The Global Concessional Financing Facility (GCFF)
Private Sector Support Framework
Partial Portfolio Guarantees and their impact

Background

1. The objective of the Global Concessional Financing Facility (GCFF) is "to support middle income countries impacted by the influx of refugees through the provision of concessional financing and improved coordination for development projects addressing the impact of the influx of refugees" (GCFF Operations Manual, paragraph 6).

2. So far, the GCFF has been providing concessional financing for supporting public sector projects that benefit refugees and host communities and that are approved by Supporting Countries of the Steering Committee on the basis of funding requests by the Benefitting Countries. In particular, it provides Concessionality Components to Underlying Operations that are financed by one or several MDBs acting as Implementation Support Agencies (ISAs). In exceptional cases, at the request of a Benefitting Country, and with the consensus of the Supporting Countries that the exception is justified, the GCFF can also provide direct funding to Grant Operations.

3. At its meeting in Washington, DC on April 20, 2017, the Steering Committee considered the topic of "Leveraging Private Sector Investment for the GCFF." The interest in crowding-in private sector investment follows the growing recognition among international partners that the private sector has a critical role to play in achieving development objectives, including within the context of refugee crises and host communities. At its meeting in Amman on October 29, 2017, the discussion was pursued, and ultimately the Steering Committee asked the Informal Working Group to continue its work. The discussion made clear that the GCFF can, under its current rules, already support public sector contributions to private sector projects through its concessionality funding. An option involving direct support to the private sector was further detailed at the Steering Committee's virtual meeting on April 1, 2019. This option would require adjustments to the GCFF Operations Manual, in particular with regard to procedural aspects, as well as a common understanding regarding the interdependency of promoting private sector development and public-sector infrastructure as parts of a longer-term strategy to benefit refugees and local communities. This paper aims to present a concrete proposal and serve as basis for a decision on a Private Sector Support Framework (PSSF) for the financing of Partial Portfolio Guarantees (PPGs) under the GCFF at the next Steering Committee meeting. A positive decision would also entail amendments to the Operations Manual and, if necessary, the Financial Procedures Agreement with any Implementing Support Agency (ISA) that intends to access funding from the GCFF for PPGs.

The Business Case

4. **The comparative advantages of both public and private sector-focused interventions can be leveraged to create optimal solutions to development challenges.** Governments and other public organizations provide services, security, and institutions indispensable to the welfare and livelihoods of their people. Yet, public resources are insufficient to meet developing country needs for infrastructure, jobs, and broader economic opportunity. This is particularly true in the context of fiscal constraints, when governments may also need to leverage private sector expertise and resources to deliver key services, like health, education, food, and access to finance to facilitate employment and livelihood opportunities. The private sector plays an instrumental role in stabilizing societies and igniting economic growth. This is especially relevant in the context of today's refugee crisis, when public resources in the affected countries are severely strained by the need to provide infrastructure and services for a significant influx of populations within national borders.

Box 1: The Business Case for Jordan - Challenges and Benefits

Jordan hosts about 650,000 registered Syrian refugees with about the same number estimated to reside unofficially in the country. Syrian refugees therefore account for more than 10 % of the total population, which is estimated at around 10 million. About 80 % of these Syrian refugees live in urban areas, with the remainder in camps. Refugee concentration is uneven across the country, with Amman and Mafraq hosting over 50 %.

Jordanian and Syrians compete for scarce resources, including jobs and public resources. In 2017, the Jordanian government issued 47,000 restricted work permits in connection with a GCFF-supported project, but that addresses only a fraction of the working population. Moreover, the Jordan labor market is characterized by a high degree of segmentation, including sectors that are unavailable to migrants and refugees. As a result, Syrian refugees often work in the informal sector. Low rates of female and youth employment are of particular concern. The surge in labor supply has led to an increase in the unemployment rate to 18.3 %, the highest level recorded since the turn of the century. The conflict in Syria has affected Jordan not only through the influx of refugees, but has also led to the closure of trade routes and the loss of export markets. Because of these adverse developments, public debt increased from about 70% of GDP in 2012 to 95% in 2017. International assistance has been insufficient to cover the cost of hosting the refugees.

