

## Forced migrants: labour market integration and entrepreneurship

*Güven Sak, Timur Kaymaz, Omar Kadkoy, and Murat Kenanoglu*

### Abstract

In 2015, worldwide forced displacement was at its highest recorded level, surpassing 65 million. Out of this number, nearly 20 million people are those who fled their countries of origin to seek refuge in third countries. International responsibility sharing in terms of hosting the historical levels of refugee flows has so far been inadequate. Today, lower- and upper-middle income countries host 65 percent of the world's refugees, mostly in urban settings. Whereas refugee camps provide access to basic needs such as shelter, food and healthcare, displaced individuals living in urban settings have to sustain their needs through their own means. In turn, this requires access to labour market. To facilitate formal labour market integration of refugees in host countries, the authors call on G20 to mobilize the private sector in developing sustainable solutions for the global refugee crisis, endorse a "Virtual Observatory for Refugee Integration" to be operated by the participation of domestic policy think tanks in refugee hosting countries to monitor and to advocate private sector based policies for the integration of refugees around the world, and encourage its members and host communities to initiate startup visa programmes for refugees.

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## 1 Challenge

One fundamental aspect of the global refugee crisis is its urban nature. This is especially true for the world's largest current case of forced displacement: the Syrian crisis. As of February 2017, only 491,621 of the 4.94 million registered Syrians in Syria's neighbouring countries live in government-run camps. While the camps provide access to basic needs such as shelter, food and healthcare, displaced individuals living in cities have to fend for themselves. This requires access to labour markets.

Access to the labour market however, is the most politically charged and therefore the most debated sphere of socio-economic integration for refugee populations in host countries. In the public spheres of host communities, the increased participation of refugees in the labour market is perceived as the primary driver of labour market displacement for the local workforce. Such negative sentiments lead to the deterioration of social cohesion between host and refugee communities, obstructing social and economic integration of refugees in their host countries, especially under adverse economic conditions.

Today, lower and upper middle-income countries host 65 percent of the world's refugees. In terms of the labour market integration of refugees in such countries, the largest obstacle is the availability of formal employment opportunities, both for domestic populations, as well as for refugees. In the majority of refugee-hosting middle-income countries, the lack of policy frameworks to offer work permits to refugees is the barrier for formal employment. In host countries where this is not a problem, there is often a visible lack of interest from the private sector to formally employ refugees due to harsh economic conditions. Furthermore, the absence of a policy framework for additional job generation, employment of refugees, formally or informally, does mean displacing the local work force.

Most policy initiatives on refugee employment focus on demand-side management. An equally important aspect of refugee integration to host countries as entrepreneurs and businesspeople has hitherto remained overlooked. Not all refugees who settle into a new host country seek employment; for example, some want to create their own businesses. In other cases, refugees that are burdened by administrative red-tape of getting a work permit or ones that cannot find decent jobs in their host countries resort to entrepreneurship to sustain their lives. Forced displacement often puts refugees into environments they are entirely unfamiliar with, and unprepared for. This is why they seek to fulfil two overriding concerns: blend in with their new environment, and make ends meet. Here, entrepreneurship offers an alternative. While profit is the main motivation behind entrepreneurship for economic immigrants; for refugees, the goal is also about integration to their host communities. There is however, a significant shortage of policies and mechanisms to facilitate refugee entrepreneurship in most middle-income host countries.

The average duration of the protracted refugee situations is estimated at about 26 years. For the largest ongoing refugee situations globally, statistics paint a bleak picture of the future of host countries, as well as refugees in terms of reaching sustainable outcomes. But for better or worse, labour market integration will unfold, whether by policy design or by human interaction. For the Syrian crisis, which is the largest ongoing wave of forced displacement, policy responses in host countries are increasingly evolving from humanitarian crisis management to sustainable integration.

Nevertheless, even in the events of durable solutions to armed conflicts in their countries of origin, multiple surveys indicate that significant shares of refugees are not eager to return to their devastated homelands. Host countries and the international community will therefore need to come up with operational labour market integration mechanisms to render this refugee crisis more sustainable, not only in terms of economics, but also in terms of social cohesion.

