

Are refugees an economic burden or benefit?

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The notion of the ‘refugee burden’ has become firmly rooted in the policy vocabulary of governments and humanitarian actors. Understandably, governments emphasise the negative impacts and costs but these, although undeniable and well documented, are only part of the picture.

Thirty years ago ICARA 1 (International Conference on Assistance to Refugees in Africa, 1981) and ICARA 2 (1984) highlighted the ‘burden’ that refugees place on their hosts: imposing additional costs on already hard-pressed public and social welfare budgets, arresting economic growth, distorting markets, causing environmental degradation and putting political strains on already fragile and conflict-affected countries. On the other hand, refugees also bring economic benefits and development potential – for example, new skills and, above all, expanding consumption of food and commodities such as building materials, which stimulates growth of the host economy. At the same time, the host community may benefit from assistance programmes such as infrastructure and welfare services provided by agencies responding to refugees’ needs.

Surprisingly, detailed assessment of the impacts and costs of refugees (or IDPs) is a major gap in the humanitarian toolkit. Donors rarely analyse the economic outcomes of their programme and project ‘investment’ which globally is worth about US\$8.4bn per annum from OECD DAC¹ countries alone. To the extent that any evaluation does take place – and this is rare, usually descriptive and always incomplete – governments tend to assess the impacts and costs for the host community, while donors and NGOs focus on the outcomes of their skills development and income-generating projects or cash and vouchers assistance for refugee livelihoods. Neither approach provides an aggregate account of the macro- and micro-economic and fiscal impacts and costs, and quantitative methods and hard empirical data are noticeable by their absence.

Curiously, economists have largely neglected these important policy and conceptual challenges, in contrast to the countless qualitative studies on refugee livelihoods by sociologists and anthropologists. Overall, it is usually contended that the ‘costs’ of refugees on their hosts – rising food and commodity prices, the depression of local wage rates, fiscal pressures, increasing environmental degradation – outweigh other micro- and macro-economic benefits. A significant exception to this analytical gap is a recent, largely micro-economic, study of Dadaab refugee camp² which showed that the positive economic impact of the camps for the host community was US\$14 million – about 25% of the per capita income of the province. Income benefits to the host community from the sale of livestock and milk alone were US\$3 million, while over 1,200 local people benefited from refugee camp-related employment or trade-related work.

Studies such as this, though few and far between, introduce the complexity and diversity of typical impacts as well as their negative and positive characteristics. The problem to date has been the lack of a comprehensive framework with appropriate

analytical tools and systematic methodologies to provide the evidence base by which to evaluate the ‘winners’ and ‘losers’, and to develop policies which respond to the actual or potential impacts.

Developing a new methodology

A recently completed study for the World Bank by the Refugee Studies Centre in Oxford, ‘Guidelines for Assessing the Impacts and Costs of Forced Displacement’,³ responds to these needs. The Guidelines aim to support both World Bank policymakers and humanitarian actors by providing appropriate and easy-to-use assessment tools for analysing the economic and financial consequences of development and humanitarian assistance.

The **first stage** in providing a comprehensive account is to ensure that, wherever possible, all four relevant ‘stakeholder groups’ are incorporated into the analysis, namely: refugees; host population and country; area and country of origin; and providers of assistance to the displaced.

Analysis of the impacts and costs for the country of origin may seem at odds with the more familiar assessments of the impacts on refugees themselves and their hosts. Yet the impacts are usually severe, for example through the loss of domestic consumer demand and perhaps skilled and professional workforce (a notable feature in the case of refugees leaving Iraq); this has implications for the long-term development of the country as well as for the potential for the return of refugees.

For each stakeholder group the approach mainly focuses on changes in household-level livelihoods and economic well-being, drawing on the well established Sustainable Livelihoods Framework originally developed by the UK’s Department for International Development (DFID) in 1999. This approach is widely used by development policymakers but has not been systematically applied to evaluating the impacts of refugee situations. By applying and refining the approach, these Guidelines seek to fill this significant gap.

The **second stage** involves identifying a range of mainly quantitative parameters to measure impacts (for example, income, assets, employment and access to natural resources), together with mediating factors such as age, gender and length of exile. Qualitative factors such as perceptions of security and protection are also identified. The importance of including mediating and qualitative factors is to capture the fact that household livelihood strategies are susceptible to substantial adjustment, adaptation and transformation under conditions of forced displacement, for example through changing gender roles and child labour.

The **third stage**, and the main task, is to apply the methodology with the aim of constructing an overall socio-economic profile and analysing how the profile is affected by forced displacement for each of the stakeholders. Measurement of the changing levels of economic well-being over time, assessment of social change and household dynamics, and self-reliance and coping strategies are important components of the profile.

In this stage, the methodological tools are also deployed to assess the costs and impacts of the fourth stakeholder group: international agencies, donors and other providers of humanitarian and development assistance. This is a valuable part of the approach because it provides the basis for assessing the potential success and opportunity costs of different strategies (and priorities for funding) adopted by these actors.

Alongside the main focus on household livelihoods, the impacts and costs are also analysed in relation to the public sector costs, the externalities (that is, costs or benefits that affect somebody other than the people engaged in the economic activity), and macro-economic outcomes. The assessment can be applied at any scale – for example, in a refugee camp and its locality, in urban settings or aggregated to the national level.

