World Bank Group Engagement in Situations of Fragility, Conflict, and Violence

LEBANON AND JORDAN

THE CASE OF THE REFUGEE CRISIS

REFUGEE SHOCK

The influx of Syrian refugees into Jordan and Lebanon has challenged both countries with "refugee shock," according to an evaluation by the Independent Evaluation Group, straining the economies of both states and posing a threat to already volatile security environments. Jordan and Lebanon—both high-middle-income but resource-poor and heavily indebted countries—have been hosting millions of Syrians at the expense of their already stressed health, education, and infrastructure systems.

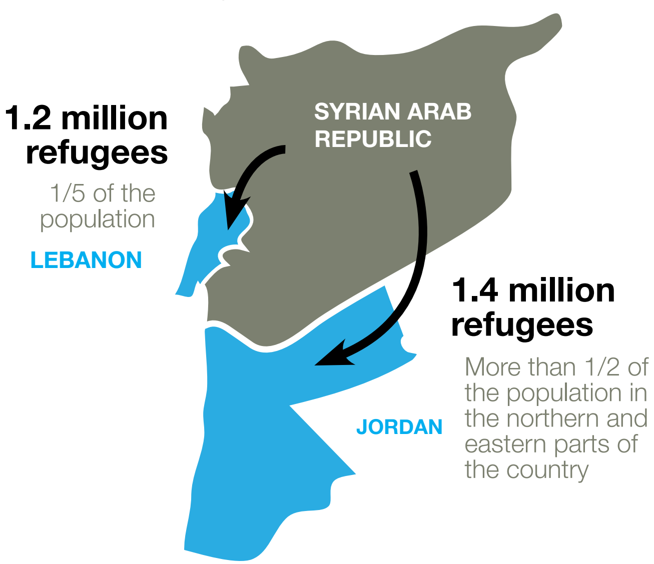
The Syrian war has created the largest humanitarian crisis since World War II, with 11 million refugees escaping a grim future. The United Nations estimates that 7.6 million people are internally displaced and over 4 million have crossed the border to the neighboring countries, mainly Jordan, Lebanon, and Turkey.

Jordan and Lebanon have reached the limit of their capacity in hosting the migrants. In the absence of more international support, they may not be able to survive this shock indefinitely. Economic growth fell under 2 percent in 2014 from 7 to 8 percent in 2008 in Lebanon due to deteriorating security situation that undermined investor appetite. Unemployment spiraled to 20 percent as the supply of workers surged. Higher housing demand has pushed rents up, making housing unaffordable for low-income groups.

Neither of the two countries can afford the resources they have allocated to meet the needs of the refugees. In its "Response Plan" prepared in 2013, the government of Jordan estimated the additional fiscal burden at $850 million per annum. This raises serious challenges in a country with already very high and unsustainable fiscal deficits. Its debt-to-gross domestic product ratio reached 86 percent in 2014, breaking the constitutionally allowed ceiling of 60 percent. In Lebanon, where public finances were structurally weak prior to the Syrian refugee shock, the debt-to-gross domestic product ratio fluctuated to nearly 130 percent after 2012. Fiscal deficit widened by $2.6 billion during 2012-14.

The large scale of refugee inflow can seriously disturb the volatile social balance in both countries and pose security threats.

These migrants are threatening the demographic fabrics of their host countries. Both countries put the number of refugees higher than the number of registered Syrians by the United Nations. The Government of Jordan estimates that nearly 1.4 million Syrians live there. In some northern and eastern areas, Syrians account for more than half of the local population. In Lebanon, some 1.2 million refugees account for almost one-fifth of the entire population. In 2013, nearly 40 percent of schools in Jordan were considered crowded. In Lebanon, a second shift was introduced in many schools to serve the increasing number of children. Similar issues confronted the health sector. The large influx of refugees also weighed down municipal services. In early 2014, municipal authorities in Jordan reported that they were unable to meet the needs for solid waste collection and disposal in areas where the bulk of the refugees resided.



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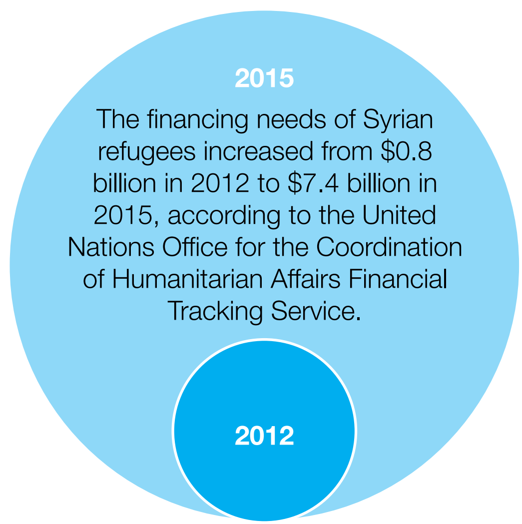
WHAT WORKS

Jordan and Lebanon argue that they are providing a global public good and are responsible for preventing an even larger influx into Western Europe. Without significant financial assistance, Jordan and Lebanon are not capable of accommodating the refugees.



The World Bank does not provide assistance, such as shelter, food, and jobs, directly to the refugees; that is a prerogative of the United Nations agencies and nongovernmental organizations. The governments of Lebanon and Jordan, already indebted, are reluctant to borrow funds for humanitarian assistance. Instead, the Bank has directed its efforts toward mitigating the effects of the refugee inflow. This review covers a relatively short period (2011-present), and most activities are still ongoing.

In 2013, the Bank provided Jordan with a $150 million emergency loan and a $54.3 million grant and a Multidonor Trust Fund in Lebanon that attracted pledges for $74.5 million. The $150 million emergency loan to Jordan addressed essential health care services, particularly immunization for children, and basic household needs such as subsidized liquid propane gas cylinders and bread. The subsidization prevented price increases by 35 percent, which could have pushed about 45,000 people into poverty. Another project also supported municipalities most affected by refugee inflow in addressing the most pressing needs, including solid waste removal, water management, and road rehabilitation.

In Lebanon, the Bank helped scale up the successful National Poverty Targeting Program with an $8.2 million grant in 2014, which became an independent stand-alone operation. It introduced new benefits such as food assistance through an electronic card system currently being implemented by the World Food Program for more than 800,000 refugees. The overall package of assistance includes health coverage, education aid, and the e-card food voucher program.

THE WORLD BANK'S ASSISTANCE

Jordan

Health care services such as immunization for children and basic household needs such as subsidized liquid propane gas cylinders and bread

Lebanon

Health coverage, education aid, and e-card food voucher program

RECOMMENDATIONS

1 There is a high probability of a short-term crisis, such as the Syrian refugee crisis, becoming a serious long-term development challenge. The Bank Group strategy as currently designed falls short of dealing with it.

2 The Jordanian and Lebanese experience points to the importance of maintaining a credible and robust macroeconomic framework in order to withstand effects from unforeseen crises. The Bank is likely to be an important institution (in addition to the International Monetary Fund) in providing financial support when a crisis occurs. However, the absence of a sustainable macroframework will limit the Bank's ability to provide sufficient support. Without more drastic structural reforms, Jordan and Lebanon will continue to be vulnerable to events like the Syrian crisis.

3 The Bank management—with the political and financial support of its shareholders—urgently needs to develop financial mechanisms that it can use in similar situations.

4 In a volatile country environment, a strong local presence is imperative for quick strategy and program readjustment ability. The Bank's existing regional presence is modest, and it may need more staff to cover all the countries it deals with. The Bank needs to approach this not as a country-specific issue but as a subregional issue of the highest corporate priority.

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