The Government has called on the Central Bank of Jordan to lead the process for developing and implementing a National Financial Inclusion Strategy. The promotion of SME finance is a core element of that strategy, given the role of the SME sector in terms of its contribution to GDP and employment generation in the region. According to the MENA Enterprise Survey, the share of credit-constrained firms among Jordanian SMEs exceeds 70 % of firms needing a loan. The majority of these firms report that high interest rates, high collateral requirements and complex loan application procedures discourage them from applying for loans. The Central Bank of Jordan has been instrumental in promoting access to SME finance through a series of interventions affecting laws and regulations, data, consumer protection, financial capabilities and financial technology. Despite these efforts and encouragement to lend to SMEs through preferential interest rates, the commercial banking sector continues to be reluctant to provide financing to SMEs. Only 11 % of bank lending goes to SMEs, which banks perceive to be riskier and less profitable than alternative investments.

5. **Given the GCFF's rapid operationalization and strong progress to date, there may now exist an opportunity to complement the support the GCFF provides to the public sector with an effort to crowd-in investment and expertise from the private sector.** Just as the private sector is recognized as a key support to public efforts to achieve development goals in other settings, it may also be able to augment the effectiveness of scarce public resources in the context of MIC-based refugee crises. It will also be a useful mechanism to create the necessary fiscal space for governments to channel public resources toward other pressing needs, particularly those for which private capital cannot as easily be deployed. Indeed, leveraging GCFF resources, expertise, and coordination capacity to tap private capital could reinforce government-backed operations and reforms funded by the GCFF, thereby amplifying its impact and the benefits it provides to refugees and host communities.

6. **The GCFF is well-positioned to provide such support.** The GCFF has well-established structures and procedures and a solid level of fundraising resources from a global group of supporting countries. It would complement bilateral efforts and contribute towards meeting a substantially larger demand. Currently the GCFF resources are used to help public investments to become commercially or financially viable, and would achieve a similar purpose in the private sector through de-risking investments. The ISAs currently participating in the GCFF have proven track records of using innovative financial mechanisms to crowd private investment into developing countries, including in difficult environments characterized by fragility, conflict, and violence. Under the PSSF, drawing on this expertise would allow Benefiting Countries to capitalize on existing, yet untapped ISA capacity. The open partnership platform of the GCFF offers a forum to discuss investment priorities and policies between Supporting Countries, Benefitting Countries and ISAs on a senior official level. Such discussions enabled through the GCFF can promote a dovetailed approach of public and private sector interventions and an ecosystem that is conducive to higher economic growth and sustainable development.

7. **GCFF-supported operations in the private sector aim at building economic resilience.** Small- and medium-sized enterprises (SMEs) are the backbone of any healthy market economy, driving growth by creating jobs and promoting innovation and competitiveness. Access to medium- to long- term finance is currently a major challenge for SMEs across the region. According to the MENA Enterprise Survey 2014, more than 30% of SMEs report access to finance as a major or very severe obstacle to their operations. Overall 44% of SMEs believe that their credit application would be unsuccessful and report high interest rates, high collateral requirements and complex loan-application procedures as the main reasons they are discouraged to apply. The MENA Enterprise Survey indicates information asymmetry, financial risks, lack of data, transparency in SME accounts/financials, lack of institutional capacity and physical and financial infrastructure (credit data agencies, collateral registries, and weak legal process) as primary barriers to greater involvement in SME finance. This perpetuates a risk averse culture on the part of commercial banks to go deeper and reach underserved SMEs. PPGs supported under the PSSF could help address several of the critical factors constraining SME access to finance. GCFF funds can facilitate the provision of comprehensive support packages that in conjunction with public sector interventions and continued reforms establish an environment for SMEs that is more conducive to private sector-led growth. Improving access to finance and promoting sustainable growth that generates employment and inclusion are key to ensuring that such growth actually translates into higher levels of economic resilience.

8. **Direct support to the private sector is usually not provided in the form of concessional amounts or grants but can instead take the form of a financial instrument. Financial instruments can attract funding from other public or private investors in areas that are perceived as risky by investors.** The rationale for financial instruments is all the stronger in that it complements efforts to support the public sector (i.e. contribute to policy reforms indeed translating into higher lending, and therefore to higher investment and economic growth) with operations directly involving private sector counterparts, thereby furthering the delivery on the GCFF objectives. The delivery of infrastructure or basic services also rests on private sector participation, that financial instruments can facilitate. This may provide additional flexibility in case public interventions take longer time than originally expected.

