

# UNPACKING (AND RE-PACKING) THE REFUGEES COMPACT EXPERIMENT: Lessons from Jordan Two Years on



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All content of this publication was produced by Dr Erica Harper. This publication reflects the views of the author only.

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## Introduction

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Two years ago, the London Compact Agreements were heralded as a breakthrough in the management of protracted refugee crises and an unprecedented joining up of humanitarian and development assistance.

In the months that followed, Jordan prepared for improved access to EU trade markets, humanitarian actors braced themselves for a flood of refugees seeking work permits and international financial institutions (IFIs) started to plan the infrastructure Jordan would need to support rapid sectorial expansion. At that time, the Kingdom was awash with visiting donors, graduate students and management consultancy companies, all wanting a glimpse of humanitarian partnership in action.

What followed was unexpected. In two years, 83,500 labour permits have been issued and two companies are trading under the loosened EU Rules of Origin agreement.

This has led many to question, quite reasonably, what went wrong. Today, the Jordanian government has reverted to the economic roadmap in place prior to the refugee crisis, and donors have steadfastly indicated that refugees are no longer the central pillar of their assistance provision.

This outcome is disappointing, but not because the Compact Agreements failed to live up to expectations. It is disappointing because an exaggerated sense of failure is crowding out opportunities – to course-correct and maximise how Jordan can benefit from the commitments made, to mitigate human capital losses in support of a future post-conflict Syrian state, and to learn how such approaches might be better crafted and might inform – in particular – the Comprehensive Refugee Response Framework (CRRF).

In this article, I return to the policy context in which the Compact Agreements were formed, dissect the missteps and articulate how they might be righted, and assess how these events, coupled with changes in the policy environment, have fundamentally changed – and will continue to change – the orthodox refugee assistance paradigm.

More specifically, I set out how a combination of misinterpretation of evidence, data deficits and misperceptions about the business environment burgeoned into constraints from which the Compact Agreements could not recover. And it tells a larger story of how lack of trust, risk aversion and geopolitics continue to shackle the development and humanitarian sector's ability to innovate, reform and boost its efficiency.

The principal losers in this story are refugees who, through no fault of their own, have lost their homes, livelihoods and security. But host states, donors and the post-conflict states to which refugees will one day return are also losing out. The challenge is to critically reflect, right the ship and re-experiment – all things that the humanitarian and development community of practice is not good at – rather than continuing with business as usual. Apportioning blame and highlighting lost chances may make for a newsworthy story, but there is an alternative narrative that, if realised, might be the closest thing to a win-win deal that my generation of humanitarian actors has seen.

## 1. The London Compact Agreements: Unexpected Outcomes

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Of the 10.3 million Syrians forcibly displaced by the civil conflict, around 660,00 found safety and shelter in the Hashemite Kingdom of Jordan.<sup>1</sup> Today, a minority are housed in government-established camps, most notably Zaatari, with around 84 per cent living in urban areas – principally Amman, Irbid and Mafraq.<sup>2</sup> The extent to which this sudden and sustained population influx has increased pressure on public infrastructure and services, particularly healthcare, waste management and education, is well documented. And while there is less academic certainty around the inflationary and labour market outcomes, the widely held perception is that these impacts are strong and negative.

Equally well documented is the result that accrued from the Supporting Syria and the Region conference held in February 2016: the London Compact Agreements. Four years into the crisis, donor governments, IFIs and host states forged a joint strategy to manage the ongoing displacement situation. At the heart of this strategy was an agreement by host states to integrate refugees into their labour markets, conditional upon significant increases in donor funding, concessional loans and agreements pertaining to market access. The Compact Agreements heralded an unprecedented recognition of the role played by host states, a joining up of humanitarian and development assistance, and the entry of new players into the refugee policy architecture. The Compact Agreements were all these things. But they were exceptional for three other reasons that, while less discussed in the policy discourse, were formative to their overall effectiveness and future potential.



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<sup>1</sup> UN, 'Global Issues: Refugees', [www.un.org/en/sections/issues-depth/refugees/index.html](http://www.un.org/en/sections/issues-depth/refugees/index.html); UNHCR, '3RP Regional Progress Report', 25 June 2015, <http://reliefweb.int/report/syrian-arab-republic/3rp-regional-progress-report-june-2015>. The current UNHCR statistic – 660,000 registered Syrian refugees – is deemed an underestimation by the government, which sets the number closer to 1.4 million when Syrians in Jordan prior to the conflict are included. Jordan Response Platform, *Jordan Response Plan for the Syria Crisis 2015* (Amman: MOPIC, 2014).

<sup>2</sup> UNHCR, 'Syrian Regional Refugee Response Inter-agency Information Sharing Portal', 2015, <http://data.unhcr.org/syrianrefugees/country.php?id=107>.

**Formally known as the Jordan Compact, this framework is based on three interlinked pillars:**

1. Attracting new investment and opening up trade opportunities with the EU through simplified Rules of Origin, thus creating new opportunities for both Jordanians and Syrian refugees, while at the same time supporting the development of a post-conflict Syrian economy.
2. Mobilising grants to support macroeconomic development and address Jordan's financial needs 2016–2018, as part of a new Extended Fund Facility programme with the IMF.
3. Strengthening the resilience of Jordan's host communities through an adequate financing of the Jordan Response Plan 2016–2018 (this plan outlines a multi-year strategy to guide short- and medium-term interventions to improve refugee and host community wellbeing).

**This framework was presented at the supporting Syria and the region conference for London donors on 4 Feb 2016, at which Jordan secured the following commitments (country-specific pledges are detailed in annex iii):**

- Pledges amounting to around USD700 million in grants to support the Jordan Response Plan for 2016.
- Additional pledges of around USD700 million in grants for 2017 and 2018.
- Increase in Multilateral Development Bank financing from USD800 million to USD1.9 billion.
- Donor support for job creation programmes for Syrian refugees and host communities.
- Additional pledges of around USD300 million of grant or grant equivalent.
- A plan for modifying EU Rules of Origin. Jordanian products already enjoy preferential access to the EU market, with zero tariffs and no quotas for most exported goods, including, but not limited to, the chemical industries and cosmetic preparations, packaging paper, carton and office equipment industries (see Annex IV). Moreover, while easing Rules of Origin for a 10-year period would allow more Jordanian products to enter European markets, rule changes do not exempt Jordan from stringent quality standards. The question is thus also one of competitiveness; Jordan needs to raise product quality standards in order to export more extensively.

**Against these pledges, the government of Jordan committed to:**

- Provide 200,000 work opportunities for Syrian refugees over the next three years and until 2018.
- Commence the required administrative changes to allow Syrian refugees to apply for work permits (renewable annually in accordance with existing laws and regulations).
- Formalise existing Syrian refugee businesses.
- Establish new tax-generating businesses.
- Allow a specific percentage of Syrian involvement in municipal works, through private sector employment on a contractual basis.
- Improve the business and investment climate. The government committed to produce a detailed plan on the reforms and incentives needed to boost the investment architecture with technical assistance from key donors, the World Bank and the IMF, by mid-2016.

## 1.1 A Genuinely Innovative Idea

In the domain of international humanitarian assistance, there are not many ideas that are genuinely new and innovative. There is certainly a lot of talk of resisting ‘transplanted solutions’ and moving towards ‘outside-the-box thinking’, but I still see a lot of the former and not too much of the latter. Particularly in refugee contexts, a fairly predictable script is generally followed: a large-scale forced displacement attracts an immediate wave of emergency humanitarian support, but as the situation becomes protracted, ‘donor fatigue’ brings about a scaling back of activities.

Perhaps this lack of innovation should not be too surprising. The humanitarian aid and development sectors are risk averse by nature – a consequence of reliance on limited, time-bound resources that are contingent upon the acquiescence of a foreign constituency. In this context, predictability, quantification and tangible results are rewarded, while there are few incentives for experimentation and little tolerance for the inevitable mistakes and wastage that come with it. Over and above this, the subject of any non-conventional approach is a highly vulnerable population, bringing a host of ethical and protection issues into consideration.

Against this backdrop, the Compact notion *was* a new way of thinking about aid delivery. And although it was marketed as unprecedented, the language used actually masked how fundamental a transition this was.

First, to recognise host states as vested partners was in fact to recognise that the humanitarian architecture contains several deep inconsistencies. The WANA Institute has written previously about these deficits, specifically the absence of binding rules on burden-sharing to balance the peremptory norm of non-refoulement. More simply, while host states are compelled to accept refugees and not return them, there is no reciprocal obligation for non-host states to offset the costs of this. This system would work if refugee flows were geographically balanced. But they are not: the vast majority of refugees enter low- and middle-income countries. This has allowed high-income donor states to maintain the rhetoric that refugee crises are a global responsibility, but at the same time to offer their support with no guarantees, meaning that they can – and routinely do – scale back aid once an emergency phase and the associated media attention has passed. In short, host states host and donors pay – until they don’t, which leaves host states to assume a greater proportion of the costs for an indeterminate period.

