

Schneiderheinze, Claas; Lücke, Matthias

**Research Report**

## Socio-economic impacts of refugees on host communities in developing countries

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Poverty Reduction,  
Equity and  
Growth Network

## POLICY STUDIES

# ***Socio-economic impacts of refugees on host communities in developing countries***

Claas Schneiderheinze, Matthias Lücke

# Socio-economic impacts of refugees on host communities in developing countries

Claas Schneiderheinze (Kiel Institute for the World Economy)

Matthias Lücke (Kiel Institute for the World Economy)

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## Executive Summary

In this study, we review existing research, both theoretical and empirical, on the impact of forcibly displaced persons on residents' livelihoods in host communities in developing countries, with an emphasis on African experiences. An inflow of a large number of refugees represents a large **challenge to any host community**. This is especially true in developing countries with their limited financial and administrative capacities. Immediately, refugees require accommodation, housing, and key public services such as health care and education. Sooner or later, refugees will seek to provide for their own livelihood, look for work in the informal or formal labor market, and interact economically with the host economy in multiple ways.

When developing countries host refugees, they receive **financial and technical support from the international community**. This support typically covers the subsistence needs of refugees and may also finance other host country expenditures related to their presence. We explain (Sections 2.1 and 2.2) why there is a strong presumption that, with sufficient international financial and technical support, the **aggregate impact of refugees on the host community will be at least neutral and maybe even positive**. The main insight is that refugees, equipped with international financial support, provide a stimulus to the local economy through their demand for locally produced goods and services, which translates into higher output prices, more demand for local workers, and higher real incomes. This presumption is borne out by the few existing empirical studies.

However, the presence of a large number of refugees also represents an economic "shock" to the host economy once refugees begin to interact with residents on a large scale. Many empirical studies find that relative prices for goods and services may change markedly, leading to potentially large **gains and losses on the part of different groups of residents**. For example, food will tend to become more expensive, which benefits local farmers but hurts local workers that do not own agricultural land (Section 2.3).

We discuss **four policy levers** which host country authorities and development donors may use to manage economic interactions between refugees and residents so that no group of residents incur large losses while refugees can live with dignity and integrate economically and socially into the host community.

First, it is now considered good practice to allow refugees to **work legally** and establish businesses in their host countries (Section 5). Apart from benefitting refugees, full economic integration ensures that refugees are not confined to the informal economy where they might compete with vulnerable resident workers. Donors may help host countries to smooth the transition towards full economic integration of refugees through adjustment assistance for resident workers who newly face competition from refugees, as well as by assisting refugees with vocational and language training and support for setting up their own businesses.

Second, the **mode of accommodation** (camps vs. dispersed among the host population) affects how key public services can be delivered to refugees as well as the circumstances of their economic and social integration. Camps allow host country authorities and international organization to receive a large number of refugees in a short time and provide for their subsistence. Most refugees globally do not live in camps, however. While this may be good for their integration, it also means that any public services targeted to their needs have to be delivered through the corresponding national systems. Donors may usefully support any necessary upgrading of national health and education systems as well as targeted assistance to (dispersed) refugees.

Third, **access to public services**, including health care and schooling, is crucial for refugees to live with dignity and develop the capacity to provide for their own livelihoods. It is equally crucial that refugees should not have to compete with residents for access to public services because this could undermine popular support for the hosting of refugees (Sections 3 and 4). Donors may help to ensure that both residents and refugees (whether in camps or dispersed) have full access to public services.

Fourth, the **type of subsistence support** extended to refugees (in-kind vs cash-based) affects the resulting economic adjustments, including changes in relative prices and real incomes. Typically, relative prices must change to induce the desired supply response; for example, higher food prices and higher profits for farmers are often a precondition for higher food output. Therefore, donors may facilitate a systematic monitoring of economic conditions to help ensure that no group of residents (for example, rural workers without their own land) falls permanently behind.

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## 1 Introduction

Since a large number of refugees arrived in Europe in 2015, there has been an intense debate about the social, political and economic consequences of hosting refugees. Yet, most forcibly displaced persons<sup>1</sup> live in developing countries. According to UNHCR (2018), there were 68.5 million forcibly displaced people in 2017, including 25.4 million refugees (i.e. displaced persons living outside their own country), 3.1 million asylum seekers (pending cases), and 40.0 million internally displaced persons. Of all displaced people, 85 percent lived in a developing country and about one third lived in a least developed country. Among world regions, Africa hosted 34 percent of all displaced persons (UNHCR, 2019). In 2017, Africa's refugee population alone increased by 22 percent, mainly because of the crisis in South Sudan (UNHCR, 2018).

Hosting a large number of refugees is potentially challenging for any country, especially if its financial and administrative capacity is as limited as it is in many developing countries. Refugees may compete with residents for jobs, public services, and scarce resources like housing, leading to economic hardship for both groups and the need for additional public spending. Some host countries also provide income support while refugees acquire vocational and language skills, further increasing the fiscal burden.

Most high-income countries host so few refugees that such negative effects, while discernable, remain manageable.<sup>2</sup> By contrast, developing countries often host far more refugees relative to their populations, but also receive extensive external financial and technical support. Such support is frequently channeled through International organizations, particularly UNHCR, and typically covers at least the subsistence needs of refugees. International support not only alleviates a possible fiscal burden on host countries, but also provides a stimulus to the local economy by increasing the demand for locally produced goods and services.