9. **Among the options discussed at the Steering Committee meeting in October 2017, the co-Chair recommended to investigate PPGs as the most promising option of financial instruments to develop a test case.** PPGs can create a leveraging factor of approximately 8-10x, meaning the amount of GCFF support can be used to guarantee portfolios of private sector financial intermediaries (PSFIs) times the GCFF support. For example, USD 1m grant guaranteeing 50% of individual loan amounts up to a cap of 20% of a portfolio level would guarantee a USD 100m loan portfolio; a higher guarantee rate would lower the leverage. Because the participating PSFIs are expected to build an even larger SME portfolio than the one guaranteed, and finance less than 100% of the SMEs' project costs, the PPG catalytic effect is even higher. In the current regional political and economic context, the risk level is very high for ISAs to provide such guarantees from their own resources, in line with their respective risk-policy guidelines and/or financing terms. Donors can bridge the gap by accepting the potential risk of loss in case SMEs are unable to honor their payment obligations, effectively treating their contributions as grants, as long as the fund use delivers on the objectives of the GCFF. Because very limited sources of funding exist to create the enabling environment for public and private actors to engage, the support of the GCFF becomes even more critical. The next sections in this note lay out the general principles and detail the scope and criteria of proposed GCFF support of PPGs for PSFIs, as well as the impact it would have on administration and results monitoring.

10. **There is therefore room for complementary instruments, which help to overcome the current challenges that prevent adequate supply of credit from PSFIs to SMEs**. Instruments such as PPGs absorb part of the risk of lending to final beneficiaries in order to address gaps in their ability to access finance. The PPG mechanism promotes an innovative financing structure in the Jordanian market that is expected to reach a larger pool of SMEs through reduced collateral requirements, potentially lower costs

of borrowing, and ultimately increased appetite of PSFIs to lend to the SME sector. PPGs can help unlock the SME growth potential, generate employment and support the development of a dynamic and competitive private sector.

11. **In the envisaged form, the PPGs are an instrument in the respective markets and complementary to other schemes under development.** The existing loan guarantee schemes (e.g. national schemes by JLGC and Kafalat) are limited and at mostly small scale, rely on a loan-by-loan approach with relatively high transaction costs, or are limited to certain sectors / thematic areas. Some loan guarantee schemes are currently being developed by international financial institutions and open to GCFF partner countries (e.g. NASIRA Risk-sharing Facility supported by EFSD or ERI SME Guarantee Facility). However, it is expected that the PPG under the GCFF will complement these schemes in terms of timing, geography and sector and products, and contribute towards jointly reaching the required scale to incentivize a significant increase of SME financing in the PSFIs portfolios. Operating a limited number of similar schemes in parallel may also help to gain experience and collectively improve product design to cater to the demands of clients. The parallel schemes also vary with regard to their base of donors and implementing agencies, with different governance structures and sometimes also different policy objectives.

12. **Promoting financial inclusion in the SME sector can also benefit the specific target groups of the GCFF, including local communities, as well as refugees and other vulnerable groups.** In this regard, the PSSF will not differ from the general approach of the GCFF. First, these target groups can derive benefits from improved basic services and employment opportunities provided by SMEs that receive support under this operation. Second, they can also benefit from expanding economic activity. For example, investments further down the value chain can stimulate demand in the agricultural sector. Expanding economic activity may also help alleviate the tensions between refugees, migrants and the host communities that arise from competition for scarce jobs and public resources. Where possible and acceptable to PSFIs, PPGs will be designed to incentivize lending to SMEs that actively contributes to financial inclusion of GCFF target groups. ISAs select PSFIs after conducting qualitative assessments that take into account their expected capacity to effectively serve the targeted SME segment, including their capacity to originate and implement the guarantee product and contribute to the general objectives of the GCFF, as well as their financial standing, risk management framework, governance and administrative capacity.

