



# Using Innovative Finance to Increase Refugee Resettlement

*The Innovative Finance for  
Resettlement Working Group*



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# Preface

There are 26 million refugees in the world today. Most refugees will integrate locally, and others will return home in a safe, dignified, and voluntary way. Yet 1.4 million refugees have been designated by the United Nations as having vulnerabilities that cannot be addressed in their host countries. For these people, the only solution is resettlement to a third country.

While welcoming refugees through resettlement has been a long-standing tradition in many countries, support has been waning in recent years. Less than a tenth of the 1.4 million refugees urgently awaiting resettlement were given the opportunity to move last year, and because of COVID-19, the number is likely to be lower this year. While most agree resettlement is the only option for these 1.4 million refugees, they must wait years to begin their new lives.

Despite this need, political will among high-income countries to resettle refugees has decreased, and resettlement has slipped off the international agenda. Part of this shift is due to the perceived cost of resettling and hosting refugees. Resettlement is seen as an act of generosity and not something that could bring an economic benefit. Politicians and policymakers argue it is cheaper to host refugees where they (hopefully only temporarily) reside, and the argument has therefore shifted to fostering economic inclusion in these locations.

This argument has become even more relevant in the face of COVID-19. High-income countries around the world are facing looming economic recession and increasing unemployment. Historical evidence shows that such crises tend to lessen support for new arrivals, as locals prioritize their own access to jobs and social services. These public concerns are likely to override the (albeit already) limited political will.

Yet, resettling more refugees could actually support the post-COVID-19 economic recovery, thanks to the economic benefits that refugees can bring. This new report, released by the Center for Global Development's Innovative Finance for Resettlement Working Group, demonstrates the economic contributions of resettled refugees, but highlights that the costs and benefits accrue at different times to different actors. This mismatch, coupled with an underinvestment in newly arrived refugees, leads to the perception of unfulfilled potential and limited returns, thus lessening appetite for future resettlement. The proposals in this report aim to create a “virtuous” cycle, with greater investment leading to greater results, in turn increasing willingness to invest.

To facilitate this cycle, the working group proposes two ways the international community could use innovative financial arrangements to facilitate more refugee resettlement. Firstly, the report estimates that the international community will spend roughly US\$7,000 per refugee over the course of their displacement. Instead, the community could put the same resources into a “resettlement bond,” supplemented by private capital. These funds could finance the resettlement of a significant number of refugees and repay private investment over time.

Secondly, the working group explores how impact investors could shoulder the risk of resettlement outcomes, rather than high-income country governments. Using a “social impact bond” model, impact investors could sponsor future refugee resettlement, and reap returns based on outcomes. The report talks through the economic benefit that refugees could provide to high-income countries, and therefore why private investors have an incentive to engage in resettlement efforts.

The Center for Global Development's (CGD) program on Migration, Displacement, and Humanitarian Policy focuses on ensuring that everyone on the move realizes their full potential, including by expanding opportunities for people displaced from their homes. The ideas identified by the working group may be new, but they are firmly rooted in CGD's ongoing work to identify approaches that enable refugees to pursue decent work and improve their livelihoods, while also creating

benefits for hosts. This report sets out just two innovative ways in which high-income countries could work together with the private sector to spur additional refugee resettlement. Regardless of the methods used, such movements must increase in future. The lives of 1.4 million people depend on it.

A handwritten signature in black ink, appearing to read 'Masood Ahmed', with a stylized flourish at the end.

**Masood Ahmed**  
President  
Center for Global Development

# Acknowledgments

This report was written by Euan Ritchie, Owen Barder, and Jeremy Weinstein, with Helen Dempster and Mark Plant, based on input from members of a working group that met to discuss some of these ideas during 2017-18. This does not represent a consensus report and working group members did not approve the text.

We are also grateful for consultancy from Elina Sarkisova that was valuable in shaping these ideas, and for the research conducted by Caitlin McKee at the beginning of this project.

Over the course of researching this report, we had numerous conversations with the United Nations High Commissioner for Refugees (UNHCR), government officials in Australia, Canada, and the United Kingdom, the International Rescue Committee, and those with

experience running or designing innovative finance projects. These helped us refine our arguments, deepened our understanding of the issues, and alerted us to things we hadn't considered. The report benefited greatly from these interactions. We are especially grateful to UNHCR for its efforts in helping us contact resettlement officials in various countries.

In addition, we are grateful for all the hard work from colleagues at the Center for Global Development who assisted with the production of the report and provided insightful comments, including Masood Ahmed, Helen Dempster, Stephanie Donohoe, Amanda Glassman, Jeremy Konyndyk, Mark Plant, Vijaya Ramachandran, and Emily Schabacker.



# Abbreviations and Acronyms

DAC	Development Assistance Committee (Organisation for Economic Co-operation and Development)
DIB	Development impact bond
FTS	Financial Tracking Service (United Nations Office for the Coordination of Humanitarian Affairs)
GIIN	Global Impact Investor Network
IFFIm	International Finance Facility for Immunisation
ODA	Official development assistance
OECD	Organisation for Economic Co-operation and Development
SIB	Social impact bond
UNHCR	United Nations High Commissioner for Refugees
UNOCHA	United Nations Office for the Coordination of Humanitarian Affairs

# Introduction

Today, 1.4 million refugees urgently await resettlement. Unlike the rest of the world's 26 million refugees, they have been designated by the United Nations (UN) as having vulnerabilities that cannot be addressed in their host countries. They are therefore waiting to be moved from the country hosting them to a third country willing to grant them permanent settlement. But less than a tenth of these people will be resettled this year; people are joining the queue faster than they leave it. The global community is failing in its duty to ensure their safety.

Even more concerning, resettlement seems to have slipped off the international agenda. Attention has moved squarely to efforts to help refugees integrate in their host countries, which, although important, is not suitable for these 1.4 million people. In part the shift away from resettlement is occurring because politicians and the media (even those who are sympathetic) tend to portray refugees as a burden to be shared. Resettlement is seen as an act of generosity. Framed this way, it is natural for countries to ration it to reflect what they think they can afford or to look for more cost-effective solutions where possible.

This dynamic is exacerbated by the many commentators who fail to distinguish between refugees for whom resettlement is the only viable option and the entire refugee population. By blurring this line, opponents of resettlement have managed to use the impracticability of resettling all 26 million refugees as an argument against resettling any. Furthermore, they argue that since the cost of living is generally lower in host countries, it is more cost-effective to help refugees in host countries. Resettlement is often a politically difficult decision, and these arguments

have been seized upon as reasons to avoid it and shift the focus to other solutions.

This report seeks to put resettlement back on the agenda for those in dire need. The undeniable need for solutions that will help refugees integrate in host countries or increase their chance of returning to their original country should not lead us to abandon what for many is the *only* option that affords them the chance to live safely. For them, we must explore safe opportunities in third countries.

It is important to underscore that when resettlement opponents talk about the “cost,” they are discussing only one side of the ledger. Refugees bring benefits; ignoring these makes as much sense as ignoring the benefits of education when deciding how much should be spent on schools or teachers. A wealth of evidence—laid out in this report—shows that countries that resettle refugees are making a sound investment. Resettled refugees can contribute more to a country than the cost of resettlement to both government finances and society.

Why do we treat resettlement as a cost rather than an investment? In part, because of timing. As with any investment, the costs are borne before the benefits materialize. Furthermore, the immediate costs are more readily identifiable than the benefits, which are more diffuse. The communities that shoulder the short-term costs of resettling refugees do not necessarily benefit from the economic and fiscal contributions that refugees eventually make.

Because refugees are seen as costly, we also tend to underinvest in them. Our report shows that a modest increase in investment would produce far better

outcomes for resettled refugees, and for the communities into which they are resettled, and would easily pay for itself over time. But in the current political context, that additional investment can be impossible for governments to make in conventional ways: if resettlement is seen as a cost to be minimized rather than a humanitarian investment that could yield a return, then governments have no incentive to spend more. This creates a vicious cycle. Underinvestment in refugees who are resettled leads to unfulfilled potential, limited returns, and therefore less appetite for further investment and resettlement. The proposals in this report aim to reverse this, creating a “virtuous” circle instead.

The report is divided into three parts. Part I outlines the scope of the problem, makes the case for why countries should accept refugees, and discusses how investment could be increased through different mechanisms. Part II discusses the use of an innovative finance method called resettlement bonds. And Part III discusses how we can use outcomes-based models, such as social impact bonds—a form of financing that rewards investors for improving social outcomes—to improve economic outcomes of resettled refugees.

Part I.

# The Case for More Resettlement





# Introduction

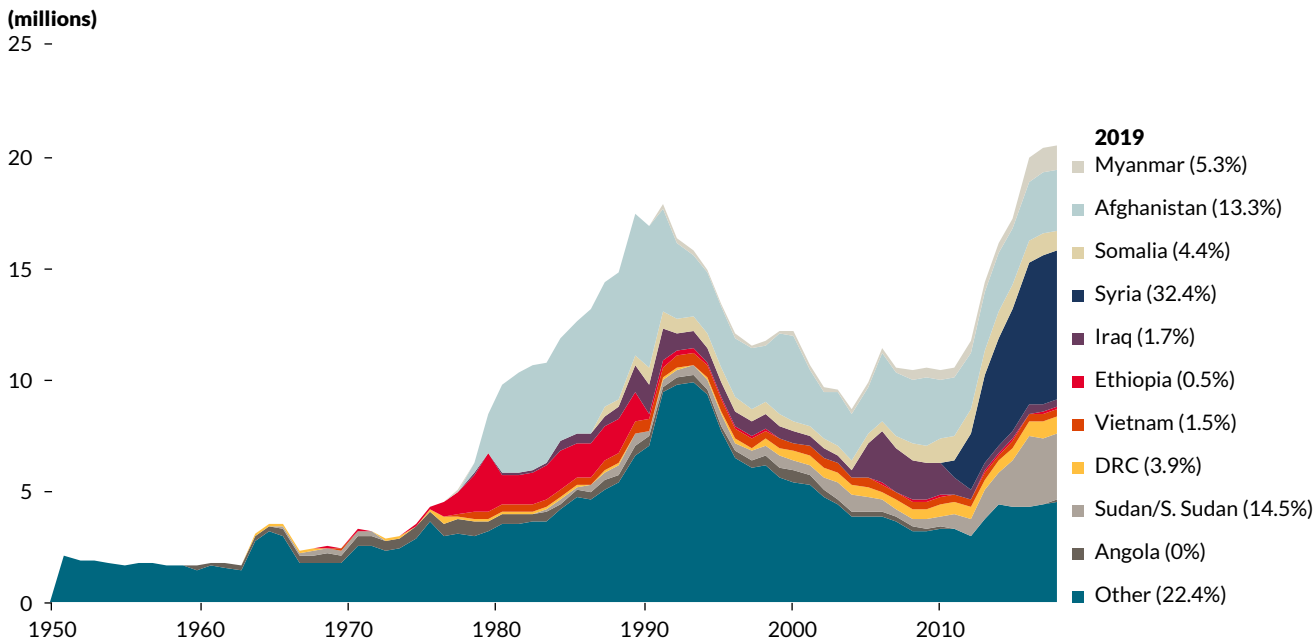
For as long as there have been wars and persecution, people have been forced to leave their homes, and often their countries, in search of safety. Yet the number of displaced people has grown tremendously in recent years, and in all likelihood, will continue to do so in the years ahead. In this part of the report, we set out the scope of the displacement challenge, discuss the many benefits to countries of accepting refugees, and address the notion that refugee resettlement is especially costly. We note that this misperception is born from the fact that the costs associated with settling refugees are more immediate than many of the numerous and lasting benefits that accrue over the longer term. We explain that with increased investment in refugee settlement, governments could boost the returns on welcoming refugees.

# 1. Escaping Displacement

The number of refugees—those who have crossed an international border—has doubled in the last 10 years, from 10 to over 20 million.<sup>1</sup> Syria—where 6.6 million refugees originated—accounts for two-thirds of this increase. Afghanistan accounts for another 2.7 million, as a result of Cold War-era fighting and persecution by the Taliban. South Sudan has generated a further 2.2 million refugees since its independence in 2011.<sup>2</sup> Together, these three countries account for more than half of all refugees under the United Nations High Commissioner for Refugees (UNHCR’s) mandate. Figure 1 tracks the number of refugees by most common country of origin since 1951.

Most refugees are displaced for a long time: estimates suggest that the average length of displacement is at

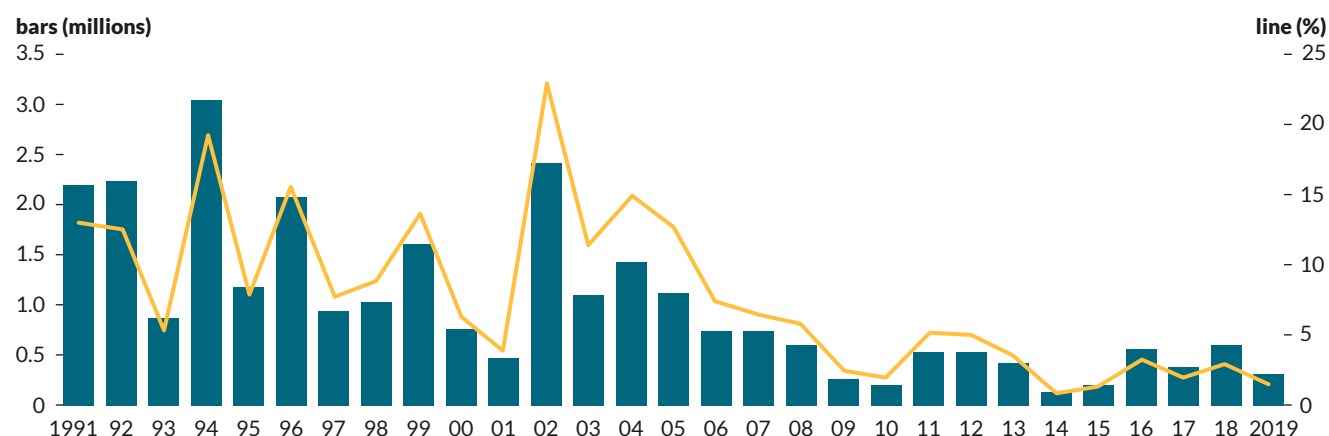
**Figure 1. Refugee country of origin (1951–2019) (percent of total in brackets for 2019)**



*Note:* Countries included were the top 10 origin countries in 2019, under the jurisdiction of UNHCR. Ordered by country’s first entry into data. DRC = Democratic Republic of the Congo.

*Source:* UNHCR population statistics (<https://www.unhcr.org/refugee-statistics/download/?url=RIxq>).

**Figure 2. Number and rate of refugees who are repatriated annually**



Source: UNHCR population statistics (<https://www.unhcr.org/refugee-statistics/download/?url=R1xq>).

least 10 years, and for those in “protracted” situations, more than 20 years. (UNHCR defines protracted displacement as displacement for five years or more.) This should shape the policy response. Displacement is a development challenge as well as a humanitarian one. The aim must be finding durable solutions, rather than helping refugees survive until their situation resolves itself. There are three such potential solutions: voluntary repatriation, local integration, and resettlement.

## Voluntary repatriation

Voluntary repatriation may well be the top preference for many refugees; people often want to return to the place where they grew up, especially when friends and family have been left behind. However, this possibility looks remote for most refugees. Since the mid-2000s, the number of refugees repatriated each year has gradually declined (Figure 2). Even if the same number of refugees were repatriated every year as in 2018, it would still take more than 30 years for all refugees to find a durable solution by this means—and that is if no new refugees are created in that time. There is also a risk that repatriation is not always as voluntary as claimed: we know of several cases of refugees being

pressured to return home by governments struggling with the implications of hosting large numbers.<sup>3</sup>

## Local integration

Local integration is a more feasible solution for many refugees, and there are many ongoing efforts to support this approach. A new model—the **refugee compact**—seeks to bring together a range of actors, flexible financing, and other investments in support of countries hosting significant numbers of refugees.<sup>4</sup> Under this framework, actors make mutually reinforcing commitments to resources, policy changes, and projects designed to achieve a shared vision. They gather humanitarian and development expertise under the umbrella of host-country leadership and focus on medium-term solutions for refugees and their host communities. Following these innovations, progress has been made on expanding labor market access for refugees in host countries, a key part of integration.<sup>5</sup>

3. See, for example, Norwegian Refugee Council, *Dangerous Ground: Syria's Refugees Face an Uncertain Future* (Oslo: NRC, 2018), [www.nrc.no/globalassets/pdf/reports/dangerous-ground---syrias-refugees-face-an-uncertain-future/dangerous-ground---syrian-refugees-face-an-uncertain-future.pdf](http://www.nrc.no/globalassets/pdf/reports/dangerous-ground---syrias-refugees-face-an-uncertain-future/dangerous-ground---syrian-refugees-face-an-uncertain-future.pdf).

4. Forced Displacement and Development Study Group, *Refugee Compacts: Addressing the Crisis of Protracted Displacement* (Washington, DC: Center for Global Development and International Rescue Committee, 2017), [www.cgdev.org/app/reader/3125211?page=0](http://www.cgdev.org/app/reader/3125211?page=0).

5. See, for example, Center for Global Development, “Expanding Labor Market Access for Refugees and Forced Migrants,” [www.cgdev.org/page/labor-market-access](http://www.cgdev.org/page/labor-market-access).



But integration is not always an option. Many refugees have specific needs that cannot be addressed in their host countries. Some may have medical needs that may not be treatable (especially if in low- or middle-income countries). Others may still be in an environment in which they don't feel safe, due to xenophobia or racism, or because they are LGBT in a country with anti-LGBT laws. Finally, many host countries do not allow refugees to live normal lives within their borders. Refugees in such countries may be safe, but they are barred from entering the formal labor market, accessing many basic services, or seeking citizenship.

## Resettlement

Resettlement remains the only viable option for many refugees. UNHCR estimated that such was the case for 1.4 million refugees in 2019 (see description in Box 1).<sup>6</sup> Countries that agree to resettle refugees are required by UNHCR to grant them the same rights as the local population; a refugee in Canada or the United States cannot be discriminated against once resettled. Resettled refugees can join the formal labor market, access government services, and move around their new country (legally at least; later in the report we discuss complications that can limit mobility in practice). Aside from the crucial increase in security and freedom they can experience, resettled refugees may also benefit from greater material well-being. Individual productivity and income levels are greatly dependent on the productivity of the economy in which the individual works.

Resettling refugees can also bring benefits for those left behind. Remittances, estimated to be worth US\$529 billion globally in 2018, form one of the largest (and growing) financial flows to developing countries.<sup>7</sup> Refugees participate in these flows as senders and receivers. Their role as senders is crucial for those left in host

### Box 1. Who gets resettled?

In 2019, UNHCR identified 1.4 million refugees for whom resettlement to a third country is the only viable long-term solution, a slightly higher number than in 2018. It used seven criteria to determine this number. Those are as follows, along with the criteria's percentage of persons submitted for resettlement in 2019 (total 81,671):

1. **Legal and/or physical protection needs (31%)** of the refugees in the country of refuge (this includes a threat of refoulement)
2. **Survivors of torture and/or violence (31%)**, where repatriation or the conditions of asylum could result in further traumatization and/or heightened risk; or where appropriate treatment is not available
3. **Women and girls at risk (14%)**, who have protection problems particular to their gender
4. **Lack of foreseeable alternative durable solutions (12%)**, which generally is relevant only when other solutions are not feasible in the foreseeable future, when resettlement can be used strategically, and/or when it can open possibilities for comprehensive solutions
5. **Children and adolescents at risk (8%)**, where a best interests determination supports resettlement
6. **Medical needs (3%)**, in particular life-saving treatment that is unavailable in the country of refuge
7. **Family reunification (< 1%)**, when resettlement is the only means to reunite refugee family members who, owing to refugee flight or displacement, are separated by borders or entire continents

6. *UNHCR Projected Global Resettlement Needs 2021* (Geneva: UNHCR, 2020), <https://www.unhcr.org/en-us/protection/resettlement/5ef34bfb7/projected-global-resettlement-needs-2021.html>.

7. World Bank, "Record High Remittances Sent Globally in 2018," worldbank.org, April 8, 2019, [www.worldbank.org/en/news/press-release/2019/04/08/record-high-remittances-sent-globally-in-2018](http://www.worldbank.org/en/news/press-release/2019/04/08/record-high-remittances-sent-globally-in-2018).

Source: *UNHCR Projected Global Resettlement Needs 2021* (Geneva: UNHCR, 2020), <https://www.unhcr.org/en-us/protection/resettlement/5ef34bfb7/projected-global-resettlement-needs-2021.html>.

countries: in some refugee communities, more than half of the refugees regularly receive remittances from abroad, and aside from helping them survive, such flows can provide the capital for them to start their own businesses.<sup>8</sup> This extra flow of assistance can provide a lifeline, both for those who are already refugees but need living support and for those who are stuck in their home country without the resources to flee.

## 2. The Benefits of Accepting Refugees

For many high-income countries, especially in Europe and North America, being a refuge to people in need is a distinct part of their national identity. Those from other countries have benefited immensely from the welcome and generosity shown to them in times of need. Former US Secretary of State John Kerry captured this sentiment in a statement on World Refugee Day 2016:

*The refugees we welcome to the US will join previous generations who have come to this country to escape violence and persecution—threats to human life and dignity that remain all too real today. History celebrates such moments when we have overcome bias and fear and opened our doors.*<sup>9</sup>

Many countries in Europe have themselves been the origins of refugee flows. Spanish refugees fled to the UK and France during the civil war in the 1930s, refugees from the Soviet Bloc fled to Western Europe and the Americas during the Cold War, and Jewish refugees fled persecution from numerous countries controlled by the Nazis during World War II. Even earlier, before today's concept of a refugee had taken root, migration acted as a safety valve against violence and poverty, with Irish migrants fleeing starvation during the famine in the 1840s, Scots escaping purges following wars with

their southern neighbor England, and French fleeing the guillotine following the revolution. In short, much of the Western world has been shaped by the movement of people, often on a different, larger scale than what is currently experienced. But this safety valve has become more difficult to open. Neighboring countries are frequently also involved in conflict or otherwise unsafe, and immigration policies in many countries have become stricter, narrowing options for people in need. Arguably, formal resettlement has therefore become more important as an avenue for at least some refugees to escape suffering and rebuild their lives.

This history is recognized in such documents as the UN Convention Relating to the Status of Refugees, which came about following the huge displacement that resulted from World War II; 144 countries have signed on to the convention, including all Organisation for Economic Co-operation and Development (OECD) and European countries save Andorra and the Vatican.<sup>10</sup> The convention outlines the rights that countries of asylum should grant refugees and recommends that countries “continue to receive refugees in their territories and . . . act in concert in a true spirit of international cooperation in order that these refugees may find asylum and the possibility of resettlement.”