## **2 Proposal**

### **2.1 Labour Market Integration**

High-intensity conflicts usually occur in low and lower-middle income countries, which are often surrounded by other non-high income countries.<sup>1</sup> As a result, many displaced persons seek asylum either in low or middle-income countries, or in high-income countries such as EU member states, if transit routes are accessible. Indeed, as of 2015, high-income countries were home to merely 17 percent of the world's total refugee population (see Figure 1). Upper middle-income countries host the 16 million refugees (44 percent), together with lower middle income (21 percent) and low-income (17 percent) countries.

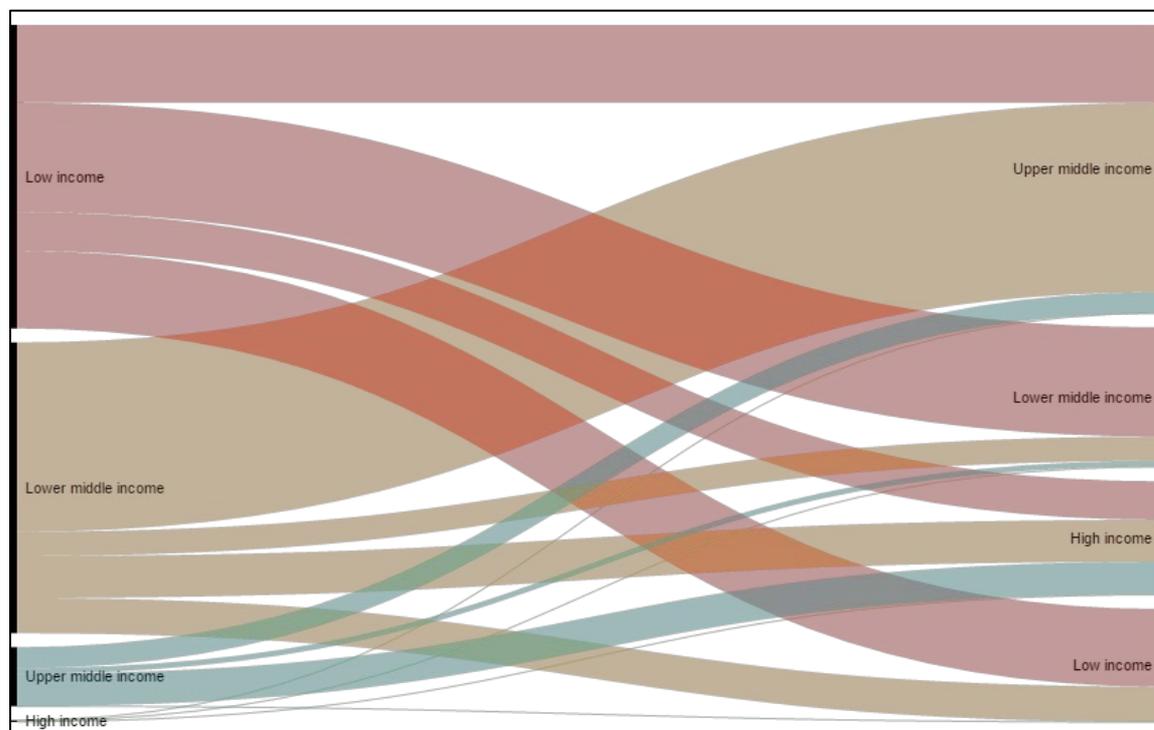
Due to the severity of the global refugee crisis, lower and upper middle-income countries today host 65 percent of the world's total refugees.

Host countries are under pressure on three fronts. First, the effects of the ongoing refugee crisis are amplified by a global economic slowdown: 2016 was the fifth consecutive year that saw global GDP growth below its long-term average of 3.7 percent (1990-2007). This is expected to continue in 2017. As a result, we are witnessing an influx of refugees to low and middle-income

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<sup>1</sup> For the 2017 fiscal year, per the World Bank categorization, low-income economies are defined as those with a GNI per capita of \$1,025 or less in 2015; lower middle-income economies are those with a GNI per capita between \$1,026 and \$4,035; upper middle-income economies are those with a GNI per capita between \$4,036 and \$12,475; high-income economies are those with a GNI per capita of \$12,476 or more.