General Principles to Consider

13. Similar to grant operations for Benefitting Country recipients that are currently allowed in exceptional cases, the ability of the GCFF to provide direct support of private sector operations through PPGs could be envisaged with the consensus of the Steering Committee that the exception is justified. The following principles would apply for PPG operations supported by the GCFF under the PSSF:

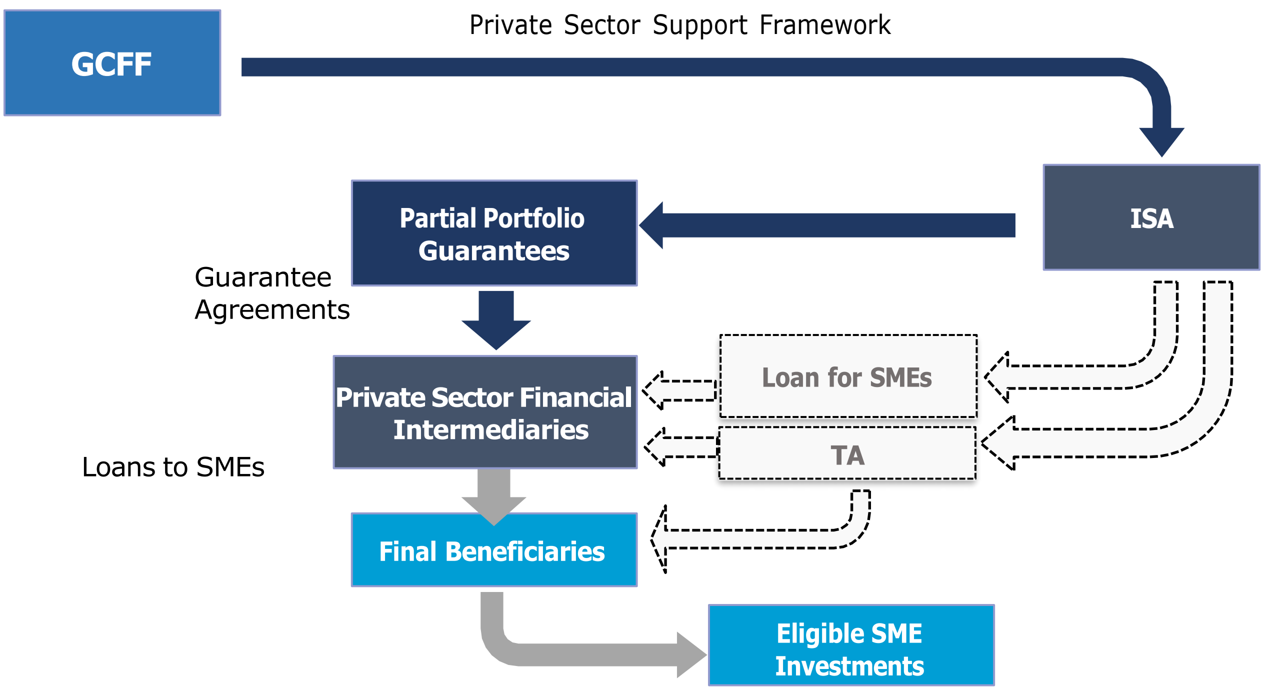
- Funding available in the GCFF can be requested by an ISA on a programmatic, ‘envelope’ basis for a specified duration.
- Once the ‘envelope’ has been approved by the Steering Committee, funding is allocated by the Trustee based on funding availability at the time of decision.
- Funding can support private sector activities in Benefitting Countries consistent with the Operations Manual “Scope”, including any agreed amendments.
- The method for calculating the concessionality amounts for Benefitting Country loan operations does not apply. Appropriate alternate financial parameters will apply.
- Fund “use” occurs when an ISA commits GCFF funds as part of a PSFI operation under terms described in the funding request.

- ISAs provide semi-annual progress reports on fund use and results, including specific progress under the project towards refugee and host community indicators, using a standard reporting template for PPG support provided under the Operations Manual.

Partial Portfolio Guarantees

14. Because of increasingly tight regulatory requirements or high perceived risk associated with information asymmetries and high security costs to cover such risks, PSFIs (mainly commercial banks) tend to be reluctant to lend to SMEs. When they do so, they typically demand a disproportionately higher risk premium or high collateral requirements from SMEs. This discourages SMEs that are unable to pay such premiums or provide such collateral from even applying for loans.

