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**Research Report**

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# Tapping into the Economic Potential of Refugees

Fostering Development through Transitional Social and Economic Integration

*Steffen Angenendt and Niels Harild*

Globally, the number of refugees trapped in protracted displacement situations is rapidly growing. For many of them, none of the three traditional durable solutions to refugee crises – return to home communities, resettlement to another place, or permanent local integration – is a realistic option. Therefore, a fourth option must be discussed: fostering temporary social and economic integration as an important step toward rebuilding refugees' lives. From a development perspective, tapping into the economic potential of refugees during this displacement period can reduce pressure on service provision, reduce fiscal stress, create economic gains for both the displaced and the host communities, and reduce tensions and, thus, the impact of exclusion and the potential for violence. German and European development actors should work on a comprehensive policy framework to support investments in refugee self-reliance that also benefit host communities.

Globally, more than 65 million people are forcibly displaced because of conflict, violence, and human rights violations. This includes more than 20 million refugees, around 40 million internally displaced persons (IDPs), and around 5 million asylum seekers – amounting to the highest number of displaced persons since the end of World War II. What is more, people living in regions that host IDPs are often equally affected by refugee crises. Currently, the most pressing problem is that the displaced live in protracted displacement situations, often for many years, before lasting solutions can be found.

Since most people fleeing their homeland stay in their region of origin and look for shelter in neighboring countries, developing countries carry a disproportionate burden: by the end of 2015, 86 percent of the world's refugees were hosted by developing countries, while 26 percent were received by least-developed countries (LDCs). These countries often struggle to cope with the impacts of such large numbers of refugees, which not only change the demographic balance, but also place pressure on social, economic, institutional, and natural resources.

Meanwhile, only a small fraction of refugees can be provided in the short to mid-

term with one of the traditionally accepted durable solutions promoted by the United Nations High Commissioner for Refugees (UNHCR): return to their country of origin, resettlement in a third country, or durable local integration in the host community.

### **Impact of Forced Displacement**

In fragile and conflict-affected countries, displacement puts additional strain on already weak national and local institutions. This can be observed in rural as well as in urban settings. There, displacement can serve as a breeding ground for poverty, exclusion, and radicalization, ultimately leading to new conflicts, crime, violence, and political instability. At the same time, displacement has negative developmental impacts. It inhibits the development of human and social capital, hinders economic growth, impedes poverty reduction, threatens environmental stability, and has counterproductive effects on the achievement of other 2030 Sustainable Development Goals (SDGs) in affected countries and regions.

All in all, displacement stunts development and, in the worst case, reverses already achieved development gains. The negative impacts of displacement, however, may be less pronounced where – pending return, permanent integration, or resettlement to another country – refugees are given the opportunity to develop their professional skills and use their existing skills and resources to their own and the host community's benefit. This way, they are also better prepared to find and implement lasting solutions.

### **Problems and Obstacles**

This course of action, however, is often hindered. The usual response to a refugee crisis is to apply a short-term and purely humanitarian approach that ignores the longevity of such crises. This shortsightedness often leads to the treatment of refugees as vulnerable victims without relevant skills, capacities, and entrepreneurial aspi-

rations. This, in turn, tends to prolong the need for continued lifesaving humanitarian aid rather than reduce humanitarian needs, as recommended by the December 2015 *High-Level Panel on Humanitarian Financing Report to the Secretary-General*.

Nevertheless, most economically developed countries are not just closing their borders to refugees, but they are also unwilling to dedicate substantial resources to refugee protection and integration in developing countries. At the same time, a lack of understanding of the short- and long-term social, economic, fiscal, and security implications of displacement often leads to short-sighted and restrictive policies by governments of host countries themselves. Even if governments see not only the negative but also the positive impacts and potential for the integration of refugees – as, for example, Germany, with regard to the large inflow of refugees in 2015, or Uganda during the last years – their endeavors to apply a long-term and development-oriented response are often hindered by political or resource constraints.

All in all, the current international and national approaches applied in response to refugee crises are woefully insufficient.

### **Opportunities**

To transform the current approach, several factors need to change. Most importantly, the overall thinking with regard to responding to a situation of forced displacement must shift from a short-term humanitarian approach to a more comprehensive understanding of the situation with a long-term focus. Rather than only focusing on the negative implications of a refugee situation, the possible positive implications need to be taken into account and emphasized. In this sense, refugees – rather than victims in need – should be viewed as survivors who bring with them valuable skills and knowledge. They should be allowed and provided with opportunities to at least temporarily integrate into their host communities in social and economic terms and,

thus, to make important steps in rebuilding their lives. An activating environment that allows refugees to apply existing skills and develop new ones could benefit both the displaced and some in the host communities.

However, to create the political space and a favorable environment in which a new approach based on this understanding can be implemented, the value for hosting states and communities of harnessing the productive capacities of displaced persons until they find solutions needs to be documented.