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<sup>1</sup> We use the official UN definition for refugees: "Refugees include individuals recognized under the 1951 Convention relating to the Status of Refugees, its 1967 Protocol, the 1969 Organization of African Unity (OAU) Convention Governing the Specific Aspects of Refugee Problems in Africa, those in accordance with the UNHCR Statute, individuals granted complementary forms of protection, and those enjoying temporary protection. [...]The refugee population also includes people in refugee-like situations that includes groups of people who are outside their country or territory of origin and who face protection risks similar to those of refugees but for whom refugee status has, for practical or other reasons, not been ascertained."(UNHCR, 2018)

<sup>2</sup> For example, Ruist (2019) estimates the average annual fiscal cost of hosting refugees in Sweden, which hosts more refugees relative to its population than most high-income countries, at about 1 percent of GDP over the refugees' lifetime.

Hence, depending on the amount of international assistance available, the overall impact of the presence of refugees on residents' livelihoods may even be positive.

The overarching objective of this study is to **review existing research, both theoretical and empirical, on the impact of refugees on residents' livelihoods in host communities in developing countries**. We particularly emphasize **African experiences**. We put special emphasis on the economic consequences of the **integration of refugees into local labor and goods markets** (Section 2). To a large extent, these effects depend on individual characteristics of residents and refugees (including factor endowments, type of employment, and education). Therefore, we discuss not only the **aggregate** impact at the community level, but also conduct a disaggregated analysis and highlight the **heterogeneous outcomes across different groups**. We seek to identify groups that are particularly vulnerable, which will help policy makers to anticipate and mitigate possible negative effects through targeted interventions.

While the existing body of research on these economic effects has grown over the past few years, it is still at an early stage (Verme & Schuettler, 2019). Most studies focus on rather specific aspects, e.g. particular markets or impact channels, and on the short term. Little attention is paid to long-term or dynamic effects to the production side of the economy.

In addition to the economic impact on host communities, we briefly consider the role of public services (Section 3) and socio-cultural consequences (Section 4). In each section, we (i) discuss aggregate effects at the community level as well as the impact on particular groups; (ii) describe the factors that govern the direction and magnitude of the impacts, determining winners and losers within host populations; and (iii) identify **policy levers** at the local and international level that can be used to mitigate negative consequences and amplify benefits. The following policy options feature prominently:

- Legal status of employment
- Mode of accommodation: encampment vs dispersed refugee populations
- Access to public services
- Type of subsistence support: international community vs local, financial vs in-kind, targeted only at refugees vs the whole community



## 2 Economic impact

### 2.1 Economic theory

In terms of economic theory, an influx of refugees constitutes an expansive **supply-side shock** in a local labor market. Its impact on residents depends on the number of refugees, their characteristics compared with the host population, and the rules that govern their integration into the local economy, e.g. access to work permits. Initially, a labor supply shock **tends to increase competition in the labor market** and reduce residents' wages. Yet, both residents and refugees are far from homogenous; with whom refugees effectively compete depends on their skillset and legal status.

In particular, if refugees cannot obtain work permits, they may be restricted to seeking jobs in the informal sector, forcing them all into the same narrow labor market segment. In this case, the impact on informal sector wages may be substantial and resident informal workers may incur sizable income losses and unemployment. Displacement effects on resident workers may become worse if some of the refugee population are overqualified for most informal jobs and outperform most resident informal workers. While resident workers will suffer, firms and households that employ informal workers will benefit from lower labor costs. Hence, local firms may become more competitive and especially agricultural producers may earn higher profits.

In reality, refugees affect labor markets in developing countries not only as workers. Like all immigrants, they spend their incomes on locally produced as well as imported goods. Because of the **additional demand for local goods and services** and, indirectly, for labor, there is broad agreement in the migration economics literature that the overall impact of immigrants on the labor market performance of resident workers tends to be small (while sometimes negative for particular groups of residents; Peri, 2014).

Furthermore, a developing country that hosts refugees typically receives significant **financial support from the international community**. This may take the form of grants to the host country or cash-based assistance to refugees (which is increasingly viewed as good practice). Either way, **international financial support constitutes an expansive demand-side shock** in the local goods markets: Normally some of the extra income will not be spent on imports, but on locally produced goods and services (Verme & Schuettler, 2019). Higher demand for

locally produced goods and services stimulates the local economy – the more so, the more refugees there are relative to the resident population and the larger the international support.

Higher demand for local goods and services impacts not only the markets for goods, but also for labor. Initially, prices for the goods consumed by refugees tend to rise. Hence, firms have an incentive to expand production, for which they need additional workers (as well as capital goods). **Higher demand for workers tends to improve wages and employment opportunities for residents and refugees alike.** Moreover, international agencies and local NGOs often hire local staff with diverse skill sets to set up and run refugee camps and perform numerous administrative and technical tasks, increasing demand for both skilled and un-skilled labor locally (Verme & Schuettler, 2019).

The sum of the various supply and demand effects of hosting refugees on the labor markets of developing countries is a priori ambiguous. **One may presume that the overall effect on resident workers will tend to be positive** because the labor market effects of immigration in general are small to start with (Peri, 2014), while international financial support provides an unambiguous expansive stimulus to labor demand.

More importantly, however, the labor market impact will **differ substantially across professions and sectors.** Especially if refugees are restricted to working in the informal sector, resident informal workers remain at a high risk of real income loss. Which production sectors benefit from refugee consumption demand depends on refugees' consumption choices and the structure of the local economy. For example, if food production and basic services rely extensively on informal or unskilled labor, the overall effects of hosting refugees on wages and employment may be positive even here.

