Transforming a refugee camp into a marketplace: lessons from Kenya

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Donors, humanitarian agencies, development finance institutions and host countries are looking to the private sector to play a key role in supporting refugees to integrate into host communities.

The private sector has a critical role to play in integrating refugees into local economies. Attracting private firms to refugee-hosting areas, however, remains a challenge. Despite the launch of many private sector-related initiatives,[1] little is known about what a commercial firm needs in order to start operating in a refugee camp or settlement, how models to facilitate their involvement should be adjusted depending on the type of refugee-hosting area, and which industries would be most willing to invest.

Start by answering why and how

When discussing the participation of the private sector in enhancing the socio-economic integration of refugees, most policymakers focus on two key questions: why the private sector should be involved at all and how to make the investment a success.

There are four main reasons why the private sector's involvement is important. First, and most importantly, is job creation. Despite the efforts of many humanitarian agencies and local governments to branch out of their core mandate to provide livelihood activities, it is the private sector that creates the bulk of meaningful and sustainable employment.

The second reason is the opportunity for local informal micro-enterprises to join larger companies' value chains (that is, the full life-cycles of a product or process, from material sourcing to recycling). Despite the presence of vibrant micro- and small enterprises, most refugee camps and settlements are excluded from accessing markets outside of the camps or settlements. By connecting the local micro-entrepreneurs to the already established value chains, larger companies can create a diverse ecosystem of local firms that would be more likely to grow and to hire more people.

The third reason is the improvement in existing labour market-oriented skills and the development of new skills. In refugee camps and settlements, many refugees have completed training sessions organised by NGOs and development agencies. However, with such trainings not linked to a specific employer, this has seldom led to sustainable jobs. Compared with other actors, private firms are better equipped to deliver training sessions focusing on skills that firms need.

The fourth reason is that businesses can play a role in encouraging local and national governments to remove legal and regulatory obstacles that have traditionally hindered refugees from becoming self-reliant; such as access to work permits, movement restrictions, and 'Know Your Customer'[2] limitations. For example, movement restrictions often result in refugee traders having to buy inputs (resources to create goods and services) at a higher price because they cannot access markets, and refugee documents are frequently not recognised by Know Your Customer regulations, which results in significant obstacles to refugees' financial inclusion.

The second question posed by policymakers – of how to make investment work – is arguably the least researched and understood question. This article highlights the key considerations necessary for policymakers, donors and development finance institutions (DFIs) to successfully attract private firms to refugee camps and settlements. It draws on lessons from implementing the Kakuma Kalobeyei Challenge Fund, a project aimed at supporting private sector investment and unlocking the economic potential of refugees and their hosts in the Kakuma–Kalobeyei refugee-hosting area in northern Kenya.

Tailor the private sector response to the refugee setting

Each refugee context is different. Although Jordan and Kenya have large refugee camps, Al-Zaatari in Jordan has a mostly homogeneous population, while Kakuma refugee camp in Kenya is home to more than nine nationalities. Refugees in Jordan mainly receive monetary support, whereas refugees in Kenya and the East and Horn of Africa usually receive in-kind assistance. While Ukrainian and Venezuelan refugees, for example, have primarily migrated to urban areas, the refugee camps and settlements in Kenya, Ethiopia and Uganda are in remote, economically underdeveloped and often logistically hard-to-reach rural areas.

To better understand which private firms would be most suitable to engage, refugee settings can be divided into four broad categories:

Urban friendly: settlements located within or close to large urban centres or business hubs; generally, the legal and regulatory environment is conducive to private sector investment, and the local community is supportive because of close linguistic, cultural or business ties.

Urban unfriendly: settlements located within or near large urban centres or business hubs but without favourable legal rights; refugees are typically employed in the informal sector or hired illegally.

Rural friendly: settlements located in rural areas that enjoy a relatively supportive legal or regulatory status; refugees have routine daily exchanges with the local host community, often sharing land and coexisting in relative peace.

Rural unfriendly: settlements located in remote, economically underdeveloped and difficult-to-reach areas, with refugees experiencing multiple barriers to employment or freedom of movement.

Identifying the refugee setting is important to understand what kind of private firms might be interested in being involved. For example, when considering setting up even a small production facility in or near a refugee camp, one needs to think about the logistics of transporting inputs into an area and products out, the presence of cold storage facilities and the safety of running operations. It is far more difficult to set up such a facility in a remote area than in an urban environment.

Overall, there is limited literature available on the effect of the private sector on refugees' livelihoods either in cities or rural areas. As the Kakuma Kalobeyei Challenge Fund operates in a remote area of northern Kenya, this article primarily provides insights for rural refugee settings.