There is a growing body of analytical, operational, and policy evidence supporting the notion of the economic potential of refugees, including country assessments, operations, and policy documents of the World Bank Group (WBG), and the new European Union (EU) development policy on forced displacement. At the same time, new partnerships have been established, for instance between the WBG and UNHCR, on several country-specific and regional initiatives in Africa and the Middle East. Another such partnership has been established between the EU, the WBG, UNHCR, the Netherlands, Denmark, and Italy on the implementation of the Regional Development and Protection Programmes in the Horn of Africa; in the area affected by the Syrian crisis; and in North Africa.

Other initiatives include the Solutions Alliance, which is an inclusive platform that brings together host and donor governments, United Nations (UN) agencies, multilateral financial institutions, civil society organizations, international NGOs, academia, and the private sector. The aim of the Solutions Alliance is to promote the transition of displaced persons away from dependency on aid toward increased resilience and self-reliance through a development approach.

These efforts represent a new way of addressing protracted displacement and promoting durable solutions. In 2016 and 2017, a number of events and initiatives with a focus on conflict-induced, forced displacement have already taken place. These

initiatives have led to policy shifts in, for instance, Uganda, Jordan, Turkey, Iraq, and Tanzania. Going forward, it is likely that the Comprehensive Refugee Response Framework of the September 2016 New York declaration will be the key platform to achieve an improved quality of life for refugees and affected host populations in protracted displacement situations while promoting lasting solutions.

### **The Way Forward: Innovative Solutions and Approaches**

From a development perspective, in order to be able to tap into the economic potential of refugees, several aspects need to be taken into consideration.

- ▶ Governments of countries affected by displacement need to provide appropriate policy frameworks such as national or local development plans and refugee policies linked to them. To be effective, such frameworks must be based on careful context analyses and impact assessments, jointly carried out by governments, UNHCR, and development partners, while acknowledging UNHCR's legal mandate. Therefore, it is of utmost importance for donor countries to assist host governments when requested, to strengthen the empirical and analytical capacities of host countries, and to foster an evidence-based dialogue on which funds should be provided for what kinds of operations. This could set the stage from the beginning for a comprehensive, long-term approach with development planning and interventions, combined with humanitarian, lifesaving emergency aid as needed. Humanitarian actors need a clear exit strategy to be built in early that takes into account host-country capacities and also the continued need for protection of – and support for – marginalized groups that do not yet benefit from wider national programs.
- ▶ Development partners should be available to assist affected governments and provide them with evidence of how dif-

ferent refugee management policies – including one of promoting self-reliance pending return, or other lasting solutions – have distinct social, economic, fiscal, and security implications.

- ▶ Asylum and refugee protection needs to be viewed as a global public good. In the sense of real burden- and responsibility-sharing, external partners need to consider various means of financial support through grants and concessional loans, especially for investments in local infrastructure and other activities boosting the local economy. Strengthening the capacities of local actors to integrate refugees, at least temporarily, is vital for any sustainable protection policy.
- ▶ Up to now, comprehensive strategies for temporary integration pending return, resettlement to another country, or permanent local integration have been missing, but many host countries have developed practical approaches to provide refugees legal access to the labor market, education, and housing. Such approaches should be carefully assessed, discussed, and promoted.

## Implications for the German Government

In order to address the development challenges of refugee crises worldwide, the German government ought to consider the following actions.

1. First, it would be necessary to complement its efforts within the Common European Asylum System by providing more assistance for refugees trapped abroad in protracted refugee crises.
2. Second, it would be necessary to launch an assessment of the current German approaches to forced displacement. In this context, the challenges and shortcomings mentioned above should be assessed, and it should be discussed as to how far current policies must be revised to support the operationalization of such new approaches to displacement in the years to come. Here, close collaboration with different partners,

that is, other donor governments, host governments, the private sector, non-governmental organizations, and UN agencies, is needed.

3. As a third step and part of revising relevant policies, the German government should review and internalize the recent EU development policy on displacement, as well as the WBG evidence and initiatives, and take into account the various 2017 and 2018 processes, especially the joint German-Moroccan Chair of the Global Forum on Migration and Development, the follow-up process to the September 2016 UN General Assembly High-Level Meeting on Refugees and Migrants, the German G-20 presidency in 2017, and the implementation of the SDGs.

4. As a fourth step, the German government should consider the need for refugee funding to be linked more closely to bilateral development assistance. Indeed, refugee funding should become a full part of it. This should be possible, as the new refugee funds have their own budget lines. Inspiration could be drawn from “The World 2030,” the new Danish development strategy. This policy outlines a new, comprehensive approach, with the focus on fragile states, basically indicating that the days of classical development assistance are over. Other donor governments are also working on a more cohesive approach to official development assistance.