An often-observed phenomenon is **occupational upgrading for some residents.** When refugees take up many basic jobs, including in the informal sector, residents tend to be promoted and take over more complex tasks and supervisory roles (Akgündüz, Van Den Berg, & Hassink, 2018; Verme & Schuettler, 2019).

In sum, the **induced price and wage changes come with distributional consequences,** creating winners and losers in the host population. Higher prices for basic consumption goods

benefit producers but may harm consumers that are otherwise unaffected by the refugee inflow. Agricultural producers tend to benefit from additional food demand, with higher output, prices, and profits. Rising local production and incomes may generate positive spillovers and higher growth throughout the economy (Alix-Garcia & Saah, 2009; Taylor, Filipski, et al., 2016). However, in general, the distribution of benefits and losses across socioeconomic groups remains an empirical question.

Moreover, refugees can positively affect the host economy by attracting development agencies and international donors (Miller, 2018). As a result, for example, rural infrastructure projects may be implemented that ultimately benefit residents as well as refugees. In addition, refugees may contribute skills and knowledge to the local community's human capital stock. Specifically, their knowledge about their country of origin and their transnational networks may promote economic relations and benefit exporting firms.<sup>3</sup>

## 2.2 Empirical evidence on the overall economic impact on host regions

There are now a wide range of studies that seek to identify the impact of a refugee inflow on the economic livelihoods of residents. They differ significantly with respect to the focus of their analysis (labor market, goods market, aggregate effects); their methodological approach; their time horizon; and their context, including the size of the refugee inflow, income level of host region, and policy framework.<sup>4</sup> Unsurprisingly, findings vary widely, although a majority find positive outcomes for host communities overall (Khoudour & Andersson, 2017; Verme & Schuettler, 2019).

In this section, we discuss **selected studies** that stand out in terms of their robustness and level of detail. One especially rigorous evaluation was performed jointly by the World Food Program (WFP) and a team of researchers based at the University of California (**Taylor, Filipski, et al., 2016**). They investigate the impact of **three Congolese refugee camps in Rwanda** on host communities by feeding micro survey data into localized general equilibrium models. Thus, they estimate not only the aggregate effects but also identify the contributions of individual channels: labor market effects, price effects, and spillovers to the na-

<sup>3</sup> For example, firms founded by Syrian refugees in Turkey are contributing to Turkish exports to Syria (Mercator Dialogue on Asylum and Migration, 2018, 106-109). On the impact of immigrants, more broadly, on international trade, see Genc (2014).

<sup>4</sup> See Verme and Schuettler (2019) for an excellent review of different methods employed in empirical studies in this context.

tional economy. The policy setting differs across the camps in that refugees received cash-based assistance via mobile phone transfers in two camps, but in-kind assistance in the third.

In aggregate, Taylor, Filipiski, et al. (2016) identify **high positive effects for residents within a 10km radius of the cash camps**. An additional refugee increases total real annual income in the area by US\$205 (camp 1) and \$253 (camp 2). These amounts are equivalent to 63% and 96% of baseline per capita income around each camp and exceed the value of per-refugee WFP assistance, indicating substantial multiplier effects (Taylor, Filipiski, et al., 2016). Economic spillovers arise as refugee households and businesses in the camps purchase goods and services from businesses outside the camps that are owned by residents.

Refugee demand for local goods and services boosts local incomes (and spending) which, in turn, generates additional rounds of expansive effects in the local economy. Host-country households do not receive any WFP cash transfers in this setting, but their real incomes increase by \$41 per refugee at camp 1 and \$69 per refugee at camp 2.

Such large **spillovers and benefits are absent in the case of in-kind assistance** (camp 3). Refugees trade some of the food aid for money, which reduces its value and causes food prices to decline (whereas food prices increase in the case of cash-based assistance). Hence, resident agricultural producers suffer. The multiplier effect for the local economy is only 25\$ and remains within the refugee camp, rather than entering the host economy (Taylor, Zhu, et al., 2016).

Altogether the study identifies substantial positive economic effects of refugee hosting for the local community. Importantly, the authors only incorporate effects that result from the direct interaction of refugees and residents in labor and good markets, to the exclusion of the economic effects of constructing, maintaining, or expanding the refugee camps. Such activities add to the positive economic impacts. Furthermore, camp workers spend most of their salaries on locally produced goods and services. As the study does not account for such expenditures, it likely represents a lower-bound estimate of the impact of hosting refugees on the host economy.

Most recently, **Verme and Schuettler (2019)** have undertaken a **meta-analysis** of the economic impact of refugees on host communities across different settings. Host countries

(which are not only developing countries) and refugee inflows differ significantly across the underlying studies. Therefore, it is not surprising that the results are heterogeneous and the findings need to be interpreted carefully. Nevertheless, this comprehensive meta-study helps to understand the full range of possible effects. In total, Verme and Schuettler (2019) consider **49 empirical studies spanning a period of 29 years and covering 17 separate displacement situations**; most studies were published after the start of the Syrian refugee crisis in 2011. From these 49 studies, the authors extract 762 individual results regarding the effect of refugees on the well-being of residents, local prices, income levels, wages, and employment. As the reviewed studies are methodologically diverse and based on very different refugee situations, Verme & Schuettler (2019) cannot systematically relate different outcomes (say, positive vs. negative wage effects) to underlying explanatory variables.

