More financial burden-sharing for developing countries that host refugees

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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 for refugees as well as resident populations. Such international support for the economic integration and social inclusion of refugees will be most effective if host countries grant refugees a firm legal status with access to employment and entrepreneurship.

(Published 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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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. 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 on their own to provide for the basic needs of refugees 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 (as well as for internally displaced individuals) goes mostly through UNHCR and the World Food Program (WFP) that must raise most of their funds afresh for each new displacement 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.\(^2\) Similarly, when internally displaced individuals depend on humanitarian assistance, funding shortfalls may push them to seek refuge abroad.

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.

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\(^1\) 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 et al., 2016, Figures 2 and 3).
Furthermore, in many host countries, the legal status of refugees is insecure and they do not have full access to opportunities for employment and entrepreneurship, which limits their economic integration and social inclusion. 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.

Proposal

G20 leaders represent the world's largest economies. Therefore, they are well-placed to address the current shortfall in funding for both, emergency humanitarian assistance and development finance.

First, with respect to humanitarian assistance, we call on G20 leaders to act immediately to eliminate the global shortfall in funding, particularly for situations of protracted displacement. As negotiations progress towards a global Compact on Refugees, following the New York Declaration, we call on G20 leaders to commit adequate resources in a predictable manner to fully cover the needs of refugees and local populations as well as internally displaced individuals, for as long as displacement situations last.

Second, with respect to development finance for host countries to ensure that refugees and 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”: Firm and predictable commitments for humanitarian and development assistance should be matched by host countries facilitating the 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. If this is not feasible, host countries should be encouraged to grant a secure legal status to refugees that guarantees access to public services as well as employment and entrepreneurship opportunities.

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 a net gain to the host country, while any negative distributional effects can be mitigated. Second, we suggest ways to make funding for humanitarian assistance to refugees and to internally displaced individuals more predictable and responsive to needs. Third, we discuss approaches at better connecting humanitarian assistance and development finance to ensure that

3 UN website: http://refugeesmigrants.un.org/declaration
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 may overburden local financial and administrative capacities and create social tension, especially when refugees are located in poor and underserved regions of developing countries. However, with sufficient external financing, the hosting of refugees can create an opportunity for economic development. In contrast to commonly-held beliefs, externally financed refugee settlements frequently generate aggregate economic benefits for the host population (Maystadt and Verwimp, 2014; Taylor et al., 2016). Nevertheless, economic effects 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 of residents should be identified and mitigated.

In terms of economic theory, an influx of refugees constitutes an expansive supply-side shock in the local labor market – provided that refugees are able and permitted to work. At the same time, if the host country receives international grants or refugees receive cash-based assistance from abroad (which is increasingly viewed as good practice), this constitutes an expansive demand-side shock in the local goods markets – as long as not all additional consumption is imported. Higher demand for locally produced goods and services stimulates the local economy – the more so, the larger the refugee population. In particular, agricultural producers tend to benefit from additional food demand. Increased production, prices and profits are typical consequences.4 Rising local production and incomes may generate positive spillovers and higher growth throughout the economy (Alix-Garcia and Saah 2009; Taylor et al., 2016).

The additional labor supply from refugees may reduce local production costs and render local firms more competitive, especially when production is labor-intensive.5 This effect depends on the skill set of the refugees compared with the host population and on policies regarding their labor market integration (e.g. work permits, recognition of formal education and vocational training, integration efforts by employers). To the extent that refugees compete with residents in the labor market, a sudden, large refugee influx of refugees may reduce residents’ wages (Maystadt and Verwimp, 2014).

Specifically, unskilled and informal sector workers may be the first to face competition from immigrants that do not speak the host country language, are not highly educated, or find their skills and qualifications difficult to transfer to the host country. In this case, low-skilled resident

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4 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).

5 Enghoff et al., 2010 found that the labor supply of refugees reduced prices significantly for a wide range of non-food items in Daadab, Kenya.
workers may suffer income losses or unemployment. However, if refugees receive adequate cash-based assistance from international donors, their reservation wage will probably rise and their informal labor supply decline, reducing pressure on resident workers. Children may be sent to school rather than made to work. Also, if refugees are allowed to work (as we propose), fewer refugees will crowd into the informal sector, reducing the impact on local workers.

In addition, refugees may contribute to their host economy through their country-specific knowledge and networks in both, their country of origin and their host country. By facilitating communication and reducing the cost of international transactions, they may help to expand bilateral trade, especially once the country of origin moves towards post-conflict reconstruction (Taylor et al., 2016; on the role of Syrian refugees in Lebanon: Cali et al., 2015).

In sum, a large inflow of refugees will typically affect residents differently according to their resource endowments, occupations, and consumption patterns: Refugee-induced price increases for food, for example, adversely affect urban net food consumers but benefit rural net food producers. A higher labor supply probably benefits firms but hurts low-skilled resident workers. Even when aggregate benefits are large enough to compensate losers, poor households without access to productive resources or political power are most at risk from an influx of refugees (Whitaker, 2002; Maystadt and Verwimp, 2014). Therefore, policy mediation may be needed to mitigate negative effects 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.

Thus, if there is adequate international support for the basic social and economic needs of refugees, they will generate an aggregate economic gain for the host economy through their additional demand for local goods and services. In this sense, adequate humanitarian assistance for refugees goes a long way towards equitable burden-sharing between the host country and the international community. Arguably, however, demographic pressures on small host countries may still be so large or economic stagnation so pervasive that more secondary distribution of vulnerable refugees is called for. This may be achieved through third-country resettlement of vulnerable refugees with the help of UNHCR – which, incidentally, would also enhance the credibility of those participating G20 countries that would otherwise host few refugees (Hargrave and Pantuliano, 2016). This said, existing research strongly suggests that much progress can be made already if G20 countries and other high-income economies provide sufficient funds in a predictable manner for humanitarian assistance and related development efforts.