For the most part, public opinion reflects the spirit of the convention. A 2018 poll found that a majority of people across Europe are in favor of accepting refugees, echoing a previous poll that found that in every country surveyed, a majority of people felt sympathy toward refugees,<sup>11</sup> usually by a large majority.<sup>12</sup> However, of late, resettlement has become controversial. Arguments about the relative cost and the prefera-

8. Betts et al., “Refugee Economies: Forced Displacement and Development,” Oxford University Press, November 2016, <https://www.rsc.ox.ac.uk/publications/refugee-economies-forced-displacement-and-development>.

9. “Statement by Secretary of State John Kerry on World Refugee Day,” US Embassy in Albania, <https://al.usembassy.gov/statement-secretary-state-john-kerry-world-refugee-day/>.

10. United Nations High Commissioner for Refugees, “States Parties to the 1951 Convention Relating to the Status of Refugees and the 1967 Protocol,” UNHCR UK, [www.unhcr.org/U.K./protection/basic/3b73b0d63/states-parties-1951-convention-its-1967-protocol.html](http://www.unhcr.org/U.K./protection/basic/3b73b0d63/states-parties-1951-convention-its-1967-protocol.html).

11. Phillip Conner, “A Majority of Europeans Favor Taking in Refugees, but Most Disapprove of EU’s Handling of the Issue,” Pew Research Center, September 19, 2018, [www.pewresearch.org/fact-tank/2018/09/19/a-majority-of-europeans-favor-taking-in-refugees-but-most-disapprove-of-eus-handling-of-the-issue/](http://www.pewresearch.org/fact-tank/2018/09/19/a-majority-of-europeans-favor-taking-in-refugees-but-most-disapprove-of-eus-handling-of-the-issue/).

12. Ipsos MORI, “Public Attitudes towards Refugees in Europe,” [ipsos.com](http://ipsos.com), [www.ipsos.com/ipsos-mori/en-U.K./public-attitudes-towards-refugees-europe](http://www.ipsos.com/ipsos-mori/en-U.K./public-attitudes-towards-refugees-europe). Majorities ranged from a low of 51 percent (in Slovakia) to a high of 88 percent (in Ireland).

bility of helping refugees in host countries have been seized upon by those who are hostile to immigration more generally. In the same poll, 30 percent of respondents thought “it costs the government too much to take in refugees,” and 30 percent were also worried that refugees were a strain on social welfare systems. Immigration opponents are not just concerned about the economics: they have political and social concerns too. Although this report focuses on economic concerns, in Box 2 we briefly outline why we do not share these political and social concerns.

Changing these views is difficult, and not easily done through data alone.<sup>13</sup> But the evidence in the next section suggests that these views are misplaced and that there is at least the potential to change minds. Subsequent sections will examine the disconnect between the perception and the evidence, and what can be done to close the gap and remove a key barrier to resettlement.

Any effect of resettlement—economic or otherwise—is likely to be tiny given the number of refugees at issue. Forty-two countries have been involved in resettling refugees, and in 2019, 27 of them accepted resettled refugees.<sup>14</sup> These 27 countries have a combined population of more than 1.2 billion. Therefore, even if all 1.4 million UNHCR-referred refugees are resettled in them, it would increase their combined population by only around 0.1 percent—and this ignores the possibility that other countries may develop new resettlement programs. (See Table 1 for resettled refugees as a percentage of total population among the top resettling countries.) This increase may not be spread evenly, and some countries may see larger increases. But comparing current resettlement levels to the population of receiving countries suggests that even a large increase in numbers of resettled refugees is unlikely to have much of an impact on either the economy or the society of the receiving country. Finally, the flows would still be tiny compared with overall migration flows to most of these countries.<sup>15</sup>

**Table 1. Top five largest resettlement countries in 2019**

Country	Number resettled	Percent of total resettled	Population	Resettled as percent of population
US	21,159	33.20	328,239,523	0.01
Canada	9,040	14.19	37,589,262	0.02
UK	5,774	9.06	66,834,405	0.01
Sweden	4,984	7.82	10,285,453	0.05
Germany	4,622	7.25	83,132,799	0.01
All Others	18,147	28.48	693,379,073	0.00
Grand Total	63,726	100.00	1,219,460,515	

Source: UNHCR Projected Global Resettlement Needs 2021 (Geneva: UNHCR, 2020), <https://www.unhcr.org/en-us/protection/resettlement/5ef34bfb7/project-ed-global-resettlement-needs-2021.html>.

14. *UNHCR Projected Global Resettlement Needs 2021*. The 27 countries are: Argentina, Belgium, Brazil, Bulgaria, Canada, Croatia, Estonia, Finland, France, Germany, Iceland, Ireland, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Rep. of Korea, Romania, Spain, Sweden, Switzerland, United Kingdom, United States and Uruguay.

15. World Bank, World Development Indicators, “Net Migration,” accessed June 2018, <https://data.worldbank.org/indicator/SM.POP.NETM>.

## Box 2. Noneconomic concerns

Hostility toward migration in many countries is driven by concerns about the effect on culture, security risks, and economic impacts. This report focuses on the last, but this box briefly addresses the noneconomic concerns, and why we don't share them. Three caveats should be borne in mind:

1. **Not all countries have been affected** by this political backlash, and there are examples of countries increasing their resettlement intake in 2019.<sup>a</sup>
2. **Countries can be anti-migrant but pro-refugee.** Public opinion draws a distinction between “undeserving” migrants and “deserving” refugees. In particular, if asylum seekers have particular vulnerabilities, they are much more likely to be accepted by the public.<sup>b</sup> This is important given that the 1.4 million refugees this report focuses on have been selected for their vulnerability and lack of alternatives.
3. **Many people are concerned that immigration is out of control, not about overall numbers.**<sup>c</sup> The public perceives that politicians are not responding adequately to the “migrant crisis” and have no plans to manage or make the most out of the influx of people. Resettlement offers countries an opportunity to be seen as shaping migration in a way that could benefit the economy, rather than being seen as reacting to large flows after the event.

Notwithstanding these caveats, two key noneconomic concerns have influenced people's views of

resettlement and migration generally. The first is a concern that **refugees will affect national cultures**. This is more relevant to migrants who potentially arrive in larger numbers; refugees tend to arrive in smaller numbers, and with more investment to ensure successful integration (as we propose below) this concern can be alleviated further. There is also some evidence that cultural concerns are a proxy for economic ones,<sup>d</sup> so addressing the economic concerns highlighted above could help allay cultural ones as well.

The second concern is **security**, and terrorism in particular. But there is no recorded instance of a resettled refugee causing a death in the United States since the Cold War,<sup>e</sup> and no reason to suspect that the situation is different elsewhere.<sup>f</sup> Resettled refugees are subject to extensive security checks that are often far more rigorous than for other visa types, and countries can (and do) turn down refugees for resettlement on the basis of perceived security risks. Nearly all of the terrorist attacks carried out in recent years were by people who were already known to authorities, either because of links to ISIS or because they had committed other crimes, and would therefore never have been accepted into a resettlement program. There is also no evidence to suggest that resettled refugees may be more likely to commit crime. A study in the United States found no relationship between areas accepting more refugees and crime rates in those areas.<sup>g</sup> This was true regardless of the origin of refugees.

a. Eleven countries increased their resettlement programs or began new ones. France and Sweden increased resettlement the most in absolute terms. See *UNHCR Projected Global Resettlement Needs 2021* (p.127)

b. Bansak, Hainmueller, Hnagartner, “How Economic, Humanitarian, and Religious Concerns Shape European Attitudes toward Asylum Seekers” *Science* 14 Oct 2016: Vol. 354, Issue 6309, pp. 217–222, <https://science.sciencemag.org/content/354/6309/217>

c. Newman, Booth, Shankar, “Beyond the Westminster Bubble: What people really think about immigration,” December 2017, Open Europe, [https://globalvisionuk.com/wp-content/uploads/2020/02/42-Open-Europe-Immigration-Public-Opinion\\_211217-showing.pdf](https://globalvisionuk.com/wp-content/uploads/2020/02/42-Open-Europe-Immigration-Public-Opinion_211217-showing.pdf).

d. Timothy Hatton, “Immigration, Public Opinion, and the Recession in Europe,” *Economic Policy* 31, no. 86 (2016): 205–246.

e. Alex Nowrasteh, “Syrian Refugees and the Precautionary Principle,” January 28, 2017 *CATO at Liberty* [blog], [www.cato.org/blog/syrian-refugees-precautionary-principle](http://www.cato.org/blog/syrian-refugees-precautionary-principle).

f. Jeff Crisp, “Refugees: the trojan horse of terrorism?” 5 June 2017, *Open Democracy*, <https://www.opendemocracy.net/en/can-europe-make-it/refugees-trojan-horse-of-terrorism/>.

g. Catalina Amuedo-Dorantes, Cynthia Bansak, and Susan Pozo, *Refugee Admissions and Public Safety: Are Refugee Settlement Areas More Prone to Crime?*, IZA Discussion Paper 11612 (Bonn: IZA Institute of Labor Economics, 2018), <http://ftp.iza.org/dp11612.pdf>.

## Refugees present a net benefit to the economy

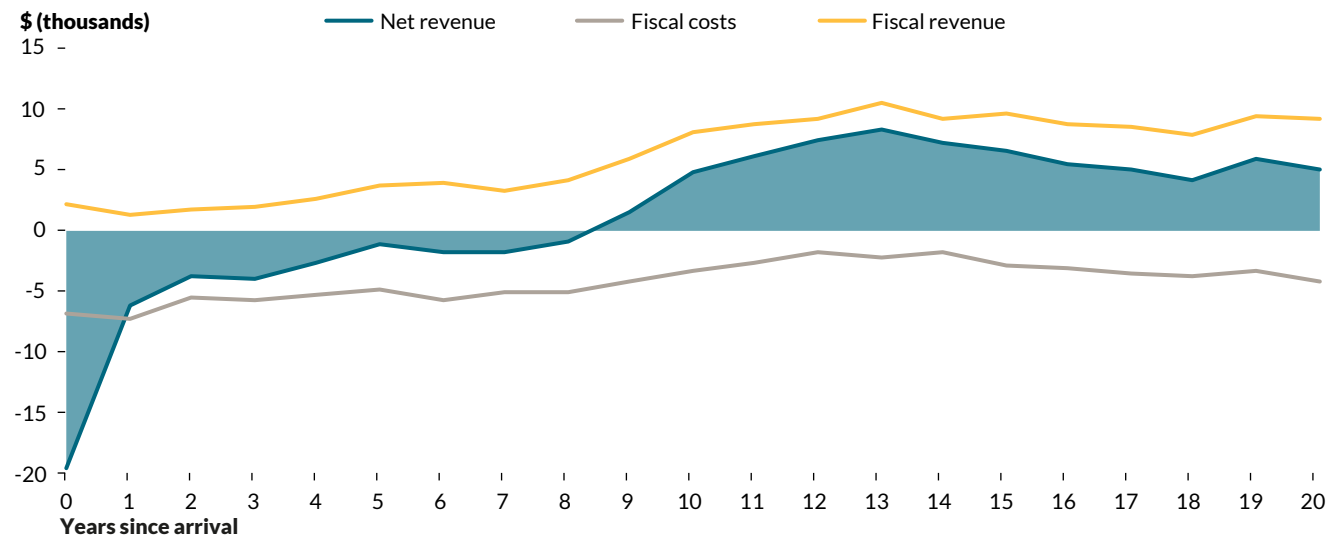
There are immediate costs to resettling refugees, who often arrive destitute, in need of counseling, and with little knowledge of the local language or culture.<sup>16</sup> But despite such early costs, resettled refugees can be a benefit to their new countries, both in terms of *fiscal value* (by bringing in additional net tax revenue for the government) and *economic value* (by providing additional goods and services that people value). When resettled refugees don't manage to become net fiscal contributors, it is often a result of restrictive policies, as we discuss later.

In terms of fiscal value, refugees can make a significant contribution. A study in the United States<sup>17</sup> finds that working-age refugees make a significant contribution

to the economy over the first 20 years (the period over which outcomes were measured), with their tax contribution outweighing the combined cost of social security and first-year resettlement services (Figure 3). Accounting for a comprehensive range of data on services from which refugees benefit, and detailed estimates of taxes raised, the study's authors find that over this period, refugees made a net contribution of US\$21,324 on average.<sup>18</sup> Estimates of the costs of resettling refugees in the first five years were very similar to those reported in a study by the Center for Immigration Studies<sup>19</sup>—an organization generally hostile to resettlement. Although earnings and employment rates were low on arrival, taxes paid in later years outweighed benefits received earlier on.

It should be borne in mind that these survey-based studies are unlikely to capture the fiscal gains

**Figure 3. Fiscal contribution of average refugee resettled to the United States, by year since arrival**



Source: William N. Evans and Daniel Fitzgerald, *The Economic and Social Outcomes of Refugees in the United States: Evidence from the ACS*, NBER Working Paper 23498 (Cambridge, Mass.: National Bureau of Economic Research, 2017), [www.nber.org/papers/w23498](http://www.nber.org/papers/w23498).

16. For a discussion of costs of services provided to asylum seekers in Europe, see Isabella Massa, *Untangling the Data: Assessing the Accuracy of Official Refugee-Related Costs in Europe* (London: Overseas Development Institute, 2016), [www.odi.org/sites/odi.org.uk/files/resource-documents/10853.pdf](http://www.odi.org/sites/odi.org.uk/files/resource-documents/10853.pdf).

17. William N. Evans and Daniel Fitzgerald, *The Economic and Social Outcomes of Refugees in the United States: Evidence from the ACS*, NBER Working Paper 23498 (Cambridge, Mass.: National Bureau of Economic Research, 2017), [www.nber.org/papers/w23498](http://www.nber.org/papers/w23498).

18. Data on costs were taken from the Bureau of Population, Refugees, and Migration, and the Census Population survey, and taxes were estimated using the National Bureau of Economic Research's TAXSIM model.

19. Steven A. Camarota, *The High Cost of Resettling Middle Eastern Refugees* (Washington, DC: Center for Immigration Studies, 2015), <https://cis.org/Report/High-Cost-Resettling-Middle-Eastern-Refugees>.



generated by exceptional refugees. Surveys are based on samples, and undersampling of the very top of the earnings distribution is a well-known problem.<sup>20</sup> A sample of 10,000 people in the United States is vanishingly unlikely to pick up remarkably successful refugees such as George Soros or Charles Saatchi.<sup>21</sup>

Refugees may not always be net fiscal contributors, especially in countries with persistent fiscal deficits. But even in situations where refugees have a slight negative fiscal contribution, their economic contribution may still be positive. For example, in many countries, a cleaner may contribute less in taxes than the value of government-provided services that they use, such as education, healthcare, and old-age benefits. In this case, the cleaner's fiscal contribution will be negative. But this does not mean that cleaners are an economic "burden" or that their job is not economically useful. Cleaners provide a service that others benefit from, and the job they perform would have to be filled by others, who may otherwise have been performing a different economic function.

In other words, we should not assess someone's *economic value* by their fiscal contribution. Even in countries in which their *fiscal value* is negative, refugees' *economic value* can be significant and positive. While the fiscal impact of resettling 1.4 million referred refugees is likely to be small (positive or negative) the economic impact is likely to be positive, as refugees tend to have characteristics that are likely to be highly beneficial for the societies and economies in which they resettle.

## Refugees provide a demographic and productivity bonus

In general, refugees are young. According to available UN data,<sup>22</sup> only 2 percent of refugees submitted to be resettled are over 60 years old, and the figure is similar in resettlement countries for which data are available.

The relative youth of the refugee population matters: an increase in the number of workers spreads the cost of caring for the elderly, alleviating the burden on the public finances caused by an aging population. The cost of caring for an aging population is a particular problem in many high-income countries, where low fertility and longer life expectancy are driving up the proportion of the population above retirement age. To take one example, public pensions alone are expected to account for one-fifth of the government's budget in the UK in 2018, and that figure doesn't capture increased use of other services typical of those above retirement age. Accepting refugees may not significantly change the demographic profile, but it would be a move in the right direction, giving governments more leeway to adapt policies to serve an older population.

Numerous studies have also found that after settling in new countries, refugees tend to have higher employment rates than natives (this is likely to be an additional consequence of the age profile). This has been found to be true in the United States,<sup>23</sup> Italy, and Switzerland,<sup>24</sup> and data from the Canadian immigrant database suggest the same. It is not true for some countries, but as will be discussed below, that is likely because of the restrictions refugees face.

There is also evidence to suggest that refugees are more entrepreneurial than local-born populations. Some studies<sup>25</sup> identify personal characteristics that are

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20. See, for example, Thomas Blanchet, Ignacio Flores, and Marc Morgan, *The Weight of the Rich: Improving Surveys Using Tax Data* (World Inequality Database, 2019), <https://wid.world/document/the-weight-of-the-rich-improving-surveys-using-tax-data-wid-world-working-paper-2018-12/>.

21. This is partly because of the shape of the earnings distribution, but also because wealthier people have been found to be less likely to respond to surveys. This is part of the reason that Thomas Piketty in *Capital in the Twenty-First Century* found that inequality had been rising faster than previously thought, after using more comprehensive administrative tax data. For the scale of the difference this undersampling could make to fiscal estimates, see [www.cgdev.org/blog/world-refugee-day-we-ask-are-we-counting-all-benefits-resettlement-has-brought](http://www.cgdev.org/blog/world-refugee-day-we-ask-are-we-counting-all-benefits-resettlement-has-brought).

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22. UNHCR Projected Global Resettlement Needs 2021 (Geneva: UNHCR, 2020). <https://www.unhcr.org/en-us/protection/resettlement/5ef34bfb7/project-ed-global-resettlement-needs-2021.html>.

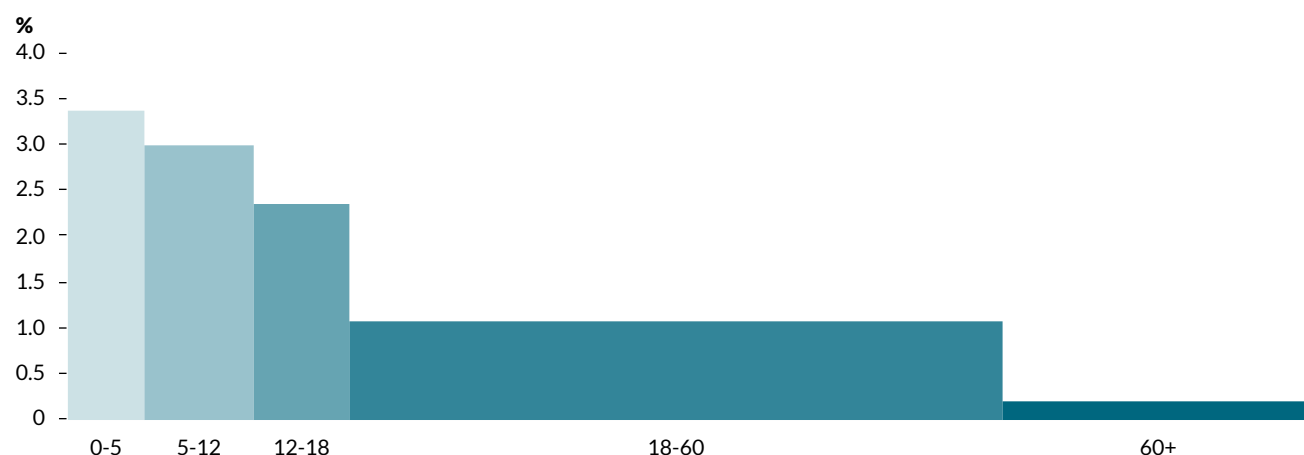
23. Evans and Fitzgerald, *The Economic and Social Outcomes of Refugees in the United States*.

24. Philippe Legrain, *Refugees Work: A Humanitarian Investment That Yields Economic Dividends* (Tent Foundation and Open Political Economy Network, 2016), [www.tent.org/wp-content/uploads/2016/05/Tent-Open-RefugeesWork\\_VFInal-singlepages.pdf](http://www.tent.org/wp-content/uploads/2016/05/Tent-Open-RefugeesWork_VFInal-singlepages.pdf).

25. Philippe Legrain and Andrew Burrridge, *Seven Steps to SUCCESS* (Sydney:



**Figure 4. Age distribution of UNHCR refugees: density by age group**



Source: UNHCR population statistics (<https://www.unhcr.org/refugee-statistics/download/?url=R1xq>).

Note: Area of bars represents the total percentage of people in that age group—for example, 17 percent of people are in the 0-to-5-years age group.

likely common to both refugees and entrepreneurs, such as a propensity to take risks and a willingness to seize opportunities. In Australia, refugees from places such as Iran, Iraq, Somalia, and Lebanon are considerably more likely to be owners or managers of their own businesses than people born in Australia.<sup>26</sup> In the United States and the UK, immigrants are roughly twice as likely to start businesses (although no evidence exists for refugees specifically).<sup>27,28</sup>

Of course, highly skilled refugees have a greater chance of accessing alternative routes out of displacement, such as obtaining skilled visas.<sup>29</sup> A resettlement scheme that relies solely on highly skilled refugees may, therefore, not be sustainable if these alternative routes become more widely available (something we would encourage). However, refugees do not need to be highly skilled to bring benefits. As Philippe Legrain

observes in *Refugees Work*,<sup>30</sup> refugees tend to be willing to take jobs that natives view as undesirable. Legrain calls these “4D” jobs—dirty, difficult, dangerous, or dull jobs that locals often spurn. Such jobs are necessary in all societies, and there is evidence that in some countries they will account for a higher percentage of jobs in the future.<sup>31</sup> But they are associated with low status, and many natives would rather not take them at current wages.

The potential benefits go beyond the direct effects of additional employment in these sectors. An influx of low-skilled workers may trigger other important changes. It could lead to an increase in the return to higher skills; given that factors of production are often complementary, an increase in one may make others more valuable. For example, an increase in the number of manual workers in a factory may make employing another manager worthwhile. When more waiters are available, a restaurant may be able to expand and employ more chefs. This increased availability of higher-skilled jobs could tempt some people back into the labor market or encourage investment in these skills. There is evidence for this from Denmark: Mette Foged and Giovanni Peri<sup>32</sup> show that an increase in refugees

Centre for Policy Development, 2019), <https://cpd.org.au/wp-content/uploads/2019/04/Seven-Steps-to-SUCCESS.pdf>.

26. Graeme Hugo, “Economic, Social, and Civic Contributions of First and Second Generation Humanitarian Entrants,” report for the Australian Department of Immigration and Citizenship (2011).

27. Dane Stangler and Jason Wiens, *The Economic Case for Welcoming Immigrant Entrepreneurs* (Kauffman Foundation, updated September 2015), [www.kauffman.org/what-we-do/resources/entrepreneurship-policy-digest/the-economic-case-for-welcoming-immigrant-entrepreneurs](http://www.kauffman.org/what-we-do/resources/entrepreneurship-policy-digest/the-economic-case-for-welcoming-immigrant-entrepreneurs).

28. Centre for Entrepreneurs and DueDil, *Migrant Entrepreneurs: Building Our Businesses, Creating Our Jobs* (London: CFE, 2014).