Thirteen different studies derive some measure of the **well-being** of residents in host communities, resulting in 64 individual estimates in total. Of these, about one half are positive and significant and more than one third are insignificant. Depending on how one weights these individual estimates, between 80 and 94 percent of the results imply that residents are not significantly worse off; hence, existing research suggests that the likelihood of a clear negative impact on the welfare of residents is below 20 percent (Verme & Schuettler, 2019).

The studies reviewed by Verme and Schuettler (2019) provide 120 results on **prices**, including not only food and non-food items, but also rents and services. Depending on the weighting scheme, 37 to 46 percent of the estimates are positive and significant, 18 to 23 percent are not significant, and 36 to 39 percent are negative and significant. Price increases affect almost entirely food items and housing, whereas price decreases are related either to overall inflation or to luxury goods, services, and labor-intensive products.

These findings suggest that communities that host refugees are likely to experience significant **changes in relative prices**. There is no general presumption how changes in relative prices or in the price level will affect the welfare of residents overall. However, significant changes in relative prices will almost certainly be associated with gains and losses of particular groups of residents. For examples, farmers who own land will normally benefit from higher food prices, whereas rural residents without their own land will suffer. Lower prices

of labor-intensive goods and services benefit consumers but are probably associated with lower wages for some categories of workers (due to the inflow of refugees).

These observations suggest that **communities that host refugees will likely experience changes in income distribution**. Hence, even when the overall impact on residents' welfare is positive, some community members may lose because of the influx of refugees. Existing research is too scarce to provide useful guidance on which groups are especially likely to suffer losses or what policy interventions can ensure that no vulnerable groups lose out systematically. More research is required to cover a comprehensive range of goods and services and host countries; estimate relevant price elasticities; address linkages in a general equilibrium context; and thus, relate price changes systematically to a highly disaggregated picture of household welfare.

**Employment** is the variable that is investigated most often in the studies reviewed by Verme and Schuettler (2019). Yet, two out of three studies do not detect a significant impact. Among those studies that identify a significant relationship, only slightly more than half (19 vs 14 percent of all studies) find negative effects on residents. The results differ sharply across refugee situations, in part because the socioeconomic characteristics of refugees (language skills, education, work experience, etc.) determine to a large extent how refugees compete with residents in the labor market.<sup>5</sup>

Besides employment, **wages** are the most relevant indicator of labor market performance. Once again, the studies reviewed by Verme and Schuettler (2019) show fairly balanced results: most estimates are insignificant and of the significant estimates, (only) slightly more are negative than positive. Importantly, negative effects tend to be limited to the short term: The authors find that the more time has passed since the refugee inflow, the less negative is the impact on residents' wages.

There is some evidence that refugees 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-

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<sup>5</sup> A more thorough discussion of the distribution of benefits and losses within the resident population follows in Section 2.3 below.

conflict reconstruction.<sup>6</sup> The possible role of refugees in helping to expand international trade between their host and home countries mirrors the positive impact of immigrants in general on international trade (Genc, 2014). In the case of refugees, this effect is likely to be the larger the better the refugees are integrated into their host economy.

In sum, this review of the existing empirical evidence on the overall economic impact of refugees on host communities in developing countries is broadly in line with our theoretical presumption: When financial and technical support is available from the international community, the overall impact on residents in terms of income and labor market performance tends to be neutral or even positive. At the same time, income distribution is likely to be affected and, hence, certain groups of residents, including vulnerable ones, may experience losses. Hence, policies to safeguard livelihoods in host communities may usefully start by identifying any groups of residents that stand to lose out, understanding the impact channels at work, and designing targeted interventions.

### 2.3 Disaggregated analysis: Who wins and who loses?

In Section 2.2 above, we have summarized evidence that an influx of refugees typically affects relative prices in the host economy. Therefore, it affects different groups within the host population differently, with the impact depending (among other factors) on residents' resource endowments, occupations, and consumption patterns; on the characteristics of refugees compared with resident; on the sector composition of the local economy; and on the policy framework governing the interactions between refugees and residents (Luecke & Schneiderheinze, 2017; Whitaker, 2002). Due to high transport costs and limited market integration in many developing countries, the impact on labor and good markets usually remains highly localized (Maystadt & Verwimp, 2014; World Bank Group, 2017). Therefore, whatever effects do occur are likely concentrated on a relatively small number of host country residents.

As we have noted above, only a few studies investigate the disaggregated effects of the presence of refugees systematically. In this section, we review **three recent case studies** that comprehensively analyze refugee inflows to Tanzania (Maystadt & Verwimp, 2014) and Turkey (Altındag, Bakis, & Rozo, 2018; Del Carpio & Wagner, 2015). Taken together, they provide insights into heterogeneous outcomes across different settings; explain which sub-

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<sup>6</sup> For example, on the impact of Syrian refugees on Lebanese and Turkish exports see: Cali, Harake, Hassan, & Struck (2015); Mercator Dialogue on Asylum and Migration (MEDAM), 2018, 106-109.

groups in a local community are especially likely to benefit or lose; and consider implications for policies to safeguard livelihoods in host communities. To complement our review of these case studies, we reference selected papers on particularly pertinent issues such as food prices and housing.

