

# PSD for Refugees and Internally Displaced Persons

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## Scope

This note explores how Private Sector Development (PSD) can improve the economic prospects of forcibly-displaced persons (FDPs), in particular refugees and internally-displaced persons (IDPs).

### Main takeaways:

► There were 79.5 million refugees and IDPs at the end of 2019. While some are trying to reach Europe and North America to build new lives, many more are displaced in their home countries or flee to neighbouring countries in the developing world.

► Development agencies are increasingly focused on more effective integration of refugees and IDPs into host economies. There is growing emphasis on addressing the multiple barriers to such integration in ways that strengthens – rather than undermines – local market systems.

► Market-based solutions for PSD approaches are most effective where programmes invest upfront in building strong understanding of the political and economic context, maximise synergies with humanitarian and peacebuilding initiatives and work to reduce the risk of conflict between FDPs and host communities.

## Introduction

At the end of 2019 there were 79.5 million forcibly-displaced persons (FDPs), comprising both refugees and internally displaced persons (IDPs), worldwide. 85% of people displaced across national borders are hosted by developing countries - 27% by Least Developed Countries ([UNHCR, 2021](#)). Between 2010 and 2019, only 5 million FDPs were either resettled in third countries or managed to return home ([UNHCR, 2021](#)). This is a downward trend from previous decades ([UNHCR, 2019](#)), meaning that an increasing number of FDPs find themselves in protracted displacement situations with an average stay of more than 20 years ([Betts et al., 2017](#)). The purpose of this Note is to summarise current practice and understanding about how to help FDPs become more self-reliant, through increased economic opportunity or employment in their host countries and communities.

Fostering self-reliance is now seen by many in the international community as a more sustainable strategy to tackle displacement than long-term humanitarian assistance. Indeed, those displaced from their homes generally engage in economic activities in their new locations, especially if a quick

return appears unlikely. There is also a large body of literature noting that FDPs are active, capable and resilient actors ([Macchiavello 2003](#); [Omata, 2012](#); [Collier and Betts, 2016](#)).

However, questions remain about how market-based strategies can best assist people who have been forced to flee their homes as well as the communities that host them. Many FDPs may not be able to work in the same sectors or professions they used to because of, e.g., lack of access to land, capital or other productive resources; lack of demand; language barriers; or non-recognition of formal qualifications. A significant influx of FDPs is also likely to affect economic opportunities for host communities. Addressing the multiple challenges of forced displacement contexts therefore requires special attention within private sector development (PSD) efforts. This Note begins by tackling some of the definitions around forced displacement before offering some specific advice for effective PSD interventions to support FDPs.

## What are the different groups affected by forced displacement?

Global debates about forced displacement have become politically contentious because of the number of people seeking protection and economic opportunities in Europe and North America. The important distinctions between those who choose to move in order to build better lives for themselves and their families, and those who are forced to flee violence and persecution, can get lost in the charged discussions about growing population movements.

The United Nations High Commissioner for Refugees (UNHCR) defines the term ‘refugees’ as referring to

<sup>1</sup> According to UNHCR, the total number 79.5 million FDPs in 2019 included 26 million refugees, 45.7 million IDPs, 4.2 million asylum seekers and 3.6 million displaced Venezuelans abroad. Some Venezuelans who fled their country are classified as

people fleeing persecution, conflict, violence, human rights violations or events seriously disturbing public order across an international border, and who can therefore claim official refugee status under international law. There are specific protections for refugees under international law - specifically the [1951 Refugee Convention](#), which countries are obliged to respect. Refugees make up about a third of people currently forcibly displaced around the world<sup>1</sup>. 73% of them are hosted by neighbouring countries ([UNHCR, 2021](#)) which often lack the resources and economic opportunities to enable incomers to rebuild their lives. For example, Turkey, Lebanon, Jordan, and - to a lesser extent - Iraq and Egypt, initially absorbed the largest proportion of Syrian refugees ([RSC, 2016](#)). Colombia and Peru between them host more than half of the 4.5 million people who have fled from Venezuela ([UNHCR, 2021](#)).

