



The Donor Committee for Enterprise Development

Private Sector Development Synthesis Note

Private sector development for refugees

November 2017

Key take-aways:

- More than 25 million people are asylum-seekers or refugees. While many have arrived in Europe, even more are displaced in their home countries or flee to neighbouring countries.
- The private sector can be central to assisting refugees and addressing conflict or economic drivers of migration. Strategies include (1) supporting new economic opportunities and adaptation of livelihoods to climate change at refugees' places of origin; 2) enhancing existing income generation activities of refugees to reduce reliance on aid, e.g. through market systems approaches; and (3) leveraging resources of the diaspora as well as private investors to boost humanitarian assistance and productive investments in affected regions.
- OECD-DAC donors also increasingly use aid funds domestically to address needs of refugees that arrive in their territories. However, legal and language barriers can prevent refugees from integrating into the formal labour market and become more self-reliant.

25 million people are currently asylum-seekers or refugees ([McKinsey Global Institute, 2016](#)). An additional 34,000 people are forced from their homes every day ([UNHCR, 2016](#)). The purpose of this Note is to summarise current practice and understanding about how to help such people become more self-reliant, through increased economic opportunity or employment.

Fostering self-reliance is now seen as a more sustainable strategy to tackle displacement than humanitarian assistance. There is also a growing recognition that refugees have an important role to play in the economy. Donors are increasingly trying to facilitate this role. Alex Betts, director of Oxford University's Refugee Studies Centre, sums this up: "rather than just providing long-term humanitarian assistance in camps, we must provide opportunities for human flourishing... education, connectivity, electricity, transportation, access to capital, and the right to work" ([2016](#)).

This objective represents a major challenge and opportunity for donor agencies. Those displaced from their homes continue to participate in economic activities. Indeed, there is a large body of literature noting that refugees are active, capable and resilient actors ([Macchiavello 2003](#); [Omata, 2012](#); [Collier and Betts, 2016](#)). However, questions remain about how market-based strategies can assist refugees. Although they participate in economic activities and markets in their new contexts, their economic lives are markedly different from those who were not forced to leave their homes. They therefore require special attention within private sector development (PSD) efforts.

This note begins by tackling some of the definitions around migrants, refugees and internally displaced persons. It then moves on to answer four interrelated questions about the role of PSD in assisting refugees.

>> 1. What is a refugee?

The definition of refugees has become politically contentious. There are several different categories of individuals displaced from their homes; the majority of people currently displaced around the world are not classified as refugees. The United Nations High Commissioner for Refugees (UNHCR) gives a helpful overview of these categories ([UNHCR, 2016](#)). It defines the term 'refugees' as referring to people fleeing war or persecution across an international border.

The term 'migrants' refers to people moving for reasons not included in this legal definition of a refugee. There are specific protections for refugees under international law, which countries are obliged to respect. The third and final category is internally displaced people (IDPs). These are individuals who, unlike refugees, have not crossed a border to find safety. While they may have fled for similar reasons, IDPs stay within their own country and remain under the protection of its government ([UNHCR, 2016](#)). However, it is often difficult to categorise individuals strictly into migrants or refugees. This is coupled with the fact that, "an increasing number of people are moving in mixed migratory flows" ([Danish Refugee Council, 2015](#)).

Diaspora communities are one other relevant category. The term diaspora refers to former migrants and refugees ([Phillips, 2016](#)). Refugee diasporas are also increasingly viewed as important development actors for donor governments to engage with ([UNU-Merit, 2014](#)). Section 5 of this note covers the specific considerations of diaspora community engagement for development.

Although the focus of many global news organisations has been on migration into European and other developed countries, the majority of refugees flee to neighbouring countries. Turkey, Lebanon and Jordan, and to a lesser extent Iraq and Egypt, have absorbed the largest proportion of Syrian refugees ([RSC, 2016](#)), for example. Jordan's government has stressed that the country cannot afford to support these refugees indefinitely. Life for refugees — either in camps or otherwise — is often challenging. [Amnesty International](#) reported in 2015 that "at least 40% of refugees [in Lebanon] live in inadequate accommodation 'including in makeshift shelters (garages, worksites, one room structures, unfinished housing) and informal settlements' whilst 'others are at risk of eviction or live in overcrowded apartments.'"

In the past, one of the major difficulties faced in assisting those facing prolonged displacement is diminished donor interest ([Jacobsen, 2005](#)). However, more attention and resources are now being diverted to these long-term refugees, in particular their livelihoods and ability to support themselves. However, it is important to fully understand the context of refugees' lives and their connections to the economy before effective programmes can be devised.

With increasing numbers of refugees resident in developed countries, donor governments are increasing the resources that they allocate to deal with refugees who have arrived domestically. For instance, OECD -DAC donors including Sweden, The Netherlands, Denmark and Germany increasingly use aid funds domestically to address the needs of refugees that arrive in their territories, ranging from 15% to 34% of ODA in those four countries ([ECDPM, 2017](#)). The rise in refugee costs did not significantly impact other development programmes, as around half of donor countries used money from outside their aid budgets to cover refugee costs ([OECD, 2016](#)). However, this area will continue

to be a rising concern for donor governments as refugee numbers and domestic political pressures continue to grow.