Figure 1: Economic classifications of total refugee population in terms of origin (left) and destination (right) countries



Source: UNHCR 2016, TEPAV calculations based on World Bank economic classification

countries at a time when existing institutions within these countries are already struggling to deliver public services and economic dividends to their citizens, let alone host refugee and migrant communities (Aiyar et al 2016).

The second issue is economic impact. Most of the low and middle-income countries hosting significant numbers of refugees are neighbors to the conflict zones from which they receive refugees. High-intensity conflicts suffer spillover effects into neighboring countries and regions. According to the IMF's estimations, countries bordering a high-intensity conflict zone recorded an average annual GDP decline of 1.4 percentage points. Moreover, high-intensity conflicts are also associated with higher inflation rates in neighboring countries (Rother et al. 2016).

The third impact is that of the sheer influx of people into host countries. The sudden entry of a sizable foreign population to a low or middle-income country exacerbates the existing structural deficiencies in the state's service provision. Even for largely non-rival public goods such as healthcare, education, security and social services, a sizable refugee population puts central and local governments under pressure to maintain the quality of already-stretched public services and infrastructure.

However, the most politicized issue is the effect of refugee populations on host countries and their impact on labour market outcomes. Evidence from Lebanon suggests that sizable informal employment among refugees, combined with depressed economic activity, caused a drop in both wage levels and the labour force participation of locals, particularly women and young people (Le Borgne and Jacobs 2016). For Turkey, one key analysis reveals large-scale displacement of natives in the informal sector, increases in formal employment for unskilled males, and net displacement of women and the low educated from the labour market altogether (Del Carpio and Wagner 2015 & Ceritoglu et al. 2017). Similarly, in Jordan analysis suggests loss of opportunity for locals in newly emerging low-skilled jobs, increased unemployment and competition for existing jobs, overall deterioration in working conditions due to increasing informalization and future threats of crowding out as the participation rates of Syrians continue to increase (Stave and Hillesund 2015).

According to Jordan's Ministry of Labour statistics, only 1.7 percent of over 300,000 migrant workers in 2015 were Syrians. Similarly, in Turkey only 13,000 Syrians refugees received work permits from a total of 2.8 million registered refugees, while in Lebanon the Department of Labour estimates that the number of formally working Syrians at 2 150- less than 1 percent of the estimated total Syrian labour force in the country. The prevalence of informal employment increases the risk of exploitation in the workplace (lower pay, longer hours, temporary work, exploitation by sponsors and hazardous working conditions). In a survey conducted in 2013, the average income of working Syrians in Turkey was 236 USD, roughly half of the national minimum wage for that year. Similarly, the average monthly income for a Syrian refugee in Lebanon is almost 40 percent less than the minimum wage (Errighi and Griesse 2016). As a result, refugees often face extremely high rates of poverty: 93 percent of Syrian refugees residing outside of camps in Jordan are living below the poverty line, and more than 70 percent of refugees are below the poverty line in Lebanon. That number is 65 percent in Egypt, and 37 percent in Iraq.

Considering the nature of the countries that are feeling the impact, it is not possible to put forward "one-size-fits-all" policy solutions. Today's refugee-hosting countries are at different developmental levels, and integration policies should be designed by taking into account the differential characteristics of the hosting countries. To date, there has been little to no analysis of the capability-sets of different hosting countries. Only after a careful diagnostic study can the right policy response be designed; one that takes into consideration specific challenges in different host countries (Ruiz and Vargas-Silva 2013). In this sense, what may be a good solution in the Jordan's context may not work in the case of Turkey or Germany. Integration in Bangladesh has a different meaning and requires different levels of policy intervention than integration in Turkey or Lebanon or Sweden. As such, the refugee crisis requires a more complex policy set than previously envisaged. This requires a more in-depth diagnostic study

taking into account the multifaceted nature of the issue at hand. Lastly, providing sustainable solutions to the global refugee crisis is not possible without taking into account the issues of not only refugees, but also host communities (World Bank 2016). Overlooking the needs of the host communities may lead to inflaming local tensions and damage social cohesion between host and refugee populations.

