POLICY BRIEF

REFUGEES AND HOST ECONOMIES

Task Force 9

MIGRATION AND YOUNG SOCIETIES

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The number of refugees worldwide exceeded 25 million in 2019, and this number continues to trend upwards. The increase in refugees presents major challenges to countries hosting refugees. This policy brief identifies several policy recommendations for countries hosting refugees and highlights areas for international cooperation necessary for response to the refugee crises. The challenges are divided and discussed in four main areas: labor markets, firms, education, and humanitarian aid. The policy recommendations in each area are based on existing and ongoing research of refugee crises with a particular focus on the findings from the large-scale Syrian refugee crisis in Turkey.
The United Nations reports that, as of 2019, the number of refugees worldwide has exceeded 25 million people (UNHCR 2020). The arrival of large numbers of refugees represents a significant challenge for host country economies and policymakers, and this challenge is multi-faceted. Refugee inflows have immediate effects on local labor markets, firms and businesses, education, and social infrastructure. Simultaneously, policymakers must consider the long-run integration of refugees into local economies and their education and integration into the host society at large.

This brief presents a discussion of four key areas for policy intervention: labor markets, firms, education, and humanitarian aid. The recent Syrian refugee crisis in Turkey has been studied extensively, and findings from these analyses provide important insights into key policy areas. Refugees differ significantly from economic migrants in circumstance and motivation for migration. Nevertheless, the lessons from the extensive literature on international migration are also used to draw potential policy recommendations for refugee-hosting countries.

**Labor markets**

The challenge in the labor market in the backdrop of a large refugee influx is to integrate refugees into the labor market while minimizing their potential adverse effects on the local society. Some studies (Bozzoli, Bruck, and Wald 2013; Calderon-Mejia and Ibáñez 2016; Morales 2017) find a negative effect of internal displacement in Colombia on wages of residents of the hosting regions. Meanwhile, Fallah, Kraft, and Wahba (2018) find no adverse effects of Syrian Refugees in Jordan on employment and the wage outcomes of members of the hosting community. Other studies report that forced displacement could also generate jobs for the local population (see, for example, Alix-Garcia and Bartlett 2015; Alix-Garcia et al. 2018; Ruiz and Vargas-Silva 2015).

Turkey currently hosts the most refugees in the world, most of whom are Syrians who fled the civil war in their country. However, few Syrian refugees in Turkey have work permits. As Syrians living in urban areas have to work to sustain their lives, several hundred thousand have joined the informal workforce (Caro 2020). Hence, many hold vulnerable jobs. The policy challenge is, therefore, not only to find jobs for refugees but also to improve their working conditions. Additionally, to minimize refugees'...
potential adverse effects on the local labor market outcomes, we need to identify the native groups who are most likely to be affected by the refugee influx. Aksu, Erzat, and Kirdar (2019) uncover the distributional effects of the Syrian refugee shock in the Turkish labor market. They find that it is the most vulnerable groups in the labor market—such as temporary wage workers, less-educated or young workers in the informal sector, and women who are part-time employed or self-employed—who are adversely affected. At the same time, they find that native employment in the formal sector expands.

**Firms**
The overarching goal for policymakers from the local firms’ perspective is to efficiently integrate the skills and capital brought in by refugees to the local economy. Simultaneously, policymakers must be aware that the refugee inflows represent an increase in the abundance of low skilled labor, which can lead to long-term changes in the input mix of firms towards more labor-intensive forms of production. This composition effect is further exacerbated if the refugees work informally, and therefore, encourage informal forms of production.

Two mechanisms are key to understanding the impact of refugee inflows on hosting regions’ firms. First, refugees’ consumption adds to and therefore increases domestic demand. Higher demand implies sales growth for firms in hosting regions but can also lead to inflationary pressures, particularly in non-tradable sectors such as housing (Balkan et al. 2018). Second, while refugees can and do bring their own capital to hosting countries, their primary economic input is labor. Large scale refugee inflows imply an increase in the abundance of (primarily low-skilled) labor in hosting regions (Tumen 2016).

**Education**
Refugees typically do not return to their home countries quickly (Cortes 2004). The integration of refugee children into the host country education system is, therefore, crucial for the long-term socio-economic welfare of refugees and regions hosting refugees. This requires an increase in local physical and human capital resources for schooling and education. Beyond an increase in the capacity of the existing education infrastructure, intensive and remedial support programs may be necessary for refugee children to integrate fully. If the education infrastructure becomes strained, disadvantaged native children may also be negatively affected, despite the increasing value of education for natives due to the pressures induced by the arrival of refugees in local labor markets (Betts 1998). During the initial stages of a refugee crisis, host-country policies typically prioritize...
emergency humanitarian needs such as food, shelter, health, and security. Subsequently, hosting countries shift their focus toward long-term challenges. Improving the educational outcomes of refugee children and addressing any direct/indirect impact of the refugee influx on the educational outcomes of natives are among the most important of those challenges.