Marketing the Compact Agreements as a ‘joining up of humanitarian and development assistance’ was an obfuscation of another key factor – that today, protraction is the norm and speedy repatriation is the exception. This issue is scantily discussed and carefully managed, both because of the seriousness of the implications for refugee protection and because in the current geopolitical climate there is no obvious solution. An elaboration or even tweaking of the Refugee Convention (1951) is something that the international community currently has no appetite for.

## 1.2 Europe Shows Its Hand

A second way in which the Compact Agreements were exceptional was the political considerations that drove the deals brokered. Indeed, at the same moment that host states were negotiating for a relaxation in Rules of Origin, loans and grants, Europe was desperate to put the brakes on the unregulated flow of non-nationals into its territories.<sup>3</sup> There is no doubt that the link between stemming this flow and providing better livelihoods opportunities in countries of first displacement was determinative.

And to an extent this worked; these donors bought their way out of an increasingly desperate situation. But in doing so, the European states showed their hand. Despite having international obligations, member states had no interest in hosting refugees on the same scale as Jordan, Turkey and Lebanon. Moreover, they were willing to pay a high price to maintain the status quo ante. The impacts that this levelling of the playing field will have on the management of future displacement crises are already beginning to play out.

Starting in 2015, irregular population movements towards Europe demonstrated that, in the absence of opportunity, refugees would seek better conditions elsewhere. The most pragmatic way to stop this flow was to create opportunities to discourage secondary movements. It was quickly understood that donors would need to provide host states with more and better options to enable this. In short, a deal was brokered. Host states opened up their labour markets in return for new and heightened forms of assistance long sought-after to grow their economies.

## 1.3 The Malleability of Policy

A final point of exceptionalism was the extent to which partners to the Agreements – Jordan being the stand-out example – implemented policy u-turns. Well before the onset of the Syrian crisis, Jordan was battling chronic high levels of unemployment; from a peak of 16.2 per cent in 2002, unemployment had hovered close to 13 per cent for more than a decade. Indeed, the chief aim of the 2012 *National Employment Strategy* was to reduce unemployment and nationalise the workforce by replacing migrant workers in key sectors.<sup>4</sup> Added to these economic concerns were

<sup>3</sup> This is not a new policy position. The European Union makes this policy explicit, for example in charging its High Level Working Group on Asylum and Migration (established in 1998) with assessing ‘the effectiveness of aid and development strategies in the battle to limit economic migration’.

<sup>4</sup> The MoP and the Ministry of Agriculture (MoA) jointly launched the *National Employment Strategy* (NES) in 2011, with the aim of setting practical strategies for the development of Jordanian human resources to eventually create jobs for nationals. The NES adopts strategic goals to be achieved over the short, medium and long term based on the following overarching ambitions: (i) gradually replacing foreign workers with Jordanians, (ii) supporting employment projects and programmes, (iii) enhanced training of Jordanians according to the needs of the labour market, (iv) supporting vocational education and training, (v) enhancing investment in employment, (vi) supporting an entrepreneurship culture, (vii) supporting people with special needs, (viii) decreasing restructured employment, (ix) supporting labour market employment projects, (x) supporting workers’ rights (social security, insurance, etc.) and (xi) supporting tripartite dialogue. The incorporation of Syrian labour into the Jordanian labour market would have either a neutral or a positive effect on the aforementioned goals. The main perceived threat lies in the first goal of gradually replacing foreign workers with Jordanians. However, the proposed project relies on directing private investment and foreign aid towards free zones. This would serve to generate further economic activity while increasing employment opportunities for Jordanians and non-Jordanians alike. Moreover, the Jordan 2025 national vision states that the ‘private sector must be the primary engine for growth and job creation’. Attracting large-scale private investors and strategic partners is therefore a key requirement for achieving the goals of the NES. The NES also recognises a genuine need to address pre-existing challenges in the Jordanian labour market by reforming industrial policies, increasing vocational training, matching educational outcomes with labour market demand and enhancing access to credit for small- to medium-sized enterprises. A proposal to attract investors and companies that identify a marketing opportunity in goods produced using Syrian refugee and host community labour thus



the historically rooted political sensitivities which spoke against any indicator that the Syrian refugee presence might be permanent. In the words of one former minister interviewed in 2014: ‘Jordan will never open its labour markets to Syrian refugees’.<sup>5</sup>

It was not only policy-makers who were suspicious. At a roundtable of humanitarian and private sector actors convened in April 2015 by the WANA Institute and the Jordan Strategy Forum, one INGO Head of Agency spoke of the dangers refugees could be exposed to if they were permitted to work, along with the diversion of limited resources this would necessitate in terms of monitoring.<sup>6</sup> At another briefing conducted for the NGO Working Group, fears centred around the possibility of a flood of refugees from other parts of the country, other host states and even Syria, if work permits were made available.<sup>7</sup> The only group that seemed receptive to the idea was private sector actors. At the above-mentioned roundtable, they noted the hard-working nature of Syrians, their entrepreneurialism and their specialist skill sets. Although not representative of the sector as a whole, the general consensus was that Syrians would be a skilled and competitive addition to the labour force.

European states were similarly steadfast on the stringency of their own policies. The Deputy EU Ambassador stated in late 2015 that ‘European rules of origin will never be negotiated in the case of Jordan’.<sup>8</sup> Another European ambassador questioned the legitimacy of host states ‘exploiting’ the Syrian refugee situation to gain enlarged market access.<sup>9</sup>

In this environment, the idea that only 10 months later, a system of refugee labour permits would be in place, along with a moratorium on the regularisation of informal labour and relaxed EU Rules of Origin, *is* exceptional. And because the principal players (local and international) have mostly rotated, it is easy to forget how insurmountable these policy imperatives appeared, compared with how quickly and easily they fell away. In truth, the strength of this belief that policy was rigid and immutable – particularly insofar as it concerned employment and was driven by political sensitivities – almost killed the Compact Agreements before they began.

Each of these points – the emergent negotiating power of host states, Europe’s reluctance to host refugees and willingness to outsource the problem, and the huge concessions made by Compact partners in the face of competing imperatives – turned out to be critical in how effectively the bargain was implemented, how deficiencies might be righted and what needs to come next.

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complements the NES’s vision to enhance overall investment in employment and push forward employment projects. Ministry of Labor, *National Employment Strategy 2011–2020* (Amman: Ministry of Labor, 2010), <http://inform.gov.jo/en-us/By-Date/Report-Details/ArticleId/36/National-Employment-Strategy>.

<sup>5</sup> Anonymous former minister, (redacted) Ministry, interview, Amman, 18 June 2014.

<sup>6</sup> Meeting notes, roundtable organised by WANA Institute and Jordan Strategy Forum, King Hussein Club, Amman, May 2014.

<sup>7</sup> Briefing to NGO UN Working Group, Amman, August 2014.

<sup>8</sup> Interview, EU mission, Amman, 3 September 2014.

<sup>9</sup> Interview, (redacted) Embassy, Amman, 18 June 2014.

## 2. What Went Wrong?

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Two years later, slow progress on both work permits and pledges led many to ask the question: ‘What went wrong?’ Certainly, transforming host state and donor commitments into practice has not been a smooth process. Three mutually constituting obstacles warrant particular attention.

### 2.1 Insufficient Demand

First, the appeal of legalised working status for refugees vis-à-vis the status quo was significantly overstated. This was less a result of out-of-touch decision-makers making errors of judgement than it was a simple misinterpretation of evidence. Re-examining this evidence, it is clear that Syrians had a desire to work – this was their overwhelming stated preference in UNHCR protection assessments. Private sector employers likewise stated that they would be likely to hire Syrians with work permits.<sup>10</sup> According to the government, many refugees were already working in the informal labour market, where, according to agency assessments, they were exposed to lower wages, the threat of arrest and deportation, and other forms of exploitation. Finally, the available data suggested that there was room for a significant number of relevantly skilled Syrians to be integrated into open sectors within existing foreign labour quotas – particularly construction and agriculture.<sup>11</sup>

The problem is that while there is nothing unreasonable or false about any of these statements, together they did not add up to a demand for work permits. The error was one with which econometricians are familiar – just because a group says they want something, this doesn’t necessarily mean that they will do it given the opportunity. People lie, or simply answer inaccurately, for many reasons. These include gratuitous concurrence (a tendency to tell an interviewer what they want to hear) and social desirability response bias (providing an answer that is perceived to be utilitarian). Thus, it is not contested that Syrians stated that they wanted to work. It is certain that many did. But others may have so answered, for example, because they believed that this was the ‘correct’ answer, because they supported refugee working rights more generally or because this was their way of communicating that they needed additional material assistance. Similarly, employers stating that they would likely hire permit-holding refugees might actually have meant that they would hire a Syrian *ceteris paribus*, but would still prefer to hire them illegally given the opportunity.