Policy Proposals for the G20:

Having noted the varying nature of refugee integration necessities in host countries at different levels of development, the G20 should contribute to the issue by raising awareness about the needs of refugees. The G20 should support the following two initiatives in this regard:

1. The G20 should step in to mobilize the private sector in developing sustainable solutions for the global refugee crisis and endorse the establishment of Made by Refugees Special Economic Zones (MBR Zones) in refugee hosting countries. These would generate new jobs for both, refugees and locals. Here, MBR Zones are envisioned as multi-country, public-private partnership projects that involve host country governments, partner country governments, multinational companies, local firms as well as international donor agencies.

Privately developed and managed MBR Zones would function as micro-investment and production havens. They wouldn't have to be built from scratch – inactive Industrial Zones, Business Zones or Free Zones in refugee-hosting communities could be revitalized as MBR Zones. Local SMEs that will operate in the MBR Zones would be required to employ refugees as a predefined share of their workforce in return for incentives provided by the framework.

Goods manufactured in the MBR Zones should be branded with exclusive certificates of origin. These would read “Made by Refugees in [host country],” and the European Union, the United States, the G20 countries and other countries supporting these Zones would be asked to grant duty-free and quota-free access for all goods with MBR certificates of origin that were manufactured in MBR Zones. In turn, goods with MBR certificates of origin would also raise global consumer awareness, create additional demand, motivate MNCs and local SMEs to get involved, and therefore ensure the MBR framework's sustainability through achieving profitability.

Jobs created through MBR Zones would have three characteristics. Firstly, they would be good jobs, i.e. formal employment opportunities in line with modern occupational safety and health standards. Secondly, they would be sustainable jobs, i.e. they would require profitable business models for the operating companies. Thirdly, they would be

inclusive jobs, i.e. they would be directed at both host and refugee communities to ensure a fair distribution of generated income from the MBR initiative.

While the MBR framework will be developed as a commercially viable business model for the MNCs, local companies and SMEs, it would also be part of their corporate social responsibility programs. For multinationals that sub-contract orders from SMEs in refugee hosting countries, the MBS would bring greater transparency and accountability from local firms that employ refugees. As such, creation of decent jobs through establishing MBR Zones would help prevent exploitation of refugees, including children.

As a first step for the MBR Zones framework, the G20 leaders should bring together CEOs of multinational companies (MNCs) at the Hamburg Summit and ask for the companies to allocate a portion of their procurement contracts to local and refugee-driven small and medium-sized enterprises (SMEs) operating in MBR Zones in host countries. Such an initiative would help ease refugee integration issues in host countries by generating additional jobs, improving market access and facilitating integration to global value chains. In turn, this would contribute to social cohesion in host communities and enable the politicians to design and implement more progressive work permit frameworks for refugees.

One of the outcomes of The Supporting Syria and the Region Conference in February, 2016 in London was the EU-Jordan Compact. This Compact supports Jordan Response Plan (JRP) 2016-2018 and Jordan 2025 – National Vision and Strategy. The EU-Jordan Compact evolves over three pillars. One of which is ‘Promoting economic stability, sustainable and knowledge-based growth, quality education and job creation’. Under this pillar, and to generate job opportunities for both Syrians and vulnerable communities, the European Union would open its market for Jordanian exports with relaxed Rules of Origin for ten years. The relaxed Rules of Origin apply to specific goods produced in 18 designated economic zones and industrial areas.<sup>2</sup> In return, the government of Jordan will ease the procedures for 200,000 Syrians to formally work in these zones. Once Jordan achieves the latter work permit ceiling for Syrians, the EU would consider extending the simplified rules of origin to cover all Jordanian producers and products.