29. For example, Talent Beyond Boundaries is an organization that works to expand opportunities for refugees who are eligible for skilled visas (<https://talentbeyondboundaries.org/>).

30. Legrain, *Refugees Work*.

31. Ibid.

32. Mette Foged and Giovanni Peri, *Immigrants and Native Workers: New Analysis*

led native workers to pursue less manual-intensive occupations, which, in turn, led to higher educational attainment and wages among natives.

## The benefits of accepting refugees can extend to future generations

The benefits discussed up to this point all relate to first-generation refugees, but there is reason to believe that the economic gain from increased resettlement goes even further. Studies of migration have found that, as with refugees, the effect of immigrants arriving on the economy is largely positive. However, such gains were modest compared with those from second-generation immigrants. On average, children of immigrants pay considerably more in taxes than children of natives and claim less in benefits. Partly this is due to educational choices: second-generation immigrants are significantly more likely to choose courses that lead to higher-paid jobs, such as science and engineering courses. Grandchildren of immigrants—third-generation immigrants—have outcomes similar to natives (Figure 5).<sup>33</sup>

This evidence refers to migrants more generally, but given the potential similarities between migrants and refugees, it is reasonable to expect that the outcomes of those born to refugees will be similar. This suggests that resettling refugees is an investment that will reap rewards long into the future. This is increasingly acknowledged by countries concerned about their changing demographics. For example, the Scottish government has argued that immigration should be increased to secure a prosperous future.<sup>34</sup>

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on Longitudinal Data, NBER Working Paper 19315 (Cambridge, Mass.: National Bureau of Economic Research, 2013).

33. National Academies of Sciences, Engineering, and Medicine, *The Economic and Fiscal Consequences of Immigration* (Washington, DC: National Academies Press, 2017), [www.nap.edu/catalog/23550/the-economic-and-fiscal-consequences-of-immigration](http://www.nap.edu/catalog/23550/the-economic-and-fiscal-consequences-of-immigration).

34. Scottish Government, “Migration Vital to Scotland’s Future Workforce,” [gov.scot](http://gov.scot), November 5, 2019, [www.gov.scot/news/migration-vital-to-scotlands-future-workforce/](http://www.gov.scot/news/migration-vital-to-scotlands-future-workforce/).

## Accepting refugees for resettlement can offer political advantages

At the end of 2016, all 193 members of the UN General Assembly signed the New York Declaration on Refugees and Migrants,<sup>35</sup> which outlined a commitment to do more in response to the current displacement crisis, including expanding resettlement programs. Paragraph 77 states,

*We intend to expand the number and range of legal pathways available for refugees to be admitted to or resettled in third countries. In addition to easing the plight of refugees, this has benefits for countries that host large refugee populations and for third countries that receive refugees.*

The increase in refugee resettlement envisioned in this statement can have political and reputational benefits for countries. For example, by agreeing to participate in resettlement, third countries gain credibility in their handling of the crisis. There is evidence that restrictive policies in European countries and Australia have had a ripple effect, triggering more restrictive policies in Indonesia, Kenya, and Jordan.<sup>36</sup> Resettlement can clearly demonstrate a commitment to values that the West would want to project—tolerance, preservation of liberty, and a willingness to help those in need—which could be helpful given that this is not necessarily how Western countries are seen in some of the largest refugee-hosting countries.<sup>37</sup>

Better treatment for refugees may also be regarded as an investment in security. Displaced people living for prolonged periods with little access to work or

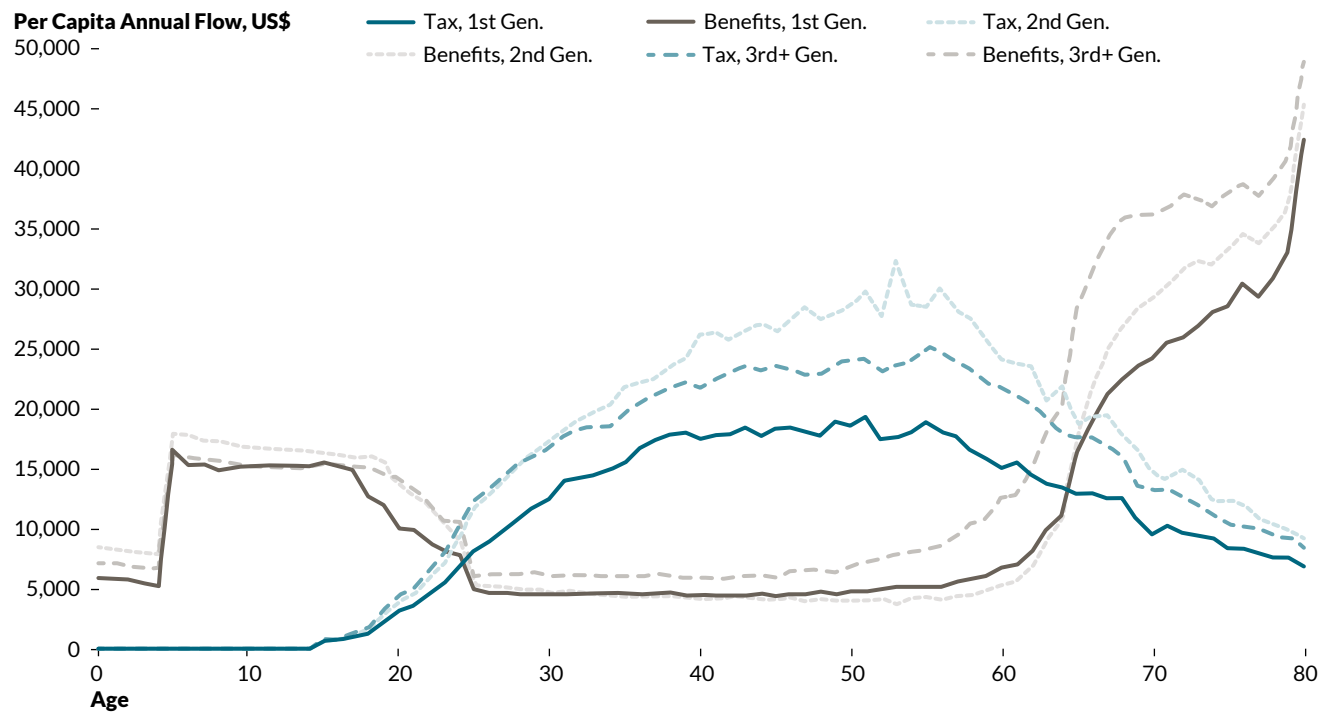
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35. Jeff Crisp, “New York Declaration on Refugees: A One-Year Report Card,” [newsdeeply.com](http://newsdeeply.com), September 18, 2017, [www.newsdeeply.com/refugees/community/2017/09/18/new-york-declaration-on-refugees-a-one-year-report-card](http://www.newsdeeply.com/refugees/community/2017/09/18/new-york-declaration-on-refugees-a-one-year-report-card).

36. Karen Hargrave, Sara Pantuliano, and Ahmed Idris, *Closing Borders: The Ripple Effects of Australian and European Refugee Policy. Case studies from Indonesia, Kenya, and Jordan*, (London: Overseas Development Institute, 2016), [www.odi.org/publications/10557-closing-borders-ripple-effects-australian-and-european-refugee-policy-case-studies-indonesia-kenya](http://www.odi.org/publications/10557-closing-borders-ripple-effects-australian-and-european-refugee-policy-case-studies-indonesia-kenya).

37. “The Great Divide: How Westerners and Muslims View Each Other,” Pew Research Center, June 22, 2006, [www.pewglobal.org/2006/06/22/the-great-divide-how-westerners-and-muslims-view-each-other/](http://www.pewglobal.org/2006/06/22/the-great-divide-how-westerners-and-muslims-view-each-other/). The study was of Muslims’ views in these countries, but that religion accounts for 95 percent, or more, of people in each of these countries.

**Figure 5. Estimating the fiscal impacts of immigration**



Source: National Academies of Sciences, Engineering, and Medicine, *The Economic and Fiscal Consequences of Immigration* (Washington, DC: National Academies Press, 2017).

education, and with restrictions on movement, could be susceptible to radicalization. For example, the UK's Department for International Development has justified funding to Syrian refugees in host countries by claiming that poverty among refugees, and the strain refugees are placing on public services, "risks growing violence, extremism and radicalization."<sup>38</sup> These fears are not entirely unfounded. An International Organization for Migration report found evidence of refugee camps "becoming spaces for violent extremism,"<sup>39</sup> both by terrorist groups recruiting from camps and by individuals within camps becoming radicalized. Increasing resettlement can remove individuals from this situation and make others less likely to become

radicalized by giving them hope and easing the pressure on services.

### 3. Responding to Concerns about the Costs of Refugee Resettlement

Despite ample evidence on the benefits of accepting refugees, some see resettlement as expensive, and refugees as a burden. Indeed, some commentators explicitly ignore the benefits when evaluating the impact of refugee resettlement, as demonstrated by the Center for Immigration Studies report noted previously. Partly as a result, in 2019 only 63,726<sup>40</sup> refugees were resettled into third countries—less than 5 percent of the projected global resettlement needs for that year.<sup>41</sup> The perception that refugee resettlement is necessarily costly is exacerbated by the fact that the potential benefits are not always realized, in part because of the challenges that refugees face on arrival that they need

38. DFID Lebanon Profile: July 2017, <https://www.gov.uk/government/publications/dfid-lebanon-profile-july-2017> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/630948/Lebanon1.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/630948/Lebanon1.pdf).

39. Khalid Koser and Amy Cunningham, "Migration, Violent Extremism, and Social Exclusion," in *World Migration Report 2018*, ch. 9 (Geneva: International Organization for Migration, 2017), [https://publications.iom.int/system/files/pdf/wmr\\_2018\\_en\\_chapter9.pdf](https://publications.iom.int/system/files/pdf/wmr_2018_en_chapter9.pdf).

40. UNHCR Resettlement Data Finder, <https://rsq.unhcr.org/>.

41. *UNHCR Projected Global Resettlement Needs 2020*.

assistance to overcome. Overall, three factors account for the misperception that refugee resettlement is especially costly:

1. **The costs of resettlement are more immediately visible than the benefits.** Three mismatches between the costs and benefits of resettlement create a perception that it is expensive: the costs of resettlement are more *immediate, local, and salient* than the benefits, which tend to accrue in the future, at the national level, and less conspicuously.
2. **Investment in refugee resettlement is inadequate to deliver benefits.** Refugees can bring benefits only if they adapt and integrate successfully, which requires adequate investment.
3. **The investments that are made in refugee resettlement are not as effective as they could be.** Not only are investments in refugee integration frequently inadequate, but they are also not fully effective.

These three factors are interrelated, creating a vicious cycle that leads to inadequate help for refugees who have been resettled and less appetite for further resettlement (Figure 6).

### The costs of resettlement are more immediately visible than the benefits

When refugees are resettled, the **benefits accrue in the future, whereas the costs are felt immediately**. While evidence from numerous countries suggests that refugees can become net contributors to their new host country, this takes time.<sup>42</sup> On arrival, refugees need accommodation, language training, and often special medical treatment. Employment rates are far lower than for natives for several years and use of benefits is higher. In the United States, although Evans and Fitzgerald find that refugees are net contributors over the

first 20 years, for the first eight years the social welfare they receive is more than the tax they pay.<sup>43</sup> This is understandable. Refugees are in a new environment, need to learn how to navigate the various systems that may have no equivalent in their origin country, and perhaps also need time to recover from their experiences. The fact that these costs are more immediate makes them more visible.

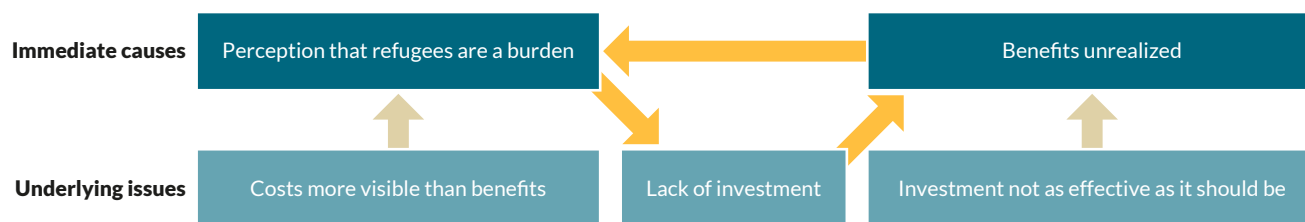
Another key mismatch is between the jurisdictions in which costs and benefits arise: **costs are felt locally, and benefits are experienced nationally**. The costs of providing services to refugees are borne by local governments or communities where the refugees reside, but most of the tax revenue that refugees generate will accrue to government at the national level. There are ways of transferring resources between levels of government, but those are generally not well suited to cover the specific needs of local governments providing for refugees; they do not allow for tailoring to individual circumstances, and amending them requires political decisions. This can be seen in the UK, where councils involved in resettlement receive £8,000 per refugee in the first year, regardless of where they are from, what medical treatment they need, the cost of housing in the district, or how long it takes the refugee to find work and integrate. Several councils have complained that the amount they received is insufficient to cater for the refugees they have accepted, leaving them with the choice of either directing resources from other budgets or failing to provide adequately for the refugees.<sup>44</sup> Naturally, after a long period in which councils have seen their funding from central government reduced, no councils have reported receiving more money than they need. Indeed, given the funding difficulties that many councils have faced in recent years, there is arguably a worrying incentive to underprovide for refugees given that the block transfer will not be affected.

42. Estimates from Australia suggest it takes slightly over a decade (Access Economics (2008). Migrants Fiscal Impact Model: 2008 update. Report for the Department of Immigration and Citizenship, [http://www.immi.gov.au/media/publications/research/\\_pdf/migrantsfiscal-impact-april-2008.pdf](http://www.immi.gov.au/media/publications/research/_pdf/migrantsfiscal-impact-april-2008.pdf)), and in the United States around eight years (Evans and Fitzgerald, *The Economic and Social Outcomes of Refugees in the United States*), before refugees' annual fiscal contribution is positive.

43. Evans and Fitzgerald, *The Economic and Social Outcomes of Refugees in the United States*.

44. Tamsin Rutter, "How Much Does It Cost UK Councils to Take in Refugees?," *The Guardian*, July 14, 2016, [www.theguardian.com/housing-network/2016/jul/14/cost-uk-councils-take-in-syrian-refugees](http://www.theguardian.com/housing-network/2016/jul/14/cost-uk-councils-take-in-syrian-refugees).

**Figure 6.** The “vicious” cycle of investment in refugees



**These costs are also more salient than the benefits.** Spending on refugees might be an extra item in a budget, such as the transfer to local authorities in the UK. By contrast, government revenue statistics will not contain a separate item outlining how much tax came from refugees; that extra revenue will be subsumed into general revenue increases, and the marginal contribution of refugees will be invisible. This difference makes it easy to think of refugees as a cost to society, and to be unaware of the benefits.

### Investment in refugee resettlement is inadequate to deliver benefits

Refugees require assistance when they arrive in a new country to help them integrate and live up to their potential, including language and cultural integration training; investment in medical issues, both physical and mental; and basic needs such as food and housing. Governments provide some of this investment, but it is usually insufficient. For example, Canada and the UK spend similar amounts on helping refugees to integrate—between US\$20,000 and US\$30,000<sup>45</sup>—but in Canada, a study found that refugees often rely on food banks and do not have enough money to meet basic

needs,<sup>46</sup> and in the UK, demand for further language assistance far outstrips supply.<sup>47</sup>

Refugees may not be able to provide for these needs themselves. They have fled their homes and their countries, and chances are good that whatever possessions or capital they could take have been confiscated at borders, stolen, lost, or damaged. This would not be a problem if refugees could borrow, anticipating high returns on investing in their skills or integration more generally. But **refugees are often credit constrained.** With no capital to use as collateral, and lacking any credit history, refugees have little opportunity to access private credit markets.

Refugees are also often constrained from making a living for themselves. Refugees who are trained as doctors or accountants may have the potential to cover these costs and make big contributions to society and the economy, but to practice in such areas they need their skills to be formally recognized and adapted to the institutional context. The process of obtaining recognition and the right to practice can be expensive and time consuming. Location presents another problem: whereas placing refugees in an inexpensive area with available housing may require fewer resources up front, this may prevent them from using their skills effectively if there are no relevant jobs in that area.<sup>48</sup>

45. This is based on estimates from the Canada, the UK, and the United States. In Canada, our estimate is US\$19,900 and is based on communications with Canadian resettlement officials. In the UK, our estimate is US\$30,400, which is the dollar value of the transfer to councils to cover the costs of integration services (UK National Audit Office, “The Syrian Vulnerable Persons Resettlement Programme,” [nao.org.uk](http://nao.org.uk), 2016, [www.nao.org.uk/report/the-syrian-vulnerable-persons-resettlement-programme/](http://www.nao.org.uk/report/the-syrian-vulnerable-persons-resettlement-programme/)). These estimates are likely to be much lower in countries with a lower cost of living. Conversely, a higher initial outlay could improve results. We think this range is therefore reflective of what investment per refugee is likely to be needed.

46. Kathleen Harris, “Federal Support for Refugees ‘Inadequate’ to Launch New Life, Internal Review Finds,” CBC News, November 9, 2016, [www.cbc.ca/news/politics/refugees-federal-assistance-inadequate-evaluation-1.3842247](http://www.cbc.ca/news/politics/refugees-federal-assistance-inadequate-evaluation-1.3842247).

47. UK National Audit Office, “The Syrian Vulnerable Persons Resettlement Programme.”

48. Meghan Benton and Alexandra Embiricos, *Doing More with Less: A New Toolkit for Integration Policy* (Washington, DC: Migration Policy Institute, 2019), <https://www.migrationpolicy.org/research/toolkit-integration-policy>.



The public perception that refugees are already expensive is likely to make increasing the amount of money spent on them politically difficult, even if it could yield a return. This is a problem common to many public expenditure decisions: **it is difficult to spend now to generate savings later**. Spending money on infrastructure, such as bridges and roads, clearly represents an investment, as tangible assets are created that will be valuable for years to come. But there are other expenditure items that constitute investments, but less obviously so as the return is less visible, such as preventive measures against diseases or obesity or spending on police units to reduce expensive crimes. Such items are frequently underfunded because the return they generate is in the distant future and lacks visibility, and investment in refugees falls in this category. Even if it could increase the wealth of a country in the long run, spending on refugees is myopically viewed as a cost to be minimized.

### The investments made in refugee resettlement are not as effective as they could be

How money for refugees is spent is also important. The investment needs to be directed at refugees' actual needs—a client-centered approach. Refugees come from all over the world, speak various languages, and face different challenges. Efforts to integrate refugees should avoid focusing on “refugees” as a group and instead focus on the specific needs of individuals. Such an approach would encourage the collection and use of appropriate information to judge the effectiveness of interventions and show how they could be improved and adapted as circumstances change. Without this client-centered approach, governments run the risk of overinvesting in some refugees and underinvesting in others, preventing them from recognizing their potential.

Governments can find it difficult to deliver services in this way. Generally, governments struggle to react quickly as new information emerges, especially if it means increasing the amount of resources committed or overhauling a strategy. It is also easier for governments to base payments on the inputs provided—for

example, agreeing to fund 10 hours of employment training—which may not be perfectly correlated with what the government is trying to achieve and may make it difficult for service providers to be as responsive as they could be.

Refugees are well placed to know what investments would help them achieve their potential, but as noted earlier, they face financial constraints to accessing those investments. They also face **nonfinancial constraints** that limit the potential impact of investment.

### Box 3. Hassan's story: The impact of UK refugee policy

Hassan used to run a construction company in Syria before becoming a refugee and moving to the Isle of Bute in the UK. He told the *Scottish Mail on Sunday*: “I need to work . . . I am not used to someone giving me money. I want to pay for my own expenses.”<sup>a</sup> If he had been resettled in a town or city with an active construction industry, he could have used his skills and experience.

Refugees in the UK are bound to their area for five years as a condition of receiving social housing, making it difficult for them to explore other areas that may provide better outlets for their skills. In theory, refugees should be more mobile than natives. They are less likely to have long-established ties to a particular area, and therefore it may be easier for them to travel to find work. “Frictional” unemployment—that caused by locational mismatches between labor supply and demand—is likely to be less of a problem for them. However, when the services they receive are geographically tied, this potential advantage vanishes.

a. Katherine Sutherland “Scotland has been very kind to us – but we are slowly dying on this little island” *The Scottish Mail on Sunday*, 24 July, 2016



Refugees are often bound to areas when they arrive—for example, by making service provision dependent upon refugees remaining in the area to which they are allocated. For example, in Finland, “refugees . . . are free to move when and wherever they like. However . . . in case the refugees want to move, they need to find accommodation themselves, and they may have to wait until there is a place for them in the integration training or language courses in their new municipality.”<sup>49</sup> In practice, this may not be possible. Even if they know they can find work in a new area, they will almost certainly need up-front funds to pay for rent and deposits for their new accommodation, and even if they can find such funds, it is still an expensive option relative to remaining in the government-provided housing. Although evidence suggests that refugees are nearly universally keen to work, it is understandable that they would be wary of sacrificing this security. It is not just in Finland that refugees face these difficulties. A European Commission report found that 11 Member States had similar conditions on receiving payments and services that are effectively de facto restrictions on movements.<sup>50</sup> Exacerbating this, refugees are often sent to where housing is least expensive, which also tend to be places with fewer employment opportunities.

## 4. Harnessing Untapped Sources of Value

As discussed earlier, **insufficient investment to support refugee integration** prevents resettled refugees from realizing their full potential, contributing to a (mis)perception that the costs of resettlement are greater than the benefits. In this section, we identify two existing sources of value from which this additional investment could be provided: future aid spending (money that governments would otherwise spend

on refugee response in the future) and improved labor market outcomes for refugees. We discuss how they could be monetized and used to pay back investors.

To be clear, these existing sources offer value that currently is left on the table as a result of suboptimal economic outcomes of resettled refugees. But just because spending more money now could save the government more money later (“spending to save”) does not guarantee that a government will be able to do so. As discussed in Section 3, political pressures and barriers can make sound investments in refugee resettlement difficult. As a result, to ensure that resettled refugees receive sufficient investment to achieve their potential, it may be necessary to consider novel forms of financing. Innovative finance tools that attract finance from impact investors may be a way to resolve this; we explore those options in Section 5.

### Bringing forward future aid spending

The international community spends a large and growing amount of money on refugees in host countries (Figure 7). Year after year, millions of refugees are provided with food handouts and “temporary” shelters—assistance that may be needed for decades. This spending has risen dramatically recently and is now one of the largest components of humanitarian assistance. This is especially notable given the number of severe and widely publicized natural disasters that occurred during this period, including earthquakes in Turkey, Iran, Nepal, and Haiti and devastating hurricanes in the Caribbean. Yet despite the outpouring of generosity in response to these events, the proportion of humanitarian aid spent on providing for refugees has risen from an average of around 3 percent between 2006 and 2010 to an average of 15 percent between 2014 and 2018 according to data from the UN Office for the Coordination of Humanitarian Affairs (UNOCHA).