Conduct market research to identify comparative advantages

For the private sector, entering a refugee-hosting area is not materially different from entering any new market. The business will need to understand the market size and the characteristics of the key target groups – their income and consumption levels, and consumer preferences. Where relevant information is not readily available, it will be necessary to conduct a market study to collect it.[3]

Consider your first meeting with a large pharmacy chain in Kenya to discuss entering the Kakuma refugee-hosting area. The firm is likely to request information on the area's population, the number of pharmacies and hospitals, available insurance schemes, the portion of discretional income spent on medicine, and the free medical services offered by UNHCR and its implementing partners.

Treat the refugees and their hosts as one marketplace. The traditional division of refugee-hosting areas into refugee camps and separate hosting communities often does not reflect the reality on the ground, where the two communities interact daily despite possible legal and regulatory restrictions. When considering inviting commercial interests into the area, it is important to have information about the whole market – refugees and their hosts.

How much concessional support is needed?

Private businesses often donate generously to humanitarian causes, especially during times of crisis. However, corporate social responsibility is insufficient to motivate businesses to start commercial operations in refugee-hosting areas. Investing in refugee camps and settlements is risky, requiring blended 'concessional finance' (financing provided by donors or third parties on terms below market rate and blended with DFIs' own-account financing). The blended concessional finance incentivises firms to enter the market by decreasing the investment risks and improving the commercial conditions for investors).

Given that refugee-hosting areas often have no real market rate, determining the appropriate amount of concessional support is not an exact science. A good starting point is to assess the project against the Blended Concessional Finance Principles[4] developed by a group of DFIs to ensure the effective use of concessional resources in private sector projects. It is important to a) avoid market distortion or crowding out private capital, b) catalyse market development, c) address market failures (for example, market power being concentrated in the hands of a few wholesalers) and d) promote high standards in corporate governance, environmental impact and social inclusion.

The potential commercial viability and sustainability of the project is especially important to consider. Without a medium- or long-term horizon of profitability (or at least of breaking even), most firms would not view the project as worth attempting.

Most firms will require substantial non-financial support

Most private firms require substantial logistical and practical guidance. For example, firms considering investing in the Kakuma refugee-hosting area typically ask how to fly to Kakuma and where to sleep there, how to hire refugees and whether it is legal, and how to access electricity, water and land. In the East and Horn of Africa, refugee camps and settlements are located far from the key urban centres. The travel logistics are complicated and require detailed explanation and additional efforts. A well-organised initial scoping mission for a private firm to the refugee-hosting area might positively affect its decision to enter the market.

While countries' laws often grant refugees the right to work, businesses might need legal assistance to overcome the considerable barriers preventing refugees' participation in the workforce. This is especially true for medium-sized and smaller firms that might not have resources to hire legal help.

Due to communal land ownership in many refugee-hosting areas, leasing or buying land is a complex undertaking, especially to build permanent structures. Firms will need assistance from local government actors to obtain necessary permits and to negotiate with the community. The process of obtaining access to land might delay the launch of commercial projects but will ensure consent from the local community and support from local and regional government.

In addition, most refugee camps and settlements in the East and Horn of Africa are located in historically marginalised border regions. Standard operational risks are intensified by challenges such as inter-community conflicts over grazing pastures and frequent droughts. The level of understanding of how the private sector works is low, and this is exacerbated by high expectations from the local community which often sees private firms as an extension or replacement of humanitarian organisations or government agencies.

As such, each new engagement in a refugee-hosting area should be evaluated against the 'do no harm' principle. In other words, any commercial project needs to consider how its activities could exacerbate existing tensions and grievances, either between refugees and hosts or within refugee or host communities. Most private firms will need assistance to navigate these challenges. It is worth conducting an in-depth fragility analysis to better understand the refugee-hosting area's political economy, list all key stakeholders and decision-making groups, assess existing market distortions and market opportunities, and explain land allocation processes as well as security dynamics and management. The outcomes of this analysis need to be embedded in the project's design and implementation.

To summarise, to interest private firms in starting operations in refugee-hosting areas, it is important to look at the type of refugee setting; obtain the necessary market-related data and information about the area's comparative advantages; determine the level of minimum concessionality and potential for commercial viability; and, finally, assist the firm with navigating local regulatory, political and fragility challenges.

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1. Researchers identified 170 private sector-led initiatives in the refugee sector across the Middle East and Africa. The Bridgespan Group and IFC (2019) *Private Sector & Refugees: Pathways to Scale* bit.ly/private-pathways

2. Know Your Customer is the process of verifying a customer's identity to prevent banks from being used for money laundering activities.

3. IFC (2018) *Kakuma as a Marketplace: A Consumer and Market Study of a Refugee Camp and Town in Northwest Kenya* bit.ly/kakuma-market-study

4. IFC *et al* (2021) *DFI Working Group on Blended Concessional Finance for Private Sector Projects: Joint Report, October 2019 Update* bit.ly/IFC-blended-finance