15. Among the options of financial instruments discussed for supporting the private sector in refugee and host community environments, the most promising included the promotion of risk-sharing operations, where GCFF support would be sought in the form of PPGs covering first losses up to an agreed cap, usually along with ISA resources for lending to SMEs to support private sector activities for refugee population and host communities.



16. In this setting, PPGs can be provided to PSFIs that agree to increase their lending to viable SME businesses that otherwise have trouble qualifying for and obtaining loans under existing initiatives. ISAs would provide certain funding commitments to PSFIs in the event SME loans are not repaid in exchange for expansion by PSFI lending to relevant areas and recipients under agreed terms. The PPGs are expected to reduce collateral requirements, create a potentially lower cost of borrowing for SMEs, potentially achieve capital relief for PSFIs, and ultimately increase their risk appetite. While clearly PPGs cannot single-handedly resolve the constraints in terms of access to finance, they aim to contribute to the creation of a more conducive culture, business environment and trust between PSFIs and SMEs with a view to ultimately increasing the availability of banks to lend to this sector more broadly as they gain comfort in assessing its related risk. As such, they work hand in hand with other GCFF supported interventions that target job

creation and private sector participation, and with other instruments offered by ISAs such as loans and technical assistance.

17. Funding requests for GCFF support under the PSSF would be at the envelope level, i.e., to finance a portfolio of projects that is built up over time during a specified implementation period. ISAs would operate within a defined PPG framework, the PSSF, approved by the Steering Committee and then meet specified objectives through explanations and appropriate eligibility criteria/guidelines.

Scope and Criteria

18. The Operations Manual (paragraph 7) defines the scope of ISA loans that can benefit from GCFF concessionality funding as loans that:

(i) support impacted or vulnerable populations by promoting the effective delivery of basic services (e.g., education, health), social protection, expanding economic opportunities (e.g., work permits, job creation), or
(ii) strengthen and develop critical infrastructure, promote private sector participation, and provide host countries with necessary budget support as it relates to the impacts of the refugee crisis.

19. PPGs operations would be designed consistently with the scope of the GCFF that is otherwise defined for concessionality support.

20. GCFF-funded PPGs are expected to complement and enhance public-sector actions. First, they could promote effective delivery of basic services and strengthening of critical infrastructure (e.g., health, energy, water, transport solutions) by private sector entities in areas where the public sector alone is struggling to provide those services and therefore the country development strategy acknowledges the role that the private sector plays in their timely delivery at the required scale. And second, they could expand economic opportunities in the private sector that are enabled by public interventions (e.g., public sector operation addressing work permits could be matched by sustaining or creating jobs in these sectors) and create economic growth and employment.

21. The impacted or vulnerable groups include host communities as well as refugees and other particularly vulnerable groups. They would benefit from GCFF-supported PPGs directly and indirectly in two critical ways from PSFI lending to SMEs. First, they can benefit directly through the expansion of existing or delivery of new basic services / products by SMEs, and through job opportunities created by those SMEs and available to such populations. In order to achieve this, ISAs would seek to prioritize operations with a high contribution to financial inclusion of the above target groups, on the basis of performance criteria agreed with PSFIs and documented through appropriate result indicators. The terms and conditions of the PPG (e.g. pricing, guarantee rate) can be designed in a way that rewards PSFIs for their efforts to reach out to underserved and vulnerable groups, including women, youth and refugees. Second, impacted or vulnerable groups can also benefit indirectly from promotion of SMEs generally by expanding markets and creating healthy, vibrant economic environments.

22. The delivery on GCFF objectives and development impact would be demonstrated through supplemental criteria, which would be developed and applied by the ISA in evaluating and selecting specific PSFI operations to be funded out of the GCFF envelope. Additional information on key elements of this proposal, such as administration and reporting, are included in the Annex to this note.