What came next scarcely needs spelling out. Providing access to work permits, even at no cost, was just not sufficient to facilitate meaningful labour market inclusion. In reality, much of the appeal of Syrian workers lay in their informal status; they could be employed cheaply, and without employers having to pay social security or secure permits.<sup>12</sup> Moreover, legalisation imposed costs that employers were reluctant to bear, including minimum remuneration and fair working conditions. As the weaker party, Syrians were hardly in a position to press their employers to assume these costs.

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<sup>10</sup> Meeting notes, roundtable organised by WANA Institute and Jordan Strategy Forum, King Hussein Club, Amman, May 2014.

<sup>11</sup> WANA Institute, ‘Providing 200,000 Work Opportunities for Syrian Refugees in Jordan: A Viability Assessment’, unpublished paper, 2016.

<sup>12</sup> At the outset of the programme, work permits were not completely free of charge – refugees needed to obtain a health certificate at a cost of JOD40. This charge was eventually abolished.

## 2.2 The Cost of Integration

A second mistaken assumption was that Syrians could easily be integrated into sectors, such as manufacturing, where there was a known shortage of low-skilled labour. Again, this assumption was neither excessive nor unreasonable. In fact, it was only when WANA Institute staff went beyond business owners and investors to speak directly with floor-level factory managers that we began to understand why they were reluctant to employ this category of worker. It turned out that mechanisation trends, particularly in the paper, plastic and packaging and the wood and furniture sectors, mean that employees require significant in-house training – usually 1–2 years – before they can make a cost-effective contribution to the workplace. Businesses were simply not willing to make such an investment for a group that they perceived was likely to repatriate in the near future. And again, for those employers who were willing to make such an investment, or where training was less intensive, it was easier to employ Syrians informally and thus not be obligated to pay minimum wages or associated benefits such as social security and taxation.

The sectors where Syrians were expected to be most easily integrated, based on potential growth and labour supply gaps, were largely impervious.

## 2.3 Data Imperfections

A final obstacle was that Jordan's commitment to provide 200,000 working opportunities for refugees was based on a misreading of the data. According to UNHCR registration numbers, Jordan was hosting a total of 649,563 Syrian refugees, including children, as of May 2016. When disaggregated for age and gender, this suggests a working-age population of 291,610, of whom 138,540 were male. Based on these figures, meeting the 200,000 goal would already be challenging; all men would need to find employment, plus around 20 per cent of women – a significant increase in the rate at which women worked pre-crisis. But this assumes that every working-age male and female was *able and willing* to work. Relying on data collected by WANA Institute and IPSOS in 2016, the combined male and female Syrian refugee labour participation workforce in 2016 was 163,050. In other words, even if *all* males and females who were able and willing to work could find employment, Jordan would still only be able to reach around 80 per cent of its 200,000 work permit goal.<sup>13</sup>

The current male-female labour participation rate of Syrian refugees is 163,050. This means that even if all males and females able and willing to participate in the labour market could find employment, Jordan would still only be able to reach around 80 per cent of its 200,000 work permit goal.

## 2.4 A Perfect Storm

Insufficient demand for permits coupled with unrealistic expectations coalesced in such a way that Jordan was unable to muster what was needed to overcome its most difficult constraint: job

<sup>13</sup> Data collected by the WANA Institute and IPSOS in 2016 revealed the following: employed females: 12,246, female labour force participation (employed and looking for work): 45,921; employed males: 81,739, male labour force participation: 117,759. Of males, 59 per cent are employed, 26 per cent looking for work. Male-female employment total: 93,985, total labour force participation: 163,050.

availability. It took time for all parties to realise that regardless of any consensus around refugees' permission or right to work, good will could not create jobs, and Jordan had very few to offer.

It was not that those with decision-making responsibility overlooked the stagnation in Jordan's job market. In fact, job creation was a critical component of the Compact Agreements. The plan was that the jobs needed would be created by the stimulus that would follow the combination of pledges, soft loans and ripple-down investment.

In terms of donors releasing funds, a cat-and-mouse game ensued. The constraints discussed above meant that for formalisation to take place, incentives would need to have been directed at both refugees and employers. This was problematic insofar as donors' willingness to make good on their pledges was somewhat contingent on a level of formalisation taking place. The heated debates between EU staffers, senior representatives of the humanitarian community and the government will not easily be forgotten by those present.

In terms of investment – by far the most difficult challenge – the catalytic process that was supposed to pique the imaginations of the private sector never got started. In retrospect, Jordan's structural deficits, such as poor resource endowments, limited sea access and proximity to conflict, presented too much of a disincentive for private sector companies.

This series of (fairly benign) missteps and incorrect (but well-reasoned) assumptions culminated in a situation in which today, around 83,500 permits have been issued. This has fuelled criticism that the Compact Agreements were inherently flawed and ultimately not within Jordan's interests. Some have even postulated that the Agreements provided a stop-gap solution to Europe's refugee problem, but with such unrealistic expectations placed on Jordan that it could not translate improved market access into any tangible benefit.

This is probably an unfair assessment. A more accurate conclusion is that even when all parties are supportive of livelihoods approaches, refugee labour market integration will still be difficult. This is especially the case where unemployment is rife and the informal labour market is strong.

The situation may have been ameliorated somewhat had decision-making been grounded upon a stronger evidence base, particularly with respect to labour market participation and industrial realities. With these insights, the Agreements might have contained more realistic expectations, and the incentives needed to hire Syrians or regularise their informal employment status might have been integrated from the start.

Risk aversion needs to be acknowledged as a core reason why the humanitarian sector is often not adept at experimentation, risk, scaled learning and innovation.

Arguably, such corrections might have occurred mid-flight. But this did not happen, and we must acknowledge that this was in part due to lack of mutual trust and donors' aversion to risk. The larger takeaway is that as long as the humanitarian and development sectors remain shackled by such risk aversion, innovation will be lacking and opportunities will remain unrealised.

### 3. What Needs to Happen to Right the Ship?

Two years into the Compact Agreements, it is broadly accepted that extensive refugee employment, and the associated cluster benefits, are unlikely to accrue without large-scale investment, and moreover that such investment is unlikely to occur at the pace desired.

But this should not imply that further integrating Syrians into the labour market is illogical or that benefits cannot be reaped. Arguably, the question for the Jordanian administration should not be whether labour market integration is positive or negative. Instead, it should be whether labour market integration is *preferable relative to the status quo*. In other words, given the direct costs assumed by Jordan, as well as the impacts on labour markets and social cohesion, is it preferable for refugees to engage in economic activity or to depend on humanitarian support? To the extent that refugees are engaged in the economy, the impact is generally more positive than that which follows direct aid, the former acting as a stimulus while the latter acts as a rent. Although the scholarship is scant, there is some empirical support for this.

The question the Jordanian administration should be asking is not whether labour market integration is positive or negative. Instead, it should ask whether labour market integration is *preferable relative to the status quo*, i.e. compared with refugees stagnating for long periods of time, receiving humanitarian support but not actively contributing to the economy.

In terms of the practical steps that might be taken to augment labour market integration, a modest number of Syrians may find employment as a result of the introduction of incentives and occupational upgrading geared towards market gaps, and by revising quotas to allow the integration of highly skilled Syrians in specific sectors.

Beyond this, Jordan might seek to renegotiate the terms of the Compact Agreements. It could raise the argument that Europe got its deal – the refugee flow has largely abated – but Jordan did not get its sectorial cluster. It might back this argument with data supporting the idea that the Agreements never took into account the actual costs incurred by Jordan.



While it has only recently become the subject of academic inquiry, the existing scholarship suggests that host states, as opposed to donors, bear the majority of the costs associated with forced displacement. A cost-benefit analysis undertaken by the WANA Institute and the Institute for Economics and Peace in 2016 estimated the cumulative costs of hosting refugees in Jordan between 2011 and 2016 at JOD15.8 billion (USD22.3 billion). Of this amount, JOD10.7 billion (USD15.1 billion) was borne by Jordan (68 per cent) and JOD5.1 billion (USD7.2 billion) by the international community (32 per cent).<sup>14</sup> Such evidence has provided host states with a powerful narrative: if refugees are indeed a global responsibility that rich states would prefer to cost-share rather than host-share, then Jordan, Lebanon, Iraq and Turkey have an unpaid bill that should be called in.

The only basis for renegotiating the Compact Agreements would be good will. On the one hand, the current wave of nationalism suggests that such good will is fragile at best. Recent events, however, may have created some political appetite, at least in the case of certain stakeholders. UNHCR, the World Bank and principal donors have invested heavily in the CRRF, which is designed to bring multiple stakeholders under a single refugee response coordination structure. For this framework to be successful, low- and middle-income host states need to feel confident that their willingness to shelter refugees is being reasonably offset and that their development priorities are being taken into account.

If Jordan was able to call in its ‘unpaid bill’, the locus of investment should reorient towards sectors where the Kingdom might develop a comparative market advantage, such as water-savvy agriculture, renewable energy and ICT. From an economic standpoint, manufacturing was never a sound or strategic play for Jordan. Its size, small coastline, lack of water and energy, high-cost labour force and neighbourhood mean that it could never compete with giants such as China. Indeed, it is no secret that manufacturing was only put on the table because of the opportunity presented by the refugee labour market.