The majority of people affected by forced displacement are IDPs who have not crossed a border to find safety ([UNHCR, 2021](#)). While they may have fled for similar reasons as refugees, IDPs stay within their own countries and remain under the protection of their governments ([UNHCR, 2016](#)). While refugees often face hard, legal hurdles to their integration into the local economy, IDPs generally have the same basic economic rights as the rest of the population (although they frequently encounter significant informal barriers). In 2020 alone, conflicts and natural disasters caused over 40 million new internal displacements with China, the Philippines, Bangladesh and India accounting for close to 50% of the total ([iDMC, 2021](#)).

This Note focuses explicitly on FDPs and does not address other groups that move across borders and

refugees or asylum seekers. [Amnesty International](#) defines an asylum seeker as somebody who has fled their country for the same reasons as refugees, but hasn’t had their refugee status legally recognised.

participate in the economies of their destinations, such as migrants. This is in part to limit the scope of the Note and in part because the fundamental differences between migrants – who generally move voluntarily and can choose to return – and FDPs require different responses from governments, donors and other support organisations. Nevertheless, PSD programmes may in practice face a growing diversity of displaced communities, also because an increasing number of people are fleeing natural disasters and environmental degradation due to climate change. Where this involves crossing international borders, however, the safeguards under the Refugee Convention currently do not apply. Ultimately, climate change impacts are also likely to exacerbate the risks of conflict, famine and insecurity ([UNHCR, 2020](#)). This will increase the need for meaningful support measures to ensure people affected by displacement can build safe and sustainable livelihoods at their destinations.

### **What are the connections between forced displacement and the economy?**

FDPs have typically been viewed as isolated from the economy, often living in segregated camps and dependent on aid. However, the importance of integrating FDPs into host economies is increasingly recognised. Where this is done effectively, FDPs can contribute skills, entrepreneurship, and new goods and services to host countries and communities. As consumers they can help stimulate the local economy and as entrepreneurs create growth, employment and economic diversification. For FDPs themselves, access to jobs and livelihood opportunities strengthens resilience and dignity and offers a route out of aid dependency. It can also facilitate integration with host communities and reduce the hostility many FDPs have to endure ([ILO, 2020](#)). For donors, facilitating greater economic self-reliance for FDPs can be a strategy to reduce humanitarian

spending over time, especially where crises are unlikely to be resolved quickly.

There are only very few systematic studies on FDPs' economic contributions to host countries and communities. However, analysis of refugee communities in Australia suggests that their net economic impact turns positive after an initial period where public support is required to enable a new start. In addition, refugees were found to bring less quantifiable benefits not associated as strongly with other migrant groups, such as a higher propensity to start businesses, filling niches in the labour market, and strengthening trade links with their countries of origin ([Parsons, 2016](#)). The economic context of host populations is a significant determining factor for the prospects of FDP communities. While this is likely to be most pronounced for diverse host countries, a consumer and market study for two refugee-hosting areas in Uganda highlights how local market conditions and access to essential services such as education, energy and financial services can shape the economic prospects of refugees and host communities in the same country ([IFC, 2021a](#)).

Despite the obvious benefits, there are often significant legal barriers to refugees working in their new countries of residence. While the Refugee Convention prohibits sending people back to countries where they face serious threats to their life or freedom, and explicitly provides for the right to work in host countries, specific rights granted to refugees in practice vary between countries. This can make access to income earning opportunities very difficult if, for example, rights to work or move freely do not apply to refugee populations. Similarly, while IDPs should have the same basic rights as all other citizens, their ability to work may be limited by their locations (esp. in camps), social factors such as language and ethnicity, as well as market demand – and competition – for the skills and products they can offer.

For example, during the earlier phase of the conflict in Syria, Syrian refugees in Jordan had to apply for expensive work permits for many areas of employment. As a result, many of them ended up working in the informal economy, with unregistered enterprises or without a work contract. In response to this, the Government of Jordan and the international community committed to improving the living conditions and resilience of Syrian refugees and their Jordanian host communities, as part of the 2016 Jordan Compact. One measure under the agreement is to improve access to work permits for Syrian refugees. This has led to significant improvements to their labour market participation and working conditions, including higher wages, greater formality and stability of employment, and a sense of feeling less vulnerable to deportation and abuse in public spaces ([ILO, 2021](#)).