>> 2. What are refugees' connections with the economy?

Refugees and IDPs are typically viewed as isolated from the economy, living in segregated camps and dependent on aid. However, the literature paints a more nuanced picture. One study of refugee livelihoods in Uganda concluded that:

“While many refugees do incorporate aid into their survival strategies, they routinely strike a complex balance in their livelihood strategies, managing diversified portfolios of income and food sources. These households and individuals rely on aid to supplement certain key shifting gaps in their income, while at the same time pursuing strategies of economic self-reliance through other means.” ([RSC, 2012](#))

Refugees' right to work are explicitly provided for in the [1951 Refugee Convention](#), and there is no evidence to show that more refugees seek asylum in a state that has granted employment rights ([Asylum Access, 2014](#)). Despite this, there are often significant legal barriers to refugees working in their country of residence; for example, there are often no domestic laws protecting refugees' right to engage in employment or self-employment. In Lebanon, Syrian refugees must apply for expensive work permits for many areas of employment ([ILO, 2013](#)). The majority of Syrian refugees in Lebanon work in the informal economy, with unregistered enterprises or without a work contract ([ILO, 2013](#)). Likewise, in Turkey there are significant constraints on the types of job that refugees are allowed to take ([European Parliament, 2016](#)). Denying refugees access to formal labour markets pushes these workers into the informal market, eroding wages for both refugees and nationals ([World Bank, 2015](#)). In addition to these formal barriers, there may be other factors that prevent refugees' proper integration into a host economy. A lack of knowledge of the local language, and prejudice in the local population, can both represent significant barriers to successful assimilation into the labour market ([Asylum Access, 2014](#)).

However even accounting for these disadvantages, there are still significant gaps in the refugees' economic performance, compared to the general population of their country of destination. Beyond the obvious determinates of labour market integration differences – such as language level, education, and previous work experience – normally controlled for in models, there remains a 'refugee gap' where refugees perform poorer than both citizens and other immigrant groups ([UNHCR, 2015](#)).

Indeed, understanding and supporting refugees' livelihoods is impossible without considering the private sector: refugee livelihoods are inextricably linked with the private sector ([RSC, 2014](#)). Especially in urban settings where refugee livelihoods, promoting the livelihoods of refugees will become feasible only when their economic activities are based on 'market-based opportunities': 90% of jobs in developing countries come from the private sector ([World Bank, 2013](#)).

>> 3. How can Private Sector Development help refugees?

Addressing the root causes of displacement

The first and most obvious way that PSD can positively affect refugees' lives is by addressing the root causes of displacement. But donor countries have little control over conflicts, violence or repression that might displace people from their homes; however they can help to increase the economic opportunities for these individuals. Poverty reduction is seen as an effective way of reducing the push factors that displace people from their homes ([World Bank, 2016](#)). For example, the World Bank ([2016](#)) and GIZ ([2016](#)) have both outlined the ways in which they hope to reduce the fundamental causes of migration. Supporting economic opportunities is seen as key to addressing these causes by several donor agencies ([ECDPM, 2017](#)). In the longer-term, environmental change could also be a potentially large driver of migration. Many different agencies are also committed to fostering climate-resilience in developing countries, often through PSD interventions. It is hoped that these interventions will prevent or mitigate large-scale population displacement because of climate change ([Migration Policy Institute, 2016](#)). More information and evidence on this subject can be found on the [DCED's Green Growth knowledge page](#).

Livelihood assistance

Once people have been displaced from their homes, PSD interventions also have an important role to play in assisting them. The ODI's [ongoing project](#) on "Refugee livelihoods in protracted displacement" has highlighted the innovative and diverse strategies that refugees use to pursue sustainable livelihoods. Donor governments have supported these livelihoods in a number of ways ([Gonzalez, 2016](#)): for instance, a UNHCR/ILO joint paper highlighted the application of Market System based approaches in refugee contexts ([UNHCR/ILO, 2017](#)). There is also an emerging research focus on the ways in which Market Systems Development approaches can be utilised in supporting refugee livelihoods ([CARE International, 2016](#)). This subject is also tackled in the UNHCR's "Global Strategy for Livelihoods" ([2014](#)) document, which explains how the organisation intends to support refugees' economic self-reliance. It outlines the ways in which the UNHCR intends to build refugees' capacity for market access, for instance by providing skills, vocational, and entrepreneurship training. However, as described above in Section 2, many refugees lack access to formal labour markets in their current country of residence. Jacobsen and Fratzke ([2016](#)) found that programmes that attempt to build skills or develop the entrepreneurship capacity of refugees struggle to succeed in such restrictive policy environment.

