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Working Paper

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Economics Discussion Papers, No. 2017-36

Provided in Cooperation with:

Kiel Institute for the World Economy – Leibniz Center for Research on Global Economic Challenges

Suggested Citation: Lücke, Matthias; Schneiderheinze, Claas (2017) : More financial burden-sharing for developing countries that host refugees, Economics Discussion Papers, No. 2017-36, Kiel Institute for the World Economy (IfW), Kiel

This Version is available at:

<https://hdl.handle.net/10419/162577>

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More financial burden-sharing for developing countries that host refugees

Matthias Luecke and Claas Schneiderheinze

Abstract

The authors call on G20 leaders to extend more predictable and substantial support to low- and middle-income countries that host refugees, in recognition of the global public good that these countries provide. Together with other high-income countries, G20 countries should fully cover the cost of providing for the basic and social needs of refugees. They should also help to expand public services and infrastructure to cover the needs of refugees as well as resident populations. G20 countries should work with host countries to ensure that refugees are granted a firm legal status that promotes their social inclusion and opportunities for employment and entrepreneurship.

(Submitted as [G20 Policy Paper](#))

JEL F22 F53 O15

Keywords Asylum seekers; refugees; burden-sharing; humanitarian assistance; international public goods; international institutional arrangements

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This Paper is the result of an extensive consultation process in the T20 Task Force on Forced Migration. In addition to discussions at two Task Force workshops, we have also received detailed written comments from members of international organizations, political foundations, and think tanks. While these contributions account for the substance of this policy brief (and are most gratefully acknowledged), the authors are responsible for this summary of a wide-ranging and, at times, controversial debate.

Citation Matthias Luecke and Claas Schneiderheinze (2017). More financial burden-sharing for developing countries that host refugees. Economics Discussion Papers, No 2017-36, Kiel Institute for the World Economy. <http://www.economics-ejournal.org/economics/discussionpapers/2017-36>

Challenge

The 1951 Geneva Convention relating to the Status of Refugees obliges signatory states to protect individuals who flee their countries of origin to escape persecution based on race, religion, nationality, membership of a particular social group or political opinion. The Convention recognizes that a large influx of refugees may overburden individual host countries and calls for international cooperation under such circumstances. However, there are no rules for distributing refugees across signatory states or for sharing the economic cost of hosting refugees.¹ Recently, the New York Declaration has again called for more equitable sharing of burden and responsibility, to be achieved through a new global compact on refugees by 2018.

This gap in the international governance of refugee protection poses a serious risk not only to the welfare of refugees, but also to the economic and political stability of several world regions. Most refugees are hosted by low- and middle-income countries that are too poor to provide for their basic needs without putting the welfare of local populations at risk (UNHCR, 2016, Figure 3). At present, humanitarian and financial support from the global community falls critically short of the needs of refugees and host countries. There are two distinct challenges:

First, humanitarian assistance for refugees goes mostly through UNHCR and the World Food Program (WFP) that must raise most of their funds afresh for each new refugee crisis. Over time, donors often fail to adequately support programs that address protracted crises. When critical needs such as food, health, and education are underfunded, not only does this have detrimental consequences for refugees and local populations (such as in the cases of Syrian refugees in the Middle East in 2015 and refugees from Somalia and South Sudan in Kenya). It may also lead to secondary movements of refugees and security challenges for the wider region.²

Second, humanitarian assistance makes insufficient provision for local populations whose access to public services, infrastructure, and natural resources may be affected. Most refugees remain in their host countries for many years; nearly half of those under UNHCR mandate are in protracted situations that last longer than a decade (UNHCR, 2016, Figure 7). Therefore, emergency assistance needs to be complemented by additional development finance to meet additional long-term needs for public services and provide opportunities for employment and entrepreneurship.

Furthermore, in many host countries, the legal status of refugees is insecure and does not permit their social inclusion and access to employment and entrepreneurship. Although the 1951 Refugee Convention remains central to determining who is entitled to protection and to defining the rights of refugees, it still lacks formal recognition among important host countries, especially in the Middle East.

¹ Arguably, a secondary distribution of refugees may be required to achieve equitable burden-sharing when a large inflow of refugees presents a host country with a large demographic challenge, particularly in view of the medium-term social and economic inclusion of refugees (see below). However, this discussion is beyond the scope of this policy brief where we focus on financial burden-sharing.

² For example, secondary movements of Syrian refugees from the Middle East to Europe peaked in 2015 – exactly at the time when the shortfall in funding for UN-coordinated appeals for the Syria emergency escalated (Lattimer, Sparks, Tuchel, 2016, Figures 2 and 3).