For the host country **public sector** there are fiscal costs and impacts in providing social and welfare assistance for refugees – eg increased medical and education provision, increased demand for utilities such as water – and longer-term capital costs and impacts such as infrastructure investment. In the short term, the impacts of increased refugee-derived demand are likely to be negative for the

host community; for example, a decline in the quality of service provision is likely with higher demand for existing services such as healthcare or education or water supply. In the longer term, the impacts are likely to be reflected in expanded investment in capital assets such as medical centres, classrooms or road access to refugee camps. In the absence of a methodology such as that discussed in the Guidelines, it has not been possible to fully expose and assess these fiscal impacts and their consequences. For example, the host community is likely to face an increase in taxation to pay for the investment in capital assets or may pay an opportunity cost by forgoing alternative public sector investment options, or the costs may be covered by externally funded humanitarian and development assistance.

Externalities – or ‘spillover’ effects – are unpriced costs, the impacts of which are usually incurred by the people or areas where refugees live. The most obvious such spillover is the detrimental effect of refugees on the environment, depleting woodland for construction and firewood, and causing loss of natural habitat. In urban areas, added congestion, further degradation of already environmentally precarious informal settlements and a perceived decline in security may accompany the arrival of refugees. The impacts of these externalities are negative, usually long-term, rarely compensated by public expenditure and only partially compensated by humanitarian or developmental assistance.

Finally, while the methodology’s focus is on livelihoods and micro-economic impacts and costs, assessing the impacts at the **macro-economic** level is an equally important dimension of the analysis. Refugees increase



UNHCR/R. Gangale

Making fuel-efficient stoves in Hagadera camp, Dadaab, Kenya. Fuel-efficient stoves require investment by assistance organisations but reduce the impact on the local environment.

consumption and can thus stimulate an expansion in the productive capacity of the host economy, measurable as part of a country's GDP (Gross Domestic Product). However, these outcomes tend to be felt only in the long run and, as a result, are harder to detect in the short term. The main impacts are seen in investment and capital formation – for example, in additions to the housing stock or to infrastructure, or in the start-up of new businesses. No detailed econometric analysis has been conducted on the Eastleigh area of Nairobi, where many Somali and other refugees have settled, but it is frequently cited as a vibrant location for new small business development, adding to the output of Kenya's urban economy. Similarly, Afghan refugees dominated the trucking business of Pakistan, creating new markets for transport and adding to the productivity of the host country economy.

The methodology highlights short- and long-run effects and, in particular, the unequal distribution within society of impacts and costs. For example, the overall aggregate demand of refugees may have positive impacts on the productive capacity of the host economy by increasing demand for food, building materials and consumer goods. New infrastructure may improve access to markets and enhance distribution of commodities. However, these benefits are usually unequally distributed. While these outcomes, in the short term at least, benefit host farmers, building contractors, local traders and micro-enterprises, rising commodity prices and falling wage rates (with more refugees entering the labour market) negatively affect the poorer segments of the host population. Poorer people may pay higher rents while their wages may be depressed, notably in semi- and unskilled sectors, and so their living standards may fall. The methodology exposes these imbalances which governments and donors may wish to correct.

Mixed methodology and data needs

A key feature of the Guidelines is a mixed methodology of quantitative and qualitative tools which makes a holistic analysis of the different dimensions of impacts and costs and their policy and programme implications feasible. Not all impacts can be 'costed' and expressed in monetary terms, and so qualitative indicators are used to determine the impacts of variables such as the reduction (or increase) in human security, the adoption of coping mechanisms, and changing gender roles.

Various survey methods are recommended, such as random sample questionnaire surveys, key informant surveys and focus groups, as well as the use of statistical data from government sources and humanitarian and development actors. The methodology relies on a number of statistical tools such as correlation and regression analysis to measure impacts and costs.

One of the major practical challenges in using the Guidelines is the availability of data, and especially time series data (that is, data measured over time at uniform time intervals), in order to assess changing impacts and costs over time. In terms of assessing impacts and costs for the country of origin, here the obvious difficulties are collecting data if conflict is continuing and separating out the impacts caused by

refugee displacement as opposed to the wider destructive impacts of conflict on infrastructure and capital assets.

Conclusions

By providing a portfolio of principles, analytical tools and indicators, the Guidelines address important policy and operational demands of donors, humanitarian agencies and governments. However, of themselves, they are not a decision-making tool: they indicate but do not prescribe the kinds of policy and programme choices that might be made.

Nevertheless, their value is fourfold. First, they provide a more rigorous conceptualisation of the costs and impacts, emphasising a wide range of economic variables, not just claims on public sector expenditure and the far more familiar social impacts. Second, as a programming and policy tool, the Guidelines can indicate interventions that better respond to the economic and livelihood needs of forced migrants and other populations affected by the presence of forced migrants. By offering a more systematic methodology for analysing these phenomena, the Guidelines enhance the credibility of the assessment of costs and impacts and, consequently, may permit better targeting of assistance and support to those sectors of the economy and populations (refugees and hosts) which are most under pressure. Third, if time series profiles can be developed, they have the potential to be an effective monitoring and evaluation tool. Fourth, and perhaps most important, by shifting the analytical frame from emergency to longer-term economic and financial impacts, the Guidelines help to transcend the humanitarian-development 'divide'. By linking humanitarian and emergency interventions with development programmes, the Guidelines indicate ways in which more positive social and economic impacts might be promoted that improve the longer-term situation of both the displaced people themselves and the host population.

In the end, decisions about interventions will be made as they always have been by a combination of humanitarian principles, the conditions of different operating environments, locations and patterns of displacement, and the political interests of the various stakeholders. However, analysis based on the Guidelines can provide a much more robust evidence base to inform policymakers and practitioners about the policy and programming choices they might select, and the scope for maximising the positive impacts and minimising the negative outcomes and costs of displacement both for the refugees and their hosts.

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1. Organisation for Economic Co-operation and Development's Development Assistance Committee.

2. Available online at <http://tinyurl.com/reliefweb-dadaab2010>

3. Available online at <http://tinyurl.com/WB-Guidelines-Costs-Impacts>