For such a strategy to be successful, Jordan would need to get more serious about institutional reform. One important lesson from the Compact experience is that Jordan is not perceived to be a strategic investment. To a large extent, this situation has no fix – water and energy scarcity, size, and geography are permanent constraints. But what Jordan can change, it must. Where these reforms lie is largely known. In our interviews, company managers and investors lamented the opaque regulatory framework, difficulty accessing credit and high energy costs. But they also identified less obvious constraints: the expense and complexity associated with installing solar energy panels, for example. In short, if the lessons of the Compact are to be heeded, Jordan is well placed to comprehensively and critically assess what needs to change from the perspectives of the investor through to the line manager.

A final strategic play that Jordan may be able to leverage interest in is overhauling its vocational training sector. While Jordan’s future may not lie in large-scale manufacturing, it does need to reduce unemployment and nationalise its workforce. Integral to this is having a proportion of the population that is skilled and willing to engage in vocational and trade professions. At the moment, a vicious cycle is in play. Social attitudes dissuade people from pursuing vocational employment. The weak demand on the part of the population for these skill sets means, in turn, that vocational training schools suffer from weak enrolment, underfunding and curricula that are outdated and do not align with market needs. Completing the cycle, companies turn to the migrant labour market to find willing employees, and then train them in-house.

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<sup>14</sup> E. Harper, *Livelihoods Approaches in Protracted Refugee Contexts: A Jordan Case Study* (Amman: WANA Institute, April 2017).

To interrupt this dynamic, the vocational training sector needs to be modernised, and participation incentivised. Donors should be interested in such a venture. At some point the Syrian crisis will end, and the pre-existing labour force is not equipped to support the massive reconstruction effort that will follow. Over and above this, the risk of conflict recidivism is so high that all stakeholders have a vested interest in setting in place enabling conditions for maintaining a post-conflict Syrian peace. The existing scholarship tells us that of the forces that shield against conflict relapse, jobs and steady economic growth are among the most significant. It would therefore make sense to take this opportunity to imbue Syrians with the skills they will need to rehabilitate their cities, public infrastructure and services sector.

This would also work well for Jordan. Under the principle of aid parity, incentives would need to extend to a cohort of Jordanians. At the same time, the government seems to be committed to workforce nationalisation. The upshot is that without migrant workers, increased demand for labour will place upward pressure on sectorial wages, until they align with employment. Jordan thus tempers unemployment, strengthens its industrial sector and may even position itself to reap a share of the post-conflict reconstruction economy.



## 4. The Future of Compacts?

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As with most experiments, the most tangible benefits accrue in later application. And this is one that is worth getting right.

In the years since the beginning of the Syrian crisis, the geopolitical playing field has changed markedly. The political conservatism and anti-immigrant rhetoric sweeping the globe suggests that it is not only Europe that is adamant about keeping its borders closely guarded. Encouraging wealthy states that are not interested in hosting large refugee populations to forge fairer bargains with traditional host states may be the best-case scenario. Not only would this be an improvement on the status quo, but it might be the best alternative to a collective closure of the inter-state protection space as we know it.

Setting geopolitical agendas aside, promoting refugee livelihoods and self-sufficiency does hold a strong logical appeal. In fact, livelihoods promotion is just about as win–win as a development theory gets. As explored below, refugees, donors, states of future repatriation and hosts all stand to benefit where the conditions are right. And even where they are not, there is scope to set in place strategies to create the necessary enablers, provided that we learn from the Jordan experience.

### 4.1 Refugees

From the perspective of refugees, access to livelihoods opportunities is usually vastly preferable to material assistance. Work facilitates a degree of autonomy and dignity, relief from boredom and a potential for higher material wellbeing.<sup>15</sup> It can also protect against more insidious consequences. Long-term unemployment and poverty are associated with negative coping mechanisms including domestic violence, survival sex and child labour. Particularly for young men, lack of opportunity, humiliation and marginalisation are widely accepted drivers of violent radicalisation.<sup>16</sup>

### 4.2 Humanitarian Actors and Donors

Humanitarian aid agencies, donor governments and national organisations employ over 450,000 people and spend around USD25 billion a year.<sup>17</sup> Research by Development Initiatives has shown that although it is often assumed that such aid is spent on acute disasters such as hurricanes or earthquakes, most is spent in protracted crises. In fact, 89 per cent of humanitarian aid is channelled to contexts which have required humanitarian funding for more than three years, and 66 per cent to contexts where it has been needed for eight years or more.<sup>18</sup>

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<sup>15</sup> The idea that refugees experience positive material outcomes when they have access to labour markets finds support in academic scholarship on migration. The research finds that in most cases, despite a short-term disadvantage in terms of employment participation, wages and occupational ranking, over time these differentials narrow and migrants ultimately earn and save more than they would have by not migrating. However, see also arguments by Collier that such outcomes do not necessarily outweigh increases in overall social wellbeing; P. Collier, *Exodus* (New York: Oxford University Press, 2014), 146, 171–173, 245. Refugees, although the body of evidence is smaller, follow a similar trajectory, albeit with slightly less positive outcomes; J. Woetzel, A. Madgavkar, K. Rifai, F. Mattern, J. Bughin, J. Manyika, T. Elmasry, A. di Lodovico and A. Hasyagar, *People on the Move: Global Migration's Impact and Opportunity* (McKinsey Global Institute, 2016) and Eleanor Ott, *The Labour Market Integration of Resettled Refugees* (Geneva: UNHCR, 2013).

<sup>16</sup> E. Harper, *Examining Psychological Drivers of Radicalisation in Jordan* (Amman: WANA Institute, 2016).

<sup>17</sup> *The State of the Humanitarian System 2015*, forthcoming; see <http://sohs.alnap.org/>.

<sup>18</sup> Development Initiatives, *Global Humanitarian Assistance Report 2015* (Bristol: Development Initiatives, 2015).



But even if humanitarian support was not subject to these temporal limitations, the model is inherently problematic. When refugees do not enjoy labour market access, they are forced to rely on savings and humanitarian assistance, rendering them simultaneously financially constrained and materially dependent. This situation can be compared to a

Humanitarian actors and the donors who support them also have a strong stake in seeing livelihoods approaches take root. In addition to the protection imperatives noted above, the evolving nature of displacement flows needs to be addressed. Indeed, a key characteristic of modern refugee crises is their length. More than 6.5 million refugees currently live in protracted situations, and they are likely to do so for an average of 23 years. This paper has already discussed the huge volume of resources expended in refugee emergencies, how this money eventually gets reduced and the consequences that follow.

manufactured poverty trap, whereby a lack of access to capital, credit and other transitional opportunities keeps a population in a state of poverty.<sup>19</sup> The consequences of protracted poverty are well set out in the literature. Such population groups perform poorly on a range of welfare indicators, including health, education and indebtedness. They are also more vulnerable to human trafficking, exploitation, informal and underage employment, and early marriage. The long-term impact of such imposed dependence and the generational effects of growing up in a refugee context are less well researched, but are presumed to be tangible and negative.

Together these pressures – both to become more efficient and to navigate a way out of an ethical grey zone – mean that agencies need to find alternatives to tradition ‘durable solutions’. Certainly, with less than 2 per cent of the annual global refugee caseload being repatriated, resettled or locally integrated over the last decade, a fourth mechanism of conditional livelihoods rights is highly attractive.

### 4.3 Countries of Return

A third – often overlooked – stakeholder that would gain from a mainstreaming of livelihoods approaches is future countries of return. Certainly, following a cessation of hostilities, a vast majority of refugees repatriate. But this should not imply that a country like Syria will recover its full labour force, nor that this labour force will be appropriate to its changed needs.

A proportion of its human capital will have been lost permanently – through death, resettlement and third-country migration – and another proportion will have depreciated due to long-term unemployment, sectorial transfer or occupational downgrading.<sup>20</sup>

The importance of a country’s human capital endowment in the aftermath of conflict cannot be understated. As discussed above, it is well established that peace processes are inherently fragile. More than 50 per cent of states affected by war relapse within a 10-year period and one of the demonstrated protectors against recidivism is economic growth and employment. Supporting a

<sup>19</sup> Indeed, data collected by UNHCR and the World Bank in 2015 found that over 90 per cent of refugees in Jordan and Lebanon live below the national poverty line.

<sup>20</sup> Human capital erosion can occur equally when a person is unemployed, or when they downgrade occupationally, i.e. when the skilled or educated engage in low- or unskilled labour, or when they transfer their skills to a different sector. The most common form of human capital loss is skills atrophy – a reduction of skills due to lack of use. But human capital can also erode as a result of technological or industry advancement, or firm-specific changes, while a person is absent from the workforce. A. Driouchi, ‘Unemployment Persistence and Risks of Skill Obsolescence in Arab Countries’, MPRA Paper 53792, IEAPS Al Akhawayn University, Ifrane, Morocco, 19 February 2014; A. Nichols, J. Mitchell and S. Lindner, *Consequences of Long-Term Unemployment* (Washington, DC: Urban Institute, 2013).

post-conflict economy should therefore be at the fore of policy discussions immediately following a peace process, and perhaps even during the years that precede it.