Potential Implications for Operations Manual (OM)

23. The deployment of GCFF support to PPG operations by ISAs will require some amendments to the GCFF OM and, if necessary, the Financial Procedures Agreements with the ISAs that wish to implement the instrument. Some of the implications for the OM are listed below:

- No separate window is created for PPGs. PPG envelopes are country-specific, and funding would be allocated from the existing widows.
- PPGs are included as a new financing mechanism eligible to receive exceptional GCFF support and additional to the existing concessionality financing and financing for grant operations.
- PPG funding can support private sector activities in Benefitting Countries consistent with the OM Scope, with agreed modifications to reflect PPG operations.
- No modification of the OM is necessary with regard to GCFF Objective based on the understanding that PPG operations, like grant operations, are part of "the improved coordination for development projects addressing the impact of the influx of refugees" (OM, paragraph 6).
- The involvement of Benefitting Countries during the Steering Committee review process would ensure adequate opportunities for them to comment on the scope of the 'envelope' request as it relates to their respective development agendas. Following allocation of funding for a PPG funding request, involvement of Benefitting Countries may also take place in line with the ISA's applicable policies and procedures. Benefitting Countries could consider setting up mechanisms for country-level private sector coordination (akin to country-level donor coordination), in coordination with interested ISAs.
- The OM may require Supporting Countries' acknowledgement and acceptance of the risk of full loss and a lack of a risk-commensurate return of PPG operations, also reflected in the ISA's specific policies and procedures for PPGs
- PPG funding requests would describe all elements related to a particular funding envelope following a standard GCFF PPG template, including descriptions of other complementary lending support, and are encouraged to coincide with Steering Committee meetings to allow for discussion.
- Envelope allocations leave decisions about specific PSFI arrangements with the relevant ISA, provided they are consistent with the OM and the funding request proposal.
- ISAs may keep commercially sensitive information confidential under their applicable policies and procedures, provided this does not impede their ability to provide GCFF progress reports.
- ISAs are responsible to ensure proper fund use, with "use" defined as a commitment by the ISA of GCFF funds as part of a PPG arrangement under terms described in the PPG funding request. Since use of funds coincides with the conclusion of a PSFI arrangement, subsequent disbursement to cover a PPG loss is not "use" in the sense of the GCFF. This is consistent with how concessionality financing is treated under the existing GCFF structure where use is at the ISA level, when funds become integrated into ISA operations. However, consistent with the OM terms on concessionality, if the ISA has GCFF funds left over at the end of a PPG arrangement or the 'envelope' period (other than funds provided for ISA Costs), those funds are returned to the GCFF Trustee for pro rata deposit in the respective originating window(s) in the trust fund, unless otherwise agreed.
- ISAs are expected to provide sufficient pipeline information to enable downstream coordination but agree not to leverage each other's pipeline presentations and funding requests to compete for business.
- ISAs provide semi-annual progress reports on fund use and results, including specific progress towards approved refugee and host community indicators, using a standard reporting template for PPG support included in the OM.

Next steps

24. Following endorsement of this concept note by the Steering Committee, the Trustee, in consultation with the Coordination Unit and the ISAs, as appropriate, will prepare the necessary draft amendments to the GCFF framework, including any draft amendments to the Financial Procedures Agreements with the ISAs that wish to seek support from the GCFF for PPG operations. These amendments will be submitted for approval of the Steering Committee.

Annex

Alignment of PPG Objectives with GCFF Objectives

1. For funding requests, the Operations Manual (paragraph 22(d)) requires that GCFF-supported operations clearly demonstrate the following objectives, which would be met as noted:

(i) *compatibility with the Benefitting Country's development agenda*: Although the link is necessarily less direct than with public sector infrastructure projects, support of private sector development and SMEs is considered compatible with development agendas in general. More specifically, relevant policy frameworks of Benefitting Countries would be considered by the ISA at the project appraisal stage. ISAs would prioritize actions where the countries' development strategy acknowledges the important role that the private sector plays. Projects would, when possible, take place in the nexus of public sector GCFF-supported loans with potential to promote private sector participation (i.e., build on their analysis and enhance their impact). For example, in Jordan, operations are expected to respond to the objectives of the Jordan Economic Growth Plan 2018 – 2022, the Jordan National Vision and Strategy 2025, Jordan's National Employment Strategy 2011-2020 and National Financial Inclusion Strategy 2018-20. Similarly in Lebanon, operations are expected to directly respond to the mission of the Lebanon SME Strategy: "A Roadmap to 2020," notably to foster the creation of vibrant and globally competitive SMEs that contribute to employment opportunities and high value-added economy.

