6. Externally Imposed Fragility

Background

The Lebanon and Jordan cases demonstrate how small MICs can become inadvertent victims of a violent and unstable neighborhood. Both countries have been exposed to the consequences of the proxy struggles waged by global and regional powers in Syria and Iraq, and the dire social consequences that these rivalries have brought to pass in the form of a "refugee shock." They contain the highest proportion of refugees-to-native population in the world today (Lebanon hosts 232 refugees per 1,000 of its native population, Jordan 87 per 1,000).[1] Both countries have also shown surprising social and political resilience in accommodating numbers of refugees that would strain the boundaries of sociopolitical acceptability in much wealthier and more stable Western European countries, where the prospect of a much smaller hosting ratio[2] is evoking a significant political backlash. Both countries argue that they are providing a global public good by hosting the refugees, and that they are responsible for preventing an even larger influx into Western Europe. They also argue that their state resources are stretched, and that if they do not receive more adequate direct support (refugee relief funds) as well as indirect forms of relief (for example, to enable the types of fiscal expansion necessary to accommodate large numbers of new entrants into the schooling and health systems), they may not be able to survive this shock indefinitely.

This chapter reviews Bank Group assistance to Lebanon and Jordan to cope with the inflow of millions of refugees from Syria. Unlike earlier described situations, where the Bank was helping to deal with either the consequences of conflicts or their underlying causes, in Lebanon and Jordan it is helping the extremely stressed systems of two high MICs to cope with an externally imposed and still evolving humanitarian crisis.

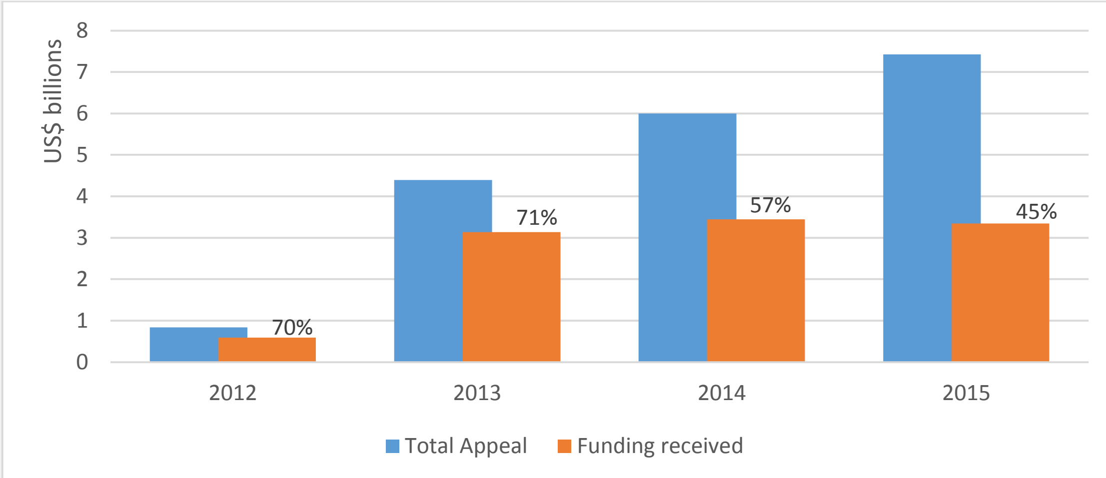
Therefore, the review of Bank Group portfolio and work programs in these two countries is very selective and only refers to those parts that were either designed specifically to address the impact of Syrian refugee crisis, or were modified to accommodate the refugee presence. It is important to note that in both countries the Bank is not providing assistance directly to refugees (shelter, food, jobs), which is a prerogative of the United Nations agencies and NGOs, as the governments of Lebanon and Jordan explicitly refuse to borrow funds for humanitarian assistance. Instead, Bank assistance is directed to mitigate the impact of the refugee inflow on country systems and those Lebanese and Jordanian communities whose livelihoods were affected by the crisis.