This report argues that if the international community is willing to spend these resources on supporting refugees, then it would be more efficient to recognize that displacement often lasts for decades. Instead of

49. European Migration Network, *Resettlement and Humanitarian Admission Programmes in Europe: What Works?—National Report of Finland*, EMN Focussed Study 2 / 2016, [https://ec.europa.eu/home-affairs/sites/homeaffairs/files/09a\\_finland\\_national\\_report\\_resettlement\\_en.pdf](https://ec.europa.eu/home-affairs/sites/homeaffairs/files/09a_finland_national_report_resettlement_en.pdf).

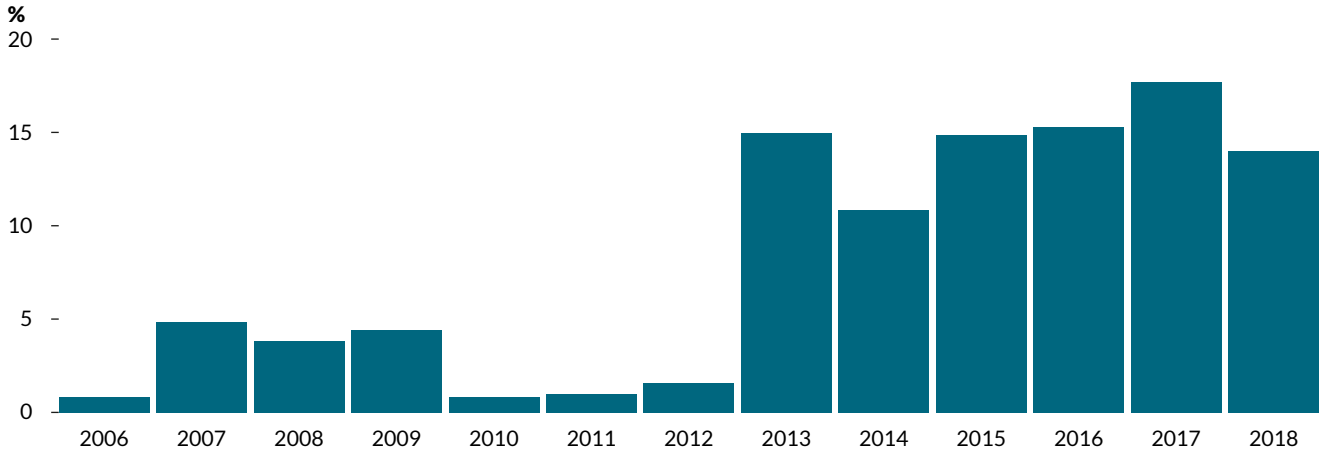
50. European Migration Network, *Resettlement and Humanitarian Admission Programmes in Europe—What Works? Final Version* (November 9, 2016), [https://ec.europa.eu/home-affairs/sites/homeaffairs/files/what-we-do/networks/european\\_migration\\_network/reports/docs/emn-studies/emn-studies-00\\_resettlement\\_synthesis\\_report\\_final\\_en.pdf](https://ec.europa.eu/home-affairs/sites/homeaffairs/files/what-we-do/networks/european_migration_network/reports/docs/emn-studies/emn-studies-00_resettlement_synthesis_report_final_en.pdf).

tiding over refugees while they wait for a solution to arise, the international community could use some of the resources it would spend anyway in the future and bring them forward into the present to facilitate resettlement—the only viable solution for 1.4 million refugees. This need not cost international donors more per refugee but may help secure better outcomes.

### Improving labor market outcomes

A second untapped source of value comes from improved labor market outcomes (see box 5). Refugee employment rates vary widely from country to country (Figure 8). While many factors affect the possibility of refugees gaining employment in different countries,

**Figure 7. Percentage of humanitarian spend on refugee crises**



Source: Financial Tracking Service of the United Nations Office for the Coordination of Humanitarian Affairs (hereinafter FTS UNOCHA) (<https://fts.unocha.org/data-search>); authors' calculations. Percentage of total spend from projects with word "refugee" in plan or emergency description.

### Box 4. How much does bringing forward spending unlock?

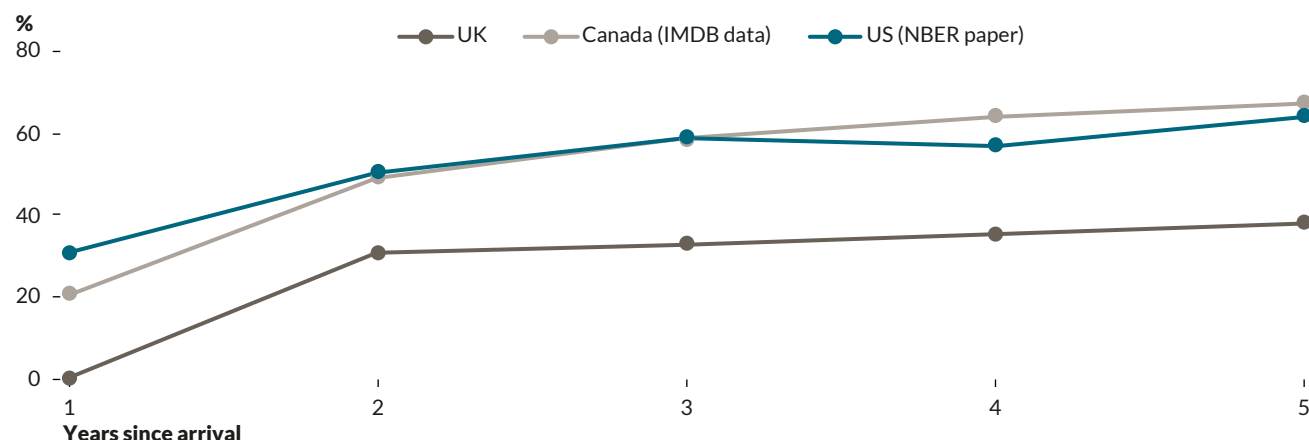
What magnitude of up-front investment could be unlocked by bringing forward spending? Based on data from UNOCHA's Financial Tracking Service, we estimate that international donors together spend roughly US\$582 per refugee each year (see Part II). Given the likely duration of displacement, and using a standard discount rate, this would equal an investment of roughly US\$7,500.

Committing to spending this money on refugee resettlement instead would not require additional resources. Still, there are reasons to believe that

donors would be willing to pledge more. First, our spending estimate does not take into account what host governments spend; without host government spending, donors may be willing to pay more. Second, the potential welfare improvements from resettlement are dramatic, and usually permanent. Given this, if international donors needed to spend more than they currently do to achieve those improvements, it is possible that they would be willing. If a "slight" increase in spending led to more resettlement, that would not just lead to a "slight" improvement in welfare, but a step change.

Source: FTS UNOCHA; authors' calculation.

**Figure 8. Employment rates among refugees in the United States, Canada, and the UK**



Sources: William N. Evans and Daniel Fitzgerald, *The Economic and Social Outcomes of Refugees in the United States: Evidence from the ACS*, NBER Working Paper 23498 (Cambridge, Mass.: National Bureau of Economic Research, 2017), [www.nber.org/papers/w23498](http://www.nber.org/papers/w23498); Statistics Canada, *Longitudinal Immigration Database* <https://www150.statcan.gc.ca/nl/en/type/data?sourcecode=5057> (authors' calculations), (UK National Audit Office, "The Syrian Vulnerable Persons Resettlement Programme," *nao.org.uk*, 2016, [www.nao.org.uk/report/the-syrian-vulnerable-persons-resettlement-programme/](http://www.nao.org.uk/report/the-syrian-vulnerable-persons-resettlement-programme/)) (authors' calculations from stated assumptions).

the size of the discrepancy suggests that some countries are well below the frontier of what is possible.

Furthermore, refugees have been found to be much more likely to be overqualified for the jobs they do have, relative to other migrants. In the European Union, 60 percent of tertiary-educated refugees were found to be in jobs for which their skills were not needed.<sup>51</sup> If refugees were able to move into higher-skill jobs for which they are qualified, this would likely both increase their fiscal contribution and improve their own well-being.

When refugees are gainfully employed, they create greater economic value. But there is also a direct, fiscal cost of unfulfilled potential. In most Western countries, the cost of providing for the unemployed is expensive. Income tax revenue is foregone, and consumption tends to be lower, which lowers revenue from other taxes. Governments usually provide social security to the unemployed and help with the cost of housing and childcare. The combined cost of additional social welfare payments and foregone revenue can be large, especially in European countries with generous welfare systems. A study for the European Commission

estimated the annual cost per unemployed person in six European countries, and found that in 2010 this cost was between €18,000 (in the UK) and €33,000 (in Belgium).<sup>52</sup> The ongoing welfare cost is currently the primary expense for governments hosting refugees in most countries. We estimate that in Canada additional social welfare costs are by far the largest component of spending on refugees, accounting for over half of the total cost; this accords with estimates from Evans and Fitzgerald for the United States.<sup>53</sup>

Improving the labor market outcomes of resettled refugees would create value by reducing government expenditures on social welfare, increasing tax revenue, and increasing economic activity. If these outcome improvements can be monetized, at least in part, then additional finance can be attracted from private investors to compensate for the lack of government investment. What is needed is a mechanism that can draw on this value as it is created, repaying investors

51. European Commission, OECD, "How are refugees faring on the labour market in Europe?" 1/2016 EU publications, <https://op.europa.eu/en/publication-detail/-/publication/87a8f92d-9aa8-11e6-868c-01aa75ed71a1>.

52. Maarten Gerard, Daphné Valsamis, and Wim Van der Beken, *Why Invest in Employment? A Study on the Cost of Unemployment* (Brussels: IDEA Consult, 2012), [www.efsi-europe.eu/fileadmin/MEDIA/publications/Cost\\_of\\_unemployment\\_report/English\\_Study\\_on\\_the\\_cost\\_of\\_unemployment\\_January\\_2013.pdf](http://www.efsi-europe.eu/fileadmin/MEDIA/publications/Cost_of_unemployment_report/English_Study_on_the_cost_of_unemployment_January_2013.pdf).

53. Evans and Fitzgerald, *The Economic and Social Outcomes of Refugees in the United States*.

for providing up-front capital to overcome some of the constraints that refugees face on arrival.

Is it realistic to expect that additional investment could overcome these constraints? Any population would increase their fiscal contribution if their labor market outcomes improved, but this is not always simple, and it is something governments frequently try to do for domestic populations with limited success. However, the particular circumstances in which refugees often find themselves suggest that there are specific things additional investment could address, and so have a real chance of improving labor market outcomes. For example, the additional investment could be used for the following:

- **Helping refugees gain accreditation for skills that they already have.** Funding could be provided for refugees to join professional bodies, sit required professional examinations, or take refresher courses if they have been unable to practice these skills for a long time.
- **Helping refugees adapt skills to their new context.** Some professions require skill sets that are the same across countries, but the application may be slightly different. For example, in law, different legal systems must be learned, and in electronics, standards are different. But the underlying skill sets required to be a lawyer or an electrician in different countries are the same.
- **Providing extensive assistance in learning the local language or aspects of the culture.** Some refugees may take longer to learn the local language than others, or might be required to learn it to a higher standard for their profession.
- **Giving refugees greater flexibility in where they live,** by removing the pressure governments face to place refugees where housing is inexpensive and more widely available, which may not be the best places for refugees to prosper.
- **Providing assistance that could expand the possibilities for refugees,** for example, by funding driving examinations so that they can search for employment across a wider area.

These sources of value have the potential to increase not just the economic contribution of refugees to their new countries but their fiscal contribution as well. Experience in Canada suggests that addressing this mismatch between skill level and occupation is possible and can yield high returns. By providing subsidized loans to refugees to help them gain accreditation—an inexpensive intervention—the tax intake from these refugees was at least doubled (see Box 10). The gap between the size of the investment and the increased fiscal revenue implies that ample space exists to attract private capital, reimburse it from the extra revenue raised, and leave all parties better off. We argue that realizing these benefits could make countries more amenable to increasing resettlement.

The important thing about these two sources of value—money already spent on refugees and that created by better labor market outcomes—is that they are “endogenous” to the situation. It is not necessary to bring in additional financing from elsewhere; resettlement can pay for itself so long as the potential of refugees is realized. But currently this isn’t happening, and value is being lost. The next section explains how innovative finance instruments could be used to raise and deploy new investments in refugee resettlement.

## 5. Raising New Capital through Innovative Financing

If governments could increase the amount they spend on refugees who are resettled, and in a way more in tune to refugee needs, this would more than pay for itself over time as economic outcomes improve. But they are prevented from doing so, in part because of the mismatches we identify in Section 3.

A skeptical public views this spending as a cost and therefore does not wish to see it increase. Attempts to do so risk a hostile reaction, driven in part by those who wish to see less immigration generally. It is difficult for policymakers to defend themselves against this reaction, given that the benefits to resettlement are likely to occur in the future, at which point the

## Box 5. What value could be generated by improved labor market outcomes for refugees?

In Switzerland, it is estimated that each unemployed refugee costs the government on average US\$35,000 more each year than if he or she were employed. Currently, the employment rate among refugees is low, at around 15 percent.<sup>a</sup> In Bern, a social impact bond (SIB) is being piloted to increase the employment rate among refugees from around 25 percent to more than 50 percent.<sup>b</sup> It will do so by attracting private capital to provide flexible services for the refugees and leverage networks of employers, thus reducing the unemployment costs of hosting these refugees by one-third. This target was set by the government, with agreement from the investors, who will lose capital if it is not met but will gain a return of 5 percent otherwise.

How many more refugees could be resettled for the same amount of resources if this target is met? The target population of the pilot is 120 refugees, and the planned investment is US\$3 million, meaning a per refugee investment of US\$25,000. Given the figures above, this means a total cost of US\$6.15 million (initial investment and unemployment cost of US\$35,000 for 90 unemployed refugees). If the SIB is successful, and the employment

rate increases to 50 percent, we estimate that **the government could resettle 17 percent more refugees without additional spending.** That may be a small increase in absolute terms but when scaled up could mean many thousands more refugees resettled. And combined with the other sources of value, and the potential gains from parallel ideas such as better matching, there is clearly scope for significant value to be unlocked.

Another example comes from Canada. Refugees resettled to Canada are either government-assisted refugees (GARs) or privately sponsored refugees (PSRs). Labor market outcomes are far better for the latter group. This is partly due to the composition of each group; GARs are those who have been identified by UNHCR as being in need of resettlement and so have additional vulnerabilities, whereas that is not necessarily the case with PSRs. However, it is also partly due to the nature of the assistance they receive; private sponsors can provide PSRs with much more personal engagement and targeted support.<sup>c</sup> This is what outcomes-based financing would aim to emulate, and therefore might be able to narrow the gap in labor market outcomes between these two groups. As a rough estimate, we calculate that closing half of this gap could **allow an increase in resettlement of roughly 25 percent.**

a. Supplementary materials for Jens Hainmueller, Dominik Hangartner, and Duncan Lawrence, "When Lives Are Put on Hold: Lengthy Asylum Processes Decrease Employment among Refugees," *Science Advances* 2 (2016), [http://advances.sciencemag.org/content/advances/suppl/2016/08/01/2.8.e1600432.DCI/1600432\\_SM.pdf](http://advances.sciencemag.org/content/advances/suppl/2016/08/01/2.8.e1600432.DCI/1600432_SM.pdf).

b. This is not for the entire population of refugees, but some are not included in the model. For more information, see Jürg Guggisberg and Peter Stettler, *Zwischenbericht Evaluation Social Impact Bond 2015–2020* (Bern: BASS, 2018), [www.buerobass.ch/fileadmin/Files/2018/GEF\\_2018\\_SocialImpactBond\\_Zwischenbericht.pdf](http://www.buerobass.ch/fileadmin/Files/2018/GEF_2018_SocialImpactBond_Zwischenbericht.pdf) or [wp-content/uploads/2020/02/42-Open-Europe-Immigration-Public-Opinion\\_211217-showing.pdf](http://wp-content/uploads/2020/02/42-Open-Europe-Immigration-Public-Opinion_211217-showing.pdf).

c. Lisa Kaida, Feng Hou, and Max Stick, "The Long-Term Economic Integration of Resettled Refugees in Canada: A Comparison of Privately Sponsored Refugees and Government-Assisted Refugees," *Journal of Ethnic and Migration Studies* 46, no. 9 (2020): 1687–1708, [www.tandfonline.com/doi/abs/10.1080/1369183X.2019.1623017?journalCode=cjms20&](http://www.tandfonline.com/doi/abs/10.1080/1369183X.2019.1623017?journalCode=cjms20&).



refugees may have become citizens, with no marker to single out their contributions. As a result, if governments increase the amount allocated to refugees who are resettled, skeptics will be able to point to the “higher-than-expected cost,” but advocates will struggle to counter this with hard figures.

This is where innovative finance comes in. It is based on standard financial principles, such as the ability to shift value through time, front-load investments by borrowing from the future, and allocate risk to those best able to bear it. What is innovative is the way in which these principles can be applied to help solve social problems.

One of the key principles of innovative finance is that sometimes the private sector can be harnessed to fund these projects in a more effective way. Private investors do not face the same constraints as policymakers and officials. If they are repaid appropriately, they can provide the necessary capital to experiment with new modes of service delivery or initiate new projects. So long as sufficient additional value is created, both the investor and the population that its investments target can be made better off.

Traditional investors generally care only about the risk-adjusted return of their investment; by contrast impact investors are also concerned about the environmental or social impact that their investment could have, and weigh this into their decision-making. Traditional investors may avoid investments they deem unethical (for moral reasons or to avoid reputational risk), but they rarely seek out projects that could create positive change when doing so means sacrificing returns.

Impact investors operate between philanthropy (granting capital without any expectation of recouping it) and traditional investors (maximizing risk-adjusted financial returns). Impact investors are, therefore, often well suited to “demonstration projects,” where a lack of similar projects makes risk hard to assess. This uncertainty may mean that commercial investors

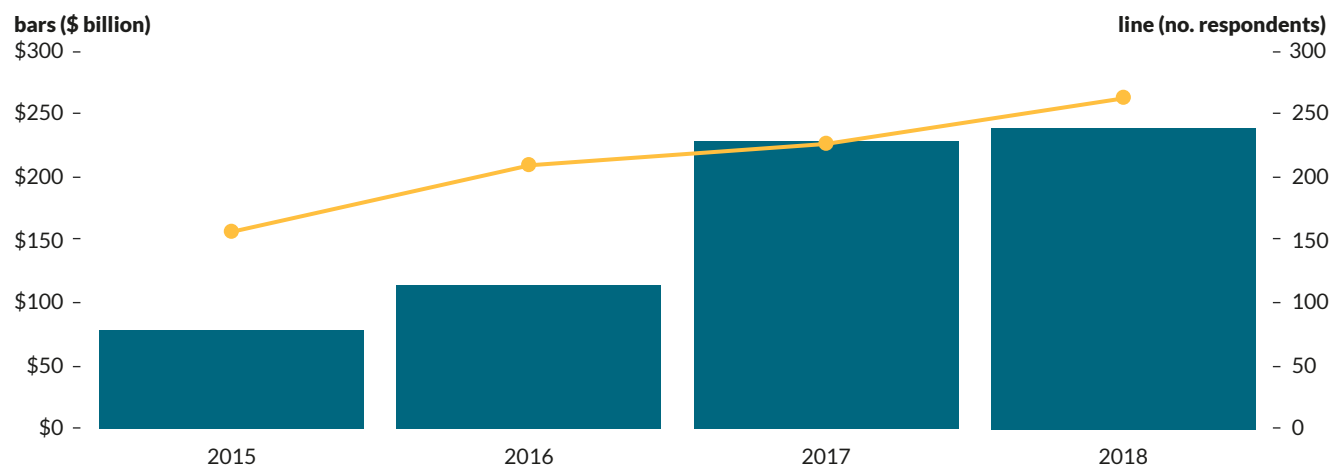
would need to earn a prohibitively high financial return to be interested. Instead, if impact investors see potential social benefits, they can invest, accepting a lower financial rate of return, and hopefully demonstrate the viability of the project. This can lower the perceived risk, making the project more attractive for commercial investors to follow. Figure 9 shows that, over the last few years, both the number of impact investors has grown (proxied by the number responding to the Global Impact Investor Network (GIIN) annual survey) and the value of assets they control.

This growth, combined with innovations in applying financial principles to social problems, **presents new opportunities for policymakers.** As well as new capital, private investors can bring two additional benefits. First, private investors face a different set of constraints than governments, allowing them to invest in projects that governments may not be able to. Governments often face strict rules concerning the amount of risk they can take, how expenditure is managed, who they can procure services from, and how much they can spend on overhead or hiring expert staff. They also face political risk; projects need to be justified to a skeptical public and the rewards of success may not match the penalty of failure, which at the extreme could mean governments losing office. In addition, governments can find it difficult to spend money on projects that cut across departmental budgets. We do not argue that private investment is always superior. Private investors also face constraints, but the fact that they face *different* constraints means they may be able to invest in projects that the government would not be able to.

Second, private investors may have skills, resources, and networks that the government does not have. Given the diversity of functions that a government performs, it is commonly the case that “generalists” are successful in the civil service. Specific skill sets (such as data science for example) that may be useful on occasion would be expensive to maintain on the payroll. By contrast, the private sector is more likely to develop expertise in narrower fields. Again, this is not to argue



**Figure 9. Recent growth in impact investment: Assets under management by survey respondents**



Source: GIIN annual impact investor surveys (various).

the primacy of one sector over the other, but that when both are actively pursuing social goals this can expand possibilities. They may also have greater networks to leverage, exploiting wider expertise or identifying new opportunities.<sup>54</sup>

Tapping into private capital is not necessarily simple: numerous instruments exist that could aid private-sector involvement, and each has pros and cons. The type of instrument used will determine the type of investors that may be interested, from the purely commercially minded (if the instruments can provide enough return for the level of risk) to impact investors willing to just break even. Some instruments will involve coordination across different governments, and others will allow individual resettlement countries to experiment with new ways of financing.

In the next two parts of this report, we explore two separate instruments. First, we consider what we call a **resettlement bond**. This instrument would harness the aid that the international community already spends on refugees in host countries. Instead of paying

to provide refugees with food and shelter year after year, participating governments/donors could pledge to maintain those payments but instead pay them into a fund that could be used to attract up-front private investment. This investment would be repaid over time—with a return—by a stream of payments from the fund, similar to a bond. By securitizing legal commitments to pay from multiple, creditworthy sources, this instrument would have relatively low risk for investors. This up-front investment could then be used to help create additional resettlement spaces, essentially “shifting the demand curve” for refugees in third countries that can better cater for their needs.

