https://documents1.worldbank.org/curated/en/09984510112322078/pdf/SECBOS0f51975e0e809b7605d7b690ebd20.pdf>.

65 Member States have committed to improving trust in the multilateral system in the UN75 declaration. See: <https://www.un.org/pga/74/wp-content/uploads/sites/99/2020/07/UN75-FINAL-DRAFT-DECLARATION.pdf>.

66 Shari Spiegel, “Fixing the global financial system.”

67 United Nations, *Secretary General’s SDG Stimulus to Deliver Agenda 2030* (New York: United Nations, 2023). Accessible at: <https://www.un.org/sustainabledevelopment/wp-content/uploads/2023/02/SDG-Stimulus-to-Deliver-Agenda-2030.pdf>.

- **Representation of the LMICs in the governance of global financial institutions, including the World Bank, should be strengthened.** As long as the World Bank is perceived as the instrument of a handful of powerful members and dedicated to their interests, its ability to project itself as taking decisions in the global interest will be compromised. Although an ongoing quota reform is intended to change this perception, there is still a long way to go.<sup>68</sup>

#### **ACTION 4: Create a Dedicated GPG Bank Within the World Bank Group**

Actions 1–3 above dominate existing efforts to reform the global financial architecture so that it is fit for purpose in the twenty-first century. However, they suffer from a common problem, namely that most individual LMICs who bear the brunt of global ‘bads’ such as climate change and forced displacement are required to take on additional debts to address challenges which are of a global nature. Moreover, whilst many funds have been established to address specific GPGs, including refugee hosting, their reach and scale of financing continues to be limited and often precarious. They also introduce additional complexity and bureaucracy.

Many people, particularly grouped around the Center for Global Development (CGD) have long pushed for the World Bank, as by far the largest of the MDBs,<sup>69</sup> to shift its attention from the problems of individual member countries to collective actions and addressing global challenges, instead of functioning as just another aid agency. They argue that incremental change is insufficient to address the pace of change in the world. Others point out that whilst the system of finance for international cooperation has undergone continuous reform, adjustments have generally been isolated, incremental, and embedded in the conventional model of country-focused in-

ternational development cooperation.<sup>70</sup> International development cooperation still approaches these global challenges as aid issues rather than as more universal issues that concern many, and frequently, all countries, and perhaps even all people, rich and poor. More structural or system reforms are therefore needed.

A more innovative approach would be to create a pillar within the global financial architecture for the provision of GPGs, which would be complementary but distinct from the rest of the system in terms of its governance and management. One of the most interesting/promising ideas on the table is a GPG Bank at the World Bank, sitting alongside the International Bank for Reconstruction and Development and IDA, with its own balance sheet and governance structure, and dedicated specifically to the provision of GPGs.<sup>71</sup> Due to its unique position as a powerful multilateral lender, the World Bank is ideally positioned to be the financier of international regimes for GPGs in developing countries. By taking a strategic shift, it can make GPG provision the centrepiece of a transformed country-based engagement model, enabling the Bank, and its client countries, to prepare better for the future, and become the “Bank for the World.”<sup>72</sup>

While calls for a new GPG Bank are gaining momentum, they are not new.<sup>73</sup> In 2016, a CGD report on the future of multilateral banking proposed “the creation of a new financing window or fund with a separate governance structure” to deal with climate and other GPGs.<sup>74</sup> A more recent paper prepared for the CGD by three former senior leaders of the World Bank similarly calls for the establishment of a new World Bank financing window, alongside the International Bank for Reconstruction and Development (IBRD) and IDA, for funding GPGs, with an initial focus on climate change.<sup>75</sup>

68 Dominik Kosiński, *Rearranging deckchairs or changing course? The World Bank and global public goods* (University of Wrocław, n.d.). Accessible at: <https://thedocs.worldbank.org/en/doc/164171559591285891-0050022019/original/ABCDEKopiskiRearrangingdeckchairsfinal.pdf>.

69 The World Bank is by far the biggest actor in the global financial system. In 2022, the MDBs provided more than \$100 billion in financial assistance to developing countries. Of the total, about 80 per cent was provided by the World Bank, and about 20 per cent by the regional development banks.

