

Economic Life in Refugee Camps

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Summary. — We analyze economic life in three Congolese refugee camps in Rwanda and the interactions between refugees and local host-country economies within a 10-km radius around each camp. Refugees in one of the three camps received food aid in kind, while in the other two camps they were given cash via cell phones provided by the UN World Food Programme. We find that refugee economies arise inside each camp, and the structure of these economies reflects the economic context around the camps. Despite undergoing forced migration and often living in destitute conditions, refugees actively interact with host country economies. Interactions with the host country result in a divergence of refugee households' income from the assistance they receive. A shift from in-kind to cash aid appears to increase refugee welfare while strengthening market linkages between camp and host economies. This finding is potentially important for refugee policies as well as for other types of development assistance, as donors find themselves under pressure to shift from in-kind to cash aid.

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“There is interest in observing the growth of economic institutions and customs in a brand new society ... the essential interest lies in the universality and the spontaneity of this economic life ... as a response to the immediate needs and circumstances.”

[R.A. Radford]

Each year the United Nations High Commissioner for Refugees (UNHCR), see [UNHCR \(2016\)](#), provides refuge to millions of displaced people around the globe, and the UN World Food Program (WFP) provides these refugees with food aid, either in-kind or cash. Most refugees are in camps located in low-income countries bordering conflict zones. A naïve image might be that refugees are stripped of agency by world events beyond their control and passively dependent on distributed food aid to survive ([De Bruijn, 2009](#)). However, an in-depth look at the lives of refugees paints a much more complex reality. Refugee camps may be the closest observable approximation to what happens when individuals with heterogeneous endowments of human capital and other resources are plopped down upon a hilltop or plain and allowed to interact with each other and a host-country economy—if the rules permit—given the often severe constraints they face. In other words, the genesis of an economy.

We analyze the economic life of three Congolese refugee camps in Rwanda and the interactions between refugees and the host-country economy within a 10-kilometer radius surrounding each camp. None of the three camps existed prior to 1996; all were literally featureless hilltops surrounded by local host-country communities with economies ranging from very simple to relatively complex. The three camps were selected to represent different host-country economic contexts. Under Rwanda's rules, refugees are free to interact with the host-country population; however, Rwandan nationals are restricted from entering the camps. The camp gate, therefore, creates an exogenous asymmetric separation between camp and host-country economy. The camps also differ with respect to their exposure to a major recent innovation in refugee assistance delivery. The WFP originally provided in-kind assistance to refugees in all three camps, but recently it has begun to replace food aid with cash transfers accessed through

cell phones. One of the three camps switched to cash eighteen months prior to our study, and another two months prior. The third camp still received aid in food.

There is little information about refugees' economic lives prior to entering the camps, or the structure of the surrounding host-country economy prior to the camps' creation. The refugee camp populations are small compared to those of the districts in which they are located. It is not clear how one would obtain a true baseline, beyond the knowledge that the camp site, itself, was devoid of population and of an economy of any kind. The camps were created by events that were largely exogenous to both the refugees and the local host-country economies.

In collaboration with the WFP, we carried out detailed economic surveys of a random sample of refugee households and a number of formal businesses (not likely to be picked up by the household sample) inside each camp, as well as host-country households and businesses within a 10-kilometer radius outside of each camp. A 10-kilometer radius captures the main markets in which refugees transact. Given poor transportation infrastructure, refugees rarely engage directly with markets outside this radius.

Our study contributes to the literature on the economics of refugee camps and the interactions of refugees with the local economies around camps. Previous research has described the emergence of exchange within refugee camps, the variety of activities in which refugees engage, and the welfare

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consequences of different refugee settlement designs and aid delivery mechanisms. We use the micro-survey data that we collected to explore a set of predictions about refugee's welfare and interactions with host economies, grounded in economic theory.

This paper's goals are to characterize the demographics and income generating activities of three Congolese refugee camps in Rwanda and share our discovery that, despite unusual and grim circumstances, economies form in refugee camps, and these economies involve a vigorous exchange of goods and services within camps as well as between camps and surrounding host economies. The choice of aid delivery mechanism has important implications for refugee welfare, and potentially for the host country, as well.