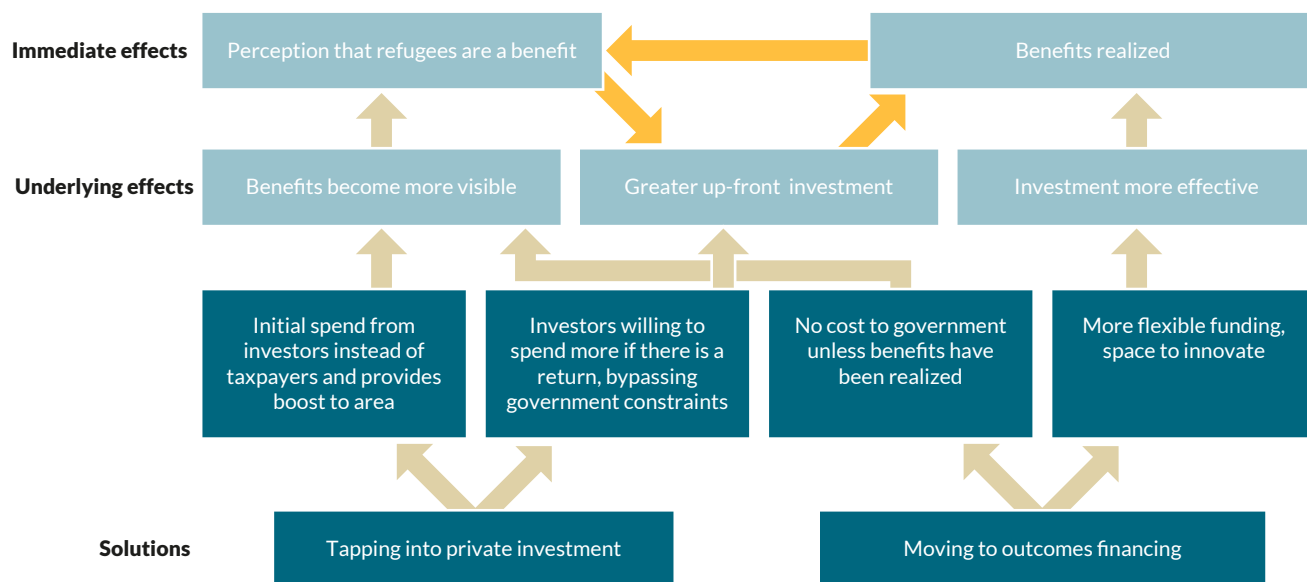
Next we explore the potential for outcomes-based financing of service provision to improve the economic outcomes of resettled refugees. In particular, we explore how **social impact bonds (SIBs)** have been used to overcome similar constraints to those we have discussed. In SIBs, private investors provide initial capital to service providers, and their return depends on the extent to which outcomes are improved. Already, several countries have used SIBs to help refugees integrate, with significant improvements in employment outcomes recorded. We document the potential fiscal savings that this could create, and some of the challenges encountered using this approach.

54. This was described as a key feature for the social impact bond described in Box 5. See Marc Baumann's presentation from the SECO Impact Bonds Conference held January 18, 2018, in Zurich: [www.seco-cooperation.admin.ch/secocoop/en/home/about-us/events/archiv-events/social-impact-bond-conference-in-zurich1.html](http://www.seco-cooperation.admin.ch/secocoop/en/home/about-us/events/archiv-events/social-impact-bond-conference-in-zurich1.html).

We don't claim that either proposal is "the solution" to the refugee crisis. But by providing additional financial assistance to countries wishing to resettle refugees, resettlement bonds have the potential to increase demand, at least at the margin. And by improving the economic outcomes of refugees once they have been

resettled, SIBs have the potential to ameliorate some concerns about resettlement, and create a win-win, for refugees and the countries that accept them.

**Figure 10.** How innovative finance can address issues limiting resettlement



## Part II.

# Resettlement Bonds



## Introduction

In this part, we estimate that the international community will spend roughly US\$7,500 per refugee, in present-value terms, over the course of that refugee's displacement,<sup>55</sup> providing money for food and shelter. But the current mode of assistance does not address the more fundamental problems that refugees face: lack of rights, opportunities, and safety. We argue that if the international community is willing to dedicate these resources to helping refugees, it could do so in a better way.

In this part of the report, we propose an innovative approach by which the international community could use the same resources it is already *spending* to facilitate an increase in the safe resettlement of refugees to third countries. We call this instrument a **resettlement bond**. Participating governments and donors would channel their existing refugee humanitarian payments into a fund that would attract up-front private investment. Together, these funds could finance the resettlement of a significant number of refugees, providing an incentive for countries to accept those in dire need of protection. The private investment would be repaid over time, with a return in the form of a stream of payments from the fund, like the return from a bond. By securitizing legal commitments to pay from multiple sources that are likely to be creditworthy (mainly sovereign governments), resettlement bonds would have relatively low risks for investors and therefore be able to attract significant investment from a wide range of market actors, at a low cost of capital.

We begin this part by exploring lessons the resettlement bond mechanism can learn from a similar front-loading spending mechanism: the International Finance Facility for Immunisation. We then identify the actors who would be involved in the design and implementation of a resettlement bond, and estimate donors' willingness to pay based on current spending. We conclude

this part by identifying and addressing potential challenges to the resettlement bond mechanism.

## 6. Learning from the International Finance Facility for Immunisation

Our proposed resettlement bond is similar to an instrument that already exists—the International Finance Facility for Immunisation (IFFIm). In the case of immunization, a large, front-loaded investment can be far more effective than a continual stream of smaller payments, but the former is more difficult for donors to fund. Therefore, with the World Bank acting as treasurer, IFFIm was created to convert annual funding for vaccinations into more effective, up-front investment. Nine governments have committed to pay into the fund. The profile of funding from governments, and investments that this has allowed, is summarized in Figure 11.

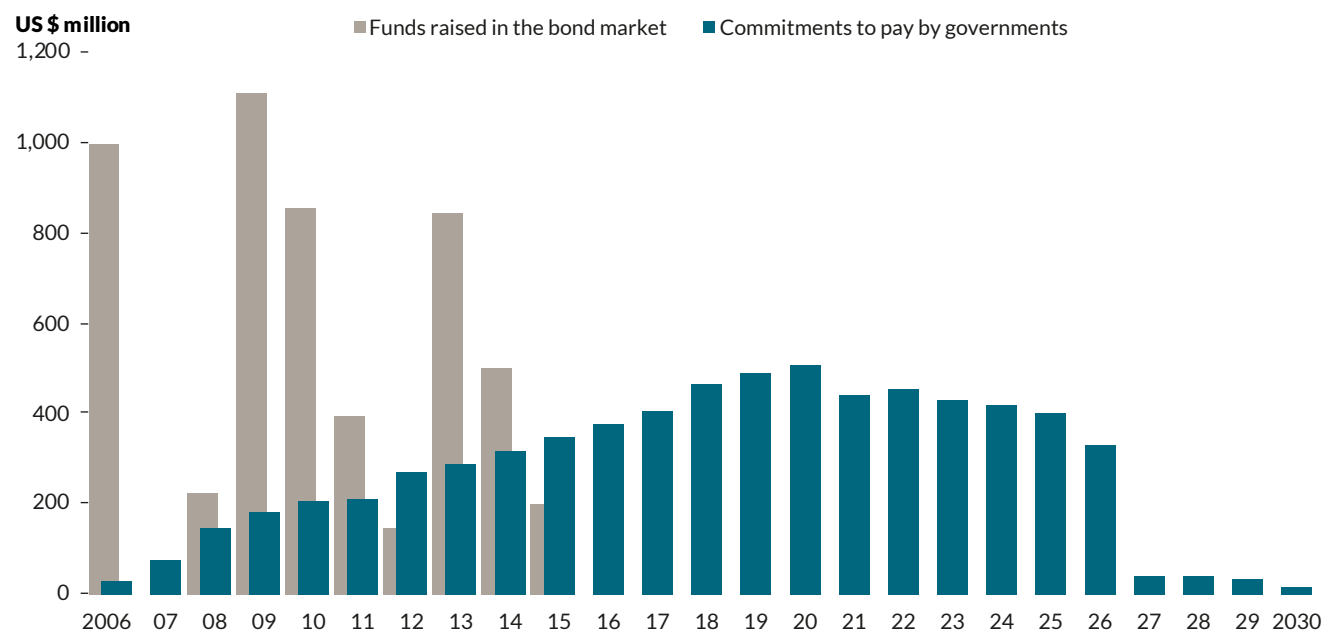
IFFIm requires that donors enter a legal commitment to pay an agreed amount into a fund over a specified period of time (for example, they might agree to pay US\$1 million per year for 20 years). Backed by the promise of these payments, the fund manager can issue bonds on the private market. Investors buy those bonds (providing up-front capital) knowing that the stream of payments from donors will enable them to receive a steady income from the bonds. Of course, this relies on them assuming that the donors will remain solvent and won't renege on their commitment. But given that the donors in IFFIm are sovereign governments that have entered legal commitments, the risk is small. In short, donors are short on disposable capital but can provide reliable funding over a longer time period, and investors have capital now from which they want to earn regular future income. IFFIm intermediates between the two.

The design of the instrument has kept the cost of transferring capital from future periods low. Average interest costs for IFFIm were only 0.8 percent per annum between 2006 and 2015. This is because the risk associated with the “vaccine bond” is also low: the underlying

55. Based on an annual average spend of US\$582 per refugee, 15 years of displacement, and future payments discounted at a rate of 2 percent; see calculations in Section 8.



**Figure 11.** The design of IFFIm: Long-term commitments enable front-loading of vaccine bonds



Source: Figure taken from International Finance Facility for Immunisation (IFFIm), a brochure published by International Finance Facility for Immunisation Company (London: 2016), <https://iffim.org/sites/default/files/2020-01/IFFIm%202016%20Brochure%20spread.pdf>.

value comes from the securitization of commitments of nine sovereign governments and the World Bank's role as a trusted fiscal steward. As well as keeping costs low, this low risk allows access to a much larger pool of capital; institutional investors such as pension funds, responsible for the management of trillions of dollars and bound by considerable regulation governing their investment, have also invested in the instrument. Between 2006 and 2015, US\$5.2 billion was raised from private investors.

The economics of resettlement are similar. Spending a larger amount up front to help resettle a refugee has much better outcomes in the long run, not just for the refugees themselves but for the receiving country, where the refugees can use their skills and contribute economically. The refugees who are resettled no longer need ongoing assistance, so countries that were hosting the unsettled refugees can redirect those expenditures

toward resettlement fund contributions; they need not pay more than they previously were, but by pledging to the resettlement fund they achieve better results for those they are trying to help. Contributing countries also benefit by being seen to share responsibility for those affected by crises, in line with their international declarations (such as support for the UNHCR Global Compact on Refugees).<sup>56</sup> In addition, countries with active resettlement schemes (of which there were 27 in 2019) could receive support for expanding their efforts, sharing the cost of doing so with others. However, for the benefits of front-loading investment to apply to resettlement, humanitarian spending must increase with the refugee population, and the number of refugees to be resettled must increase over the current low numbers—it cannot just subsidize current resettlement. We explore whether those criteria are met below.

56. See UNHCR UK, "The Global Compact on Refugees," [www.unhcr.org/uk/the-global-compact-on-refugees.html](http://www.unhcr.org/uk/the-global-compact-on-refugees.html).



## 7. Key Actors in Resettlement Bonds

Three main actors would need to be involved in establishing and implementing a resettlement bond: fund managers, investors, and receiving countries.

### Fund managers

Fund managers will need to play two functions: (1) taking stewardship of the money, ensuring it is well invested and hedged against risk; and (2) disbursing money from the fund to receiving countries. It is not clear that those two functions need to be lodged in the same institution. The World Bank has substantial experience in the sound management of multidonor public trust funds and could ably take on the first task through a financial intermediary fund. Donors would pledge to pay into this vehicle, which, in turn, would sell bonds on international markets in order to raise capital.

UNHCR could play the second role, given that it is the organization responsible for submitting resettlement applications on behalf of refugees and its early involvement in the refugee process.

Whatever institution makes the disbursement, a decision will have to be made on how the money is paid out. One possibility is that the funds would simply accompany the refugee or be transferred to a bank account in their name in the new country. This would allow refugees to immediately invest in their productivity or integration and feel secure during the difficult initial period of adjustment. Alternatively, the funds could be transferred to the receiving governments as a pure incentive to welcome resettling refugees, or to help them cover initial costs.

### Investors

Given that we expect the risk of resettlement bonds to be low, we anticipate interest from a broad array of investors. Some institutional investors (such as pension funds) have a very low risk appetite and may even be prohibited from investing in instruments with too high a risk level. As institutional investors are responsible for

the management of trillions of dollars, interest from this sector would ensure demand would not be a constraint. As noted, IFFIm has been able to attract investment from such investors, and we are confident that resettlement bonds could achieve this too.

In addition, with the growth of impact investing, a large and growing pool of capital exists that seeks to earn a reasonable risk-adjusted return while furthering social goals. Such investors are obvious candidates, especially those who have expressed interest in refugee-related issues. For example, the Refugee Investment Network is a collaborative of impact investors specifically dedicated to finding solutions for those forcibly displaced.

### Receiving countries

This is essentially the target group for this mechanism: those that we hope will be incentivized by this mechanism to resettle more people. While we are confident that there will be investor interest, the success of the resettlement bond will be determined by how many countries agree to increase resettlement numbers through participation in this mechanism.

As we discuss in Part I, lack of finance is not the main reason for low resettlement numbers for some countries. But for many, financing may be a genuine constraint. This has been cited in the case of some Latin American countries, for example, which had previously received assistance for resettlement programs from UNHCR. If the up-front contribution per refugee is fixed in dollar terms, the incentive will be strongest for countries with generally lower price levels.

Even for countries for which finance is not the main constraint, it is still likely that an up-front payment from the fund would have an impact at the margin, partly because extra financial assistance will sway the decision for some countries and partly because this could make extra resettlement more palatable. Politicians can trumpet the extra investment afforded by this resettlement. And in many countries, part of the hostility toward refugees and migrants more generally is the suspicion that they are “receiving something

for nothing” and taking advantage of the generosity of richer countries. With resettlement bonds, there is a ready, visible contribution that officials can point to in defense against this argument.

## 8. Estimating Spending on Refugees in Host Countries

The size of the resettlement subsidy will be key to making the resettlement fund both incentivizing to recipient countries and attractive to donors and investors. Already, international donors spend a considerable amount every year on maintaining refugees in their host countries. This spending can be taken as a “willingness to pay” by the international donors: the amount they would be willing to commit to a fund that front-loads investment. As explained below, we think this is a conservative estimate of the funds that donors might commit.

One needs two pieces of information in order to determine what the present value of spending on refugees in host countries would be: the average annual amount spent per refugee and the average duration of displacement. With those two figures, we can apply an appropriate discount rate to calculate the present value of future spending. Of course, this ignores the possibility that costs could rise or fall, and it also assumes that international donors will continue to provide for refugees over a long period of time.

### Average duration of displacement

We assume that the average length of time a refugee will be displaced is **15 years**. That figure is based on analysis by Devictor and Do, who calculated that the average amount of time that current refugees have *already* spent displaced is 10 years.<sup>57</sup> Even if the total number of refugees declined steadily to zero over the next 10 years (which would entail an unprecedented two million refugees finding a durable solution every year),

the average amount of time spent displaced would still rise to 15 years. Therefore, using 15 years as an average length of time that refugees remain displaced is highly conservative.

There are additional reasons to think this is a conservative estimate of duration. The average among refugees in need of resettlement is likely to be longer than for the entire refugee population; one of the seven criteria used by UNHCR to identify those in need of resettlement is “lack of foreseeable alternative durable solution.” By its nature, this category—which accounts for 12.1 percent<sup>58</sup> of those in need of resettlement—is likely to include those from the most protracted situations.

### Average annual spend per refugee

We estimate that the **average annual spend per refugee is US\$582** in the countries hosting the most refugees identified as in need of resettlement. To reach that figure, we use data from UNHCR on the number of refugees being hosted by each country, and combine those data with data on humanitarian aid flows from the Financial Tracking Service (FTS), hosted by UNOCHA. This should allow us to total all the refugee-related aid flows that go to countries hosting refugees who need to be resettled and divide that figure by the total number of refugees in those countries.

Unfortunately, however, the data are not complete and thus we need to limit our estimation base. In particular, numerous entries in the FTS database do not have the purpose (or even the location) of the aid recorded, so it is not possible to simply filter for all spending related to refugees. This makes it impractical to include spending in host countries with small refugee populations, as there is less chance that any of the entries in the database pertain to refugees. Therefore, we base our estimates on a selection of countries that host a large number of refugees in need of resettlement. We used the time period from 2011 to 2018, and the top seven largest countries in terms of refugee resettlement in 2018 (Ethiopia, Iran,

57. Devictor, Xavier; Do, Quy-Toan. 2016. “How many years have refugees been in exile?” (English). *Policy Research working paper*; no. WPS 7810. Washington, D.C.: World Bank Group.

58. UNHCR *Projected Global Resettlement Needs 2021*

Jordan, Lebanon, Tanzania, Turkey, and Uganda). These choices were made for three reasons:

1. The structure of the refugee population changed markedly after 2011, which was when the Syrian civil war generated millions of refugees, turning Turkey, Lebanon, Jordan, and Iran into some of the largest refugee-hosting countries.
2. The top seven largest countries cover the majority (around 70 percent in 2019) of the population that we are interested in, and therefore estimates of spending in those countries is most relevant to what we are trying to estimate. With few exceptions, the only humanitarian spending recorded in the FTS for those countries was associated with refugee crises.
3. The overall estimate was not sensitive to inclusion of other countries or years.

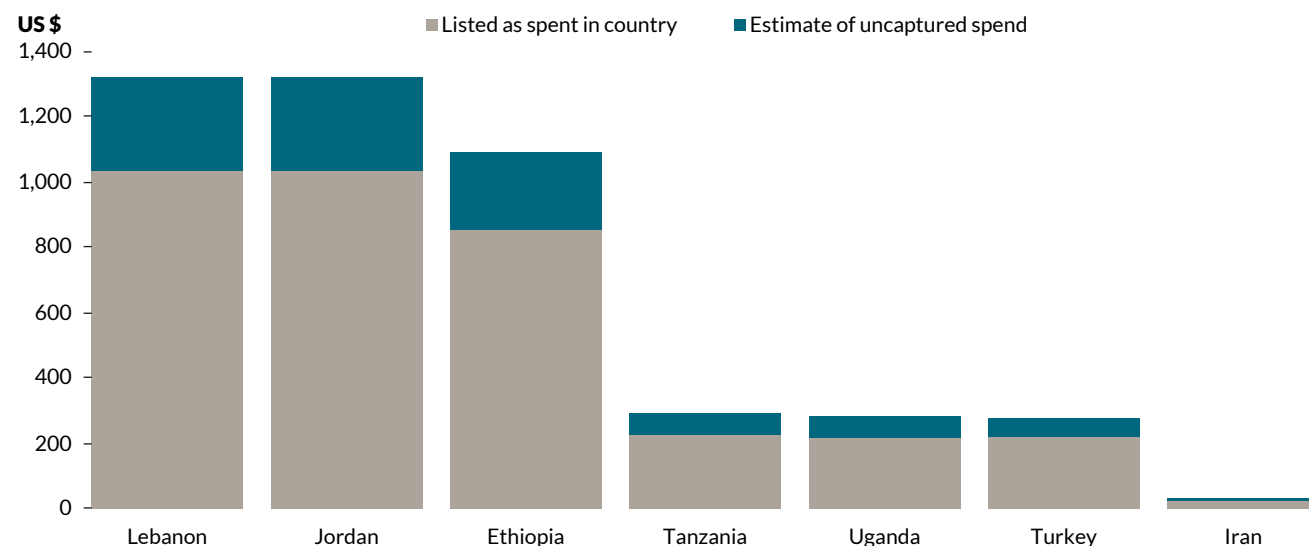
With this selection, we filter for spending that we know is related to refugees. We then use the proportion of refugee-related spending among known plans to estimate what proportion of spend might be on refugees among the many entries with no plan information.

The total amount of spending estimated from the FTS is combined with data from UNHCR on the population of refugees within each of the seven countries selected,

and a simple average spend per person per year is calculated. Considering only the spend that is listed as being in the seven selected countries, the average spend per person per year is US\$456. However, this is almost certainly an underestimate given the number of entries in the dataset with no information location available. Including a percentage of this (estimated from information that we do have), our estimate is that **the average amount that the international community currently spends on each refugee each year is US\$582** in these countries. For comparison, this figure is slightly below the updated extreme poverty line used by the World Bank of \$1.90 per day. To some extent, this may be indicative of the situation in which many refugees find themselves.

This average figure hides large disparities. Figure 12 displays how this average varies across countries. Lebanon and Jordan are at the upper end, with estimates around US\$1,300, whereas in Iran the figure is US\$26. This highlights that these estimates are not intended to reflect how much it costs to maintain refugees in camps, but how much international donors are currently spending, and this may be less than they are willing to spend given they know that host governments provide some support.

**Figure 12. Average spend per refugee per year, 2011–2018 (US\$)**



Source: FTS UNOCHA (<https://fts.unocha.org/data-search>); UNHCR population statistics (<https://www.unhcr.org/refugee-statistics/download/?url=Rlxq>); authors' calculations.

**Table 2.** The net present value of future aid spending per refugee (US\$)

Net Present Value of Future Aid Spending per Refugee, US\$			
Discount rate	0.8 percent (IFFIm interest costs)	2 percent	3.5 percent (UK Treasury Green Book)
Duration			
10 Years (current average duration)	5,572	5,228	4,840
15 Years (potential average)	8,196	7,478	6,703
21 years (current duration—protracted situations)	11,209	9,901	8,554

### Combining duration and average spend

We assume that donors would continue to spend this amount on refugees for the duration of their displacement—which we estimate at 15 years—and therefore could commit to paying this into a resettlement fund as an alternative. Using a discount rate of 2 percent<sup>59</sup> implies that the net present value of this spending will be roughly **US\$7,500**. Table 2 sets out estimates for the value that could be brought forward under different assumptions, with our central estimate highlighted.

Moving from the per refugee resettlement payment to the overall size of the refugee resettlement fund depends on donor countries’ willingness to put money up front and recipient country willingness to increase their resettlement intake, as well as the modalities of contribution and disbursement. Deciding these parameters would be a central element of establishing the fund and would be key to the negotiations among the central parties identified above. In Box 6, we work through an example of how this might be done.

### Are our estimates of what donors would be willing to pay conservative?

The estimates above demonstrate that the amount that the international community spends on refugees is extremely low, at US\$582 per refugee per year, roughly US\$100 less than the consumption that the World Bank defines as “extreme poverty.” Below, we outline some potential reasons for this, and why our estimates of what donors would pay for this scheme could be conservative.

#### *Our data sources don’t tell the whole story*

We used data from the FTS dataset. That dataset is open for all humanitarian agencies to report flows, but there is no obligation to do so, and it is possible that it does not cover all the flows relevant to our calculation. In addition, the *Global Humanitarian Assistance Report 2016* noted that for countries that are part of the OECD, who must report their humanitarian spending to the Development Assistance Committee (DAC), the total flows reported to the OECD were higher than those reported to the FTS.<sup>60</sup> This was also true of several other countries that voluntarily reported to the DAC. This also suggests that our estimates are not entirely comprehensive, and therefore understate the true spend on refugees.