70 For example see: Inge Kaul, “Global public goods: a concept for framing the post-2015 agenda?” Discussion Paper No. 2 (Bonn: Deutsches Institut für Entwicklungspolitik, 2013). Accessible at: <https://www.econstor.eu/bitstream/10419/199388/1/die-dp-2013-02.pdf>.

71 See Nancy Birdsall and Brian Webster, “A GPG window at the World Bank: with its own governance,” Center for Global Development Blog, 22 May 2023, <https://www.cgdev.org/blog/gpg-window-world-bank-its-own-governance>; Rohit Khanna and Claire Healy, *The World Needs a Bank for Global Public Goods and the World Bank Should be Reformed to Play that Role: A New Global Public Goods Bank Within the World Bank Group* (2023). Accessible at: <https://icrier.org/g20-ieg/pdf/19.pdf>; Rohit Khanna and Claire Healy, “Proposal for a Global Public Good Financing Facility at the World Bank,” MDB Reform Accelerator, 10 August 2023, <https://mdbreformaccelerator.cgdev.org/proposal-for-a-global-public-goodsfinancing-facility-at-the-world-bank/>.

72 Ranil Dissanayake, Amanda Glassman, Clemence Launders, and Eleni Smitham, “A bank for the World?” Center for Global Development Blog, 9 June 2022, <https://www.cgdev.org/blog/bank-world>.

73 Some proponents of this idea call for a new GPG Facility or window rather than a bank, but these share many of the same features. The advantage of referring to the GPG Bank as a bank rather than facility or window is that it would mean that it sits alongside, rather than being subsumed within, the other five members of the World Bank Group and could have its own governance structure and representation.

74 Centre for Global Development, *Multilateral Development Banking for This Century’s Development Challenges: Five Recommendations to Shareholders of the Old and New Multilateral Development Banks* (Washington, DC: Center for Global Development, 2017). Accessible at: <https://www.cgdev.org/sites/default/files/multilateral-development-banking-report-five-recommendations.pdf>.

75 Pedro Alba, Patricia Bliss-Guest and Laura Tuck, “Reforming the World Bank to Play a Critical Role in Addressing Climate Change,” *CGD Policy Paper* (Washington, DC: Center for Global Development, 2023). Accessible at: <https://www.cgdev.org/publication/reforming-world-bank-play-critical-role-addressing-climate-change>.

Proponents for the creation of a new GPG Bank argue that the creation of a new GPG Bank would be the best path for ensuring a sharp focus and the provision of consistent, dedicated funding for GPGs.<sup>76</sup> A new Bank would have potential for greater scale as well as provide transparency for shareholders who want to ensure that additional capital is used for GPGs, and that financing for GPGs is not at the expense of IBRD and IDA lending for non-GPG development needs. It might also reassure LICs who fear that any rich-country contributions to support World Bank work on climate mitigation and other GPGs would come out of what could be contributions to the Bank's traditional mission of growth and poverty reduction.<sup>77</sup>

The GPG Bank would focus on the subset of global challenges that meet the definition of GPGs. These should have a global transnational nature, with global externalities, and for which countries incur additional costs or face specific barriers to deliver GPGs. Refugee hosting would meet this definition (see Action 1 above). The purpose of the GPG Bank would be to promote country actions on agreed GPGs and the achievement of related SDGs, by providing finance to meet their additional costs on terms which are more flexible and bear less heavily on the balance of payments than those of conventional loans, thereby furthering the developmental objectives of the World Bank Group. Mainstreaming GPGs in IBRD/IDA country engagements would need to continue (see Actions 1–3) and would be a necessary condition for the success of the GPG Bank.