(ii) *clearly demonstrated objective of supporting refugee populations and host communities that have been significantly affected by refugee shocks*: Generally, it would be understood that PPG support benefits refugee populations and host communities in relation to their economic activity, with special focus on such disadvantaged groups as youth and women. Specific envelope funding requests for PPGs could include supplemental criteria, as set forth and defined by the ISA, specific to the scope of intended activities and impacts. While ISAs would apply approaches suited to each of their applicable policies and procedures, examples of such criteria might include: (1) *Increasing access to finance* – with particular attention paid to demonstrating that the operation targets SME beneficiaries that lack adequate access to finance; (2) *Employment impact* – the operation has a demonstrable impact on job creation, with priority for settings where refugees are seeking and eligible for employment; or (3) *Inclusion impact* – the operation is targeted at parts of the economy and host communities that are most affected by the refugee crisis and refugees or includes specific activities to ensure that impacted or vulnerable populations are targeted as part of its activities.

(iii) *clear development impact*: This would figure into the ex-ante assessment by the ISA of the operation's development impact as part of the project appraisal.

(iv) *project readiness*: This is the ISA's responsibility, under its applicable policies and procedures, when making project decisions.

Progress Reporting and Performance Indicators

2. As outlined in the Operations Manual, the GCFF reporting system helps the Steering Committee oversee allocations and disbursements, and achievement of outputs and outcomes for GCFF-financed operations. For PPGs, reporting to the GCFF Steering Committee would include information on entities

(both at PSFI and SME levels) benefitting from GCFF funds, the amount of GCFF funding used (i.e., committed to PSFIs in the form of guaranteed exposure (i.e., contingent liability for SME portfolio)), the amount of GCFF funding paid for first losses, the amount of funding returned to the GCFF Trustee (when individual PSFI arrangements terminate and no or only some first losses materialize, or when the overall period for the envelope request ends). Reporting would also be provided in response to results indicators presented in the approved funding request, including with respect to refugees and host communities, as further described under "Results Framework" below. A specific PPG progress reporting template would become part of the Operations Manual.

3. In addition, the following information would be provided with respect to GCFF-supported PSFI loans to beneficiaries:

- Type of beneficiaries of PSFI loans, i.e., SME, Midcap, Micro-enterprise (number and value)
- Average loan tenor of PSFI loans to beneficiaries
- Average size of PSFI loans to beneficiaries, jobs created, and jobs sustained in or by beneficiaries

4. ISAs may keep commercially sensitive information confidential under their applicable policies and procedures. Any such restrictions should not impede their ability to provide progress reports.

5. The following factors have been identified as the main risks to a successful delivery on GCFF objectives through PPGs: a lack of absorption of the guarantees by PSFIs, a lack of targeting of impacted of vulnerable populations, difficulties in collecting disaggregated data required to demonstrate such targeting, and a lack of complementary improvements of the private sector environment. These risks are mitigated through adequate incentive mechanisms inbuilt in the design of the PPG, training and technical assistance support, and complementary GCFF-supported interventions targeting policy and regulatory aspects.

Results Framework

6. The results framework for each PPG envelope funding request should be able to convey the basic theory for how operations objectives would be achieved. As with concessionality operations, to facilitate the aggregation of results on underlying operations, the PPG framework would include a list of sample result indicators, and each funding request would specify specific indicators for that particular envelope of funds, either taken from the sample list or comparable to items on the list. Where possible, the PPG indicators would differentiate among specific target groups (e.g., refugees, host communities, gender, geographical region, subsector of the economy).

7. In order to reflect the nature of private sector promotion compared to public sector infrastructure, the main focus of results indicators would be on access to finance. Such access is vital to an economic environment that enables a longer-term strategy of coping with the refugee crisis.

Administration

Approval Process

8. The Steering Committee has the ability to determine for what purposes GCFF funds may be used, including the process for allocating such funds. The GCFF was established to provide concessionality to middle income countries for lending in support of host communities and refugees, and this objective has been the basis of all funding requests to date. However, in the same manner that grant funding is already

foreseen for exceptional cases, funding in form of first losses for PPGs could be added as a limited option for Steering Committee consideration. Doing so would entail a set of amendments to the Operations Manual and, if necessary, to the Financial Procedures Agreements. If approved by consensus of the Steering Committee, such amendments would allow ISAs to submit funding requests for Steering Committee consideration and Supporting Country approval. As is currently the case, involvement of Benefitting Countries would be ensured at the time 'envelope' funding requests are presented to the Steering Committee with the ability to provide comments before funding envelopes are approved. Further involvement could come through country-level coordination mechanisms set up in coordination with interested ISAs.