59. The appropriate discount rate to use will depend on the return that will be required to attract investors, which in turn depends to a large extent on the level of risk associated with such an investment. We believe that risk will probably be perceived as low for the reasons mentioned above.

60. Development Initiatives, *Global Humanitarian Assistance Report 2016* (Bristol, UK: Development Initiatives Ltd., 2016), <https://devinit.org/wp-content/uploads/2016/06/Global-Humanitarian-Assistance-Report-2016.pdf>.

## Box 6. How could this work in practice?

The establishment of the resettlement bond mechanism could start with select donor and recipient countries (which could overlap) negotiating the amount that will be pledged and the amount that will be received for each additional refugee who is resettled. The receiving countries might decide that they would resettle an extra 20,000 refugees collectively if they can receive US\$8,000 on average per refugee to help them overcome financial constraints. This would therefore require up-front capital of \$160 million, which—discounting with an interest rate of 2 percent—would in turn necessitate annual payments into the fund of \$12.5 million (net present value of payments of \$12.5 million over 15 years is around \$160 million).

Let's say that half of the current resettlement countries agree to commit to the fund. This would mean that the annual flow is split 14 ways, which is equal to around \$890,000 per country. For simplicity, countries could round this to \$1 million and this would also allow capital to accumulate in the fund, which could, in turn, reduce the risk. On the back of these commitments, the fund would sell bonds on the capital market to raise the up-front capital required. There is no reason for the bond period to match that of payments into the fund. In the case of IFFIm, the World Bank invests the funds that it receives and offers bonds over a range of durations.<sup>a</sup>

With the capital secured, UNHCR would then oversee the disbursement of these funds to the various resettlement countries and organize transport for refugees to their new countries as it currently does. Under the arrangement, they are due to receive \$8,000 per refugee but there is no reason this needs to be disbursed all at once. Part of the agreement

could be that the payments are staggered to ensure that the resettlement countries comply with basic standards for the refugees. UNHCR could direct the fund to release a first installment after it has been established that the refugees are adequately housed and have a stipend to support themselves.

The second installment could be paid after UNHCR has certified that the refugees have appropriate documents, securing their legal right to live and work in the country. Further triggers could be the granting of citizenship, assurance that children are receiving education, or that all are receiving language tuition. The triggers need not depend on economic outcomes such as employment rates (this could weaken the incentive of the countries to participate) but on the rights that the refugees have and services that they have access to. This is in the control of the receiving governments, and such triggers could guard against abuse of the system.

This brief illustration demonstrates how this could be good value for donors who want to help refugees restart their lives. For around \$1 million each a year—most of which they likely would have spent anyway in host countries—donors could provide safety and new opportunity for 20,000 people. Of course, this requires receiving countries to participate too. But an extra \$8,000 per refugee is likely to cover much of the initial costs and so provide a reasonable incentive. Even in countries such as the UK in which resettlement costs are estimated to be quite high,<sup>b</sup> this would cover roughly a third of the refugee-specific budgeted costs. In countries such as Chile and Uruguay, with lower purchasing power parity conversion factors (meaning dollars go further), this could be even more significant.

a. See here for example: <https://iffim.org/investor-centre/previous-issuances> (IFFIM previous issuances timeline).

b. UK National Audit Office, "The Syrian Vulnerable Persons Resettlement Programme."



### ***The effect on resettled refugees has the potential to be transformative***

We have argued that the international community could achieve a better outcome without spending more. However, the very fact that resettlement can have a transformative effect on the lives of refugees may mean that donors are likely to be willing to spend more, should they need to in order to incentivize more resettlement. There may be feelings of futility when sending aid year after year just to keep people alive, and without bringing any real improvement to their lives, and this could lead to aid weariness, stifling any appetite for increasing assistance. This is a key criticism of aid more generally: that it doesn't make any difference in the long run. Research into public attitudes toward aid from the UK supports this and suggests that the absence of evidence of improvement in people's lives is a key factor in diminishing support for aid.<sup>61</sup>

The current model of support for refugees is clearly part of this problem. Although aid spent has helped millions of refugees survive, for most refugees it is hard to argue that it has seriously changed their prospects. In contrast, by committing to a resettlement bond, donors would be able to provide examples of such improvements—refugees who have been able to rebuild their lives, and often flourish. Donors could argue that their aid has not just ameliorated symptoms, but actually contributed toward a solution.

### ***Host countries also spend on refugees***

Although many refugees are hosted in low-income countries that have difficulties providing services even for their own citizens, a significant number benefit from expenditure by their host governments. For example, the Jordanian government has estimated that the cost to the government of hosting refugees has amounted to around US\$2,500 per refugee annually,<sup>62</sup>

or US\$1.7 billion per year, a figure considerably higher than the amount of humanitarian assistance Jordan received in that year. This has contributed to budgetary pressures: since the start of the refugee crisis the Jordanian debt-to-GDP ratio has increased from 70.7 percent to 95.6 percent.<sup>63</sup> Similarly, the Presidency of Turkey estimated that Turkey has spent US\$37 billion on hosting Syrian refugees since the beginning of the crisis.<sup>64</sup> While it is not clear how these estimates were arrived at, and there are potentially political motives for producing large estimates, it is nevertheless the case that host governments have spent more as a result of inflows of refugees.

We do not include this additional expenditure in our estimates of the value that could be brought forward as we would not expect host governments to continue this after the refugees have been resettled. However, donors may have taken into account this expenditure when making their own decisions on how much to spend; if their intention is to ensure that refugees achieve a certain level of income or consumption, then they may not need to spend as much in countries that have already provided some assistance for refugees.

### ***Individual donors may be willing to contribute more***

The estimate that we provide above is for the total amount of humanitarian spending by the international community, from all sources. This would not therefore be the amount that individual donors would need to pledge per refugee. If, for example, 10 countries made pledges, then each would need to pay US\$58 per refugee annually in order to raise the sum we have estimated. That figure is small enough that donors may be willing to contribute more. Even if one million refugees were resettled with the aid of this facility, which

61. Alex Glennie, Will Straw, and Leni Wild, *Understanding Public Attitudes to Aid and Development* (Institute for Public Policy Research and Overseas Development Institute, 2012), [www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/7708.pdf](http://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/7708.pdf).

62. "Hosting Syrian Refugees Has Cost More Than \$10 Billion, Says Jordan," *The New Arab*, <https://english.alaraby.co.uk/english/news/2017/10/10/jordan-says-hosting-syrian-refugees-has-cost-10-billion>.

63. Shanta Devarajan and Lili Mottaghi, *The Economic Effects of War and Peace, Middle East and North Africa Quarterly Economic Brief* (Washington, DC: World Bank, 2016), <http://documents.worldbank.org/curated/en/644191468191061975/pdf/103013-REPLACEMENT-PUBLIC-MENA-QEB-IS-SUE-6-JANUARY-2016.pdf>.

64. Presidency of the Republic of Turkey, news release on President Erdoğan's speech at the South East European Cooperation Process (SEECP) Summit, July 9, 2019, [www.tccb.gov.tr/en/news/542/107006/-we-should-boost-our-economic-cooperation-as-the-balkan-countries-in-order-to-increase-our-competitive-strength-](http://www.tccb.gov.tr/en/news/542/107006/-we-should-boost-our-economic-cooperation-as-the-balkan-countries-in-order-to-increase-our-competitive-strength-).

in addition to those currently resettled annually would nearly cover the entire population in need of resettlement, it would cost only US\$58 million annually. Obviously, the more donors make commitments, the less would need to be paid on average.

### ***Refugee crises have affected development aid flows***

The calculations in the previous section estimate the willingness to spend on refugees by examining flows of humanitarian assistance. However, there has also been a notable increase in developmental assistance in countries that have seen large increases in their refugee populations. This is not spending that we argue should be brought forward, but it does suggest that our figure is an underestimate of the amount that donors are willing to spend to assist refugees.

## **9. Potential Challenges**

### **Does humanitarian spending increase with the refugee population?**

One key feature of the IFFIm model is that by spending resources now, we reduce the amount necessary to spend on the problem in the future. Moving money forward to spend in the present rather than the future only makes sense if it achieves a saving. In the case of immunization this is clearly the case: spending more in the present means there are fewer disease cases to treat in the future.

In principle this argument also applies to resettlement. Relocating refugees to third countries in which they have rights and access to gainful employment means that they no longer need the assistance of the international community, and that reduces the amount that needs to be spent on refugees in host countries. However, this assumes that the international community is willing to spend more as the number of refugees on the caseload increases; it could also be the case that donors have a fixed budget for dealing with refugees, which is then spread more thinly across the refugee population as it increases.

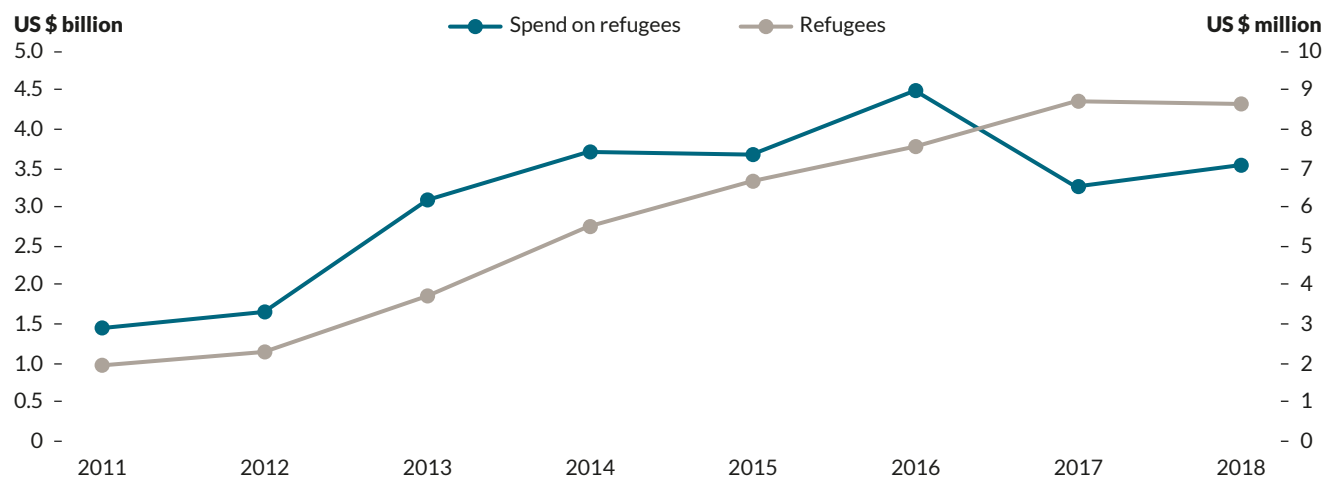
The evidence from the data on refugee numbers and data on humanitarian aid spending indicates that donors are willing to spend more as more people become displaced. We would not expect the relationship between spending and the refugee population to be perfect, as many other factors exist that could determine spending decisions. Nevertheless, there is a clear correlation, across both countries and time, between number of refugees and amount spent. This is demonstrated in Figure 13, which plots the spend on refugees in the seven top hosting countries (those included in the calculations in Section 8) against the population of refugees in those countries. The data clearly show a humanitarian response to the increase in numbers in terms of aid spent.

### **Are refugees resettled “additional”?**

We should view the resettlement bond mechanism as successful only if it increases resettlement numbers. Our argument is that this could be funded by what is already being spent on refugees in host countries, and so doesn't require additional funds. But if the mechanism rewards existing resettlement programs, then this logic no longer holds: there would be an increase in the amount spent resettling refugees without a corresponding decrease in the number of refugees in host countries. This presents a challenge, which is that we cannot observe the counterfactual: how many refugees would have been resettled in the absence of the mechanism? If the number would have been the same (a country might receive the additional support for resettlement that it had planned before the mechanism is announced), then we cannot claim that this is a better use of existing funds. While we cannot know this, resettlement numbers are currently falling, as is the number of countries that are accepting resettled refugees. If after the introduction of this mechanism that trend reverses, it is likely that it is having an impact, even if this is difficult to prove empirically.

There may be alternatives that could ensure additionality. One might be to condition the payment on refugee numbers being greater than a certain level—for

**Figure 13.** Spend on refugees (\$ billion) in seven countries hosting most refugees in need of resettlement, and total refugee population in those countries



Source: FTS UNOCHA (<https://fts.unocha.org/data-search>); UNHCR population statistics (<https://www.unhcr.org/refugee-statistics/download/?url=R1xq>); authors' calculations.

example, greater than 1/10,000 of a country's population (or perhaps unit of GDP to take into account both population and income level). It would not be a trivial task to set such a threshold: too high and it might not provide adequate incentive for countries far from the threshold, but setting it too low would excessively reward countries for refugees they already resettle. On the other hand, it would introduce an element of consistency: countries would be similarly rewarded for similar contributions.

## 10. Would Resettlement Bond Spending Count as Official Development Assistance?

Donor countries may wonder whether the commitments made to such a fund would count as official development assistance (ODA). If the donor spends money on a refugee in Lebanon—an ODA-eligible country—this clearly counts because of Lebanon's income level. If, however, the same refugee was relocated to Belgium, it is less clear that the spending would be counted as ODA.

We think it highly likely that such spending would be ODA eligible, based on a recent communique released

by the OECD's Development Assistance Committee (DAC).<sup>65</sup> The communique contained conclusions reached by a recent DAC working group, in which members discussed clarifications to the definition of ODA, and the reasoning behind the inclusion of some spending items. In-donor-country refugee costs are eligible to be counted as ODA. The communique clarifies the reasoning behind this inclusion as follows (emphasis added):

*Assistance to provide reception/protection to refugees originating from ODA-eligible countries, in the donor country (temporary sustenance for up to 12 months) is included in ODA to reflect the financial effort of hosting refugees and the **sharing of responsibility with developing countries** that host the vast majority of the world's refugees.*

To continue the example, spending on refugees that Belgium has accepted is counted as ODA despite Belgium's status as a high-income country because in

65. Organisation for Economic Co-operation and Development, Development Assistance Committee, "Clarifications to the Statistical Reporting Directives on in-Donor Refugee Costs," October 31, 2017, [www.oecd.org/dac/conflict-fragility-resilience/docs/classifications\\_in-donor-refugee\\_costs.pdf](http://www.oecd.org/dac/conflict-fragility-resilience/docs/classifications_in-donor-refugee_costs.pdf).

accepting refugees, Belgium is sharing responsibility for the care of refugees and alleviating any potential strain on the host country. This is further clarified:

*Contributions to specific refugee organisations such as UNHCR are ODA-eligible, and members have commented that support to refugees in developing countries is categorised as humanitarian aid; this in turn suggests that the provision of such support to refugees originating from ODA-eligible **countries should be eligible regardless of whether the refugees physically remain in developing countries or seek protection in donor countries.***

There is no reason why this conclusion would not also apply to the resettlement bond mechanism. In fact, these conclusions apply even more directly: we are arguing that the money that would have been spent in

the host country instead accompanies the refugee to a new location. When ODA is spent in host countries on providing for refugees, it will not always (perhaps not often) be the case that the ODA covers all the associated costs, meaning that the host country government will spend an additional amount. If, however, the same amount of ODA could be used in a way that resettles the refugee, then it achieves the same objective—alleviating the strain on the host country—but completely. For in-donor-country refugee spending as currently conceived, this link is less clear. Accepting asylum seekers who arrive in Europe (for example) might alleviate strain on host countries where refugees either resided or may have ended up, but it isn't inevitably the case. Asylum seekers often come straight from the origin countries with a goal to reach Europe, and so even if their acceptance might help those origin countries, this is not the justification provided by the DAC for counting in-donor-country refugee spending as ODA.



Part III.

## Outcomes-Based Models: Social Impact Bonds





## Introduction

In Part I of this report, we discussed the benefits, for both refugees and their new countries, of increasing refugee resettlement. We also discussed the political and economic constraints that prevent such benefits from being realized. Three underlying challenges add to the perception that resettling refugees is an economic burden: the costs of resettlement are more visible than benefits; investments in resettlement are insufficient to enable refugees to realize their potential; and investment in resettlement is less effective than it should be. As a result of these challenges, refugees frequently fail to live up to their full economic potential and are perceived as an economic burden. If these issues can be addressed, a key barrier to resettlement will have been alleviated.

Additional and more effective investment is an important part of the solution, allowing the gains from resettlement to be maximized, while countering the perceptions that refugees are a burden. However, the investment must be delivered in a way that also addresses the greater salience of costs than benefits.

In Part II, we proposed an innovative finance mechanism that could help increase resettlement: resettlement bonds. Under that approach, governments and donors would put money they already spend on refugee issues into a fund that could be used to attract up-front private investment in refugee resettlement. The investment would be repaid over time, using the fund.

In this part of the report, we examine other sources of private finance that could be used to increase resettlement with a focus on outcomes, particularly social impact bonds. We explore how harnessing the flexibility and increased tolerance for risk of impact investors can help to overcome the barriers that governments may face in increasing funding for resettlement. We preview the design questions that would need to be answered when designing an outcomes-based model, and conclude with a discussion of a potential implementation framework to manage the investment: a local resettlement partnership.

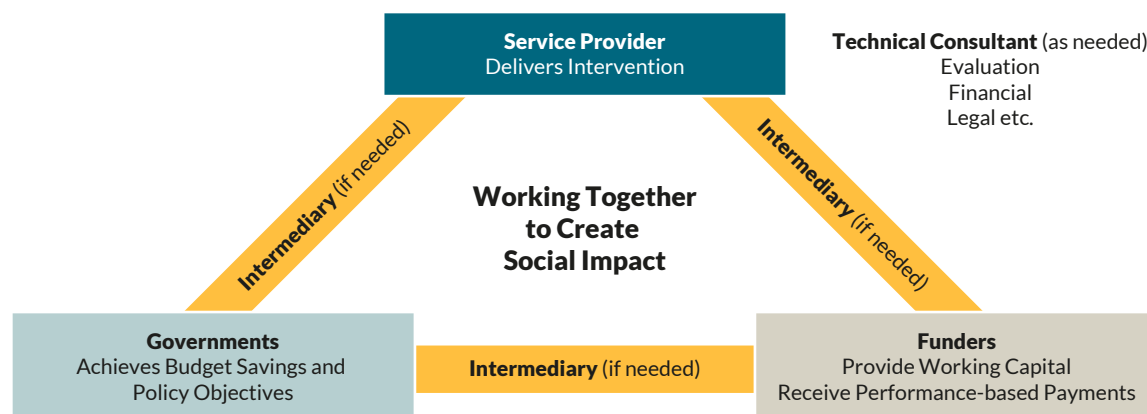
## 11. Focusing on Outcomes

A prominent feature of innovative finance is a focus on outcomes rather than inputs. This is a natural consequence of what impact investors are trying to achieve. To be satisfied that they are sacrificing some amount of financial return for a good social return, they need evidence that their investments are bringing about real change. It may not always be easy to establish this impact, or to attribute it to particular actions (hence the tendency for governments to pay according to inputs instead), but it is essential for these investors to know they are making a difference.

One can find many examples in innovative finance of the shift toward outcomes-focused payouts. One of the most prominent examples is the emergence of social impact bonds (SIBs). In an SIB, private investors provide the up-front capital needed to tackle a social problem. They enter into a contract with an “outcome funder” (usually a government) who agrees to pay them a return that depends upon the extent to which an outcome has been met. Usually when government finances an intervention, payments are based on inputs: service providers are rewarded for numbers enrolled in a course, staff hired, or items disbursed. These things are often quicker and easier to observe, and governments feel as if they have more control. Even if it is known that the link between inputs and outcomes is weak, and that focusing on inputs can reduce the flexibility of service providers to innovate and respond to unfolding situations, these accountability pressures make it difficult to move away from paying according to inputs.

This is changing in some contexts (see Box 6). For example, in the UK, the government has experimented with outcomes payments across several domains. However, even where outcome payments are gaining traction, problems may arise. Whether an outcome has been achieved can only be ascertained after the expenditure has been made, and often long after. Organizations need to have the reserves and working capital to deliver services before receiving any revenue, and this is beyond the capacity of most service providers. Even

**Figure 14. Social impact bonds (SIBs) structure**



Source: Mowat Centre, “What Do We Really Know about Social Impact Bonds?,” November 4, 2014, <https://munkschool.utoronto.ca/mowatcentre/what-do-we-really-know-about-social-impact-bonds/>.

then, the risk may be prohibitive, or defeat the point of outcomes funding by making service providers less likely to innovate: if they know that not achieving targets would lead to large (and possibly unsustainable) financial losses, they may stick to current, known strategies to minimize this risk. There is also evidence that moving toward payment by results for mission-driven organizations—such as those helping refugees to integrate—can have detrimental effects on motivation.<sup>66</sup> What is needed is a funding mechanism that provides flexibility and adequate initial cash flow, and does not crowd out intrinsic motivation.

The involvement of the private sector, as in the SIB model, circumvents this problem. Private investors can put up the initial capital, allowing service providers to perform their work, and be reimbursed according to how successfully they meet objectives. As well as facilitating the provision of greater up-front capital, SIBs also have the potential to bring benefits from collaboration between the partners, each of whom brings a different perspective and expertise. Service providers have detailed, on-the-ground knowledge of what refugees need, what challenges they face, and the effect that interventions are having. Private investors

often have superior systems for collecting and managing information and analyzing risks and can tap into different networks that could be useful for securing opportunities for refugees. And governments provide a necessary role in clarifying important objectives and ensuring that there are no legal impediments to refugees fulfilling their potential.

Using innovative finance and attracting private capital has real potential but should not be viewed as a panacea. There are well-known challenges in designing outcomes-based programs that need to be addressed. One accusation is that metrics can be gamed, by such behaviors as “creaming” and “parking,” where service providers spend all of their resources on a select few promising cases (creaming) and ignore those that are more difficult (parking). This is especially a concern where private investors are involved, who are more motivated by financial rewards than social outcomes. These are legitimate concerns and highlight the importance of carefully choosing the outcomes against which payments are made. We discuss some of these in detail in the appendix.

Outcomes-based models have also been criticized on the grounds that they are often costly to develop. They are legally complex, involve many contracting

66. See, for example, Jerry Muller, *The Tyranny of Metrics* (Princeton, N.J.: Princeton University Press, 2018); Daniel Pink, *Drive* (New York: Riverhead Books, 2009).

partners, and need careful design. While there can be some truth to this, there are two important caveats:

1. **Some of the costs of developing outcomes-based models arise from the rigor that they require in tracking performance.** They provide a strong incentive to generate accurate information, and this is expensive. But it is also one of the strengths of outcomes-based payments approaches—this additional rigor can bring wider benefits in the long term. This is not truly a cost of using a different model, but a cost of generating this extra benefit. Where rigor and accurate information is important, this is a feature, not a bug, of outcomes-based payments approaches.
2. **Outcomes-based approaches can open opportunities that would not be available under conventional financing.** Some services could have been cheaper to procure under conventional financing ex post, but this may not have been understood, or possible. This reflects the “discovery” aspect of outcomes-based approaches: service providers have the flexibility to learn and discover more successful approaches that funders would not have known to procure ex ante.