**Maystadt & Verwimp (2014)** assess the disaggregated effects of **sudden large-scale refugee inflows from Burundi and Rwanda to Tanzania**. In aggregate, the establishment of a refugee camp benefits the welfare of the local population: Total consumption increases by about 1 % compared to households in other regions without refugee presence. Yet the impact differs by population group: Initially better-off households tend to benefit over-proportionally, while poorer households face small negative consequences on average. The main beneficiaries are skilled workers and farmers. Skilled workers enjoy improved job opportunities through NGOs and international organizations, and some have seen their nominal wages double. By contrast, farmers profit from a very cheap labor force and higher prices for agricultural goods (Maystadt & Verwimp, 2014). Refugees are heavily engaged in agriculture, leading to sharply higher output. At the same time, agricultural laborers are found to be most disadvantaged: They suffer from fierce competition with refugees in the labor market, with wages in some regions dropping by almost 50 percent. Furthermore, they are hit by increasing prices for consumption goods in refugee-hosting areas.

**Del Carpio and Wagner (2015)** investigate the **labor market impact of the Syrian refugee inflow to Turkey**. At the time of the study, 2.5 million Syrian refugees had been registered in Turkey. Most (85 percent) had already left the refugee camps and entered local labor market. As Syrian refugees were not allowed to work formally, the refugee inflow meant a substantial supply shock to the informal labor market. In line with the predictions of economic theory, Del Carpio and Wagner (2015) find that the **inflow of informally employed refugees displaced resident workers in the informal sector**: On average, 10 informally employed refugees displaced 6 residents. While this effect is not selective with respect to gender or age, individuals without a formal education are most likely to lose their informal sector jobs.

Simultaneously, **formal employment increases for Turkish residents**, which implies occupational upgrading. However, this effect is limited to low-skilled men without a completed high school education to the exclusion of high-skilled men and of women (Del Carpio & Wagner,



2015). These diverging impacts are driven by the employment structure of the Turkish economy. High skilled workers are typically employed in sectors with little informal employment (irrespective of workers' skills). Hence, they can neither be displaced by refugees without a work permit nor do their firms benefit from cheaper, low-skilled, informal labor. Similarly, women rarely work in those sectors that benefit the most from the refugee presence (especially construction). At the same time, they compete head-on with refugees as informal workers, for example in agriculture. Overall, they face net displacement from the labor market and declining earning opportunities.

In sum, the inflow of Syrian refugees has little impact on resident employment overall, but significant distributional consequences. Some low-skilled men manage to upgrade from the informal to the formal sector. However, the net impact on low-skilled workers generally and particularly on women is negative.

**Altındag et al. (2018)** also analyze the impact of Syrian refugees on the Turkish economy and investigate in particular the role of **small firms that are generally more likely to employ informal workers**. They find that the refugee influx created a strong positive demand shock that led to a **substantial increase in the output of existing firms and to the creation of new firms** (Altındag et al., 2018). In addition, lower labor costs rendered local firms more profitable. Small and medium sized firms benefit much more than larger enterprises, with the construction industry and the hotel and restaurant sector as the most profitable. However, the impact on formal employment was rather small. As refugees could not work formally at the time, it is the informal sector that absorbed the additional labor. Like Del Carpio and Wagner (2015), Altındag, Bakis and Sandra (2018) also detect a negative employment effect for residents in the informal sector and a positive one in the formal sector.

**Induced changes in relative prices for goods and services** also lead to diverging impacts on different groups within the host community as higher prices benefit producers and hurt consumers (Ogude, 2018). Most observed price increases are for food products and housing (Alix-Garcia, Bartlett, & Saah, 2011). For the case of Tanzania, Alix-Garcia and Saah (2009) provide detailed results on the impact of refugee camps on the prices of different food items as well as their spatial distribution. Following the refugee inflow, prices for basic food items such as bananas, maize, plantains, flour, and vegetables increased near the camps. These

effects were highly localized: While prices within a 10km range increased by 50 to 300 per cent, prices hardly changed at all beyond 50km from the camp (Alix-Garcia & Saah, 2009).

The **impact of higher food prices on real incomes** is partly offset by **lower prices for other consumer goods**. Enghoff *et al.*(2010) find that the labor supply of refugees reduced prices significantly for a wide range of non-food items in Daadab, Kenya. Hence the net impact is ambiguous and depends on each household's consumption pattern. Rural households that take part in agricultural production tend to benefit overall, whereas urban household tend to suffer. Accordingly, Alix-Garcia and Saah (2009) provide evidence for Tanzania that urban households in close proximity to refugee camps hold fewer assets and invest less in their houses compared to urban households further away. At the same time, households near camps that identify as farming households exhibit higher wealth levels compared to their counterparts in other regions. In sum, households that own real estate or land, or small companies that provide non-tradable goods and services typically realize significant gains from a refugee influx (Alix-Garcia et al., 2011).

However, these effects can also go the other way round. Enghoff et al. (2010) **detect substantial food price decreases in refugee hosting regions in Kenya where food aid is provided to refugees in kind** by the World Food Program. Large shares of the distributed food items are sold at local markets, driving down prices. Local prices for maize flour, wheat flour, and cooking oil are between 17 and 200 percent lower than in other regions of the country. Local food consumers benefit substantially from this development, while producers face reductions in profits.<sup>7</sup> Hence, how international assistance is provided is decisive for the distribution of gains and losses within the host population.