Hence, this review covers a relatively short period (2011-present) while most activities are still ongoing. The two country programs are reviewed in tandem, although the political and economic dynamics and client relationship have been very different: Jordan has been peaceful and stable for several decades and has a strong government in control of the situation, while Lebanon has periodically been in general turmoil since the 1970s, including a series of civil and cross-border wars. The Bank has a sustained and long-lasting partnership with both countries, but is not a major player in terms of financial leverage, and its presence on the ground is modest.

The Syrian crisis. Violent repression of peaceful antigovernment demonstrations by Syrian state security forces in March 2011 morphed into an armed rebellion of an array of groups fighting the government and each other. The insurgence escalated to a full-blown civil war that has killed over 220,000 people and left hundreds of thousands injured. The war led to massive displacement of civilian population (approximately 11 million), creating the largest humanitarian crisis since World War II. The United Nations estimates that 7.6 million people are internally displaced and nearly 4 million have crossed the border to the neighboring countries (mainly Jordan, Lebanon, and Turkey).

As the conflict enters its fifth year with no end in sight, the humanitarian situation is constantly deteriorating. Syrian refugees arrive with limited economic resources that are quickly depleted. Without formal residency rights and access to work permits they can only depend on (limited) humanitarian assistance and informal labor to secure their livelihood. The associated financing needs increased from $836 million in 2012 to $7.4 billion in 2015.[3] Actual funding received never matched the requirements and was actually on a downward slope relative to the needs (Figure 6.1).

Figure 6.1. Syrian Refugees—Funding Requirements and Coverage



Source: FTS OCHA

Impact on Jordan and Lebanon. Four years after the start of the influx, the crisis is now taking a heavy toll on the economy and society, with a potential for further worsening in the next few years. Jordan has had a generally positive experience in absorbing the previous waves of refugees from Iraq in 2003-04 (estimated at 500,000-700,000) that have even proven to be beneficial to the economy because of the high level of skills of many refugees and inflow of Iraqi capital. However, there are strong views that the net impact of Syrian refugees is largely negative with serious implications for the country's future development.

Two camps (Azraq and Za'atari) were built in Jordan to offer shelter and ensure security. However, today only about 14 percent of the registered refugees live in the camps,[4] while the rest reside in local communities, mainly in the north of the country. The Government of Lebanon did not authorize the establishment of camps, and most refugees have settled in the north and east, already the poorer parts of the country.

In a region that already hosts millions of Palestinian and Iraqi refugees and Egyptian migrants,[5] the large scale of refugee inflow has led to *de facto* demographic changes that can seriously disturb the social balance in both countries. The Government of Jordan estimates the total number of Syrians living in the country at 1.4 million, most of which are displaced as a result of the Syrian crisis. In some municipalities and villages, Syrians now account for more than half of the local population. Such an extreme and sudden demographic transformation threatens social cohesion of the communities.[6] Similarly, in Lebanon the 1.2 million registered refugees (most of them Sunni Muslims) account for almost one-fifth of the total population—a potentially major shift in already complicated and fragile multiconfessional fabric of Lebanon.

The perception of a deteriorating security situation has undermined consumption and investment, which has dragged down economic growth. The impact of the Syrian crisis depressed growth in both countries to around 2 percent since 2011 compared to 7-8 percent in 2007-08. The dramatic increase in supply added considerable pressure on the already fragile labor markets, increasing unemployment, with considerable impact on youth and unskilled workers, putting pressure on wages and increasing informal employment. One of the key concerns is the availability of affordable housing for low-income groups of local population, as increased demand pushed rents upwards.[7]

In Jordan, many communities have grown overnight without having the necessary infrastructure in place. In early 2014 municipal authorities reported that they were unable to meet the needs for solid waste collection and disposal. The large influx of refugees has further exacerbated the already very serious water scarcity. For Jordan, one of the world's driest countries, this is a major concern that borders on disaster.