Denying FDPs access to formal labour markets, land and capital pushes these workers into the informal market, eroding wages for them and host communities, and potentially exposing them to risk of exploitation ([World Bank, 2015](#)). In addition to formal barriers, there may be other factors that prevent refugees' proper integration into a host economy. A lack of knowledge of the local language, movement restrictions, misconceptions amongst employers as to the rules and costs of employing refugees, and prejudice in the local population, can represent significant barriers to successful assimilation into the labour market ([Asylum Access, 2014](#)). This highlights the importance of tailored support measures such as employment-focused language courses and assistance with recertification in host countries ([UNHCR & ILO, 2017](#)).

### How can private sector development help FDPs?

Traditional approaches to improving livelihoods for refugees or IDPs usually focus on direct interventions to strengthen the supply side of the labour market,

i.e. improving the employability, skill sets and know-how of refugees or IDPs. While such measures can create short-term income-earning opportunities, there is no real evidence that they deliver long-term economic self-reliance for FDPs. To achieve economic inclusion in a sustainable way, interventions should be based on a thorough analysis of the existing demand for labour, products and services, and of market systems in which refugees and IDPs could make a living.

Growing FDP numbers globally, increasingly stretched humanitarian budgets and the recognition that displaced people and their host communities – regardless of their locations and specific circumstances – are economic actors, are driving efforts to integrate displaced people into local labour markets ([IFC, 2021b](#)). Increasingly, these are moving beyond traditional supply side measures such as general TVET and employability skills. Where feasible, many donor agencies are putting greater emphasis on market-based solutions, building on stronger analysis of relevant local market systems ([ILO & UNHCR, 2017](#)). Recommendations for specific PSD approaches include:

- **Value chain development:** FDPs as value chain participants often face particular challenges when it comes to accessing support services and forging linkages with buyers and input suppliers. This can offer opportunities for donor programmes to promote the shift from humanitarian aid to market development. For example, the use of coupons and targeted subsidies instead of handing out seeds and tools can boost local agricultural markets and encourage cooperation between FDPs and host communities ([Sida, 2019](#)). Promoting FDP cooperatives or informal networks can increase their bargaining power and

**Box 1: Market systems analysis for Somali refugees in Ethiopia**

In 2018, the ILO launched a project to promote the livelihoods of Somali refugees and host communities in Ethiopia's Jigjiga region. As part of this, the ILO carried out market systems analysis with the help of the business community and support service providers. This identified the trading of small ruminants as the most appropriate value chain to support refugee livelihoods because:

- (a) Refugees were already engaged in livestock rearing in camps,
- (b) The market for small ruminants was already well established in the local area,
- (c) Opportunities for market growth were identified,
- (d) Livestock value chains involving both refugees and host communities offered opportunities for improvements and greater integration.

The analysis identified a mix of 'quick win' interventions to engage refugee and host communities and longer-term reform priorities, including opportunities to strengthen wider market systems in the area to further increase income and employment generation for both groups.

Adapted from [ILO, 2018](#)

encourage information exchange with local market actors ([ILO & UNHCR, 2017](#)).

- **Entrepreneurship promotion:** As highlighted above, FDPs often face significant additional hurdles which can push them into operating businesses in the informal sector and at limited scale. Addressing these is likely to require a mixture of targeted interventions - e.g. to improve access to skills, technology and finance - as well as improvements to the wider business and regulatory environment ([UNCTAD/IOM/UNHCR, 2018](#)). Prioritising sectors/professions with realistic growth potential which are genuinely accessible to FDPs (or can be opened up with appropriate support) is essential.
- **Skills development:** Many donors focus on TVET provision as a core element to promote FDP livelihoods. However, to be effective, such programmes need to take into account the wider context, e.g. current and likely

future demand for the skills to be developed as well as any legal and/or regulatory restrictions that prevent target groups from working in the occupations they will be trained for. Where specific barriers are identified, it might be advisable for donors to push for higher-level reforms while focusing short-term skills development on livelihood opportunities in the informal sector. Recognising the very specific challenges faced by FDPs is also essential and may call for more targeted support measures. SDC's vocational skills development working tool offers practical advice for designing and adapting effective programmes to benefit FDPs ([SDC, 2020](#)).

- **Business environment reform (BER):** Practical donor support to FDPs is frequently hampered by regulatory hurdles that prevent FDPs from becoming economically self-reliant. BER programmes in forced

displacement contexts are likely to be more effective if they work closely with government agencies and business associations to design and implement relevant reforms. Macro-level measures may have to be complemented with more practical interventions to ensure the market can respond as expected. For example, granting the right to work may not be sufficient if refugees do not know how to apply for work permits and are not able to fill priority vacancies because they lack relevant skills and experiences ([Del Carpio et al in Forced Migration Review, 2018](#)). Partnerships with individual large private sector players may also be effective to advocate for policy change and address some of the underlying social barriers to the integration of FDPs into local labour markets ([IFC, 2021b](#)).