One proposed solution to this problem is the creation of Special Economic Zones (SEZ). These economic zones enable refugees to work and to contribute to national development in areas of countries, such as Jordan, that are lacking labour and inward investment. Their supporters hope that countries that host large numbers of refugees could agree to grant refugees the right to work in these zones. In this way, refugees could be integrated into the global supply chain, without disrupting their host country's labour market. One example of such a proposed zone is the King Hussein Bin Talal Development Area in Jordan ([World Bank, 2016](#)). The economist Paul Collier has endorsed these SEZs as a practical, long-term solution to the refugee crisis. He has stated that "if Europe really wants to help displaced Syrians, it should start by helping to provide opportunities for employment and education in the host countries bordering Syria" ([Collier and Betts, 2016](#)).

Reintegration

One further way in which PSD programmes can assist refugees is in the reintegration of these individuals into their country of origin's economy. After conflicts cease and refugees and IDPs can safely return home, they often face very challenging conditions ([GIZ, 2016](#)). There is a large body of literature on implementing PSD in post-conflict situations, some of which is highlighted on the DCED's [dedicated webpage on fragile and conflicted-areas](#).

>> 4. What role do diaspora communities play?

As stated above, diaspora communities are increasingly viewed as useful development actors. Individuals in the diaspora have work experience, skills, knowledge and contacts to which can assist businesses and development initiatives in their countries of origin ([OECD, 2012](#)). Donors are aware of the potential value that diaspora communities can add, and have sought to leverage these communities for developmental outcomes. For example, GIZ has developed a toolkit of different methods for utilising diaspora communities ([GIZ, 2012](#)). One of the example tools given is the establishing of a website to connect lenders in the diaspora community to SMEs in the country of origin; by increasing financial resources available in the origin community, this might also constitute a means to help tackle the causes of migration. This provides cheap financing and pooling of smaller amounts of remittances into substantial funding for private sector investment.

A selected list of European donor government programmes that seek to engage governments with diaspora communities has been compiled by the [ICMPD \(2016\)](#). Many different categories of actors are included in diaspora communities, so diaspora communities engage with the economies of their country of origin in many different ways. These range from philanthropy to remittances, tourism to civil society engagement. These different forms of engagement have significant consequences for Private Sector Development involving these communities. As such, one of the main lessons drawn from the experience of donor governments is the need to build up an accurate profile of the diaspora community in question ([ICMPD, 2016](#)). Identifying the main characteristics of the diaspora, the contributions of the diaspora to development, as well as the needs of diaspora members and organisations is vital in devising an effective strategy for engaging these communities in PSD initiatives.

Some governments of origin countries are also seeking to formalize the business contacts and professional networks established by their diaspora members abroad. For instance, the Senegalese government has an initiative entitled the "Caravane des PME's" (SME mobile unit) which travels to members of the diaspora community and offers information about investment and partnership possibilities in Senegal to members of the diaspora ([International Organisation for Migration, 2009, p.97](#)). Around half of United Nations member states now have some form of diaspora institution ([ICMPD, 2016](#)). However, these institutions vary in size, quality, and intention.

>> 5. How can private sector resources be leveraged to help refugees?

Humanitarian agencies and donors have previously been viewed as hesitant in dealing with businesses to help refugees. As one report stated, "humanitarian agencies do not appear to be ready to engage with the business community" ([ODI, 2014](#)). However, as in the wider development

community, there is a growing recognition that sustainability-minded businesses can be vital partners in development cooperation. There is a significant gap between the change envisaged and the resources available to affect this change. The increase in refugees during 2014 and 2015 was not matched by a corresponding increase in resources available. The UN got around half of what it said it needed to manage the crisis ([Global Humanitarian Assistance Report, 2016](#)). All of this has meant that humanitarian agencies and other donor organisations dealing with refugees are beginning to turn to partnering with the private sector. For instance, the UNHCR has recently created an [online portal for Private Sector Engagement](#). The EU External Investment Plan, the European Commission's plan to stimulate African economies as a means of countering rapid migration to Europe, relies on a range of innovative financing instruments to leverage private sector to help addressing the root causes of migration in the longer-term by boosting investments in refugee's home-regions ([ECDPM, 2017](#)). Likewise, the World Bank Group has recently implemented a "New Financing Initiative to Support the Middle East and North Africa Region", composed of loans, grants and guarantees. The new financing initiative was launched by the World Bank Group, the United Nations and the Islamic Development Bank Group in 2015. The goal of the initiative is to improve coordination among international organizations, to meet the scale of both the MENA region's humanitarian and development needs ([World Bank, 2016](#)).

Integrating refugees into the global supply chain is vital in guaranteeing long-term, sustainable livelihoods for displaced persons. As such, the World Economic Forum has argued that businesses operating in these environments "should work towards an integrated response, which also means investing in regional frameworks for resilience, and initiatives that build the capacity of local institutions and regional economic communities" ([2016](#)). State and institution building are always part of the longer-term solution, and businesses have an important role to play in these efforts.

>> **For more information on the theme, click here:** <https://www.enterprise-development.org/implementing-psd/refugees/>