Proposal

G20 leaders represent the world's largest economies. Therefore, they are well-placed to help address the shortfall in funding for refugees and local populations in low-and-middle-income host countries – both in terms of emergency humanitarian assistance and development finance.

First, with respect to emergency humanitarian assistance, we call on G20 leaders to act immediately to eliminate the existing global shortfall in funding for assistance to refugees in low-and-middle-income host countries, particularly in protracted refugee situations. As negotiations progress towards a global Compact on Refugees, following the New York Declaration, we call on G20 leaders to commit to providing adequate resources in a predictable manner to fully cover the needs of refugees and local populations for as long as refugee situations last.

Second, with respect to complementing emergency humanitarian assistance with development finance to ensure that refugees as well as local populations have access to public services, infrastructure, and economic opportunities, we call on G20 leaders to initiate a broad effort by multilateral and bilateral donors to rigorously evaluate country experiences, identify best practices for policy interventions, and provide additional development assistance as needed.

Finally, we call on G20 leaders jointly with the wider donor community to engage host countries in a “partnership for refugees” that involves firm and predictable commitments for assistance to host countries over the medium and long term to match efforts by host countries to facilitate the formal social and economic inclusion of refugees. Ideally, host countries would sign up to the 1951 Refugee Convention to provide legal transparency in line with internationally recognized standards of protection.

In the remainder of this policy brief, we make three related points: First, we review relevant research to show that if refugees in low-and-middle-income economies are funded by the international community, the net cost of hosting refugees tends to be small and there may even be net benefits, while negative distributional effects can be mitigated. Second, we suggest ways to make the financing of humanitarian assistance for refugees and local populations more predictable and adequate to needs. Third, we discuss approaches at better connecting humanitarian assistance and development finance to ensure that both refugees and local populations benefit from adequate public services, infrastructure, and economic opportunities.

Economic impact of hosting refugees with international funding

A large-scale inflow of refugees can overburden local financial and administrative capacities and may create social tension especially in poor and underserved regions of developing countries where most refugees are located. However, given appropriate and sufficient external financing, hosting refugees can create an opportunity for economic development. In contrast to commonly-held beliefs, externally financed refugee settlements frequently cause aggregate economic benefits for the host population (Maystadt and Verwimp, 2014; Taylor et al., 2016). Yet, consequences are heterogeneous and refugee movements often generate winners and losers among the host population. To maintain popular support for hosting refugees, possible negative effects on vulnerable groups among the resident population need to be identified and mitigated.

In basic economic terms, any influx of refugees constitutes an expansive supply-side shock in the local labor market, provided that refugees are able and permitted to work. If the host country receives international grants or refugees receive cash-based assistance (which is increasingly seen as good practice), this constitutes an expansive demand-side shock in the local good markets as long as supplies are not ultimately imported. The increased demand for locally produced goods stimulates the local economy and, depending on the size of the refugee population, can have positive spillover effects on the whole country. In particular, agricultural producers tend to benefit from the additional demand and purchasing power. Increased production, prices and profits are the common consequence.³ Rising local production and income may give rise to positive spillover effects that benefit economic growth throughout the country (Alix-Garcia and Saah 2009; Taylor et al., 2016).

The additional labor supply can reduce local production costs and thus increase the competitiveness of local firms, especially if production is labor intensive.⁴ This effect depends on the skill set of the refugees in relation to the host population and on policies regarding their labor market integration (e.g work permits, recognition of formal education, integration efforts by employers). To the extent that refugees compete with (some members of) the resident population in the labor market, a sudden, large refugee influx may drive down residents' wages (Maystadt and Verwimp, 2014).

Specifically, un-skilled and informal sector workers may be at risk if migrants do not speak the host country language, are not highly educated on average, or find their skills and qualifications difficult to transfer to the new environment. In this case, low-skilled native workers are most likely to suffer income losses or unemployment.⁵ However, if refugees receive adequate cash-based assistance from international donors, their reservation wages will probably increase and their informal labor supply decline, reducing competitive pressure on native workers. Children may be sent to school rather than made to work. If refugees can work legally (as we propose), fewer refugees will crowd into the informal sector, reducing the impact on local workers.

Besides labor supply and goods demand, refugees may positively contribute to the host economy as their location-specific knowledge and networks may facilitate trade between the host country and the country of origin, especially when the latter moves towards post-conflict reconstruction (Taylor et al., 2016; on the role of Syrian refugees in Lebanon: Cali et al., 2015).