**Humanitarian aid**

Refugees are vulnerable to several economic and social problems in host countries (Food Security Information Network [FSIN] 2018; World Food Programme [WFP] 2013; Ghattas et al. 2018) and the policies required to make choices about the targeting and delivery of aid that aims to improve the welfare of refugees. This requires a detailed assessment of the needs that helps to determine the adequacy of the type and amount of aid and target resources towards the most vulnerable. In the choice between cash and in-kind, average impacts are demonstrated to depend on context and program design (Gentilini 2015). The cost of cash transfers and vouchers tends to be significantly lower than in-kind transfers, and cash transfers tend to be more effective than food in enhancing food consumption (Doocy et al. 2017; Taylor 2016).

Policymakers must consider the wider influence of delivering aid on the receiving society. There is evidence for small price increases as a result of cash transfer programs (Angelucci and De Giorgi 2009; Cunha, De Giorgi, and Jayachandran 2019). Food aid to refugees, however, has been demonstrated to lead to lower prices in Tanzania. Cash transfers to refugees within the Turkish context led to positive effects on the labor market but also led to price increases for some food items and in the housing market. There are also significant effects on services (Aydemir and Duman 2020). Cash transfers can also be considered as non-wage income and cause informal, low paid, and irregular work in the labor market among beneficiaries (Turkish Ministry of Family, Labour, and Social Services [MoFLSS] 2018).

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4. The Emergency Social Safety Net (ESSN) programme in Turkey adopts this strategy for aid delivery and follows the beneficiaries over time to assess the extent to which aid for refugees helps alleviate vulnerabilities (Cuevas et al. 2019; WFP 2018).
Labor market

1. **G20 countries should identify the local populations in the labor market that are adversely affected by the refugee inflow, and implement policies to protect them.**

In the hosting countries, it is generally the most vulnerable groups in the local labor markets who are adversely affected by the refugee shock—such as temporary wage workers, less-educated, and young workers in the informal sector, and part-time or self-employed women. Moreover, evidence exists in several contexts that refugees raise consumer prices by increasing demand, which implies that poverty might increase among vulnerable local populations (Alix-Garcia and Saah 2010; Aksu, Erzan, and Kirdar 2009). Native workers in the informal sector are vulnerable in the case of a job loss, as they are not qualified for unemployment insurance. Hence, active labor market policies to improve the employability of these groups should be utilized. At the same time, unconditional cash transfer policies and similar support programs—which are available for refugees—should be extended to cover natives in similarly vulnerable conditions. In this context, international donors should help vulnerable native populations as well as refugees.

2. **G20 countries should facilitate occupational upgrading for native workers.**

In the context of Syrian refugees in Turkey, Aksu, Erzan, and Kirdar (2019) illustrated that the arrival of refugees pushes natives from the informal to the formal sector. Akşın and Torun (2020) found that the arrival of Syrians pushed native workers into more complex jobs by increasing the intensity of more abstract and routine tasks at the expense of manual tasks. Similarly, using data on 15 European countries, D’Amuri and Peri (2014) found that immigrants push natives into more complex jobs. Therefore, active labor market policies should be developed for natives to improve their skills and find jobs that require these improved skills.

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5. One such program is the Eligibility to Emergency Social Safety Net (ESSN). It targets the refugee population and runs through several criteria (such as high dependency ratio, disability, female household heads, and many children).
3. G20 countries should implement policies for better labor market integration of refugees.

a. When refugees cannot speak the primary language of the host country (e.g., Syrian refugees in Turkey), language education that is free and easy to access should be provided.

b. Migrants face the downgrading of their skills upon arrival (Dustmann, Frattini, and Preston 2013). Hence, validation mechanisms of the home-country credentials of refugees with vocational and occupational education should be developed. Moreover, further education and training to update these skills for the labor market conditions of the host country should be provided. Additionally, refugees should have access to active labor market policies, such as job training provided to natives.

c. Legal obstacles, such as quotas on refugee employment, preventing refugees’ formal employment, should be eliminated.

d. Recently, Fasani, Frattini, and Minale (2018) illustrated that policies that prevent the free movement of refugees result in lasting adverse consequences on labor market outcomes. Hence, policies enforcing migrants to stay in certain regions should be relaxed.

e. In the refugee contexts where female labor force participation is traditionally low (due to economic or cultural reasons), additional policies specifically targeting refugee women should be implemented.

f. Policies that prevent discrimination against refugees should be implemented.