### **Box 5: Summary of Proposals for a New GPG Bank (after Khanna and Healy, 2023a)**

The GPG Bank should:

- Be established as part of the World Bank Group, alongside the IBRD, IDA, IFC, the Multilateral Investment Guarantee Agency, and the International Centre for the Settlement of Investment Disputes, with its own balance sheet, income statement, and governance structure;
- Focus on the subset of global challenges that meet the definition of GPGs. These should have a transnational nature, with global externalities, and for which countries incur additional costs or face specific barriers to deliver GPGs;
- Enable country action on GPGs by providing low-interest loans, interest buy-downs or risk-mitigation instruments, as part of an overall World Bank Group and MDB blended financing package that tailors terms to a target level of concessionality to make a project viable;
- Be sufficiently capitalized for approximately \$35–40 billion in financing per year over five years and mobilize \$4 billion in co-financing (from IBRD/IDA/IFC, other bilateral and MDBs, and private capital), to give a total financing package in the range of \$175–200 billion annually, about one trillion dollars over five years;
- Have a new Board with Directors representing constituency groupings formulated and distributed, taking into account the need for balanced and equitable representation of both contributors and LMICs; and
- Ensure that country resource allocations from the GPG Bank – and associated internal World Bank administrative budgets for country programmes – are based on country ambition, criticality, policies, and capacity related to the GPG agenda.

For expediency, it has been proposed that the GPG Bank should focus primarily on climate change mitigation, with a range of other GPGs – including refugee hosting – supported via financing reserved for non-climate GPGs through a crisis window.<sup>78</sup> The UN Secretary-General could help break the cur-

rent political and policy stalemate over reforming the global financial architecture by encouraging reform pilots in select global challenge areas, including refugee hosting. These could contribute to the ongoing global debate on reinvigorating multilateralism.

<sup>76</sup> Rohit Khanna and Claire Healy, *The World Needs a Bank for Global Public Goods and the World Bank Should be Reformed to Play that Role*; Rohit Khanna and Claire Healy, "Proposal for a Global Public Good Financing Facility at the World Bank."

<sup>77</sup> Nancy Birdsall and Brian Webster, "A GPG Window at the World Bank: with its own governance."

<sup>78</sup> Rohit Khanna and Claire Healy, "Proposal for a Global Public Good Financing Facility at the World Bank."

### ACTION 5: Leveraging the Potential of Development Cooperation for Refugee Hosting

Actions 2–4 focus on reforms to the global financial architecture to increase the availability of concessional financing for LMICs hosting refugees as a GPG. Action 5 is intended to ensure that any additional resources made available through these reforms are effectively and efficiently brought to bear on supporting LMICs in hosting refugees.

Firstly, there needs to be a shift away from viewing forced displacement primarily as a temporary humanitarian problem. Although forced displacement is recognized as a development challenge by the World Bank<sup>79</sup> and other MDBs,<sup>80</sup> the majority of financing for forced displacement situations continues to be humanitarian rather than development financing.<sup>81</sup> Humanitarian responses are not sufficient to ease the pressure on host countries; pressure that host countries are receiving on behalf of the international community. They can also lead to tensions between refugee and host populations where there is a perception that displaced populations have access to resources that are unavailable to the host community.<sup>82</sup> Instead of relying on dwindling levels of short-term humanitarian assistance,<sup>83</sup> refugees and IDPs must be included in development planning. This is especially important where displacement has become protracted. Recent research by OECD shows that only 28 per cent of the National Development Plans of displacement-affected LMICs include refugees and IDPs.<sup>84</sup> As a result, some 46.8 million refugees and IDPs, who are not explicitly included, face a higher risk of being left behind in development.

Secondly, MDB 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.<sup>85</sup> An enabling policy environment affects the cost of the refugee response as well as refugees' ability to earn income i.e. through the right to work and access to labour markets.<sup>86</sup> Labour market access has been shown not only to reduce the costs of refugee hosting but also add tax revenues to local economies.<sup>87</sup> These policies therefore have a significant impact on the extent and ways in which development financing can address forced displacement.

Given that MDBs provide significant levels of financing for refugee situations, they are well placed to promote policy change and support policy as a component of countries' refugee responses and financing strategies.<sup>88</sup> Financing for refugee hosting should focus not only on meeting development needs but also on supporting the adoption of a sound legal and policy framework for the integration of forcibly displaced populations. Such frameworks should promote the inclusion and self-reliance of displaced populations, through employment and freedom of movement.<sup>89</sup> Beyond financing, the positive role of MDBs should include substantial support to refugee hosting countries through the sharing of technical expertise, the introduction of innovative financing and operational strategies, and support for high-level political advocacy.<sup>90</sup>

79 See: <https://www.worldbank.org/en/results/2023/07/27/tackling-forced-displacement-as-a-development-challenge#:~:text=At%20the%20end%20of%202022,relief%20in%20the%20long%20term>.