Refugee livelihoods opportunities protect a country's human capital in two ways. Most obviously, working individuals are less likely to suffer from skills atrophy or obsolescence. Above this, opportunities to join the labour force may dissuade refugees – most often the young, skilled and entrepreneurial – from attempting irregular secondary movements. Certainly, the lesson from Jordan was that, in the absence of opportunity, refugees will seek better conditions elsewhere – usually in a developed country. Such refugees are unlikely to return and it is complicated and costly for authorities to return them, culminating in a permanent human capital loss.

From a strictly utilitarian perspective, it is preferable that refugees remain in first asylum states, retaining or even building their skills, so that they can eventually repatriate and contribute to post-conflict reconstruction and state-building.

#### 4.4 Host States

A final group of stakeholders – and arguably the most important in terms of livelihoods programme feasibility – is the states hosting refugee populations. The difficulty of generating benefit out of refugee labour integration in a small and stagnant economy has been clearly articulated above. There will be situations, however, where an injection of refugee labour has the potential to yield positive impacts.

The most obvious example is in countries with ageing populations or negative population growth rates. Another example is in economies with labour gaps that nationals cannot or are not willing to occupy. When new market entrants fill such gaps, they stimulate sectorial growth and provide nationals with the conditions needed for upward occupational mobility. This is important for reasons beyond sectorial sustainability and national productivity. The presence of newcomers in these roles opens inroads for the creation of new, value-added opportunities, which nationals are better positioned and motivated to fill. There is even some evidence that an increasing proportion of professional positions available to nationals vis-à-vis low-skilled and labour-intensive jobs encourages nationals to invest in education and skills-building.<sup>21</sup>

A final example is where the host economy's comparative advantage is the production of low-cost exports. Here, an increase in labour supply can promote formalisation among low-skilled nationals and facilitate market expansion, including into horizontal value chains. Indeed, a productive, sustainable industrial base has long been hailed for creating jobs and expanding a state's export base. Moreover, where a labour supply injection brings new skills, this may facilitate diversification or start a process of structural change to shift production towards more value-added and knowledge-intensive activities.<sup>22</sup> In each of these growth contexts, the weight of evidence is that while an influx of new labour can erode local wages, over time such economies are usually flexible enough to absorb additional labour, and wages recover to their initial levels.<sup>23</sup>

<sup>21</sup> Woetzel et al., *People on the Move*.

<sup>22</sup> United Nations Economic and Social Council for Western Asia, *Measurement and Analysis of Poverty in Jordan* (Beirut: ESCWA, 2014), 25.

<sup>23</sup> How these short-term impacts are distributed depends on the extent to which newcomers transform the skill composition of the domestic labour supply. However, in the most typical scenario (the entry of low-skilled workers), the groups most impacted are low-wage national labour and recent generations of immigrants, whose skill sets closely mimic those of new entrants to the labour market. D. Roodman, 'Why a New Study of the Mariel Boatlift Has Not Changed Our Views on the Benefits of Immigration', The GiveWell Blog, 20 February 2017, <http://blog.givewell.org/2015/10/21/why-a>

## 4.5 Maximising the Benefits of Refugee Labour Force Integration

The takeaway from the above discussion is that refugee labour force integration makes sense for refugees, humanitarian actors and their donors, as well as countries of future repatriation. How host states fare depends on their economy. An influx of low-skilled labour is unlikely to damage the long-run employment prospects or wages of nationals, particularly where an economy is growing, there are gaps in specific sectors that newcomers can fill or the host economy's comparative advantage is low-cost exports. On the contrary, refugees bring with them new skills and cultural norms that can facilitate diversification and sectorial development, create higher productivity opportunities for nationals, and expand economic activity, even boosting the wages of certain subgroups.<sup>24</sup>

However, where an economy is stagnant or contracting,<sup>25</sup> the skills of refugees compete with existing labour, or the influx is large relative to the size of the economy, wages and employment will most likely be negatively affected. This impact will be felt by both refugees and nationals, and may persist for many years.

In such situations, assistance will be needed – and more than was supplied in the case of Jordan – in the form of economic stimulus. In theory, the scale of this stimulus should be easy to calculate: the maximum cost of stimulus should be no higher than the cumulative returns to the benefiting parties. The humanitarian sector, however, does not function according to such utilitarian logic. Not only are the costs and benefits difficult – perhaps impossible – to quantify, but decision-making is influenced by geopolitics, perceptions of risk and the emotional responses engendered by human tragedy.

A more pragmatic approach may be to identify the mechanisms that might generate this stimulus. Such mechanisms need to look beyond the forces of capitalism and corporate social responsibility, and to overcome the risk aversion of the international community. Three ideas are presented in the final section.

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new-study-of-the-mariel-boatlift-has-not-changed-our-views-on-the-benefits-of-immigration/. The literature examining the impact of migrant and refugee labour on local wages is extensive and beyond the scope of this paper, but see generally M. Clemens and J. Hunt, 'The Labor Market Effects of Refugee Waves: Reconciling Conflicting Results', Working Paper 23433 (Cambridge, MA: NBER, 2017).

<sup>24</sup> IMF, 'The Refugee Surge in Europe: Economic Challenges', IMF Staff Discussion Note 16/02 (Washington, DC: IMF, 2016); OECD 2013.

<sup>25</sup> Woetzel et al., *People on the Move*, 67.

## 5. Realising the Potential of Refugee Compacts

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### 5.1 Early Investment of Humanitarian Funds in Livelihoods Programming

A first option is for a proportion of the resources spent on long-term refugee hosting (humanitarian funds) to be invested in labour-intensive livelihoods projects at an early stage of a displacement crisis. This would allow a proportion of the refugee population to become self-sufficient, hence saving money that would have been spent on humanitarian support over the longer term.

To better understand the potential of this approach, in 2017 the Institute, in partnership with UNHCR and the Institute for Economics and Peace, launched an experiment which examined the impact that different levels of investment would have on economic growth and employment in the context of the refugee-hosting Jordanian economy. Using a regression model, these outcomes were compared to the costs of supporting refugees currently borne by the host state and the international community to determine what gains might be made in terms of economic efficiency.<sup>26</sup>

A first step was to calculate the cost of hosting refugees. The methodology used took into account eight categories of direct and indirect costs, including interest on debt, food subsidy expenses and increased trade deficit losses, as well as erosion of environmental capital and reduced social cohesion resulting from prolonged displacement. It also took into account the benefits accrued, such as the impacts of increased demand and external investment. The findings estimated that the combined direct and indirect cost of the Syrian refugee crisis to Jordan and the international community was over JOD4 billion (USD5.7 billion), or 15 per cent of Jordan's GDP, in 2016 alone. Conservatively assuming that the current humanitarian unit costs remain constant, it is projected that this cost will rise to JOD19 billion for the period 2016–2020, with a cumulative cost of over JOD50 billion by 2025.

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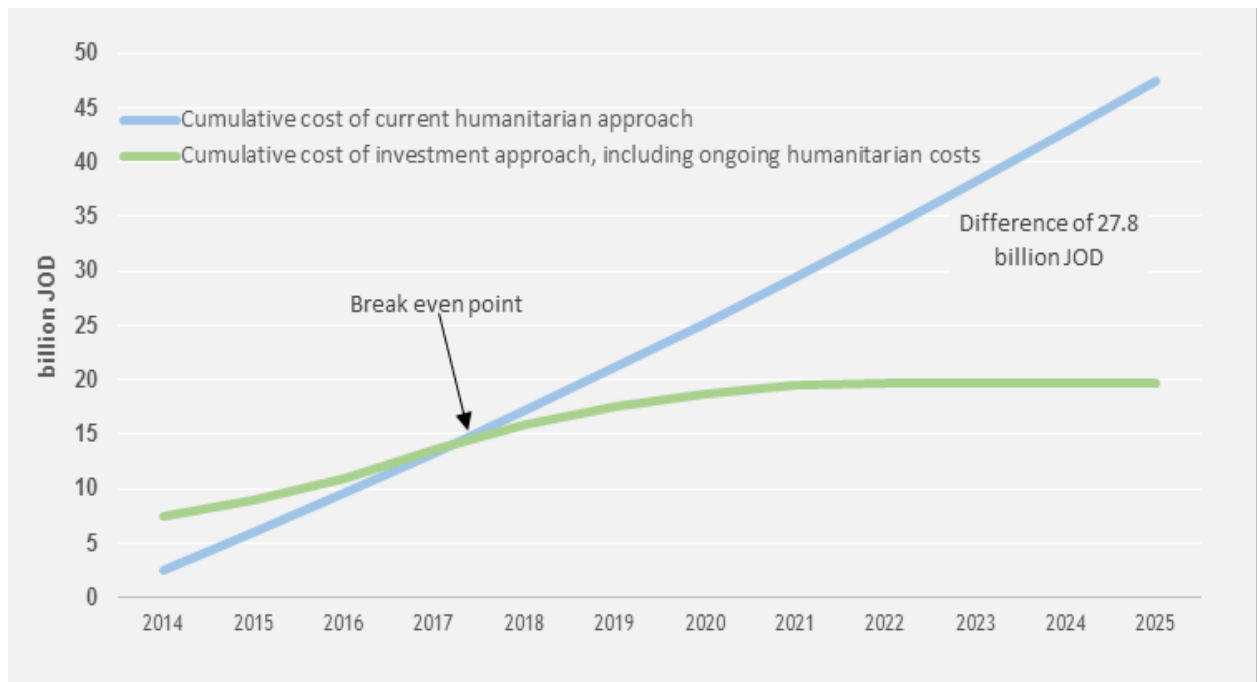
<sup>26</sup> The model was based on Keynesian economic theory, which holds that when an economy is performing below its potential, a sufficiently large increase in government spending will stimulate aggregate demand and return the economy to its potential growth path.