Jordan already has a free trade framework with the EU under the Association Agreement (AA) signed in 2002. Under the AA, most Jordanian products, except for

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<sup>2</sup> One observation says the zones have a differential performance based on the governance system. The ones governed by the private sector seem to outperform the ones under government ownership.

some agriculture and food products, enter the EU market free of customs duty. Jordanian products, however, must meet certain manufacturing conditions to access the European market. The local component for a number of products to enter the EU must be 60 percent. At its peak in 2011, Jordan exports to the EU stood at 345 million dollars. Although this is a 71 percent increase since 2001, but the 2011 exports to EU represented only 4 percent of Jordan's total exports of the same year (see Figure 2). The nature of the Jordanian industries due to the scarcity of natural resources in the country is the main reason behind the low volume of exports to the EU market. Other structural challenges such as the low skilled labour force, weak infrastructure, complex bureaucracy and high costs of doing business exacerbate the Jordanian exporters' reach to the EU market.<sup>3</sup>

Until now, only seven Jordanian companies completed the necessary paperwork to export to the EU in the year and half since the London conference. Yet these companies did not ship a single container. One reason is the ongoing technical negotiations between the EU and Jordan whose products must satisfy the European standards. Other reasons are the lack of awareness about the Jordanian product in the EU market and the absence of one stop-shop services in the government and high costs of shipping. Furthermore, Jordanian manufacturers cite a key challenge: employing Syrians. The government of Jordan pledged to facilitate obtaining work permits for Syrians. Over the course of 2016, 37,000 work permits were issued for Syrians. The number falls short of the 50,000 work permits target for the same year. There are a number of reasons behind the shortcoming. First, Syrians are not hired in the designated economic zones and industrial areas. Instead, they work in agriculture, construction and retail sectors (ILO 2016). Syrians do not prefer working there due to the remote location of the zones and the poor transportation infrastructure. Second, Syrians in Jordan are not keen on working formally. This way, they maintain the aid from humanitarian agencies and keep the option for resettlement available. Finally, some foreign investors do not operate in Jordan Zones to access the EU market. They

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<sup>3</sup> "المصانع المحلية لم تستفد من اتفاقية تبسيط قواعد المنشأة مع أوروبا" "Local factories did not benefit from Rules of Origin Agreement with Europe", 1 March, 2017, Alghad, <http://www.alghad.com/articles/1464992-%D8%A7%D9%84%D9%85%D8%B5%D8%A7%D9%86%D8%B9-%D8%A7%D9%84%D9%85%D8%AD%D9%84%D9%8A%D8%A9-%D9%84%D9%85-%D8%AA%D8%B3%D8%AA%D9%81%D8%AF-%D9%85%D9%86-%D8%A7%D8%AA%D9%81%D8%A7%D9%82%D9%8A%D8%A9-%D8%AA%D8%A8%D8%B3%D9%8A%D8%B7-%D9%82%D9%88%D8%A7%D8%B9%D8%AF-%D8%A7%D9%84%D9%85%D9%86%D8%B4%D8%A3-%D9%85%D8%B9-%D8%A3%D9%88%D8%B1%D9%88%D8%A8%D8%A7>

are there to penetrate the American market through the Jordan-US free trade agreement.

The Jordan Compact could not be considered as an unqualified success. MBR zones idea depends upon the lessons of the Jordan Compact experiment. Three features are added to make zones a success. Firstly, industrial zones that are added to the programme need to be privately and actively managed. Developer and manager need to be private companies and the latter need to help the companies to solve their problems with the domestic bureaucracy. For example, the work permits for the refugees would be an issue to be solved by the management company. Hence the management company will be responsible to fulfill work permit targets to stay eligible for the MBR system. Secondly, MBR management companies need to be responsible in finding procurement contracts for the companies operating in the zones. Having actively involved in the process MBR Management Company needs to help exports and funding needs of the companies involved. Thirdly, having noted the success of Jordan Compact type experiments rest heavily on the governance structure of zones.