Another area where the presence of refugees can contribute to significant price changes is **housing**. In particular, dispersed refugee populations, such as most Syrians in Turkey, can drive up rents and housing prices. With half of all global refugees residing in urban areas, the impacts on local rents and housing prices is often substantial (Zetter & Ruadel, 2018). The effect depends crucially on the price elasticity of the housing supply, the number of refugees relative to the host population, and the distribution of refugees across the host country. In

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<sup>7</sup> Enghoff et al. (2010) estimate annual savings for the 40.000 native households in the region to equal 4.9 million USD.

the short term, a large refugee inflow can boost housing prices significantly (Alix-Garcia, Walker, Bartlett, Onder, & Sanghi, 2018). This can put a **strain on all renters, often harming over-proportionally the poorest individuals**, as refugees tend to live in low-income neighborhoods (Kabbanji & Kabbanji, 2018). Over time, such effects typically diminish as refugees disperse more evenly across the host county and higher housing prices spur construction.

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, benefit rural net food producers but adversely affect net consumers. A higher labor supply probably benefits firms but may hurt low-skilled residents. Even when aggregate benefits are large enough to compensate losers, poor households without access to productive resources or political power remain at risk from an influx of refugees (Maystadt & Verwimp, 2014; Whitaker, 2002). Therefore, policy mediation may be needed to mitigate negative effects and preserve the support of the host population for the presence of refugees. Given the right conditions, the hosting of refugees may promote local economic development for the benefit of refugees as well as local populations.

### 3 Public Goods

Many refugees use public services and infrastructure in their host communities. Especially when large numbers of refugees are self-settled and dispersed in the resident population, services like education and health care may be strained, both in terms of their physical infrastructure (schools, clinics) and staffing levels. Especially in Africa, overburdened health facilities and schools have been documented (Whitaker, 2002). When refugees and host communities are supported by UNHCR and similar international organizations, the provision of public goods at the local and national level is always a key concern right from the start of any refugee situation. External support can offset these strains on services provision and may even improve local infrastructure and the quality of service provision (Jacobsen, 2001) .

#### 3.1 Education

Roughly one half of all refugees are minors (UNHCR, 2018). Hence, any refugee inflow creates an immediate demand for schooling and often this represents a major challenge for the national education system. Yet, establishing universal schooling for refugee children is crucial for both the short-term and long-term effects of the refugee influx. Without schooling opportunities, young refugees may engage in informal activities to contribute to family income. Given their low reservation wage and large numbers, they may have a strong impact on some residents' labor market opportunities (cf. Section 2). At worst, they might also engage in criminal activities.

In the longer term, missing out on schooling would strongly limit the labor market opportunities of young refugees along with economic opportunities for local firms. **Language skills and schooling are important prerequisites for successful economic integration.** Since most refugee situations are protracted, it is in the best interest of host communities, assisted by humanitarian and development donors, to invest in refugees' human capital (Devictor & Do, 2017).<sup>8</sup> Otherwise, many refugees would remain restricted to basic and typically informal jobs and contribute little to the development of host communities.

Yet, schooling large numbers of refugees is a difficult task especially in rural underdeveloped settings. International support is often essential to finance the necessary investment in

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<sup>8</sup> UNHCR defines a refugee situation as protracted when 25,000 or more refugees from the same nationality have been in exile for five consecutive years or more in a given asylum country. At the end of 2017, 13.4 million refugees, representing some two-thirds of all refugees, were in protracted situations (UNHCR, 2018, 22).

schools, teaching materials, and teacher training. Such investment may need to be targeted carefully: As most refugees do not live in camps but are dispersed among host populations, international support will often have to focus on strengthening the national educational system as a whole while making sure that the system is responsive to the needs of refugees. While the need to coordinate humanitarian and development assistance on the ground may complicate the task, additional resources and improvements in the educational infrastructure can benefit refugees and residents alike and competition for scarce educational resources between can be avoided.

There are several well-documented cases where sustainable advancements in the education sector in response to a refugee influx have not only benefited refugees, but have ultimately improved educational quality for residents as well (Syrian refugees in the Middle East: Ferris and Kirişci, 2016; Dadaab refugee camps in Kenya: Enghoff *et al.*, 2010; Syrian refugees in Lebanon: Kabbanji and Kabbanji, 2018).

### 3.2 Health

Similar considerations apply to the health sector, except that refugees' immediate demand for health care and the danger of infectious diseases spreading within and outside refugee camps render the provision of health care even more urgent. The emergence and spread of **vector-borne and infectious diseases** is particularly likely if refugee camps or hosting regions lack proper sanitation and local health facilities are overwhelmed (Baez, 2011). The host government's ability to manage a sudden increase in demand for health services depends on its financial and administrative capacity (Ogude, 2018). These capabilities vary substantially across host countries and regions (Mabiso, Maystadt, Vandecastelen, & Hirvonen, 2014). Hence, it is crucial that international organizations act quickly to ensure access to basic health care for refugees.

When health care systems improve in response to an inflow of refugees, residents may well benefit in the medium and long run. Paradigmatically, Maystadt & Verwimp (2014) document improved health care and sanitation services in Tanzania. While many services were not available to locals when the refugee inflow started, UNHCR and local partners have progressively made these services available to local communities. About 30 percent of users are

reportedly residents and the quality of health services is much higher than elsewhere in Tanzania (Maystadt & Verwimp, 2014).