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6 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.
Predictable and sufficient 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.\(^7\)

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 et al. 2017).

First, to kick-start the response to an emerging refugee situation, there are established financing mechanisms that are basically functional, but need to be strengthened to make 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 (CERF) 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.\(^8\) However, with the support of 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.

In addition, UNHCR and the World Food Programme (WFP) have their own multilateral contributions that they can spend with considerable flexibility. However, multilateral contributions only account for a small share of the two organizations’ 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 and sharply narrow the gap between needs and available resources. For UN-coordinated appeals alone, available resources in 2015 fell short of needs, as defined by UNHCR, by US$ 9 billion (Global Humanitarian Assistance, 2016, Figure 3.2). These appeals benefit cross-border refugees as well as internally displaced individuals. By comparison, actual

\(^7\) 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/).

\(^8\) UNOCHA website: http://www.unocha.org/cerf/donors/donorspage
contributions to UN-coordinated appeals amounted to US$ 11 billion. Disaggregating by UN-coordinated country and regional programs, donors met between 15% (Sahel) and 74% (Iraq) of needs (Global Humanitarian Assistance, 2016, Figure 3.3). At the same time, the total humanitarian response world-wide was US$ 28 billion, with governments and EU institutions contributing US$ 22 billion and private donors accounting for the remainder.

We call on G20 leaders to commit to increasing sharply their national contributions to international humanitarian assistance and to not cutting funding for protracted displacement 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) also contributed to the large irregular secondary movement of Syrian refugees to Turkey and Europe in 2015 and early 2016. As a result, Germany alone spent € 20 billion hosting refugees in 2016, reflecting in large part its high cost of living.9 Similarly, shortfalls in funding for assistance to internally displaced persons (who are also served by UNHCR and WFP) may push these individuals to seek protection abroad.

For the G20 acting together, it should be a manageable task to close the global funding gap of about US$ 9 billion for humanitarian assistance – not least because, with adequate provision for internally displaced individuals and for refugees in their initial host countries, there will be fewer incentives for internally displaced people to move abroad or for refugees to embark on irregular secondary movements.

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, refugees also need to be able to provide for their own livelihoods, rather than depend indefinitely on handouts, to lead satisfying lives. Therefore, refugees need access to employment and entrepreneurship opportunities in their host countries.

Matters are complicated by the fact that approximately two thirds of refugees under UNHCR mandate live individually among the resident population, rather than in settlements (UNHCR, 2016, Table 6). This is potentially helpful for their social inclusion and economic integration, but may present a challenge if large numbers of refugees use public services and infrastructure supplied by a cash-strapped host country government or rent housing that is already in short supply. In this case, cash assistance to refugees may be an effective means of providing for their basic needs. In addition, however, the international community needs to

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

How much this costs depends on local circumstances that affect the supply of public services to refugees as well as the cost of living in each host country. As a general rule, for refugees to integrate successfully into their host societies, access to public services should be similar for refugees and residents. Based on this reasoning, we present a back-of-the-envelope estimate of the total cost of providing education and health care to refugees based on current per-capita expenditures for each host country. Clearly, not all of this cost has to be borne indefinitely by the international community: As refugees integrate economically and socially into their host societies, the same financing rules should increasingly apply for public services for refugees and residents. On the other hand, for very poor host countries, expenditures for residents may be so low that it would be difficult to provide any meaningful services to refugees at such low cost, given the special needs of refugees such as education in a foreign language.

On this basis, to provide education and health care to refugees in all host countries where per capita GDP was below US$ 12,000 in 2016 (this includes Turkey and leaves out Croatia) would cost US$ 7.5 billion for 15.7 million individuals (details of the calculations are available from the authors). Of this amount, a little more than one third would go towards education. The underlying World Bank data include all (private and public) health expenditures, but only government expenditures on education.\(^\text{10}\) If we focus on poorer host countries (per capita GDP below US$ 4,000; for example, Indonesia is in, but Namibia is out), the total cost reduces to US$ 0.7 billion for 7.5 million individuals. However, as we have explained above, this estimate is on the low side because the cost of providing meaningful public services to refugees in poor countries is probably higher than local per-capita expenditures for residents.

This discussion gives rise to two conclusions. First, even though our estimates are on the low side, the extra funding for all refugees to have access to essential public services would be manageable for donors, including G20 countries. For example, it would only be a fraction of total official development assistance (ODA) which amounted to US$ 113.4 billion in 2016 (excluding humanitarian assistance and in-donor refugee costs).\(^\text{11}\) Second, in very poor countries where residents currently have only limited access to public services, the international community may need to support the provision of public services to both refugees and residents at a basic but adequate level.

Funding and monitoring the required additional public investment and working with host country governments 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

\(^\text{10}\) World Bank website: https://data.worldbank.org/data-catalog/world-development-indicators

cooperation between the two 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 the seamless cooperation that is 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 through budget support (where applicable) and project-based development cooperation.

We also call on G20 leaders to make their comprehensive humanitarian and development assistance the cornerstone of future ‘partnerships for refugees’ that involve donors, host country governments, and other stakeholders. A key contribution of host countries to such partnerships would consist in granting refugees a firm legal status, ideally by signing the 1951 Refugee Convention. The economic integration and social inclusion of refugees depend not only on support from the international community, but also on refugees having secure access to opportunities for employment and entrepreneurship and hence, to economic integration and social inclusion.

Acknowledgement 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 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 coordinating authors are responsible for this summary of a wide-ranging and, at times, controversial debate.
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