2. The G20 2017 should endorse establishing a “Virtual Observatory for Refugee Integration” as a spin-off of the T20 Forced Migration Task Force. The Observatory could be supported by GIZ and operationalized amongst think tanks actively working on refugee integration policies in refugee hosting countries. The Observatory would monitor the labour market integration processes of refugees in host countries around the world. This would diversify data provision and create a more active dialogue with the host countries. The lack of reliable, sorted and aggregated data is one of the key impediments in designing technically correct, administratively implementable and politically feasible labour market integration policies and interventions in host countries. As such, a Virtual Observatory would facilitate labour market integration efforts by providing a much-needed element of transparency. Beyond being a data portal, the Observatory would also have the capacity to set up achievable and credible targets, identify Key Performance Indicators (KPIs) and monitor integration outcomes for the labour market integration of refugees in various host countries. As the needs of the refugee populations in different host countries depend on the local context, KPIs may be calibrated on a per-country basis to reflect varying levels of development. This would quantify the success of the unfolding integration initiatives in the host countries in a way similar to the SDG framework, and enable the international community to focus its resources where they are most needed. Once operational, the Observatory’s capacities may also expand to cover areas beyond labour market integration. Some (non-exhaustive) examples of targets and KPIs that may be identified and monitored by the Observatory, on a host country basis, are as follows:

- a. Issue work permits to [country-specific KPI] of the refugee population by the next G20 Summit,
- b. Raise the schooling rates of refugee children to [country-specific KPI] by the next G20 Summit,
- c. Enhance employability of refugees through providing vocational education and training courses and certifying [country-specific KPI] refugees by the next G20 Summit,
- d. Generate [country-specific KPI] cash-for-work opportunities for refugees by the next G20 Summit,
- e. Issue procurement contracts amounting to [MNC-specific KPI] to local and refugee-driven SMEs employing refugees by the next G20 Summit.

In the past, the G20 has spearheaded initiatives of a similar nature to the “Virtual Observatory for Refugee Integration.” As part of the human resource development pillar of the Seoul Multi Year Action Plan, the G20 committed to create internationally comparable skill indicators (MYAP Commitment 30) and to enhance national employable skills strategies (MYAP Commitment 31).<sup>4</sup> These commitments led to the establishment of the World Indicators of Skills for Employment (WISE) database (established by the OECD in collaboration with the World Bank, ETF, ILO and UNESCO), which provides data on the status of each country’s skills development. It includes data for both developed and developing economies.<sup>5</sup> Also as part of MYAP commitments, the Global Public-Private Knowledge Sharing Platform on Skills for Employment (Global KSP) was launched in 2013 (Initiated by the ILO in collaboration with the OECD, UNESCO and the World Bank). The Global KSP aims to strengthen the links between education, training and employment through exchanges among policymakers, the private sector, TVET institutions, academic institutions, bilateral agencies, and other international organizations.<sup>6</sup>

## 2.2 Refugee Entrepreneurship

Compared to the other aspects of impacts the refugee situation, the global policymaking community has devoted very little time on the drivers and effects of refugee entrepreneurship. Access to employment in destination countries often rest on multiple factors, such as local economic conditions, labour market flexibility, refugees’ language skills, legal status and proper accreditation of previous professional experience. Refugees discouraged by these hurdles often

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<sup>4</sup> G20, “Multi-Year Action Plan on Development”, Seoul Summit, 12 November 2010

<sup>5</sup> “World Indicators of Skills for Employment (WISE) database”, <http://www.oecd.org/employment/skills-for-employment-indicators.htm>

<sup>6</sup> Global Public-Private Knowledge Sharing Platform  
<http://www.skillsforemployment.org/KSP/en/AboutThePlatform/index.htm>

end up creating their own businesses (Wauters and Lambrecht 2008). In these cases, necessity, rather than market opportunity, drives refugee entrepreneurship. These refugee-driven businesses are therefore more likely to be limited to low skilled and low productivity sectors.