Overall, a large inflow of refugees will typically affect different residents differently according to their resource endowments, occupations, and consumption patterns: Refugee-induced price increases in food items, for example, adversely affect urban net food consumers, while rural net

³ For example, [Alix-Garcia and Saah, 2009](#) document systematic price increases in non-storable food items because of refugee inflows to Tanzania in 1993 and 1994. The clearest example of refugee-induced price increases can be found in housing markets. With half of the global refugees residing in urban areas, the impacts on local rents and housing prices is often substantial (Schmeidl, 2002; [Alix-Garcia and Saah 2009](#); [Zetter and Deikun, 2010](#)).

⁴ The [Nordic Agency for Development and Ecology, 2010](#) found a significant price decreasing impact of refugee labor supply for a wide range of non-food items in Daadab, Kenya.

⁵ Similarly, Del Carpio and Wagner (2015) find mixed employment effects for the inflow of Syrian refugees into Turkey: While natives are displaced in the informal sector, total formal employment increases. Women and low educated men experience higher unemployment, whereas especially men with average education benefit in terms of employment and income.

producers are better off. Higher labor supply may benefit companies while hurting low-skilled native workers. Even when aggregate benefits are large enough in principle to compensate losers, poor households without access to productive resources or political power are most at risk from a refugee influx (Whitaker, 2002; Maystadt and Verwimp, 2014). Therefore, policy mediation may be needed to mitigate negative impacts and preserve the support of the host population for the presence of refugees. Under these conditions, the hosting of refugees may promote local economic development for the benefit of refugees as well as local populations.

In sum, if the global community provides adequate resources to meet the basic social and economic needs of refugees and local populations, this goes a long way towards equitable burden-sharing between host countries and the global community. Arguably, demographic pressures on small host countries may still be so large or economic stagnation so pervasive that more secondary distribution of particularly vulnerable refugees, such as through third-country resettlement with the assistance of UNHCR, would be advisable. Participating in third-country resettlement may also enhance the credibility of those G20 countries that would otherwise host very few refugees (Hargrave, Pantuliano, 2016). This said, much progress can be made already if G20 countries and other high-income economies contribute sufficient funds in a predictable manner for humanitarian assistance and related development efforts.

Ensuring predictable and adequate funding of humanitarian assistance for refugees

When refugees leave their home countries, they often do so quite suddenly in large numbers even though the underlying crisis may have gone on for some time. Many refugees lose all their assets at home; therefore, the push factors must become quite strong to make them leave. Such severe crises often lead to protracted refugee situations; with no livelihood in their home country to return to, many refugees live in their host countries for many years.⁶

Humanitarian assistance for refugees thus faces a dual challenge: First, when a refugee situation arises, substantial resources must be mobilized within a short time. Second, funding for protracted refugee situations must be maintained for many years even as donor interests and priorities may shift. Both in the short and long run, whether humanitarian assistance succeeds in providing stable livelihoods for refugees in host countries, depends crucially on funding levels not only being adequate, but also predictable (Hagen-Zanker, Ulrichs, Holmes, 2017).

First, to kick-start the response to an emerging refugee situation, there are established funding mechanisms that are basically functional, but need to be strengthened to make emergency funding more predictable. We call on G20 leaders to commit their countries to substantially higher contributions that can be used with maximum flexibility wherever the need is greatest.

One financing mechanism that should be strengthened is the UN Central Emergency Response Fund that is used both, to respond to sudden-onset emergencies and to finance humanitarian assistance in underfunded emergencies. In the past, contributions by UN member states have mostly reached the modest annual target of US\$ 450 million.⁷ However, with the support of

⁶ A much-cited estimate puts the average time spent by a refugee in their (supposedly temporary) host country at 17 years for refugees under UNHCR mandate (<http://www.unrefugees.org/what-we-do/>).

⁷ UNOCHA website: <http://www.unocha.org/cerf/donors/donorspage>

most donors, United Nations Secretary-General Ban Ki-moon has recently called for doubling annual contributions to CERF to US\$ 1 billion by 2018, which would create much-needed flexibility to address urgent humanitarian needs.

UNHCR and the World Food Programme (WFP) have their own multilateral contributions that they can spend with considerable flexibility. Currently, however, multilateral contributions only amount to a small proportion of total income (app. 8 percent in the case of WFP; WFP, 2016). We call on G20 leaders to commit to providing a much higher proportion of national contributions in the form of multilateral support. If UNHCR and WFP as “first responders” to major humanitarian crises could draw more predictably on sufficient pre-positioned funding when severe emergencies arise, there would be more time to organize the medium-term humanitarian and development funding that will be crucial for safeguarding the welfare of refugees and local populations.