Recognizing the serious humanitarian aspects, both countries allowed Syrian refugees access to public services, notably basic health and education. This has placed a serious burden on these services with a reported deterioration of quality. In 2013, 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 resources that Lebanon and Jordan had to allocate to meet the needs of refugees put a strain on public finances that neither of the two countries can afford. 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. In Jordan, the debt-to-GDP ratio reached 86 percent in 2014, breaking the constitutionally allowed ceiling of 60 percent. In Lebanon, public finances were structurally weak prior to the Syrian refugee shock. The debt-to-GDP ratio fluctuated in the vicinity of 130 percent after 2012, and fiscal deficit widened by $2.6 billion during 2012-14.

In summary, as the crisis persists, Jordan and Lebanon seem to have reached a critical saturation point, which is further exacerbated by humanitarian aid fatigue within the donor community. So far there have not been many reports of open hostility toward the Syrians. In part this is because in many places that Syrians have settled they already had tribal ties, or there were existing Syrian communities.

Nevertheless, there is a potential for future conflict as the situation continues to deteriorate and the current sympathy toward the plight of the refugees wears off.[8]

Box 6.1. Lebanon Economic and Social Impact Assessment Findings

The Lebanon ESIA, prepared with the help of the Bank in 2012, forecasted a refugee influx of 1.6 million by the end of 2014. The report estimated that in the 2012-14 period, the conflict would (i) cut real GDP growth by 2.9 percent each year; (ii) push 170,000 Lebanese into poverty (in addition to 1 million currently living below the poverty line) and double the unemployment rate to above 20 percent, most of them unskilled youth; and (iii) depress government revenue collection by $1.5 billion while simultaneously increasing expenditure by $1.1 billion due to the surge in demand for public services, bringing the total fiscal impact to $2.6 billion. The report estimated that the surge in demand for public services would initially result in decline of access to and quality of service delivery, which would require additional spending of $2.5 billion for stabilization. The report indicated that the impact of the Syrian conflict was particularly pronounced in trade and tourism sectors. This report was discussed at the first meeting of the International Support Group for Lebanon on the margins of the United Nations General Assembly meetings in September 2013.

Source: World Bank, IEG

Bank Group Response

The Bank's emergency response in Jordan and Lebanon provided analytical tools to be used for strategic decision-making and to set up financing mechanisms to channel emergency response to the most affected sectors: municipal services, health and education; and assistance to vulnerable groups. The main instruments of additional emergency assistance were the $150 million emergency loan and a $54.3 million grant in Jordan, and an MDTF in Lebanon that attracted pledges for $74.5 million.

Pre-crisis Bank programs in Jordan and Lebanon targeted medium- and long-term development needs including improved fiscal management, human capital development, improved business environment, and social safety nets. Jordan's CPS 2012-2015 was drafted at a time when the extent of the Syrian crisis could not have been anticipated. The CPS Progress Report (2014) noted that the original focus on fiscal management, growth, and competitiveness had to be complemented with strengthening resilience and mitigating vulnerability. In Lebanon, the CPS Progress Report (2013)[9] reasserted the relevance of the current strategy but scaled back two of its goals, taking into account regional instability and political volatility. In both countries, the Bank was also trying to leverage additional grant resources, including from the SPF, and donor financing.

Financing. In **Jordan**, the Bank provided a fast-disbursing emergency loan (Mitigate the Impact of Syrian Displacement on Jordan, $150 million, 2013) to help maintain access to healthcare (immunizations) and basic household goods (subsidized bread and LPG cylinders) for vulnerable households. The Emergency Services and Social Resilience project (ESSRP, $54.3 million, 2013) was financed through an MDTF leveraged by an initial $10 million from the SPF. The project supported nine municipalities most affected by refugee inflow in addressing the most pressing needs, including solid waste removal, water management, and rehabilitation of roads. It is planned to expand to include 16 municipalities. Additionally, the Bank tried to factor in the Syrian refugee crisis into some existing programs (Second Education Reform for the Knowledge Economy—ERFKE II), and explored opportunities for leveraging additional grant financing, following the successful model of the ESSRP. Neither effort materialized by the time of this report was prepared.