**Table 1. Costs of Hosting Syrian Refugees by Category 2011-2016**

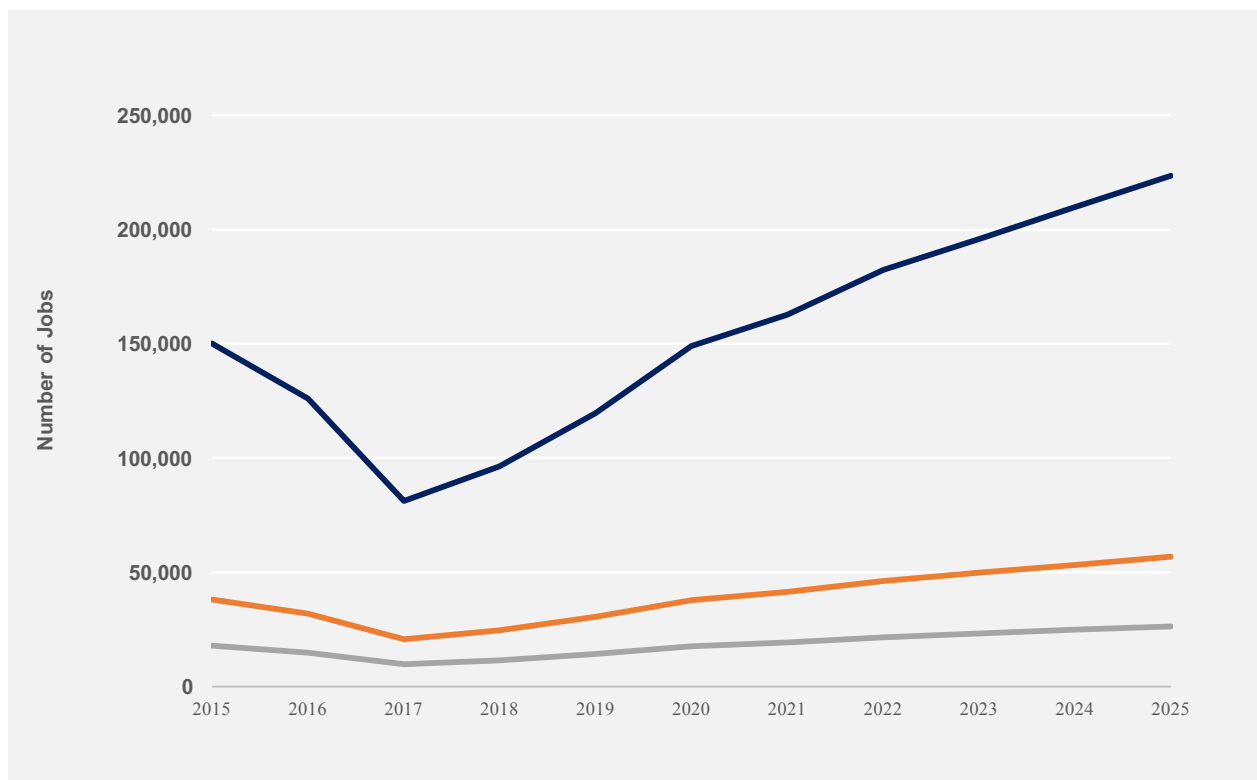
Costs	Cost-bearer	2011	2012	2013	2014	2015	2016
ODA	International community	-	130.2	551.6	503.0	1,131.4	1,131.4
UNHCR allocations	International community	68.7	99.0	336.6	449.2	449.5	291.5
Increase in government expenditure	Jordan	-	641.3	245.0	585.2	574.9	1,040.5
Interest payments on debt	Jordan	-	2.8	25.0	41.3	40.4	41.1
Food subsidies	Jordan	-	-	21.2	18.2	16.3	18.0
Trade deficit	Jordan	-	1,165.9	1,300.2	1,275.0	1,298.3	1,297.3
Environmental costs of hosting refugees	Jordan	0.9	36.3	169.4	178.4	191.8	199.8
Social cohesion costs	Jordan	-	29.3	38.8	68.2	70.5	71.2
<b>TOTAL COSTS</b>		<b>69.6</b>	<b>2,104.7</b>	<b>2,687.9</b>	<b>3,118.5</b>	<b>3,773.1</b>	<b>4,090.8</b>
Benefits	Benefit-bearer	2011	2012	2013	2014	2015	2016
Increased government revenue	Jordan	-	10.3	41.9	166.4	41.2	117.6
International assistance	Jordan	-	-	-	352.6	352.6	352.6
<b>TOTAL BENEFITS</b>		<b>-</b>	<b>10.3</b>	<b>41.9</b>	<b>519.0</b>	<b>393.8</b>	<b>470.2</b>

The second step was to calculate the impact, in terms of GDP growth and employment, of investing different amounts of capital relatively early in the crisis. For the purpose of the analysis, the year 2014 was used. Not surprisingly, in all cases the investment approach proved to be more economically efficient when compared with supporting humanitarian assistance. For example, an investment of JOD2.2 billion (around half of the 2016 hosting cost) was estimated to have created 125,300 jobs in the first year, with Jordan seeing an annual increase in the economic growth rate of 0.45 per cent over the next decade. In short, the impact of refugees entering the labour market and becoming self-reliant made the ‘investment approach’ more economically efficient than the ‘humanitarian approach’ within four years.

**Figure 1. Impact of a 2.2 Billion JOD Investment**



**Figure 2. Sectoral Distribution of Created Jobs from 2.2 Billion JOD Stimulus, 2015- 2025**



This modelling process was admittedly imperfect, as it relied upon various assumptions.<sup>27</sup> It does, however, provide an academic framework for a more serious discussion about the viability of such approaches. Indeed, few economists would question the efficacy of investing in self-sufficiency vis-à-vis supporting basic needs over the long term. It is also a more equitable approach in terms of burden-sharing between host countries and the international community, and may contribute towards related goals such as mitigating human capital loss, maintaining social cohesion and creating an enabling environment for economic rehabilitation in a post-conflict context.

But there are significant limitations that would need to be overcome. First, fiscal stimulus has the potential to increase economic growth and employment when an economy is performing below its capacity and potential growth level, as is the case in Jordan. This will not, however, be the situation in every host economy. It also assumes the existence of a cohesive and efficient regulatory framework for investment, which extends to a functional legal system, financial institutions and government bureaucracy. A third constraint is that the model assumes that as refugees become employed and self-sufficient, a proportional amount of humanitarian assistance and its delivery architecture can be eliminated. In practice, some refugees will require ongoing protection and assistance, and changes in assistance regimes can be difficult to roll back. Likewise, even if self-sufficiency is possible for a proportion of the refugee population, the associated 'humanitarian architecture' is far easier to scale up than it is to scale back.

The study sets out a clear and evidence-based economic case for investing a proportion of likely aid expenditures in refugee livelihoods at the point where protraction is statistically likely.

The more difficult challenges are political. The livelihoods approach asks that donors make large resource contributions early on in a crisis, rather than in small amounts over a longer timeframe. This can be complicated, as humanitarian funds are generated, earmarked and administered differently from development funds. Such an approach might be frustrated by domestic rules, priorities and public sentiment regarding overseas development aid.

It also requires donors to speculate on whether a refugee situation is likely to become protracted or not. If refugee return home relatively quickly, arguably more money will have been spent than necessary. Again, it is possible to rely on economic tools to overcome such forecasting challenges, such as regression models to predict refugee protraction, provided that protection and ethical concerns can be overcome.<sup>28</sup>

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<sup>27</sup> For example, it was assumed that all jobs created would be filled by refugees (in reality, a majority would likely go to nationals). Moreover, these jobs are standard jobs in the formal economy as opposed to the low-pay ones that refugees currently hold. A further assumption was that once a refugee gains meaningful employment, they and two dependents no longer require humanitarian assistance. Finally, the model absorbs the stimulus as a single investment in 2014 that is spread evenly over the economy's different sectors (in reality, most stimulus packages are rolled out over time and target specific sectors). Like the costing analysis, the model is conservative and looks solely at the economic benefits of the stimulus. In fact, investment-induced employment has knock-on effects for the wider economy and society more broadly, such as bolstering social cohesion, reducing poverty and minimising skills atrophy. Finally, the model is based on historical data and thus is indicative only. However, various robustness checks were conducted, which revealed consistent results dependent on the level of stimulus injection.