## Wider considerations for successful PSD interventions in forced displacement contexts

In addition to the practical guidance for specific PSD interventions there are several wider issues that need to be considered for effective PSD in FDCs.

### 1. Understanding political, economic and market conditions

Forced displacement often takes place in situations marred by economic uncertainty, political instability and conflict. Businesses have to navigate weak institutions, informal rules and relationships based on ethnic, religious or family links rather than open markets ([Hoffman and Lange, 2016](#)). Effective PSD interventions require a strong understanding of relevant market dynamics and the underlying political economy – including how these might change over time. Context and market analyses are likely to be time and resource-intensive and made more complex by limited data availability and stakeholder access. However, they are essential for PSD interventions to

achieve their goals and limit the risks of inadvertently doing harm. Ideally, they should be updated throughout implementation to ensure alignment with changing dynamics ([Mercy Corps, 2015](#)).

There is a growing array of relevant analytical tools and methodologies to draw on. The DCED's introduction to the *Political Economy of Business Environment Reform* ([2011](#)) complements more general guidance for political economy analysis (e.g. [UK AID, 2017](#)). The [ILO's portal](#) for publications related to *Inclusive Market Systems for Refugees and Host Communities* includes multiple examples and case studies from a variety of sectors. Case studies from Zambia ([UNHCR, 2018](#)) and Jordan ([ICARDA and Caritas, 2018](#)) highlight the different approaches taken for value chain assessments involving refugees living in camps versus those living within host communities.

### 2. Balancing the needs of IDPs and host communities

While forced displacement is often a direct consequence of conflict and instability, the influx of large numbers of FDPs can in turn contribute to economic fragility in host countries and communities. The Rohingya FDP crisis in Bangladesh, for example, led to both host community grievances as a result of aid being focused on FDPs, as well as inter-host tensions resulting from the fact that support targeting host communities was only given to those living nearby to FDP camps, rather than more impoverished communities living further away ([Khaled, 2021](#)). Careful design of PSD interventions may help to reduce this risk while also creating opportunities to contribute to social cohesion and stability. Addressing the needs and concerns of host communities early on – rather than focusing solely on FDP livelihoods – is an important principle to limit the risk of grievances and build trust between different groups.

In practice this could mean designing programme components that work specifically with host communities and/or quotas for host community beneficiaries within, e.g., training programmes. ‘Quick win’ interventions, such as labour-intensive infrastructure projects that generate visible benefits within a short timeframe, may be regarded by host communities as a reward for welcoming outsiders while giving governments the political space to facilitate FDPs’ access to local labour markets ([ILO, 2020](#)).

### **3. Coordinating along the humanitarian-development-peace (HDP) nexus**

Greater integration of humanitarian and development initiatives has been a long-standing priority for donors and many are increasingly also including their work to promote peaceful societies ([BMZ, 2021](#)). Practical collaboration between humanitarian, development and peace actors can be challenging because of differing mandates, modes of engagement and skill sets. However, without closer integration, PSD interventions are likely to struggle for effectiveness, sustainability and impact.

A particular challenge - especially in contexts of forced displacement - is that humanitarian agencies may provide training and other economic development measures that are non-market based (and therefore undermining PSD efforts to develop long-term solutions). Rapid inflows of external assistance into crisis situations are also likely to have

destabilising effects on local market systems. This could happen for a number of reasons. For example, if humanitarian support is provided in-kind this can undermine local supply chains if goods are brought in from elsewhere. Even where procurement happens more locally, smaller local suppliers might find it difficult to compete with larger operators from capital cities because of volumes or quality expectations, payment terms and language requirements. In some cases, this might severely damage established supply chains which may have survived throughout the conflict or crisis ([Levine, 2017](#)). More effective inter-agency coordination along the HDP nexus might be encouraged through practical steps such as joint analysis, shared intervention design and – where appropriate – more integrated programme delivery ([ECDPM, 2021](#)).

For those interested in exploring the topic of PSD for refugees in more detail, visit the [DCED Knowledge Page on Increasing Opportunities for Refugees](#).



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