In **Lebanon,** the Bank set up an MDTF with $10 million seed capital from the SPF which attracted pledges from several bilateral donors for a total of $74.5 million. The objective of the MDTF was to help mitigate the impact of the refugee inflow on the hosting communities through three separate sector interventions. However, as a result of the Lebanese authorities' inability to ratify the grants due to a political standstill in the parliament and the cabinet, as well as delays in setting up the MDTF, the first project has just started and the other two are still not operational. There were some other minor initiatives, including $1.2 million financing through the SPF for capacity building and support to local communities hosting refugees; and scaling up the National Poverty Targeting Program.

Analytical Work. In both countries, following a request by the authorities, the Bank prepared ESIAs that became widely accepted reference documents for policy decisions and coordination of donor support. In addition, the Bank prepares regular semiannual briefs on the economic and social developments in Jordan and Lebanon.

In **Jordan**, the Bank was part of the government effort to develop the National Resilience Plan (2014-2016) and later the Jordan Response Plan (JRP), jointly with many donor partners. However, the Bank's day-to-day interaction with the authorities in Jordan was often constrained by its small presence in the country—the Bank does not have a formal office and is represented by two operations staff, hosted by IFC office in Amman. Perhaps indicative of that was the Bank's rather limited (and temporary) participation in the JRP sectoral working groups.[10] In

Lebanon, the Bank worked with the government on the Lebanon Road Map of Priority Interventions for Stabilization, and then set up the MDTF to finance parts of the Road Map.

Gender issues. The massive influx of refugees in Jordan and Lebanon has altered the gender dynamics. Since many men are away at war, or have been killed, women's roles have changed in the household, community, and the workplace. More than a quarter of Syrian refugee households across the region in Lebanon, Jordan, and Turkey are headed by women. Nevertheless, Bank Group engagement on gender and conflict issues in Jordan and Lebanon has been limited. Its primary focus was on issues like closing gender gaps in primary and secondary enrollment, labor force participation, and an increase in the number of female-headed households due to migration (Lebanon), and a conflict lens remains missing.

Assessment

Overall, the Bank's emergency assistance to Jordan and Lebanon included relevant and timely analytical work that was widely used by the governments and partners, and flexible financial instruments that attracted additional donor financing—albeit far from the identified needs. The choice of strategic areas was relevant in both countries: at the national level helping the stressed and overcrowded health and education systems, and at the municipal level building capacity and improving resilience of local authorities to face increased demand for services.

At the same time, it quickly became clear that the Bank's traditional financial instruments applicable in the context of high MICs such as Jordan and Lebanon (IBRD loans) were not well suited to respond to a humanitarian emergency, such as the Syrian refugee crisis. The $150 million emergency loan to Jordan helped to relieve pressure and address some urgent needs, but there was little appetite from the client to continue in the same vein. The Bank tried various alternatives, including use of several grant facilities and leveraging additional funding from donors, with modest success. In Lebanon, the MDTF is still not fully operational, after several years of crisis, generating doubts among donors about its effectiveness. The SPF grant facility was useful in providing seed money, allowing the Bank to identify some initiatives, and generated some goodwill among donors, but the amounts were miniscule compared to the needs.

Social protection. The $150 million emergency loan for Jordan disbursed swiftly and used country systems to the degree possible. The loan achieved the objectives of maintaining universal access to essential health care services (immunization for children in particular), and basic household needs (subsidized LPG and bread). The subsidization prevented price increases (by 35 percent) for these basic goods, which could have pushed about 45,000 people into poverty.