<sup>28</sup> To overcome this forecasting challenge, the WANA Institute developed an empirical model for predicting refugee protraction using a Probit regression model and based on a definition of at least 25,000 refugees being displaced for a minimum of five consecutive years. The principal finding was that by the time a refugee population from a single country of origin in a single host country reaches 100,000, there is a 98 per cent probability that the situation will become protracted.

A final challenge is the strong pragmatic and political incentive to treat refugees as temporary. Host states may perceive humanitarian funds as more voluminous and immediately accessible than development funds. The benefits accruing to refugees vis-à-vis the domestic population and the duration of their stay (particularly any indicators of permanence) are also politically provocative issues, and potential conflict flashpoints. Such concerns are not necessarily misplaced. In certain contexts, the risk of instability associated with providing refugees with livelihoods rights may outweigh the potential benefit. Humanitarian agencies may also oppose refugee situations being reclassified as development situations. UNHCR has important legal reasons to closely guard and resist any weakening of its protection mandate.<sup>29</sup> Furthermore, rivalries between humanitarian and development agencies – in terms of both mandates and funding – should not be underestimated.

Despite these challenges, humanitarian policy will need to be reformed to accommodate the current context. The evidence is that refugee situations are increasingly protracted and that the hosting burden falls principally on countries in the Global South. Patterns of donor support suggest that there is marginal support for assisting refugees over the long term, making more efficient aid frameworks imperative. Such a policy shift should be encouraged, and the necessary resources invested to build knowledge around the characteristics of an enabling environment, as well as potential risks and how to overcome them.

## 5.2 Agents Directing Credit

A second opportunity is to better leverage the enormous wealth – around USD250 trillion – held in global capital markets.<sup>30</sup> At present, despite historically low interest rates, such capital does not flow proportionately to developing economies, including refugee host states. In fact, such investment is shrinking. According to the UN Conference on Trade and Development, investments by multinationals in developing countries fell to USD440 billion from USD460 billion in 2014–2015.

A particularly ripe source of untapped funds is the current account surpluses held in Gulf States, much of which accrued following oil price surges in the early 2000s. With 10 sovereign wealth funds and USD1.7 trillion worth of assets under management, Gulf States have emerged as the world's largest net supplier of financial resources. Yet to date, such resources have been directed to low- and middle-income states in the region principally in the form of loans, aid and even (in times of crisis) oil shipments. Such capital transfers are rarely profitable. Moreover, because they have not been directed into the sectors that generate the most value-added

Kito de Boer has argued that sound and lucrative investments are being overlooked in the Middle East – the renewable energy market being a prime example – because investors perceive such frontier markets ‘through a haze of fear’. The result is that ‘capital is flowing where it is easy, not where it is needed’.

<sup>29</sup> In terms of modifying the existing humanitarian architecture, it is important to highlight that the use of the orthodox policy framework in protracted settings is not the result of an oversight or a lack of creative thinking. The factors driving this have complicated legal and mandatory roots. Under the 1951 Refugee Convention, UNHCR's core mandate is to ensure the international protection of uprooted people worldwide. Its founding statute specifies the functions of protecting refugees and promoting durable solutions, and only over time did this mandate evolve to include the provision of material aid; see UNHCR Statute, UN General Assembly resolution 428(V) of 14 December 1950. The point is that the manner in which refugees are currently supported has legal and historic roots. Modifications would undoubtedly be further complicated by recent increases in populist and nationalist sentiments among UN member states.

<sup>30</sup> R. Kersley and A. Koutsoukis, ‘The Global Wealth Report 2016’, Credit Suisse, 22 November 2016, [www.credit-suisse.com/corporate/en/articles/news-and-expertise/the-global-wealth-report-2016-201611.htm](http://www.credit-suisse.com/corporate/en/articles/news-and-expertise/the-global-wealth-report-2016-201611.htm).



economic activity, like real estate, they have done little to allow donor and recipient economies to escape renterism and aid dependency traps, respectively.

Arguably, this lack of capital flows is not because there are no good opportunities. Quite the contrary, emergent markets currently offer the highest rates of return. The explanation – as realised by Jordan – is that capital flows are conservative, and shy away from geopolitical risk, uncertainty and bureaucracy.

Emerging markets private equity has earned 11 percent over the past 10 years after fees, according to advisors Cambridge Associates. Large public equities funds with more than 50 percent of their assets invested in the Middle East and Africa show similar returns, according to Morningstar. Emerging markets are growing at an annual rate of 5.8 percent; the Middle East and North Africa is growing at more than 3 percent annually, according to the World Bank.<sup>31</sup>

Kito de Boer, former special envoy of the Madrid Quartet, has presented a strong argument on how this situation might be turned around and financial flows redirected into struggling Middle East economies.<sup>32</sup> First, mechanisms need to be created to diffuse risk and overcome the bureaucratic hurdles that dissuade investors from deploying their capital. This might be done through intermediary entities that ‘grease the wheels’ and thus connect capital to markets. They might negotiate with authorities, identify and secure the land-use approvals, and ensure power purchase agreements will be backed by international entities. They can also mitigate the greatest risks – those associated with underdeveloped legal and justice systems – through on-the-ground teams with the experience and connections to avoid corruption and advocate for strategic advances in law and regulation.

Shurook is a prime example. It is a not-for-profit operated within a United Nations framework that works with the private sector to create investible projects in solar power, water treatment, low-cost housing and healthcare. As a non-profit, it does not provide capital. Instead, its role is to ‘walk the hard yards of early-stage project development’<sup>33</sup> by identifying available land, negotiating grid accessibility with the government and managing discussions with IFIs on how to mitigate political and operational risk.<sup>34</sup>

Second, motivated investors need to be identified. These might be found in the growing market for impact investment, or in diaspora communities (who have always been willing to invest but have lacked investible opportunities where the risk is managed).

Third, new public–private investment institutions need to be built that provide finance to frontier markets through mechanisms other than debt financing. One option might be a regional bank<sup>35</sup> structured along the lines of the European Bank for Reconstruction and Development or

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<sup>31</sup> Kito de Boer, ‘The Trillion-Dollar Pipeline in the Mideast No One Is Talking About’, CNBC, 5 October 2016, <https://uk.finance.yahoo.com/news/trillion-dollar-pipeline-mideast-no-132600954.html>.

<sup>32</sup> Kito de Boer, ‘Guest Post : “The Trillion Dollar Pipeline in the Mideast No One is Talking About” (CNBC)’, Shurook, 2016, <https://shurook.org/the-trillion-dollar-pipeline-in-the-mideast-no-one-is-talking-about/>.

<sup>33</sup> Ibid.

<sup>34</sup> There are other innovators seeking profit with a purpose in challenging environments. Leap Frog Investments has roughly USD1 billion under management invested in 21 portfolio companies in Africa, Asia and Latin America. It teams up with local players to develop and deliver new products and services for the underserved.

<sup>35</sup> Despite its economic, chronic conflict and governance challenges, WANA is the only region without a development bank. Existing development funds, such as the Arab Fund for Economic and Social Development and the Kuwait Fund for Arab Economic Development, operate primarily on a bilateral basis and focus on ‘traditional’ sectors of the economy. They do not have a multilateral function, nor do they engage both the public and private sectors. There is also an insufficient linking up between policy scholarship on resilience and development and the way these funds operate.

the Asian Development Bank. Such a bank would act as a linking agent, by redirecting capital to match finance for projects that are most needed and strategic for host state development. Such capital might come from the Gulf sovereign wealth funds mentioned above, *zakat* contributions or public–private sector partnerships. WANA has written previously about the development potential of inter-regional investments within the South–South context of the WANA region. In short, it is a mechanism for creating mutual opportunities for economic advancement; host states’ economies would receive the investment needed to promote growth and create jobs, while Gulf States would diversify their markets and move away from the rentier-state model to one that generates more sustainable economic activity.