There are a number of factors that push refugees towards self-employment. Diaspora networks, family support, and most importantly, previous experience in entrepreneurship plays a significant role in achieving self-employment (Wauters and Lambrecht 2006). When refugee entrepreneurs are displaced, they do not always have the opportunity to transfer their capital from one country to another. However, refugee entrepreneurs bring with them their web of relations, a culture of doing business and sector-specific expertise (Kaymaz and Kadkoy 2016). As such, refugee entrepreneurship has the potential to facilitate private sector development, not only through employment generation, but also through diversification of the existing production and trade capabilities.

#### Policy Proposals for the G20:

Supporting refugee entrepreneurship and refugee entrepreneurs globally could be a niche agenda for the G20. The G20 could support refugee entrepreneurship and refugee entrepreneurs by encouraging its members to initiate startup visa programmes for refugees.

Many developed G20 countries have already adopted a variety of visa programs to address skills shortages in their labor markets and attract innovative entrepreneurs (OECD 2010). A startup visa programme provides a special concession for non-citizens to start a business in a foreign country including a residence permit in addition to various special benefits. There are three categories for these programmes, depending on their specific conditions (Aytac and Sahbaz 2016):

- Fast-tracked work visa – In this visa category, applications and decisions are completed over a short timescale. The government of Spain attracts foreign innovative enterprises to create local employment through expedited visa programme. The visa for qualifying entrepreneurs is processed in 10 days. Once in Spain, the entrepreneurs receive a renewable two years residence permit in 20 days. Additionally, they can access a government unsecured lending programme – which lends €100 million to €125 million annually to innovative SMEs.
- Entrepreneur visa – This visa is tailored for entrepreneurs in accordance with certain rules regarding entrepreneurs’ rights and needs. The government of Germany offers visas to foreign entrepreneurs. The successful applicants receive a three year residence permit and have the opportunity to gain German citizenship after five years.
- Special start up visa programs – In addition to providing a work or residence visa, such start up visa programs offer a variety of other special opportunities. In Italy, for example, entrepreneurs with an innovative start-up do not only receive a two years residence visa – but they are also entitled to technical, legal and management support

from certified incubators. Another example comes from France. High tech start-up teams are eligible to discounts from Air France alongside the residence permit. In Latin America, similar schemes aim to attract innovative start-ups. In Chile, they provide high potential entrepreneurs with a one year work visa, working space, mentoring and networking.

In 2015, the Business-20 and the Think-20 proposed a discussion for a multilateral G20 start-up visa for entrepreneurs in both high- and low-tech industries. In the context of the global refugee crisis these discussions can be further extended and the G20 could propose a multilateral startup visa program for refugees to be employed in both G20 member countries and refugee hosting countries.

### **3 Implementation Overview**

The G20 Leaders' Declaration highlighted sustainable economic development as a mean to support countries under high pressure of hosting the forcibly displaced populations. With regard, the Declaration endorsed the G20 Labour and Employment Ministerial Declaration 'Towards an Inclusive Future: Shaping the world of Work' as a cornerstone to address the fair and effective labour market integration of regular migrants and recognized refugees. Yet both Declarations came unsatisfactory in addressing the need for creating inclusive employment opportunities. Therefore, for the G20 to mobilize the private sector as a key stakeholder in developing sustainable solutions to the global refugee crisis in host countries, the B20 Sherpas should be given the mandate to start engagement efforts for MNCs. A separate session on developing Special Economic Zone focused labour market solutions for achieving sustainable refugee integration in host countries should be hosted as a continuation to the Hamburg Summit. This session would bring together G20 leaders with CEOs of MNCs, and the latter would be asked to allocate a certain percentage of their procurement contracts to local and refugee-driven SMEs operating in MBR Zones in host countries.

For the Virtual Observatory for Refugee Integration and Refugee Startup Visa Programmes, the G20 should endorse the T20 Task Force on Forced Migration to step up its efforts and form an advisory council or working group on monitoring integration of refugees in host countries. This group would first assume the role of coordination, data collection and KPI formulation for multiple countries and set up the Virtual Observatory for Refugee Integration.

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