9. If GCFF funds used as part of PSFI arrangements are disbursed by ISAs to PSFIs to cover first losses, those funds would not need to be returned and would be considered grants. However, if such funds are not disbursed to cover first losses, they would be returned to the GCFF Trustee by the end of the 'envelope' duration specified in the GCFF funding. Similarly, if funds are not committed (i.e. 'used') by an ISA for eligible PSFI operations by the end of the 'envelope' duration specified in the GCFF funding request, those funds would also be returned to the GCFF Trustee at the end of the period.

10. As with concessionality funding, PPG funding would follow the agreed-upon framework, the PSSF. GCFF-supported PPG operations will be implemented in accordance with the PSSF and each ISA's applicable policies and procedures.

PPG Amount and ISA Costs

11. Given the different nature of a financial instrument compared to a grant (i.e., risk-absorption rather than subsidy) and given the business model of PPGs, the method for calculating the GCFF concessionality amount would not apply, as is currently the case with exceptional grant funding under the GCFF. However, a range for the guarantee rate would be agreed in general terms for the envelope request, and ISAs would subsequently determine exact rates within this range for specific PSFI arrangements, consistent with the respective ISA's applicable policies and procedures.

12. The PPGs would be provided directly to PSFIs and benefit borrowing SMEs. Funding would be used to guarantee loans of PSFIs to SME clients, who would be the beneficiaries of these guarantees through increased access to finance at attractive terms. Depending on the actual level of underlying defaults, there may be reflows to the GCFF fund consisting of expired guarantees that have not been called. In addition, the ISA may charge a guarantee premium to the PSFI. This is a key difference between the use for a financial instrument and the use for a (one-off) investment grant. Such reflows and guarantee premiums would be accounted separately (i.e., do not benefit the ISA) and would be returned to the GCFF fund, unless otherwise agreed between the ISA and the Supporting Countries.

13. In line with the OM, ISA Costs for PPGs will be identified and requested in the Funding Request upfront. Since PPGs are financial instruments, the ISA tasks result in a level of ISA operating costs that is comparable to a stand-alone operation (e.g. covering stand-alone due diligence of the counterpart for handling the guarantee and risk management, guarantee monitoring including guarantee call management as well as the requested reporting). No substantial cost reduction is therefore expected in case the PPG operation is complemented by as ISA loan from its own resources. However, since reflows and guarantee premiums would be returned to the GCFF fund, the net cost impact of PPGs on the GCFF over time is expected to be reduced.

Fund Transfer and Use Process

14. The following funding process would apply, unless explicitly modified in a specific PPG funding request:

- Funds are allocated to the ISA by the Trustee upon notification by the Coordination Unit (CU) of an allocation approved by the Steering Committee based on a programmatic, ‘envelope’ request submitted by an ISA.
- Upon completion by the ISA of all internal approvals for the program involving the allocated GCFF funding, the ISA submits a Cash Transfer Request to the Trustee for the full amount of the allocated envelope or in tranches.
- Upon receiving a Cash Transfer Request, the Trustee transfers the full amount (or, if agreed, the requested amount / tranche) of the allocated envelope request to the ISA.
- The ISA subsequently, on an ongoing basis, notifies the Trustee and CU of (i) the conclusion of any PSFI arrangement and the specific amount of PPG funds used (see definition of “use” above), using a standard template (a PSFI Arrangement Notification); and (ii) any disbursement of PPG funds to cover a loss under a PSFI Arrangement, using a standard template (a PPG Disbursement Notification). Use of PPG funds and their disbursement for first losses may occur only during the approved envelope duration, which includes an allocation period and a maximum guarantee availability period.
- Upon receiving any PSFI Arrangement Notification or PPG Disbursement Notification, the CU provides copies to the Steering Committee for information.
- At least 50 % of the PPG funds provided in an envelope is expected to be used (i.e., committed in a PSFI arrangement) by the ISA within eighteen months of allocation. If not, the CU raises this with the Steering Committee for review.