The paper is organized as follows: Section 1 describes our analytical framework, and it broadly highlights some of the relevant literature on refugees, immigrants, and the implications of alternative refugee aid delivery mechanisms upon which this paper builds. Section 2 introduces the three camps and the host-country economies surrounding them. The data suggest that the structure of the surrounding host economy shapes refugees' economic activities and incomes. In Section 3, we analyze the consumption patterns and market behavior of refugees in the in-kind and cash camps, including refugees' interactions with markets for food and other goods outside the camps. Refugees' exchange relationships with the host country have ramifications for host country businesses and households. In Section 4, we compare welfare outcomes in and around the three camps and econometrically measure welfare differences between the camps that have switched to cash and the camp that continues to distribute in-kind food aid. We find evidence that, in the Rwandan context, aid in cash significantly increases refugee welfare. The final section concludes and discusses future avenues of research.

1. ECONOMICS OF DISPLACED POPULATIONS, HOST COMMUNITIES, AND AID

If refugee settlements are closed and isolated from the host economy, without access to trade, microeconomic theory suggests that the provision of aid in kind results in a suboptimal allocation of resources. The utility of refugees is maximized only if the proportions of goods and services provided in kind coincide with refugees' marginal rates of substitution across goods and services. If refugees are given in-kind aid but are allowed to engage in exchange with the host country, a higher level of utility can be achieved.

As previous evidence has pointed out (Jacobsen, 2005), in most refugee camps "almost everyone has something to trade." The magnitude and diversity of trade is determined by the type of aid refugees receive, refugees' ability to work and trade in the local economy, and the interconnectedness of the local economy with the rest of the country. Jacobsen (2005) describes vibrant markets inside refugee camps, with a variety of goods being exchanged.

There are two different food-aid delivery regimes in Rwanda's refugee camps: in-kind and cash transfers. Refugees at cash camps receive monthly transfers through m-VISA accounts on cell phones supplied by the WFP. They can "cash out" or use their cell phones to purchase goods or services from authorized vendors, which include some refugee-run businesses inside the camps. In-kind camps are provided a monthly basket of four food items—maize, beans, cooking oil, and salt—on a regular basis.

The freedom of movement and action afforded refugees in Rwanda, combined with an asymmetric integration of camps with local economies, expands refugees' opportunities and incentives for employment, production, and exchange. By limiting camp entry, refugee camp rules potentially create a "price band" and the potential for rent seeking by influential camp actors. Refugees' physical and human capital, together with the rules of engagement with the host country, predict the types of economic activities in which refugees participate. So do the economic settings in which refugee camps are situated.

Host economies surrounding the three refugee camps we study range from relatively urban (Gihembe) to potentially agricultural (Nyabiheke). After entering the host country, most refugees' livelihoods depend primarily on aid. A minority have enough capital to start a business. Rwanda permits refugees to leave their camp at will, including for work. Many refugees work outside the camp or for international agencies within the camp. Some refugees own their own businesses, which include petty trade, food preparation, barber shops, and sale of charcoal and firewood. Lack of access to credit is an obstacle to establishing refugee businesses, although remittances and the use of Rotating Savings and Credit Associations (ROSCA) schemes partially relax the credit constraint for some refugee households.

If host populations benefit economically from the establishment of refugee settlements and the operations of humanitarian agencies, they may be more likely to welcome refugees. The staff of non-governmental organizations (NGOs) demand a variety of goods and services, including food, housing, and transportation. NGOs also generate employment for refugees and some locals. The settlement of refugee camps and operations of humanitarian organizations may benefit host communities by improving the available infrastructure. Host businesses may benefit from the availability of low-wage and seasonal refugee labor.

(a) *Refugee welfare and cash transfers*

In recent years refugee assistance has gravitated toward a model of self-reliance, on the theory that refugees benefit from aid regimes that strengthen their self-esteem and capacities while preparing for eventual return to the home country. These efforts include a switch from in-kind aid to cash transfers. From a microeconomic perspective, enabling refugees to freely buy goods and services based on personal preferences and tastes should be welfare-improving.

Evaluating whether the switch to cash actually improves refugees' welfare is problematic for at least two reasons. First, in cash camps we do not observe the characteristics of refugees before the switch to cash. Second, the switch to cash was not random. Comparisons of refugees with host populations around the three camps, presented later in this paper, suggest that there are welfare improvements under a cash aid regime. A more rigorous causal evaluation of welfare impacts is not possible at this point.

The decision by WFP to shift food aid from in-kind to cash was based on a number of feasibility studies that included market assessments, financial services, security considerations, and local government priorities. Market considerations recommended the three camps we study in this paper as candidates for switching from food to cash. A pilot approach was adopted: one camp was selected to gauge acceptance by beneficiaries, reliability of the technology to transfer cash, and implications for food security, prices, and availability of food in the market. The pilot camp, Gihembe, was chosen based on its proximity to a major town, which facilitated access by all

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