Second, we call on G20 leaders to substantially increase overall funding for humanitarian assistance to sharply narrow the gap between needs and available resources. In 2015, available resources fell short of needs by US\$ 9 billion for UN-coordinated appeals alone (Global Humanitarian Assistance, 2016, Figure 3.2). Contributions to UN-coordinated appeals amounted to US\$ 11 billion, while the total humanitarian response was US\$ 28 billion, of which private donors contributed US\$ 6 billion. Disaggregating by UN-coordinated country and regional programs, donors met between 15% (Sahel) and 74% (Iraq) of requirements (Global Humanitarian Assistance, 2016, Figure 3.3).

We call on G20 leaders to commit to increasing sharply their national contributions to international humanitarian assistance and to not cutting funding for protracted refugee situations that happen to be no longer in the limelight. The existing shortfall of funds, with its detrimental consequences for affected refugees and local populations, not only means that the global community fails to live up to its obligations towards refugees. Arguably, the shortage of funds for the Syria program (43% of requirements met) and for the Syria Regional Response Plan (65% of requirements met) has also contributed to the large irregular secondary movement of Syrian refugees to Turkey and Europe in 2015 and early 2016 and to the associated challenges to regional security. In 2016, Germany alone spent € 20 billion hosting refugees, which in large part reflects the high cost of living in a high-income country.⁸ By comparison, for the G20 acting together, it should be a manageable task to close a global funding gap in the order of US\$ 9 billion – not least because adequate provision for refugees in their original host countries will likely reduce irregular secondary movements of refugees.

Complementing humanitarian with development assistance

Many refugee situations are protracted, with refugees remaining in host countries for more than a decade. Humanitarian assistance that mainly provides refugees with food and shelter and minimal public services is therefore not sufficient. Refugees need access to the full range of public services, particularly education and health care, and will inevitably use public infrastructure, housing, and scarce natural resources like water. Given the length of time spent in host countries, it is key to a meaningful life for refugees to be allowed to provide for their own livelihoods, rather than depend on handouts from the international community. Therefore,

⁸ Zeit online, 22 September 2016: <http://www.zeit.de/wirtschaft/2016-09/fluechtlinge-haushalt-kosten>

refugees need access to employment and opportunities for entrepreneurship in their host countries.

The situation is complicated by the fact that approximately two thirds of refugees under UNHCR mandate live individually, rather than in settlements (UNHCR, 2016, Table 6). This is probably good for their social inclusion and economic integration, but it may also present a challenge if large numbers of refugees use public services and infrastructure provided by a cash-strapped host country government and rent housing that is already in short supply. In this case, humanitarian assistance for immediate household needs may effectively be dispensed to refugees through cash assistance schemes, but in addition, the international community needs to work closely with host country governments to expand the supply of public services and infrastructure to meet the needs of refugees as well as the local population. Funding and monitoring the required additional public investment and working with the host country government to design the associated policy regimes (say, for the pricing of utilities) fall firmly within the remit of development aid, rather than humanitarian assistance.

Much has been written about the culture clash between “humanitarian cowboys” and “development bureaucrats” (Bennett, 2015). Quite apart from the folklore, the objectives, challenges, and political context of humanitarian and development assistance do differ markedly and so, traditionally, do the two types of donor organizations. Many promising approaches to promote cooperation have been identified and tried, including through the work of the Solutions Alliance and the new World Bank Global Concessional Financing Facility (Bennett, 2015; OECD, 2012). Nevertheless, much ground still needs to be covered to reach seamless cooperation as needed to effectively support refugees and local populations in the long run.

The necessary change in attitudes and organizational structures depends, first and foremost, on political will. We call on G20 leaders in their role as major donors to send a clear signal to their donor organizations that they are committed to the integration of humanitarian and development assistance for the long-term support of refugees. This will be an important step towards mainstreaming the provision of public services to refugees (as well as local populations) in development strategies, budget support (where applicable) and project-based development cooperation.

We also call on G20 leaders to make such comprehensive support a key element in forging ‘partnerships for refugees’ that involve donors, host country governments, and other stakeholders. Host countries would be encouraged to grant refugees a firm legal status, ideally by signing up to the 1951 Refugee Convention, that effectively promotes their social inclusion and gives them access to opportunities for employment and entrepreneurship.

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Existing Agreements

1951 Refugee Convention: <http://www.unhcr.org/protect/PROTECTION/3b66c2aa10.pdf>

New York Declaration: http://www.un.org/ga/search/view_doc.asp?symbol=A/71/L.1

G20 Hanjau Communique, #44: http://europa.eu/rapid/press-release_STATEMENT-16-2967_en.htm

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