We also acknowledge that outcomes-based approaches are not always the right tool for fostering innovation. If too much risk is associated with an innovative approach, attracting funders will be difficult. If there is very little risk, it may be more cost-effective to fund directly. However, oftentimes there is an opportunity to innovate where the financial risk is not too great to deter investors but the project carries significant political risk, perhaps because evidence supporting the project contravenes conventional beliefs. In such situations, innovative finance can provide an effective tool to fund projects that otherwise would be shunned by the public sector on their own.

## 12. Overcoming Concerns about the Cost of Resettlement

Innovative finance can generate more and better investment that would enable refugees to achieve their potential. Over time, this may increase the willingness of countries to provide resettlement places. We also believe that innovative finance can help address, or at least sidestep, another constraint on the willingness of some countries to provide refugee places: the costs are more salient than the benefits, and often the benefits do not accrue to the communities that bear the cost. We argue that the nature of innovative finance can help to change perceptions of this balance in three ways:

1. **Linking costs to success by transferring risk.** While there are excellent returns from investing in refugees on average, the returns from any particular investment may be uncertain. Public-sector organizations tend to be loss averse—individual policymakers, politicians, and officials want to be sure that all public money demonstrably achieves results. A mechanism that imposes costs on the public sector only when the benefits can also be demonstrated avoids the public sector having to explain why some of its investments failed.
2. **Introducing flexibility.** Investment needs to be responsive to new information and unforeseen circumstances. This can be hard to achieve for officials with strict budgetary procedures, and for whom a change of course risks being cast as a failure. By contrast, innovative finance can attract capital that is flexible and prepared to change course if outcomes—and therefore returns—are at risk.
3. **Focusing on results.** These mechanisms focus attention on outcomes. Governments often manage programs by inputs and activities, and ask to be trusted about the long-term benefits. By focusing explicitly on results, innovative finance mechanisms can demonstrate that these benefits are real, and so build public confidence by generating rigorous evidence that they exist.

## Linking costs to success by transferring risk

### **Problem**

Under the current political climate, increasing the amount spent on refugee resettlement poses large political risks to governments. Many Western countries have lived through years of cuts to local government budgets and stagnant pay in the public sector. Increasing expenditure on resettled refugees may look like an indulgence, especially if it is not obvious to citizens that such additional expenditure will yield returns. Governments run the risk that (1) the additional spending will not actually lead to increased returns, and (2) even if it does, the public will fail to recognize it.

The first risk—that additional spending will not deliver increased returns—is always a possibility. There is strong evidence that additional spending could yield returns, but there clearly may be interventions or services that are less successful or slower than anticipated. And when assessing government actions, it is sometimes difficult to think in terms of probabilities: if a policy fails, then it looks like a bad decision in hindsight even if it actually had an 80 percent chance of success. This can make officials highly risk averse.

The second risk—that the public will fail to recognize increased returns—is also highly relevant in this case given the barriers discussed earlier: the benefits are likely to be less visible, accrue far into the future, and at a national level. Such risks make it difficult for governments to commit to spending more on refugees or to trying different approaches.

### **Innovative finance solution**

Private-sector investors do not face this risk. If it is in their interest to spend more money on refugee resettlement, they are unlikely to face a backlash, and certainly do not face the risk of being voted out of office. They simply need to know that investing in refugee resettlement will produce a revenue stream that compensates them. Such an outcomes-based approach could make the costs more politically palatable; the government would only need to pay out at the time when it can point to real evidence of the benefits that refugees

are bringing. In the framework described above, this has the **potential to increase investment**. If the level of risk is a binding constraint for governments, then transferring that risk to other parties who are willing to take it is a way to unlock capital. It also **elevates the benefits to the same visibility as the costs**: the latter are incurred only in the presence of the former.

### **Box 7. Rikers Island recidivism social impact bond**

In the United States, a social impact bond (SIB) was designed to reduce recidivism rates among ex-inmates of Rikers Island prisons by using a new type of therapy.<sup>a</sup> There was sufficient evidence behind this for Goldman Sachs to be interested in providing up-front capital, with a target of reducing recidivism rates by 10 percent. However, an independent evaluation of the program found that this target—the threshold for payments to be made—was not met, and so the government of New York was not liable to make any payments. The loss was instead sustained by both Goldman Sachs and Bloomberg Philanthropies (which had insured some of the investment against losses). Even though the investors lost money and the intervention was less effective than hoped, the SIB was not considered a failure.<sup>b</sup> The investors understood the risks and partook in the SIB, and on this occasion the investment did not pay off. Goldman Sachs, which lost US\$1.2 million, is still active in other SIBs, demonstrating

a. John Olson and Andrea Phillips, "Rikers Island: The First Social Impact Bond in the United States," *Community Development Investment Review* 9, no. 1 (2013), [www.frbsf.org/community-development/publications/community-development-investment-review/2013/april/rikers-island-social-impact-bond/](http://www.frbsf.org/community-development/publications/community-development-investment-review/2013/april/rikers-island-social-impact-bond/).

b. Justin Milner, Erika C. Poethig, John Roman, and Kelly Walsh, "Putting Evidence First: Learning from the Rikers Island Social Impact Bond," *Urban Wire: Crime and Justice* [blog], July 5, 2015, [www.urban.org/urban-wire/putting-evidence-first-learning-rikers-island-social-impact-bond](http://www.urban.org/urban-wire/putting-evidence-first-learning-rikers-island-social-impact-bond).

## Box 7. Continued

that it is the return of a portfolio that matters, not individual losses.

This demonstrates the potential attractiveness of SIBs for resettlement programs: the risk transfer is real, and countries do not need to justify spending money on refugees unless the economic benefit is realized. Such a scheme could allow countries to experiment with how refugees are integrated before committing to additional numbers. For example, if initial attempts at integration are not successful—as in the Rikers Island SIB—then the government is not “on the hook” for any additional spending that the intervention necessitated.

## Introducing flexibility

### *Problem*

Under conventional financing arrangements, changing the level or type of services provided, even if it is known that it would be beneficial, can be difficult. Doing so may require a political decision to commit additional funds or to divert them from other areas. This is especially the case when the savings that might be produced for the government overall do not accrue to that particular department. For example, in the case of refugee resettlement, our premise is that if the department responsible for integration were to increase its spending, that could lead to more effective outcomes, which in turn could reduce the amount that the government needs to spend on social welfare. However, this reduction in spending will almost certainly not benefit the same department, reducing the incentive to divert more resources.

In addition, often resettlement programs pay insufficient regard to the services that refugees actually need. In some cases, unwanted services are foisted upon refugees, such as when refugees receive counseling but do not feel that they need it. In other cases, refugees might not feel ready to receive certain services, or feel overwhelmed, or feel that there may be more effective ways to achieve the goals that services are intended to meet. Finally, some refugees will reach the end of their period of service provision but still feel that they could benefit from additional services.

### *Innovative finance solution*

For many expenditure items, the budgetary process may be an effective mechanism, providing accountability and safeguards against errant spending. However, in situations such as resettlement, where the optimal amount to spend on services may be hard to predict and vary widely between beneficiaries, more responsive funding mechanisms may be more suitable. Outcomes-based funding from investors can provide this. Such funding may be more able to adapt to the problem as new evidence emerges and points toward the value of better spending. It also may be less restricted by annual budget setting: spending can take place until the expected marginal benefit is equal to the additional investment, rather than only until the annual budget is exhausted.

Service providers are also likely to have more flexibility to decide to spend more where needed. Given that they will be rewarded according to success in achieving outcomes, they have the incentive to do so. A more client-centered approach could yield huge benefits in increased impact for the same cost. Instead of central governments paying a block grant to local governments irrespective of actual service costs, and refugees receiving a fixed and uniform service, investors could fund the specific interventions that are needed for each client, **allowing more tailored, effective investment.**



## Box 8. Therapy social impact bond

The barriers to increasing spending, even when sensible, constitute a political challenge that affects many other areas of public policy. One advantage of social impact bonds (SIBs) is simply to reduce the political nature of such decisions. For example, a report by Bridges Fund Management, *Choosing Social Impact Bonds: A Practitioner's Guide*,<sup>a</sup> describes an SIB that aims to reduce the likelihood of children going into care. The type of therapy used in the SIB is particularly intensive, and in the first year of the SIB, the high rate of therapist turnover was having a detrimental effect on outcomes. Therefore, the board of the SIB agreed to significantly increase the number of therapists to reduce the burden. This would not have been a simple decision under conventional financing arrangements. Management would have been concerned about the budget for additional staff and would have struggled to obtain an increase for that budget among many competing

public-sector priorities. In particular, in situations in which “performance” is measured in terms of inputs or outputs, there may be an extra incentive not to employ more therapists to treat the same patients, as that would give the impression of lower productivity: more money is spent on the same patients, and there are fewer patients per therapist. Even if this could lead to superior outcomes and eventually pay for itself in less need for services, it is nevertheless a difficult decision to make if remunerated according to outputs.

Therefore, even a quite obvious decision that would likely improve outcomes—increasing staff—can be difficult under conventional financing arrangements. By contrast, under an SIB, those providing the up-front capital for employing extra staff will be concerned only about whether it would lead to a sufficient improvement in outcomes to justify the extra expense. In the case of this SIB, that was deemed to be the case.

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a. Bridges Impact+ and Merrill Lynch, *Choosing Social Impact Bonds: A Practitioner's Guide* (London: Bridges Ventures, 2014), [www.bridgesfundmanagement.com/publications/choosing-social-impact-bonds-practitioners-guide/](http://www.bridgesfundmanagement.com/publications/choosing-social-impact-bonds-practitioners-guide/).

## Focusing on results

### **Problem**

Currently very little information is available on refugee outcomes and what leads to those outcomes. Although service providers do an admirable job helping refugees to resettle, there is little evidence that they can draw upon for guidance and continuous learning. This is understandable when service providers are accountable for providing inputs. Information can be costly to obtain and difficult to manage, especially when it comes from diverse sources. Individual service providers no doubt have useful knowledge acquired from their experience. But it may be far harder to gather systematic evidence that can be used to identify trends and commonalities

across an entire target population, and that can then be used to formulate policies and assess overall impacts. This is an up-front cost to the service providers, but one that is more likely to benefit policymakers.

### **Innovative finance solution**

If outcomes trigger payments to investors, then the investors have a strong incentive to measure those outcomes reliably enough to provide proof that they have been met and to use that information to tailor services to the individual. Investors and private-sector actors are often equipped with superior systems for data management and collection than refugee-service providers. This expertise could give rise to wider benefits—both governments and service providers could

learn more about how to be more effective at helping refugees. In previous SIBs, it has sometimes been the case that expertise in this area has been absorbed by service providers, creating a legacy of improved data tracking/management in the third sector. As well as having the potential to **improve the effectiveness of investments**, it also provides clear and **reliable evidence of the benefits that refugees bring**.

### Box 9. Educate Girls Development Impact Bond

The development impact bond (DIB) is a close cousin to the social impact bond (SIB). In an SIB, the outcome funder is usually a government that benefits fiscally if the project is a success, but in a DIB the outcome funder is usually a donor that wants to drive innovation and increase accountability. Educate Girls DIB pioneered this new model,<sup>a</sup> aiming to improve educational outcomes among girls in Rajasthan, India, where the educational attainment (and enrollment) gap between boys and girls was particularly large.

The preparation for the DIB revealed that the price of the outcomes—the amount investors would be paid for achieving them—had been negotiated and set according to a study of educational outcomes that was out of date. Therefore, a baseline survey established current achievements against which improvements could be judged, and the targets and pricing were renegotiated. Although this did add to the initial cost of establishing the program, it highlights the potential of focusing on outcomes to generate additional knowledge. The rigor needed to assess whether a difference has been made compels those involved to better understand the problem.

a. Children's Investment Fund Foundation, "Educate girls development impact bond delivers impressive results, surpassing both target outcomes" July 13, <https://ciff.org/news/educate-girls-development-impact-bond-delivers-impressive-results-surpassing-both-target-outcomes/>.

In the first and second years of the program, interim results were positive; it was 87 percent of the way to achieving the enrollment goal but only 50 percent of the way to meeting the attainment goal. However, there was a step change in the third year, and the final evaluation revealed that the enrollment target had been exceeded by 60 percent, and the attainment target by 16 percent. This dramatic improvement in the third year was facilitated by a flow of information that allowed the service providers to identify what was going wrong, and how it could be adapted.<sup>b</sup>

At the end of the program, the executive director said, "The razor-sharp focus on outcomes and the flexibility in programme delivery that comes with a payment-by-results contract has enabled us to deliver improved outcomes."<sup>c</sup> For example, visits to the homes of girls who were chronically absent were added to the program in the third year, as the information that the project managers were generating revealed that this group was not benefiting from other aspects of the program.

b. Chris Joynes, *An Overview of Evidence Regarding the Impact of Impact Bonds as Innovative Financing Mechanisms for Education in Development Contexts*, K4D Helpdesk Report (Brighton, UK: Institute of Development Studies), section 4, <https://assets.publishing.service.gov.uk/media/5c87e016ed915d50aa142f89/544.pdf>.

c. "Educate Girls," Government Outcomes Lab, <https://golab.bsg.ox.ac.uk/knowledge-bank/case-studies/educate-girls/>.

## 13. Basic Design Questions

A mechanism to produce better outcomes for resettled refugees by increasing the quantity and quality of investment needs to address four basic design questions: what are the sources of revenue; what are the sources of investment; who will provide the services; and how will results be measured?

### What are the sources of revenue?

Our analysis suggests that there is unrealized value because of inadequate investment in refugee resettlement. If that value can be translated into revenue, it could form the basis of a resettlement mechanism. We have considered two possible sources of revenue that could be used in some combination to underpin a mechanism to invest more in refugees:

1. **Harnessing government revenues.** If the initial capital to resettle refugees is provided by private impact investors, government revenues could be spent on repaying that outlay based on outcomes, such as the number of refugees who are able to enter gainful employment commensurate with their skills. We discuss potential outcome measures that could trigger payments in the appendix. Linking the payments to employment outcomes would be an obvious candidate, as this leads both to clear fiscal savings as the government reduces spending on social welfare and to additional tax revenue. Gainful employment is also widely found to have a significant and positive effect on people's well-being more generally, and refugees are no different. However, as the model develops over time, and service providers and investors grow accustomed to the model, then different approaches, such as a "rate card" that gives different rewards for the different targets, could be tried.
2. **Garnering repayments from the resettled refugees themselves.** Such a scheme could take the form of a loan system (analogous to student loans). For example, a scheme could include loans that enable refugees to invest in, and gain recognition

for, their skills and cover exceptional costs such as course and exam fees and study material. This would provide refugees with a degree of freedom that they currently lack. Service providers would be in a good position to assess eligibility of refugees for such loans, and Canada's experience (see Box 10) suggests that repayment rates are likely to be high, and interest rates can be kept low, making them affordable for the refugees. The positive effect that this could have on tax revenue suggests that the government could reimburse the costs of administering the loans along with payments for meeting outcomes, ensuring the burden on the refugees is small. This would still leave the government much better off fiscally.

### What are the sources of investment?

The sources of revenue determine whether it will be possible to attract investment and, if so, what sort. These could include international social impact investors and investment funds, and impact investors in the countries accepting refugees. Evidence from various countries suggests that per refugee investment of between US\$20,000 and US\$30,000 is likely to be required.<sup>67</sup> Over time, as schemes are established and grow, it is possible that more commercially oriented investors—such as public-sector pension schemes and sovereign wealth funds—may also be attracted to these investments. The different sources of revenue are naturally likely to attract different sorts of investors, depending upon their risk profile.

### Who will provide the services?

To resettle successfully, refugees require a range of services, including language training, healthcare, education, housing, and other social services. These services will be most successful if they are individually tailored

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67. This is an estimate based on several sources: Evans and Fitzgerald, *The Economic and Social Outcomes of Refugees in the United States*; UK National Audit Office, "The Syrian Vulnerable Persons Resettlement Programme"; Massa, *Untangling the Data: Assessing the Accuracy of Official Refugee-Related Costs in Europe*; and data provided to us by Canadian resettlement officials.

(“client-centered”) rather than generically provided regardless of needs.

This suggests that a successful scheme will be organized around a commissioning agent that acts as a partnership between the government, private investors, and service providers. This intermediary, a resettlement partnership, could hold the overall budget and use it flexibly to manage contracts with a variety of specialist services, including civil society organizations, private providers, and government agencies, who will provide tailored services to each refugee family. The service provider will make good use of performance data, tracking which services lead to successful outcomes in each case, and adjusting the mix of service provision over time as they learn more about what is needed and how it can best be provided.

### How will results be measured?

Linking payments to investors with outcomes, such as employment rates or taxes paid by resettled refugees, would provide the incentive for investors to find the right mix of services for each refugee. It would also provide an incentive to track outcomes and provide useful information on how refugees can be effectively helped. This will improve outcomes over time and reduce the perception of refugees as a burden to be borne rather than an investment. However, the actual mix of services provided and the way in which they are tailored will depend on the targeted outcomes. Given that outcomes-based payment creates a strong incentive to focus on those specific outcomes, they need to reflect improvements in the lives of refugees while also creating additional fiscal value that can be used to repay the investment. We suggest labor market outcomes as an obvious area to focus on. Surveys suggest that autonomy to earn a living is universally sought by refugees,<sup>68</sup> and that is aside from more general evidence that employment is important for well-being over and above

the income effects.<sup>69</sup> Employment is also one of the largest determinants of someone's fiscal contribution, and so a focus on labor market outcomes ticks both boxes. However, such a focus should include longer-term outcomes, so that the incentive to pressure refugees into immediate job placement at the expense of training for better-paid and more fulfilling jobs is avoided. See the appendix for a fuller discussion of specific outcomes that could trigger payments for investors.

## 14. A New Implementation Framework: Local Resettlement Partnership

At the local level, multiple actors are important for the success of refugee integration. *Governments* need to grant documents and legal status to refugees, and to share the additional revenue they receive as outcomes improve. *Local impact investors* need to provide the up-front capital and rigorous performance management. And *service providers* need to cater to the requirements of refugees. There would need to be various contracts specifying the payments that investors will ultimately receive, and the conditions under which such payments will be made. In practice, these different actors could be convened and mediated by an entity we refer to as a **local resettlement partnership**.

That partnership would be responsible for procuring the services for refugees from service providers, tracking the outcomes that determine the payment, and entering contracts with both the government and investors. If the “resettlement bond” that we describe in Part II is in operation, then the partnership could also be responsible for receiving and managing funds raised from that mechanism. This would be an active partnership that benefits from the expertise of each of the different actors. The service providers are best placed to know what constraints refugees face and how they are addressed. The local impact investors are best

68. See, for example, Dick Wittenberg, “More Than Anything, Refugees Want to Work for a Living. So Why Are They Getting so Little Help?” *The Correspondent*, March 8, 2017, <https://thecorrespondent.com/6307/more-than-anything-refugees-want-to-work-for-a-living-so-why-are-they-getting-so-little-help/420285866-3edb3f47>.

69. See, for example, Lindsay Richards and Marii Paskov, “Social Class, Employment Status, and Inequality in Psychological Well-Being in the UK: Cross-Sectional and Fixed Effects Analyses over Two Decades,” *Social Science and Medicine* 167 (2016): 45–53, [www.sciencedirect.com/science/article/abs/pii/S0277953616304786](http://www.sciencedirect.com/science/article/abs/pii/S0277953616304786).

placed to provide more capital when required in order to meet targets and may bring additional expertise in data tracking and performance management. The governing board could also include representation from groups such as national refugee councils, which can bring an independent voice.

Another role of this partnership could be to administer a loan system, allowing refugees to borrow to invest in skills recognition or training relevant to their prior experience. The successful model in Canada (Windmill Microlending, discussed in Box 10) involved character-based assessments, allowing refugees to access loans without any collateral. The partnership would be an obvious entity to administer these loans. One important benefit to this would be to place some power in the hands of refugees. Even under a new, client-centered approach to resettlement, much of the resettlement process involves decisions being made for the refugees rather than by them. The option to take a loan and spend the proceeds on what refugees find important for themselves, could increase a feeling of agency.

In this partnership, the investors would assume the risk that the outcomes are not met, in which case they lose some or all of their capital. This makes it a considerably riskier venture than the resettlement investment fund. It would probably also necessitate a more active role on behalf of the investors. In the short term, we anticipate those who would be interested in this investment would be impact investors who seek to recoup their capital, but are equally concerned with promoting a social goal and demonstrating the potential of refugees. Although this is certainly a smaller market than commercial and institutional investors, there are nevertheless hundreds of billions of dollars invested with impact as a purpose. In addition, many foundations and other donors are expressly interested in helping refugees. They could act as investors themselves, or perhaps enter insurance contracts with more commercially minded organizations, to share the risk. In the medium to long term, we would hope that as programs are demonstrated to be successful and provide investors with a return, the pool of potential investors would grow.



## Box 10. Subsidized loans for refugees

Windmill Microlending in Canada (<https://windmillmicrolending.org/>), previously the Immigrant Access Fund, provides loans to immigrants (including refugees) to assist them with obtaining recognition for their skills and applying them in Canada. To be eligible for a loan, immigrants need to be able to demonstrate that they are seeking accreditation for skills that they practiced in their country of origin, and that they have a clear plan for how to achieve that. In addition, the eligibility requirements state that immigrants must “demonstrate good character” and be “committed to paying back the loan with interest.” Since 2005, Windmill Microlending has approved CAD\$17 million of loans to 2,700 immigrants and received funding from the Canadian federal government, the provincial government of Alberta, and private donations.

An evaluation of this fund suggests that it has been a great investment for the Canadian government.<sup>a</sup> The costs include administration fees (reported to be CAD\$2,304) and covering the value of loans written off. The evaluation reports that 3.4 percent of the value of loans was written off, and that the average value of loans was CAD\$5,910, meaning that this increased the average cost of loans to about CAD\$2,500. The loans did charge a small interest rate, but for ease, and to be conservative in estimating the benefits, that is ignored.

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a. J. C. Herbert Emery and Ana Ferrer, “The Social Rate of Return to Investing in Character: An Economic Evaluation of Alberta’s Immigrant Access Fund Microloan Program,” *Journal of International Migration and Integration* 16, no. 2 (2015): 205–224, [www.infona.pl/resource/bwmeta1.element.springer-b864746e-cal4-3ad8-b118-db4ee5fa1898](http://www.infona.pl/resource/bwmeta1.element.springer-b864746e-cal4-3ad8-b118-db4ee5fa1898). Evaluation is for the immigrant loan, rather than the specific refugee loan, which is newer.

The annual income of borrowers was recorded at the time the loan was granted, and at a later follow-up stage. Refugees who repaid the loan in full recorded an increase in annual income between those two periods from CAD\$16,000 to CAD\$50,000. The evaluation estimates that this would lead to an increase in total income tax paid of around CAD\$6,500, which is more than 2.5 times the average cost of the loan.