In Lebanon, the Bank helped to scale up the successful National Poverty Targeting Project (NPTP) with an $8.2 million grant (2014), which became an independent stand-alone operation, the Emergency National Poverty Targeting Program. The objective of the project is to expand the coverage and enhance the social assistance package of the NPTP to the population affected by the Syrian crisis. It introduced new benefits such as food assistance through an electronic card system, currently implemented by the WFP for more than 800,000 refugees. The overall package of assistance includes health coverage, education aid, and an e-card food voucher program.

Municipal Services. The Bank's assistance for municipal services in most affected municipalities in **Jordan** is making a difference, although sustainability remains a concern. The ESSRP leveraged donor funding around the Bank's initial grant, mobilizing total of $54 million. Municipal grants were allocated to subprojects that were identified in consultation with local communities through a participatory process that involved public debate, followed by approval by municipal councils. Subprojects included a wide range of services and activities that were defined in a positive eligibility list of expenditures (the most popular items were solid waste management and infrastructure, mainly roads). The project included cooperation with the UNDP (training on public participation/consultation and the identification of needs) and nongovernmental organizations. Direct beneficiaries of the project included over 1 million people—exceeding the 790,000 initially planned. The project's scope is planned to expand to reach 16 municipalities. An IEG mission visit to two of the municipalities that have received assistance from the project indicated a strong support for the effort. The **Lebanon** MDTF's first project (Municipal Services Emergency Project, $10 million) has only recently become effective. It is expected to help the host communities to address urgent priorities (water, sanitation, roads, and community activities).

Health and Education. In response to the increasing demand for health and education services, the Bank supported the health sector in **Jordan** as part of the $150 million emergency loan. In the education sector situation was different. The Bank's flagship 10-year multi-donor program (ERfKE II, 2009-15, $408 million) that supports the government's education reform program, did not factor in the 130,000 Syrian students that entered the system after the crisis, despite the 2014 CPS Progress Report's expressed intention to do so.

In **Lebanon,** there are two MDTF projects in the pipeline, designed to help health and education sectors: (i) the Emergency Primary Healthcare Restoration Project ($21 million); and (ii) the Emergency Education System Stabilization Project ($32 million). Neither of them is operational yet. In the meantime, the Bank responded to education sector needs through two components of the much smaller 5M: Displaced People in Jordan and Lebanon technical assistance project (2012-15, $2.4 million). The project integrated 2,600 children into the system; upgraded classrooms for 5,000 students and offered schooling benefits to 7,400 parents in **Jordan**; and is helping build capacity in the Ministries of Education and Social Affairs in **Lebanon**.

IFC program. There have been no IFC projects aimed directly at addressing the impact of the Syrian crisis in Jordan or Lebanon. Investments in potentially related spheres—microfinance or small and medium enterprise development—did not have specific links to refugee or host communities' problems. At the same time, IFC is trying to use its current product mix to address unemployment and absorb the growing labor force through investment in financial intermediaries (Middle East Micro Credit Company and FINCA Jordan) and support for micro, small, and medium enterprise development through the Middle East and North Africa Transition Fund ($3.2 million, 2015).

Conclusions

Jordan and Lebanon—both high middle income, but resource poor and heavily indebted countries—have been hosting millions of Syrians fleeing the civil war at the expense of their already stressed national systems (health, education, and infrastructure) and public finances. Social cohesion of many communities is under stress, and the fragile multiconfessional and ethnic fabric is threatened (especially in Lebanon) by the new demographic challenge. The outlook on the resolution of the crisis in Syria remains extremely bleak, making the timetable for voluntary repatriation of the refugees more and more remote and unpredictable. Both countries have clearly reached the limit of their capacity in hosting a large refugee population.

The Bank's effort to help mitigate the impact of the crisis can be qualified as the best it could do with the instruments at its immediate disposal. The country department continues to do a commendable job with the resources available to it and has been a loud voice in various circles advocating for the needs of the countries. The Bank prepared timely and comprehensive needs assessments for both countries, widely used by the governments and the international community. Emergency financing was channeled to relevant sectors: municipal services, health, education, and assistance to vulnerable groups.