### 3.3 Infrastructure

For physical infrastructure development, the impact of a refugee influx is unambiguously positive. The region around a refugee camp typically experiences improved road access and transportation, benefiting not only refugees, but also making transport cheaper and more convenient for host communities and thus contributing to socioeconomic development (Maystadt & Verwimp, 2014; Miller, 2018). In their case study for Kenya, Enghoff et al. (2010) note that 80 percent **of host community respondents report an increased use of buses, pick-ups and taxis**. Typically, such commercial transportation is used to go to the refugee camps to trade, visit relatives, access health facilities, or collect or buy food (Enghoff et al., 2010). Mabiso et al. (2014) conclude that a refugee influx can improve market efficiency and trade dynamism, in part because of road investments made by international organizations—“given the strong link between road accessibility and economic development” (Ogude, 2018, p. 13). Especially in remote areas, better road infrastructure may reduce the prices of traded goods (Casaburi, Glennerster, & Suri, 2013), raising real incomes.

## 4 Socio-cultural impacts and security

The attitude of residents towards refugee populations is largely driven by **perceived socio-cultural impacts**. This is not to deny that adverse economic effects may create social tensions: According to Dadush and Niebuhr (2016), the root causes of any social tensions are “overcrowding, saturation of basic services and competition for jobs”. Nevertheless, concerns about the preservation of local customs and traditions and national security often evolve independently of economic concerns (Dadush & Niebuhr, 2016; Ogude, 2018; Whitaker, 2002).<sup>9</sup>

A refugee influx may reinforce pre-existing **tensions among different ethnic groups** over influence, resources and territory or introduce new ones. Recent examples include the inflow of Bangladeshis into Northern India, Mozambican refugees in Malawi, Eritreans in Eastern Sudan, and Ugandan internally displaced persons (IDPs) clashing with native populations within Northern Uganda (Dadush & Niebuhr, 2016).

In many cases, the concerns of residents relate to **security**, rather than possible economic effects (Taylor, Zhu, et al., 2016). It is not just the size of the displaced populations, but also the duration of displacement and the distribution of the refugee population that drive concerns about security (Rutinwa & Kamanga, 2003; Schmeidl, 2002). Encampment of refugees can reinforce an ‘us versus them’ narrative (Dadush & Niebuhr, 2016). By contrast, the economic integration of refugees may mitigate socio-cultural clashes because economic activities help to recreate social and economic interdependence (Jacobsen & Fratzke, 2016). At best, inclusive policies generate better social and economic outcomes for both refugees and host communities.

Similar to the economic consequences of a refugee inflow, social impacts depend on the policy context. Refugees living with their family members in a self-selected location may cause more favorable social outcomes than those residing in geographically isolated camps or settlements (Miller, 2018). **Especially when refugee situations are protracted, policies that foster integration can positively affect social cohesion:** “When refugees are given

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<sup>99</sup> This broad picture is remarkably similar to the attitudes of EU citizens towards immigration generally (Mercator Dialogue on Asylum and Migration (MEDAM), 2017, Section 3.2).

greater access to their rights and are better able to integrate, social cohesion is greater with-  
in the community” (Miller, 2018).



## 5 Conclusions and policy implications

Hosting refugees presents difficult challenges for developing countries where financial and administrative capacities are limited. Most refugees need support for subsistence and housing until they are economically integrated and can earn their own living. Economic integration may take a long time because refugees come to the host country in search of security, often after experiencing potentially traumatizing events, rather than after a dispassionate and careful job search. Refugees also require access to public services such as health care and education. Additional demand from refugees may strain access to scarce local resources such as housing, water, sanitation, and agricultural land for residents and refugees alike.

**Financial and technical support from the international community to refugees and host communities** typically helps to address many of these challenges. If international support is large enough and provided consistently until refugees are economically integrated and the necessary investment in public services and infrastructure has taken place, the presence of refugees may even provide a **stimulus to the host economy by increasing the demand for locally produced goods and services**. However, a positive aggregate impact on real income in the host community may mask detrimental changes in income distribution that may hurt vulnerable groups and undermine political support for hosting refugees. Residents may be affected quite differently according to their resource endowments, occupations, and consumption patterns.

Globally, the funds available to address refugee situations and other humanitarian emergencies remain insufficient: According to the United Nations Office for the Coordination of Humanitarian Affairs, just under \$25 billion were required in 2018, but only 56 percent of this amount was made available by donors (UNOCHA, 2019). This **funding gap** leaves refugees and host communities in developing countries at risk of deprivation and having to compete for scarce public services and local resources, even by the modest standards by which UNOCHA defines humanitarian funding needs.

Beyond immediate humanitarian needs, many development donors now also provide **livelihood support** for refugees in developing countries. This is appropriate because many refugee situations are protracted and full economic and social integration becomes a precondition for refugees to live with dignity. Development assistance for refugee integration follows

a long-term rationale that is fit for this long-term task. At the same time, **humanitarian and development assistance for refugees and host communities need to be carefully coordinated**, which remains a challenge given the different approaches and organizational cultures of humanitarian and development donors (Bennett, 2015).

Apart from the total amount of international assistance available, the impact of refugees on host communities depends on how international assistance is provided as well as on several other policies that govern the interactions between refugees and residents. These policies affect the distributional consequences of a refugee inflow and may be managed to mitigate negative effects on members of host communities and preserve popular support for the presence of refugees. In the remainder of this section, we discuss the **four main policy levers** in turn.