### 5.3 Insuring Against Risk

A final high-potential but unexploited means of injecting money into a host economy is by transferring risk to the insurance sector. The discourse around risk-outsourcing has mainly focused on how the humanitarian sector can improve its efficiency in responding to natural disasters and disease outbreaks. Under the status quo, funding is generally connected to tipping points such as deaths or numbers of infected persons, as opposed to supporting an early response geared towards containment. An examination of how the international community intervened in the Ebola epidemic is a case in point. A month after Ebola was detected in Guinea in March 2014, experts estimated that USD5 million was needed in emergency funding to contain the virus. By October, this figure was USD1 billion. Similar scenarios have played out in cases of famine: ‘despite urgent warnings of food insecurity in Somalia in 2010, donors waited eleven months to scale up assistance’.<sup>36</sup> As eloquently stated by the Centre for Global Development, this state of affairs is systematic of a model that finds it easier to mobilise resources for response than for planning or prevention. In fact, their research estimates that only 10 per cent of emergency aid spent between 2010 and 2015 was attached in advance to predictable future emergencies.<sup>37</sup>

Innovative steps have been taken to mitigate such inefficiencies. The Caribbean Catastrophe Risk Insurance Facility (CCRIF) is a regional insurance pool established in 2007. In the last decade, the CCRIF has made 22 payouts worth USD69 million to 10 member governments, all within two weeks or less of a claim. The vast majority Haiti’s USD8 million payout from CCRIF was available just 19 hours after the 2010 earthquake struck.

The World Bank’s Crisis Response Window (CRW) operates in a similar way. The facility allows countries affected by disaster to borrow on an accelerated basis from the International Development Association (IDA), the World Bank’s soft loan window. Since its establishment in 2010, the CRW has issued concessional financing to Guinea, Liberia, Sierra Leone, Malawi, Nepal, the Solomon Islands, Tuvalu and Vanuatu for disasters ranging from flooding, storms and earthquakes to commodity price slumps driven by the Ebola outbreak. Loans do not have to be attached to a specific, predictable risk, and while they take months not hours, they are still faster than most IFI or donor processes.

There is no reason that the logic of risk-outsourcing could not be extended to refugee situations. As in the case of disasters, most funding for displacement emergencies comes when needs are acute or become visible, as opposed to when it could be most effectively and efficiently used.

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<sup>36</sup> T. Talbot and O. Barder, ‘Payouts for Perils: Why Disaster Aid is Broken, and How Catastrophe Insurance Can Help to Fix It’, Policy Paper 087 (Washington, DC: Centre for Global Development, July 2016).

<sup>37</sup> T. Talbot and O. Barder, ‘Payouts for Perils: Why Disaster Aid is Broken, and How Catastrophe Insurance Can Help to Fix It’, Policy Paper 087 (Washington, DC: Centre for Global Development, July 2016).

Insurance policies or expedited loan facilities have three principal advantages. The first is speed – money is paid out quickly as it is tied to a contract and not a slow and unpredictable fundraising process. Such funding could go directly to governments or, if premiums are offset by donors, to a jointly administered fund that could be expended according to a pre-agreed plan of strategic disbursement and investment prioritisation. The second is capital depth – the insurance industry can underwrite much more expensive losses than aid budgets can; today’s insurance industry covers more than USD300 billion in annual global catastrophe risks. The third advantage is efficiency – because resources flow as a single, larger grant, a unified response plan could be implemented as opposed to the current approach of funding many small projects.

Some innovation is happening in this regard. Index-linked securities, including catastrophe bonds, are a recent innovation that enables risk to be transferred from the insurance industry to global capital markets. The World Bank IDA has also launched a refugee sub-window – a USD2 billion fund that extends financing support to low-income countries to meet the development needs of host communities, contingent upon refugee protection frameworks and policy action plans.



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## 6. Conclusion

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It is well established that protraction is the defining characteristic of modern displacement trends. UNHCR currently recognizes 32 protracted refugee situations, with around 7 million refugees so-classified as at January 2018. In the absence of repatriation, the scant impact of the other traditional durable solutions – local integration and resettlement – cannot be obfuscated.<sup>38</sup> In 2015, only 1.72 per cent of the global refugee caseload found a durable solution. The result: today's refugees are almost exclusively stationary, and they are stationary for long periods of time.

Against the challenges of protraction, the humanitarian model being applied is astonishingly inefficient. Dependent on long-term humanitarian assistance, refugees forsake dignity, opportunity and self-determination. For host states, systemic development deficits are exacerbated, while new economic and social cohesion challenges are introduced. Donors support the basic assistance needs of unprecedentedly large population groups, and then face backlash when they withdraw. And when countries recover from conflict, they are returned a depreciated human capital pool, often stripped of its best and brightest.

In this article, I have posited two explanations for why there is not more debate around this. First, the responsible sectors are disinclined towards experimentation and innovation. This is not to suggest that there are not committed, boundary-pushing thinkers, dedicated to approaches that are leaner and more impactful. I have had the privilege of working with many such actors in a variety of post-conflict and development contexts. The problem, as Bill Easterly explains, is structural failures in feedback loops and accountability. He contrasts the humanitarian and development sectors with the private sector and democratic governance model. In the latter, efficiency is maintained because feedback mechanisms (sales, profits, votes) beget accountability (promises are kept, sound products are launched, resources are not misused). In the former, however, the challenges are so intractable and diffused that no single actor or agency can be held accountable. At the same time, there are no tangible feedback loops. Refugees can't fire UNHCR, WFP or UNICEF, nor can they take their business elsewhere. Easterly sums up the result succinctly: 'Without accountability, then the incentive for finding out what works is weak.'<sup>39</sup>

A second reason the sector is not abuzz over the mutual losses the current system maintains is that this is a problem with no obvious fix. As discussed, there are no mechanisms to compel donor states to offset the costs incurred by other states who are compelled to accept refugees. This is undoubtedly inequitable. But an elaboration of the model to rectify these deficits is a non-starter – the political forces that allowed states to come together to forge the Refugee Convention in 1951 are simply not present.

So today we sit at a political crossroads. The wave of political conservatism and anti-migrant rhetoric sweeping the globe suggests that it is not only Europe that is keeping its borders closely guarded. At the same time, host states – including those unaffected by the Syrian situation as well as future host states – better understand their bargaining power. Two outcomes can be envisaged. Wealthy states – that do not wish to host refugee populations in large numbers – might forge bargains with traditional host states. The levelled playing field means that such

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<sup>38</sup> The evidence indicates that a minority of refugees locally integrate, and even fewer are resettled; the vast majority return. During 2015, some 201,400 refugees returned, 134,000 were referred for resettlement and 32,000 were naturalised.

<sup>39</sup> W. Easterly, *The White Man's Burden* (Oxford University Press, 2006).

agreements would need to be fairer – they would better reflect the costs incurred as a result of hosting and they would contain contingencies to guard against ‘fatigue’-induced withdrawals of funding. The alternative – that rich states close their borders with no mitigating actions – would mean an unravelling of the norms that currently unpin the humanitarian system as we know it.

As repugnant as it might seem, the humanitarian community should embrace this form of burden-outsourcing, because it is an improvement on the status quo, and far better than the alternative outcome. Traditional host states need a reason to keep their borders open when rich states are closing theirs and this reason needs to be – at minimum – fair compensation. Those mandated under the CRRF would be well placed to take steps to bolster the confidence of current and future host states, including by forging showcase examples of what benefits compacts can accrue.

The good news is that there are many actions that can be taken in support of this. Some are small, such as ensuring that data is accurately collected and interpreted. Think tanks and research institutes – local and international – can be critical assets here, and should be engaged throughout the process. In the case of the Jordan Compact Agreements, some of these actors backed off at an early stage in the name of national ownership. In fact, what Jordan most needed was neutral and highly skilled technical advisors to craft an evidence base upon which to make decisions. Had this been in place, data anomalies might have been avoided and some of the exigencies in the Agreements better bargained.

Other steps, such as attracting and channelling investment, require more radical solutions. Creating jobs is costly, and even if issues of trust and risk aversion could be overcome, donor governments simply do not have the depth of pocket. IFIs do, but their response time needs to improve markedly. The World Bank’s CRW is exemplary in this regard.

Ultimately, however, private sector engagement is inescapable. For this to be realised, sensible investments need to be on offer and – as De Boer has opined – ‘wheel greasers’ available to direct capital towards them. Towards such an end, serious thought should be put into a bank that could facilitate regional capital flows that – to borrow a term from the impact investment sector – allow capital owners to ‘do well and do good’. Donors would then be liberated to support and add value in ways that others cannot. Examples include technical assistance on regulatory reform, labour-intensive but low-profit infrastructure projects, or an overhauling of vocational education systems.

For those small, resource-poor states that will struggle to find investors even with such support, insurance models should be considered, with premiums offset by donors conditional upon mutually developed contingency plans.

To close, in the current political climate and against a structurally encumbered model for managing protracted refugee crises, a seemingly impossible solution is required – one that protects refugees, host states and future countries of repatriation, and also eases the burden on donors. The difficulty of this task makes it imperative that when new ideas are born, they are nurtured, tested and retested until all potential benefits are derived. The Compact Agreements might not have been perfect, but they are a first step towards an improved status quo that everyone can live with. Over and above this, we need a system where innovation is promoted, risk is tolerated and mistakes are accepted. After all, no one ever believed that Syrians would live in camps, that Jordan would allow them to work or that the EU would negotiate Rules of Origin. But they did. So, let’s not place boundaries around what might be imagined or discourage that imagining from taking place. The future of the humanitarian system might depend on it.



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