However, the Bank's financial response to the crisis was inadequately small. The presence of the World Bank played a catalytic role (including management of and provision of seed capital for MDTFs), attracting additional donor resources, but its effectiveness (if measured by amounts attracted and compared to the needs) was quite low.

One of the main challenges for the Bank in Jordan and Lebanon was finding appropriate financing instruments. IBRD loans by their nature were not the best choice (they disburse slowly, are relatively expensive, and both countries are highly indebted), but the only one handily available. This option was exhausted fairly fast in Jordan by providing a $150 million emergency loan. In Lebanon the situation was complicated by internal political crisis and a stalemate in the parliament (parliamentary vote is required for loan approval in Lebanon) and the cabinet.

Budget support was the most important priority that the Bank has supported appropriately. Given further fiscal pressures from the large increase in population from the refugees, the Bank is one of the very few significant sources for filling the budget deficit. But it further exacerbates the already high level of debt that is now approaching 100 percent of GDP in Jordan and is close to 140 percent in Lebanon.

Both governments are reluctant to borrow on IBRD terms for addressing a crisis they did not cause in the first place. They believe, quite understandably, that since the crisis has been externally imposed, it should be the responsibility of the international community to bear most of the costs. The response of the international community to the continuous pleas of Jordanian and Lebanese authorities to co-finance the global public good of hosting Syrian refugees so far has fallen far short of the needs. In this situation, the Bank was using various alternative sources and mechanisms (including the IBRD surplus, and various trust funds) to come up with a response, albeit at a very limited scale. While highly commendable, these efforts are a far cry from the needs of the two countries.

An important lesson from Lebanon and Jordan experience is that the Bank management—with the political and financial support of its shareholders—urgently needs to develop financial mechanisms or fast-response facilities to be used in similar situations. It also needs to use its global convening power more effectively and encourage others to do so. A recent initiative announced in October 2015[11] is a step in that direction, albeit a much delayed one—as it was clear at least since 2013 that Lebanon and Jordan were in for an unprecedented refugee crisis. Scaling up existing and functional facilities such as the SPF is another option, as its current use without catalytic effect raises questions about efficiency, given the small size and high transaction costs.

In a volatile country environment, a strong local presence is imperative to establish a monitoring mechanism that will allow quick strategy and program readjustment, and carry out an effective convening function. The Bank's existing regional presence is modest,[12] and it may need more staff resources to cover all countries it is dealing with. The country department currently covers Syria, Iraq, Iran, Lebanon, and Jordan—which suggests the need to look holistically at the problems of conflict in Syria and Iraq and their spill-over effects. The Bank needs to approach this not as a country-specific issue, but as a subregional issue of the highest corporate priority.

Another lesson is related to the importance of focusing on long-term developmental challenges. The emergency element in the Syrian refugee crisis definitely attracted the world's attention to the plight of the displaced population. The Bank played a positive (though limited) role in addressing the most burning issues within its immediate reach. A bigger question, however, is how to deal with the longer-term problems facing the countries and the region. While appropriate for the short-term crisis, Bank assistance is not likely to fundamentally alter the fragility profile of both countries. It is highly likely that most Syrians will stay in Jordan and Lebanon for a long time, even in the unlikely event that war ends soon and a stable government emerges.[13] In both countries the refugee inflow exacerbated many already existing and well-known fundamental systemic challenges, such as unsustainable public sector expenditures and high unemployment. Therefore, there is a high probability of a short-term crisis becoming a serious long-term development challenge. Bank Group strategy as currently designed falls short of dealing with it.

Finally, the Jordanian and Lebanese experience points to the importance of maintaining a credible and robust macroeconomic framework in order to withstand impacts from unforeseen crises. The Bank is likely to be an important institution (in addition to the International Monetary Fund) to provide financial support when a crisis does occur. But absent a sustainable macro framework, the ability of the Bank to increase its support will be limited. Without more drastic structural reforms, Jordan and Lebanon will continue to be vulnerable to events like the Syrian crisis.