**Legal status of employment:** The labor market effects of a refugee inflow depend to a large extent on whether refugees can work legally in the host country (see our discussion of the Turkish experience in Section 2.3 above). Although host countries are not legally required to allow refugees to work, there is now a strong presumption (documented in the 1951 Refugee Convention as well as the recent Global Compact on Refugees) that **granting refugees the right to work and to establish a business constitutes good practice** in refugee protection (Zetter and Ruaudel, 2018; Mercator Dialogue on Asylum and Migration (MEDAM), 2018, Section 3.3).

Apart from allowing refugees to become economically self-sufficient and live with dignity, granting them the right to work will also help to minimize any negative impact on resident workers from refugee participation in the labor market. Since refugees in developing countries receive only limited income support and there is typically a large informal economy, many refugees will seek work irrespective of their legal status and will likely find informal employment. Under these conditions, allowing refugees to work legally will ensure that the increase in labor supply due to their presence does not affect only current informal workers (who may be particularly vulnerable) but is widely dispersed throughout the economy. If refugees also enjoy the right to establishment, firms founded by refugees may help to create job for a growing workforce of refugees and residents (Altındag et al., 2018).

Development donors may usefully work with host country authorities to support the **development, funding, and implementation of a comprehensive policy framework** for the economic and social integration of refugees. A credible commitment by donors to provide long-term support through financial and technical cooperation may help to overcome the reluctance of some developing country policy makers to eliminate discrimination against refugees. Such a policy framework may usefully include a **mechanism to monitor the socio-economic situation of both residents and refugees** along with the evolution of relevant economic variables. On this basis, **policy interventions** can be designed when vulnerable groups are at risk, including adjustment assistance for resident workers who face more intense competition in the labor market. Refugees may also benefit from a broad range of interventions, including language and vocational training, to smooth their integration into the host country labor market and empower them to benefit from business opportunities.

**Mode of accommodation (encampment vs dispersed refugee populations):** Refugee camps allow host country authorities and international organizations to receive many refugees in a short time and to provide effectively for their immediate needs in terms of subsistence, health care, schools, and other essential services. Over time, however, these advantages become less important than the resulting barriers to economic and social integration. If many refugees live in a rural camp (many refugee camps are in rural areas), residents near the camp will experience large impacts in every dimension: competition in the labor market, food prices, availability of water, etc.

By contrast, if refugees are self-settled and dispersed across the host country, labor market and social integration may be easier to achieve. Besides economic benefits, a more equal dispersion of refugees may also reduce tensions between refugees and hosts and foster win-win environments (Miller, 2018). However, it may become more challenging to provide public services to refugees while responding to their special requirements, such as schooling in their own language. Service provision may have to focus on upgrading host country systems (schooling, health care, etc.) while providing for the needs of refugees wherever they are. Similar considerations apply to business services such as support networks for firms set up by refugees.

Financial and technical assistance from development donors may help to ensure that public service providers can address these challenges and meet the needs of residents as well as (dispersed) refugees. Country experiences (see Section 3) demonstrate that the presence of refugees may even generate a momentum that leads to improved service provision for residents compared to before the arrival of refugees. **Donors may support a gradual transition from camps to self-settled and dispersed accommodation** by working with the new host communities to ensure that public services and resources (including housing) are available to refugees without having to enter a ruinous competition with residents.

Should refugees be granted **access to public services** such as education, health care and infrastructure on the same terms as residents? Or should separate institutions be set up exclusively for refugees? This question is closely related to the mode of accommodation: When large numbers of refugees live in camps, it may not be practical for them to use local schools or health care providers. Targeted service provision for refugees, including in their own language, may then be necessary to meet needs effectively and avoid competition with residents over scarce services or local resources. At the same time, if access to (decent quality) services were to make refugees better off than residents (there are reports of local residents living in refugee camps in East Africa for this reason), this would constitute a strong case for improving service provision for both populations.

Development donors can helpfully ensure that, whatever the context, **refugees do not have to compete with residents for access to essential services**. Providing services to large numbers of refugees in addition to locals may overstretch the financial and administrative capacities of developing country authorities; development donors are well placed to complement local capacities.

**Type of subsistence support:** In the past, subsistence support for refugees was often provided in-kind, which led to various distortions that were also detrimental to host communities (see Section 2.2). Today, direct, **cash-based livelihood support is considered good practice**. If refugees receive adequate cash-based assistance, their reservation wage rises and their informal labor supply may decline, reducing pressure on resident workers. Children may be sent to school rather than made to work. The extra purchasing power of the refugees becomes an important stimulus to the local economy.

At the same time, host country authorities and donors may want to ensure that the stimulus meets an adequate **supply response**. For example, roads may need to be upgraded so that refugees do not compete with residents for a narrow local food supply, but have access to regional and international imports as needed. While some changes in relative prices are necessary to stimulate local output, any major shifts may threaten some residents' livelihoods. Therefore, host country authorities may find it useful, possibly assisted by donors, to monitor prices, output, and household incomes in host communities to be able to intervene when the livelihood of vulnerable groups – residents as well as refugees – is found to be at risk.

In sum, the arrival of many refugees may constitute a substantial economic “shock” for the host community. With sufficient international financial and technical support for as long as necessary, there is a strong presumption that the aggregate impact will be at least neutral and maybe positive. However, as with any large shock, there may be winners and losers in the host community. We have identified several policy levers that are available to host country authorities, supported by international financial and technical cooperation, to ensure that no group of residents is left behind while refugees can live with dignity and integrate economically and socially into the host community.

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