80 African Development Bank; Asian Development Bank; European Bank for Reconstruction and Development; European Investment Bank; Inter-American Development Bank; Islamic Development Bank and World Bank Group. *The Forced Displacement Crisis: A Joint Paper by Multilateral Development Banks*.

81 Doreen Kibuka-Musoke and Zara Sarzin, *Financing for Forced Displacement Situations*.

82 Yang-Yang Zhou, Guy Grossman, and Shuning Ge, "Inclusive refugee-hosting can improve local development and prevent public backlash," *World Development* Vol. 166 (2023). Accessible at: <https://doi.org/10.1016/j.worlddev.2023.106203>.

83 In 2023, requirements for the Global Humanitarian Overview (GHO) stood at \$55.5 billion to assist 248 million of the 363 million people in need. Donors provided \$17.9 billion as of end-September for plans in the GHO, which represents 32 per cent of the total funding required for the year. See: <https://www.unocha.org/publications/report/world/global-humanitarian-overview-2023-september-update-snapshot-30-september-2023#:~:text=Requirements%20for%20the%20Global%20Humanitarian,total%20funding%20required%20this%20year>.

84 OECD/UNHCR, "Refugees and internally displaced persons in development planning: No-one left behind?," *OECD Development Policy Papers* No. 47 (Paris: OECD Publishing, 2023). Accessible at: <https://doi.org/10.1787/08c021b0-en>.

85 Doreen Kibuka-Musoke and Zara Sarzin, *Financing for Forced Displacement Situations*.

86 In Uganda, for example, refugees are able to work, move freely, and access social services on the same basis as nationals, while in Lebanon refugees face limitations regarding their movements and employment opportunities. See also OECD, "Financing for refugee situations."

87 Evidence of the economic benefits of refugee inclusion are particularly clear in South America (Colombia, Mexico, Ecuador) where refugees and other migrants add significantly to tax revenues and increase local consumption. For example see: Paula Rossiasco and Patricia de Narváez, "Adapting public policies in response to an unprecedented influx of refugees and migrants: Colombia case study of migration from Venezuela," Background paper to the *World Development Report 2023: Migrants, Refugees, and Societies*. Accessible at: <https://thedocs.worldbank.org/en/doc/7277e925bdaa64d6355c42c897721299-0050062023/original/WDR-Colombia-Case-Study-FORMATTED.pdf>.

88 OECD, "Financing for refugee situations."

89 Jens Hesemann, Harsh Desai, and Yasmine Rockenfeller, *Financing for Refugee Situations 2018-19*.

90 Ibid.

Finally, there is growing recognition of the importance of working across the HDP Nexus in refugee-hosting LMICs. For example, in 2019, the OECD’s Development Assistance Committee (DAC) adopted the DAC Recommendation on the HDP Nexus, which applies in refugee situations,<sup>91</sup> and in 2023, 37 DAC-International Network on Conflict and Fragility (INCAF) members agreed an INCAF Common Position on Addressing Forced Displacement with a Comprehensive HDP Nexus approach.<sup>92</sup> Most recently, Japan and the United Nations Development Programme launched a HDP Nexus Pledge at the GRF, arguing for

a transformation in the approach to forced displacement taken by UN agencies and donor countries to unlock the potential of refugees as “agents of development.” An added value of concessional financing, such as that currently provided through the GCFF and WHR window lies in its ability to bring together actors across the HDP Nexus to reduce duplication of effort, competing priorities, and wasted resources. This will ensure that any additional resources mobilized through reform of the global financial architecture are effectively and efficiently brought to bear on support for refugee hosting as a global public good.

91 See <https://legalinstruments.oecd.org/public/doc/643/643.en.pdf>.

92 See: <https://www.oecd.org/dac/conflict-fragility-resilience/Common%20Position%20forced%20displacement%20-%20HDP%20nexus%20FINAL2.pdf>.

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