Firms

1. G20 countries should support refugees establishing firms and the legal inflow of capital.

It is important to recognize that refugees also bring their own capital and entrepreneurial skills. Refugees can contribute to total firm openings, which can help meet the demand for goods that the refugee communities will demand. Additionally, 1 percent of all firms in Turkey in 2015 were opened by Syrian refugees, which is a relatively significant contribution (TEPAV 2018). This increase in new firms does not appear to be at the cost of native firms opening in hosting regions, as the overall number of firms in regions hosting Syrian refugees in Turkey rose (Aksu, Erzan, and Kirdar 2019; Akgündüz et al. 2020). Refugee entrepreneurship in host regions can be supported by programs aimed at teaching refugees the legal systems of the host countries and facilitating access to credit in local financial markets. There is also room for G20 level cooperation to support fast track visa programs for refugee entrepreneurs (Sak et al. 2018).
2. **G20 countries can help facilitate refugee participation in international trade.**
Recent literature has highlighted that refugee and native skills can be considerably different. Refugees' social networks, language skills, and knowledge of different markets can play a role in facilitating exports and imports of firms operated by natives in hosting regions. Host countries should ideally support the increase in export-import activities of firms in regions hosting refugees to take advantage of refugees’ skills. Standard export promoting programs, such as subsidized export loans and subsidies for international exposure activities for SMEs can be intensified in refugee-hosting regions with potential support at the G20 level.

3. **G20 countries must discourage an increase in informal employment and businesses.**
Due to refugees’ relatively low wage demands and initial difficulties in obtaining work permits, they are often employed informally at a low cost (Tumen 2016). While this may be unavoidable in the short-term, long-term informal employment can have negative consequences for firm composition. As firms using formal labor will be disadvantaged, they will either shrink or begin using informal labor themselves. If smaller firms can employ informal refugees more easily, the incentives for firm growth would be limited, and markets with numerous small firms may be optimal from a business perspective. Such a change in the composition of firms would be undesirable if large firms drive productivity and economic growth, as suggested by previous literature (Van Biesebroeck 2005). The rapid expansion of work permits among refugees and reducing the cost of formal employment in hosting regions can be considered to reduce the informal employment of refugees.

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4. **G20 countries should take into account the concerns about long-term productivity.**

The rise in the availability of low-cost labor can also lead to adjustments in firms’ input decisions. As labor is cheaper, firms may opt out of capital investments. Such an adjustment can be beneficial for short-term employment but lead to long-term productivity concerns if refugees move to formal and higher-wage employment after arrival or return to their native countries after the end of a crisis. These effects have been previously documented for immigration in Germany, and similar adjustments in the capital intensity of production are found in the case of Syrian refugees in Turkey (Dustmann and Glitz 2015; Akgündüz and Torun 2020). Investment subsidies to regions hosting refugees can be considered to mitigate the negative effects on long-term productivity.

**Education**

**1. G20 countries should aim to integrate refugee children into the education system in host countries.**

Refugee crises are typically long-lasting, and evidence suggests that the majority of refugees do not return home after the crisis is over (Cortes 2004). Providing basic education and options for higher education to refugee children is necessary to minimize future socio-economic risks (Tumen et al. 2020). Refugee children need additional academic and language training support as they lag during the process of adaptation into a new culture, and they may also need counseling support as they experience trauma from war, conflict, and displacement (Ozden, Polat, and Tumen 2020). Adaptation to the education system in host countries is relatively easy and quick at an early age, but it is difficult for adolescents. Therefore, integration efforts should start in early childhood (Tumen et al. 2020). Male adolescents tend to drop out of school before high school age and enter the labor market, mostly through informal jobs with low skill requirements. Female adolescents tend to get involved in housework and engage in early marriages (El Arab and Sagbakken 2019). Compared to general secondary education, vocational secondary education may be a more viable option to keep adolescents in school for a longer period.
2. G20 countries should invest in local school resources and infrastructure in hosting regions.

Refugee-to-population ratios exhibit substantial heterogeneity across regions within host countries—mostly due to correlations in refugees’ location preferences and availability of economic opportunities (Tumen 2016). In some regions, the number of refugees even exceeds the native population—such as some sub-regions of Bekaa in Lebanon and Kilis in Turkey. This generates severe region-specific pressures on the availability of school resources and physical infrastructure. Idle educational resources, such as teachers/staff and teaching material, should be effectively shifted toward the congested regions. Physical capacity should be extended by constructing new schools, expanding the old ones, and acquiring mobile facilities. Anecdotal evidence suggests that failing to increase the availability of school resources and infrastructure may also cause unrest and negative attitudes toward refugees among native parents. Increasing the availability of resources and physical capacity can be very costly for host countries. Therefore, this burden should be shared among the international community through appropriately designed financing facilities. For example, in Jordan and Turkey, refugee students are almost entirely absorbed by public schools (Tumen 2018; Assaad, Ginn, and Saleh 2018). This means that the cost of a refugee student to the education system is equal to the cost of a native student plus the additional cost of aid in the form of stationery, transportation, food, and clothes, in addition to the conditional cash transfers provided to parents to increase school attachment levels of refugee children. Overcrowded schools, due to increased refugee concentration in the region, also require additional support in the form of teaching, counseling, cleaning, and security staff.
3. G20 countries should address the direct effects of refugees on natives’ educational outcomes.

There is vast literature that has investigated the direct impact of immigration on native children’s educational outcomes. The general consensus is that immigrants/refugees either crowd out natives of education or reduce their test scores due to a combination of factors such as a limited command of English and within-class negative externalities (Betts 1998; Hoxby 1998; Borjas 2007). The negative effect is more pronounced for disadvantaged natives. Tumen (2019a) argues that Turkish natives tend to shift their children from public to private schools in response to increased refugee concentration. These negative direct effects can be addressed by (i) strengthening school resources and infrastructure, (ii) training teachers and school administrators, (iii) providing remedial academic support and language training to refugee children (Ozden, Polat, and Tumen 2020), (iv) allocating refugees to schools and classrooms to minimize the potential risks, (v) developing and implementing specific curricula/material (Alan et al. 2020), and (vi) developing healthy and effective communication with parents through outreach activities.

4. G20 countries should monitor the indirect effects of refugees on natives’ educational outcomes.

In addition to the direct effects, refugees may also affect the educational outcomes of natives indirectly. Refugees are typically employed in jobs with lower skill requirements (Ceritoglu et al. 2017). The competition between refugees and unskilled natives reduces employment opportunities for less-skilled natives and generates a downward pressure on wages in the lower segment of the labor market (Tumen 2016; Akgündüz and Torun 2019). The decline in labor market opportunities for natives due to increased competition for low-skill jobs may encourage high school and higher education enrollment among native youth (Hunt 2017; Tumen 2018; Tumen 2019b; Bossavie 2019). This suggests that the hosting governments should effectively monitor the long-term changes in demand for education and other general equilibrium effects to develop timely policies aiming to address the potential imbalances.
Humanitarian aid

1. **G20 countries in their aid efforts towards refugees should ask recipient countries to identify the vulnerabilities among refugees before program delivery.**

   While most refugees are vulnerable and face difficulties along several dimensions, the extent of such difficulties varies across refugee households and regions (Cuevas et al. 2019). Equipped with this information, the adequate level of aid and targeting can be planned. Follow up of aid recipients, and non-recipients provide the necessary information for adjusting the programs to improve the delivery of services.

2. **G20 countries should factor in the indirect effects of aid on receiving societies.**

   Aid to refugees has indirect effects that must be considered. Cash and in-kind transfers help improve the welfare of recipients. In large scale programs, there may also be significant indirect effects on prices, labor market, and demand for services. The intended effects of a cash aid may be hampered if aid leads to substantial price hikes. This may also have negative consequences on other consumers. The cash transfer programs may also lead to increased demand for services, such as demand for schooling, and have negative effects on the host community (Aydemir and Duman 2020). The resources should also be devoted to natives who are vulnerable to being crowded out of services.

   International aid in hosting countries should take into account the costs associated with indirect effects. There may be substantial costs associated with expanding services as the host country attempts to keep up with increased demand resulting from large scale cash transfer programs. Host governments may need to increase available resources and physical capacity, such as hiring more teachers or building new schools, which can be a substantial burden on government finances. Therefore, aid programs should factor in these indirect costs, and the international community should share these indirect costs along with the direct costs of program delivery.

3. **While designing humanitarian aid, G20 countries should also plan for an exit strategy for refugees to become self-reliant over the long run.**

   While humanitarian aid is essential in the short run to alleviate the vulnerabilities that refugees face, continued aid over the long-term can lead to dependency on aid, reduce incentives for work, and may encourage informality. Therefore, aid programs should plan for an exit strategy whereby refugees become self-sufficient over the long-term.

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7. In the Turkish context, the government spending on refugees amounted to USD 40 Billion as of January 2020 (Financial Times 2020). The EU Facility for Refugees in Turkey has so far committed €6 Billion to assist Turkey in dealing with the refugee challenge (EU 2020).
Disclaimer
This policy brief was developed and written by the authors and has undergone a peer review process. The views and opinions expressed in this policy brief are those of the authors and do not necessarily reflect the official policy or position of the authors’ organizations or the T20 Secretariat.
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