However, this ignores the counterfactual. Immigrants who took out a loan may have seen an increase anyway, and there is some evidence for this: the evaluation reports that while immigrants who completed their training programs recorded an increase in income of CAD\$34,000,<sup>b</sup> those who abandoned their plan still recorded an increase of CAD\$14,000. It may also be the case that those who completed the program would have been more likely to see an increase in income independent of whether they received a loan. Therefore, we cannot attribute this difference solely to the loan.

Nevertheless, these numbers indicate that in the follow-up year in which the income was recorded, those who completed their program would pay around CAD\$5,000 more in tax than those who abandoned the program, more than twice the average cost of loans. So even if the loan only contributed to half of this difference, it still would make back the money, and this is from only one year of additional tax revenue. The loan therefore appears to be good value for money for the government.

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b. This is a similar but not identical group to those who have repaid in full, as many loans are still active.

# Conclusion

In this report, we have set out the skeleton of a model we believe could make an enormous difference to the success of refugee resettlement. We believe it could, over time, lead to a significant increase in the willingness of countries to resettle more refugees. At the first stage, resettlement countries could implement this model for their existing resettlement commitments. Impact investors interested in developing more opportunities for refugees could proxy the international flow of funds from the resettlement bond that we described in Part II, allowing governments to try this at very little additional expense. If it proves successful, as we believe it will, this could then persuade governments to increase their resettlement programs in the knowledge that resettled refugees can represent a great benefit to societies, not a burden.

Governments moving toward this system could increase their tax take from resettled refugees and reduce the need for spending on benefits, while continuing to show solidarity with refugee-hosting countries. Populations of resettlement countries could enjoy the benefits from the additional skills and diversity that refugees can bring, while having less need to

worry about the fiscal burden. And resettled refugees could start to rebuild their lives in a safe environment.

By realizing the untapped value of resettled refugees and repurposing the money that is currently spent on displacement, we can generate future revenues that justify up-front investment. As we have argued, many governments feel constrained in making such investments themselves. Our model proposes that social impact investors provide the capital for investment in refugees, to be repaid over time as the benefits for refugees, governments, and society are realized.

An innovative finance scheme for refugee resettlement of the kind we have described here could make a huge difference, both in securing better outcomes for refugees who are resettled and, over the longer term, changing attitudes to refugee resettlement. Most important, we believe this has the potential to give many more of the 1.4 million people currently in need of resettlement a chance to rebuild their lives. This highly vulnerable group of people, with complex needs, could still be given another opportunity to start again afresh and put their troubles behind them, to the benefit of everyone.

# Appendix.

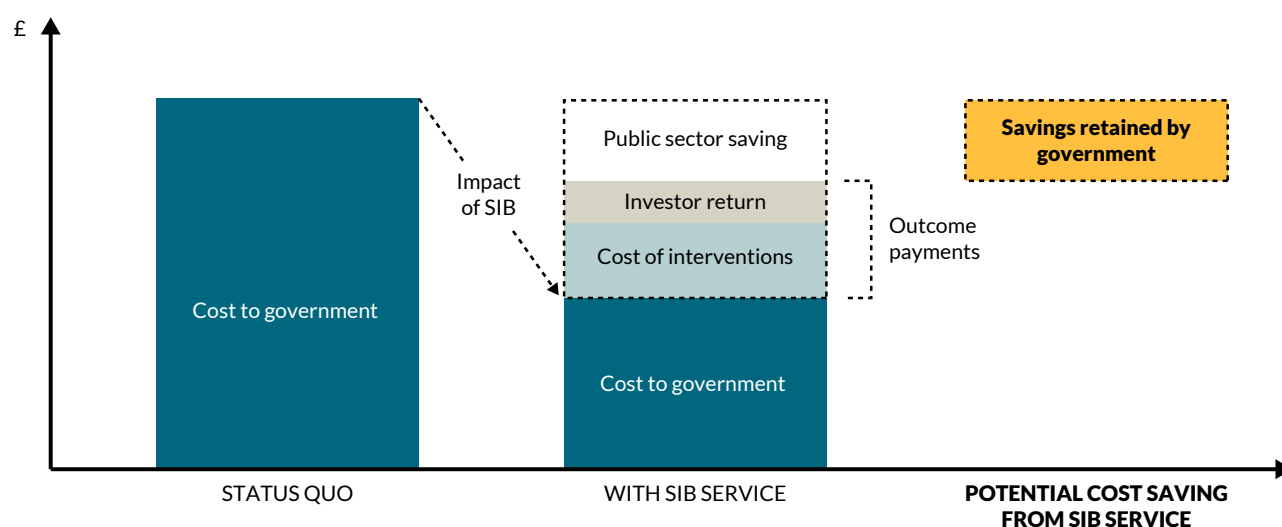
## Methodological Challenges in Calculating Outcomes

We have emphasized throughout this report that by linking the payments that investors receive to outcomes, investors can be incentivized to improve those outcomes. To make this link, it is necessary to decide what the outcomes should be. Given that the purpose of moving to an outcomes-based approach is to improve the welfare of refugees who are resettled and to increase the number of resettlement places that are available by making resettlement less expensive for governments, the outcomes need to be relevant for both objectives. In general, it is likely that the two goals are complementary: if one is achieved, it is more likely that the other will be also. If refugees are better integrated and more able to use their skills, they can live a more fulfilling life and governments will benefit from greater tax revenue and a more cohesive society.

**The model needs to generate cost savings or additional revenue for the government** for it to be sustainable. If an improvement in outcomes does not generate savings or additional benefits for the government, it will not have an incentive to continue to participate, regardless of whether refugees see an improvement. This logic is captured in Figure A1.

On the other hand, **the ultimate goal is to improve the lives of refugees**, and the outcomes need to be directly linked to their welfare. Further, when a country agrees to take in refugees, it assumes a duty of care toward them, and outcomes should reflect this. If improvements in outcomes mean that governments achieve savings but refugees remain unhappy, this is also unacceptable.

**Figure A1.** Diagram representing benefits of social impact bond (SIB) model



Source: Reproduced from Lisa Barclay and Tom Symons, A Technical Guide to Developing Social Impact Bonds (London: Social Finance Ltd., 2013), p. 18, [www.socialfinance.org.uk/sites/default/files/publications/technical-guide-to-developing-social-impact-bonds1.pdf](http://www.socialfinance.org.uk/sites/default/files/publications/technical-guide-to-developing-social-impact-bonds1.pdf).

In addition to these fundamental requirements, we need to consider some other factors and tradeoffs when choosing appropriate outcomes on which to base payments:

- **Attributability vs. broad focus.** If there is a weak link between the factors that investors can control and the outcomes they are trying to affect, this introduces additional risk for investors, and they would require additional return in compensation for that risk. On the other hand, the things that we care about the most, such as happiness or job satisfaction, are affected by numerous factors that are beyond the control of investors. Although “job satisfaction” may be more relevant to a refugee’s welfare than simply whether a refugee is employed, investors are more likely to be able to target the latter.
- **Long-term focus vs. low transaction costs.** The best outcome from a refugee’s perspective may take time to materialize. For example, a low-skill job may be available much sooner than a high-skill job, which may be worth waiting for. On the other hand, measurement of outcomes may be expensive and tracking them over a longer period may increase transaction costs. In principle, this would also have benefits; it would be useful to know longer-term outcomes. But in practice, social impact bonds have tended to be of short duration, with the median duration at 3.5 years.<sup>70</sup>
- **Clarity of objectives vs. comprehensiveness.** With a few specific objectives, investors have clarity about exactly what they should be aiming to achieve, and will find the associated risk easier to price than if they have to evaluate the costs and potential benefits of achieving a range of indicators. This sharp focus on a more limited range of outcomes may help direct resources efficiently. On the other hand, this narrow focus could lead to the neglect of some factors that are important for integration, without there being

a guarantee of other providers being able to fill the gap.

The clearest crossover between the twin objectives of improving the welfare of refugees and generating savings for governments is helping refugees to successfully integrate into the labor market. An increase in employment among refugees would lead to more tax revenue and lower welfare payments to refugees and therefore would clearly benefit governments; unemployment is particularly expensive in European countries with generous welfare states. From the refugee’s perspective, employment also has clear benefits. Having a job nearly always increases income, certainly increases earning potential, and often comes with extra benefits, such as social insurance entitlements and public pension contributions. However, there are also broader benefits. Numerous studies have demonstrated a link between employment and personal well-being even when controlling for income and personal characteristics,<sup>71</sup> and employment can make it easier to find friends, build a network, and facilitate learning the language and culture. Employment is frequently cited as being one of the highest priorities for refugees.<sup>72</sup>

However, a binary employment variable may not be the best way to capture labor market outcomes, as this does not capture the quality of jobs that refugees acquire. It would clearly be preferable if a refugee with training as an accountant or a doctor could use those skills rather than work in a low-skill job, but a binary employment variable would treat both outcomes the same, and given that a low-skill job may involve less investment, there also may be an incentive to pressure the refugee to take it. This risk is heightened if outcomes are evaluated over the short term. Just as many students delay entering the labor market by going to university because they know it will increase their job prospects, some refugees may be better off taking time to invest in honing or certifying their skills, and forcing them to take a job as quick as possible may be counterproductive.

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70. Analysis of Instiglio Social Impact Bond Database (true as of November 2017), which no longer exists. The same information should be available at Social Finance’s Impact Bond Global Database: <https://sibdatabase.socialfinance.org.uk/#>.

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71. See, for example, Richards and Paskov, “Social Class, Employment Status, and Inequality in Psychological Well-Being in the UK.”

72. See, for example, Wittenberg, “More Than Anything, Refugees Want to Work for a Living.”

One option would be to use different tariffs according to the type of job. Jobs could be classified as “low skill” or “high skill,” defined either by salary thresholds or by a system such as the Standard Occupational Classification system.<sup>73</sup> A higher reward for higher-skilled jobs could create an incentive to help refugees use their skills. Another option could be to develop a full “outcomes rate card.” This is a list of outcomes that the government wants to achieve, with different rewards for each one, set based on the cost savings that the government can expect if they are met. These have a number of *potential* advantages:

- **Governments can specify more detailed preferences over different options, providing more flexibility in creating incentives.** This helps to avoid a single-minded pursuit of one outcome at the expense of broader well-being, such as, for example, pressuring refugees to take employment if education may actually be more suitable: the latter can also provide a reward.
- **Governments have more control in setting the risk profile for investors.** By setting moderate rates for early outcomes that help lead to others that are more likely to generate fiscal savings, governments can provide a cash flow at different periods, which might be more attractive for some investors. For example, language outcomes are valuable in themselves, but also make finding employment more likely. An intermediary award for language attainment therefore could be a suitable reward, providing some cash flow before employment outcomes are fully assessed.
- **They are easier to scale.** Outcomes-based contracts are time consuming and expensive to develop, given their highly individualized nature. A rate card allows more standardization and can facilitate a greater number of contracts for less cost. Governments do not need to negotiate with individual investors, but the latter can “opt in” in conjunction with service delivery partners if they think they can demonstrate having met the target. And rates do not need to be

static; if in earlier rounds there is an overwhelming focus on certain outcomes, rates can be tweaked to alter incentives in subsequent rounds.

A rate card has additional benefits given that some refugees will be resettled at ages at which outcomes related to employment may not be appropriate. Refugees resettled as children are more likely to need education than a job, and some may be resettled after retirement age. (The latter case is less problematic given the relatively small number of refugees who are above 60 years old—2 percent according to UNHCR data.<sup>74</sup>)

One option would simply be to redefine the target population. Investors could receive payments for helping people of the right age into the labor market, and this would still reduce the cost of resettlement (and increase the benefits) overall even if younger refugees are not part of the outcomes-based framework. The social impact bond piloted in Switzerland took a similar approach: refugees were classified according to employability and those deemed to be among the lowest employable did not trigger payments. There could be some justification for this for younger refugees, given that available evidence<sup>75</sup> suggests that outcomes for refugee children are similar to those of natives, and therefore should not be more of a concern. However, with a rate card approach, outcomes more relevant to this group could also be rewarded.

## Potential Challenges with Outcomes-Based Models

### Creaming and parking

We use “creaming” and “parking” to refer to the practices of focusing more resources on those refugees who have the highest potential to achieve (creaming) and spending less resources on those who may be

73. See “Standard Occupational Classification,” US Bureau of Labor Statistics, [www.bls.gov/soc/](http://www.bls.gov/soc/).

74. UNHCR *Projected Global Resettlement Needs 2021*. (<https://www.unhcr.org/en-us/protection/resettlement/5ef34bfb7/projected-global-resettlement-needs-2021.html>).

75. Evans and Fitzgerald, *The Economic and Social Outcomes of Refugees in the United States*.



more difficult to help (parking). This practice could risk some people being underserved and feeling disillusioned or abandoned, and not receiving the level of service they require to integrate successfully. There is also a risk of “deadweight costs,” whereby services are provided to those who would likely have managed to achieve the outcome (e.g., found employment) of their own accord, and therefore didn’t actually need the services to be provided.

The exact way in which creaming and parking could be inadvertently incentivized depends on how the payment is structured. If a successful outcome means that investors receive back all of the money they invested, plus a return, and the only variable that concerns investors is the amount of financial investment, then creaming and parking should not be an issue. Even if some refugees are more expensive to “treat,” they will be reimbursed for this extra cost and so this would not affect the overall level of profit. For example, if a contract specifies that a 50 percent employment rate after five years triggers a return of 5 percent, then if investors spend US\$1 million they will receive US\$1.05 million, and if they spend US\$2 million they will receive US\$2.1 million. However, this has generally not been the way that outcomes-based contracts have worked in practice. The costs of raising investment are not zero, and in the outcomes-based contracts that have attracted private investors to date, there has tended to be one round of investment raising, after which the available funds are allocated in the most effective way possible to achieve a return.

In this situation, it is likely that more resources will be dedicated toward those most likely to have an impact on the aggregate outcome, that is, those most responsive to the services provided. This could be especially problematic in a tax-sharing arrangement whereby investors are repaid by a percentage share of the tax raised from refugees’ earnings. In countries with progressive systems, in theory it may even be worthwhile for investors to focus on continually increasing the earnings of one rich refugee. However, this is potentially ameliorated by the nonlinearity that occurs in fiscal revenue when people move into employment. There may often

be a jump in the amount of tax paid by refugees when they find employment of any kind, which means that getting someone employed is an easier way to increase revenue than focusing on increasing earnings of refugees who are already employed (although there may be other nonlinearities around earnings at which marginal tax rates go up).

More generally, it is important to note that it is not necessarily the least advantaged who are most likely to receive less treatment in an outcomes-based framework. If, for example, an aggregate employment rate is the target that triggers payments, investors might decide that some refugees are so employable that they are likely to find employment even without their help. In this case it would not be worth spending resources on them. At the other extreme, if it is genuinely the case that no amount of intervention will help a particular refugee enter the labor market, then it would not be a good use of resources to attempt this. Cases are unlikely to be this extreme, but there may be other cases in which the savings to the government from managing to help a refugee enter the labor market would be less than the amount of investment required to do so; this would make the proposition uneconomical. This is not to say that the refugee should not receive other types of assistance (he or she surely should), only that in a setting where resources are scarce, it is not necessarily wrong to consider where we can deploy those resources most effectively. This is especially the case with labor market metrics in situations where refugees are not ready or able to enter employment within the time frame of the model. Such refugees should not feel pressured to find work they can’t cope with in order to boost payments to investors (although a longer-term focus should reduce this risk).

Nevertheless, there may be situations in which service providers feel pressured not to provide an appropriate level of service to some refugees who have the potential to find employment but require more help than usual. One way in which this practice could be mitigated is to differentiate payments between different refugees. For example, in the Swiss Refugee SIB, refugees were divided into categories according to how easy it would

be for them to find work.<sup>76</sup> Such a division could be used to set separate rates of payment; in the tax-sharing arrangement, investors could be paid 5 percent for higher-skilled refugees and 10 percent for lower-skilled refugees, for example. Tiered payments have been tried in the “Work Programme” implemented by the UK’s Department for Work and Pensions;<sup>77</sup> participants in the program were divided into different payment categories and improving outcomes for those in harder-to-treat categories triggered higher payments. Analysis of the program found that even with the differential payments, there was still more investment in easier-to-treat participants, and therefore the practice of creaming and parking had not entirely been avoided.

## Deadweight and counterfactual

The deadweight cost associated with treating those who would have achieved the outcomes anyway is not a risk when the investor-provided capital has unlocked additional resettlement places; if places have increased then the counterfactual would not be a refugee paying tax in his or her new economy, but remaining in his or her host country. However, for countries that already resettle refugees, an outcomes-based model needs to ensure that it incentivizes improvements in outcomes among the refugee populations, rather than simply paying investors for what would have happened anyway.

For countries moving toward an outcomes-based approach that do already resettle refugees, the levels at which payments are made needs to be calibrated to previous outcomes among refugees. Again taking employment rates as an example, investors should not be rewarded with a high return if the interventions they fund only match previous rates of employment among refugees rather than improve upon them. The Swiss SIB that aims to increase the employment rate among refugees has the target of doubling the employment rate,

and achieving no increase relative to the status quo would mean investors losing capital.

This might be more difficult to set under an arrangement by which tax is shared, or an extra tax is levied on refugees. With no further constraints on the system, it would be possible that under a tax-sharing arrangement, investors don’t have the incentive to provide *any* services. There will almost certainly be some refugees who find work whether or not they receive assistance, and therefore investors could receive payments for nothing, a scenario clearly unacceptable. Given that investors are likely to be impact investors who are using their capital to pursue social goals, it is unlikely that they would react in this way. However, this illustrates that setting payments in such a way as to incentivize investment in refugee outcomes is crucial.

Setting a minimum level of service provision may therefore be important. This can easily be incorporated into an otherwise outcomes-based contract, by making this provision of services mandatory for receiving payments; for example, investors receive a percentage of tax raised from refugees if they provide a minimum service—otherwise they receive nothing and lose any capital they invested. As well as acting as insurance against investors ignoring difficult cases, this would also mean that investors must incur a certain cost before they can receive any payments, which may act as an extra incentive to achieve good outcomes for the refugees and increase these payments.

## Cherry-picking

As well as the risk of creaming and parking (treating refugees differently when they arrive to maximize profit) there is also a possibility that countries will want to “cherry-pick” refugees, that is, attempt to pick refugees who they believe are more likely to become economically beneficial.

It is important to note that this would not necessarily change incentives resettlement governments face: it is already preferable (from a fiscal perspective) to resettle young and dynamic refugees with few dependents.

76. See Guggisberg and Stettler, *Zwischenbericht Evaluation Social Impact Bond 2015–2020*.

77. UK, Department for Work and Pensions, *Work Programme Evaluation: Operation of the Commissioning Model, Finance and Programme Delivery, Research Report 893* (2014), section 6, [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/425301/rr893-report.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/425301/rr893-report.pdf).

They currently do not limit resettlement places to such refugees despite the economic incentive to do so, partly because resettlement is a moral commitment to help the most vulnerable, and partly because it would contravene the Refugee Convention. Refugees who are resettled are referred by UNHCR, not chosen by governments among the entire refugee population. These factors would still be present, and the ideas we propose could still be valuable for this group by helping those that are able to find suitable employment.

However, given that we are proposing using the potential economic value generated by resettlement in order to unlock additional places, it is nevertheless true that this model would work more effectively for some refugees than others. We initially envisage these proposals being used to increase the number of the 1.2 million UNHCR-referred refugees that countries are willing to resettle. Within this group are many whose vulnerability does not preclude them entering the workforce, such as those referred for legal protection, family reunification, or due to “lack of foreseeable alternative durable solution.” If the number of places unlocked is additional, then if only these refugees are resettled under this mechanism that would still be a great result. The alternative would not be “more vulnerable” refugees resettled instead, but fewer refugees being resettled.

In addition, governments can and do resettle refugees who are not referred by UNHCR and therefore do not necessarily have the same vulnerabilities and may be more likely to be economic contributors. The private sponsorship models provide an example: such refugees tend to be higher skilled, younger, and have more family connections than those referred by UNHCR.<sup>78</sup> Similarly, Talent Beyond Boundaries (<https://talentbeyondboundaries.org/>) aims to connect refugees who possess certain skills with employers seeking those skills in safe, third countries. These programs are clearly still valuable even if they don't target the most vulnerable; every refugee who is in a host country, unable to use her skills, and

lacking an opportunity to build her life is someone worthy of assistance. Countries should continue to resettle refugees based purely on vulnerabilities, but this need not preclude thinking about ways in which it is possible to help other refugees also. In addition, a distinction can be made between refugees who are intrinsically vulnerable and those whose vulnerability depends on their current context. For example, a refugee with medical needs or mental health problems will still be affected by those problems after resettlement, and will still need treatment and possibly find it harder to enter the labor market. This contrasts sharply with, for example, LGBT refugees who are at risk of persecution because of their sexuality in their host country. Once resettled, they would not necessarily have any problem entering the labor market; what makes them vulnerable in one location is not necessarily a vulnerability in another. This demonstrates that there is an intersection between the most vulnerable refugees and those who would be able to prosper economically in a safe, third country.

A final tool that could be used to disincentivize focusing solely on the most likely to be prosperous is the transfer of funds from the resettlement investment fund. Our model includes an international transfer facilitated by bringing forward aid spending. We have calculated the average amount spent per refugee to come up with an estimate of the value available per refugee, but there is no reason why this transfer needs to be the same for all refugees. If there are concerns about countries choosing the easiest cases at the expense of more difficult cases, then the transfer could be adjusted according to the characteristics of the refugee. For example, refugees with particular medical needs could receive more money than average and resettling higher-educated refugees could be associated with a lower transfer.

## Limits to labor market focus

The discussion so far has largely been centered on labor market integration—helping refugees become productive workers in their new homes. This is both a strength and a limitation. A sharp focus on labor market integration allows clarity over what would trigger payments,

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78. For a discussion of the difference between privately sponsored refugees (PSRs) and government-assisted refugees (GARs) in Canada see Kaida, Hou, and Stick, “The Long-Term Economic Integration of Resettled Refugees in Canada.”

which reduces transaction costs, reduces the degree of risk that investors need to take on, and makes that risk easier to price. It means that there is a clearer link between the payment made and the source of value that allows it. However, labor market integration is only one aspect of integration, and may not cover all of the problems that a refugee may face; if a problem does not impair a refugee's ability to find gainful employment, then investors will not have the incentive to address it.

A precedent for balancing a sharp focus on one area with broader needs of the clients is Canada's Windmill Microlending. The focus of the loans provided under this scheme is specifically for immigrants to gain accreditation in professional industries. However, the fund has established partnerships with other service providers who are better placed to cater to those issues unrelated to accreditation. When Windmill thinks its services are not the most suitable, it refers immigrants to those partner organizations—the purpose is not to compete over provision of all services an immigrant may need, but rather to specialize, and allow clarity as to how each intervention addresses each issue. However, Windmill Microlending's focus is on refugees and immigrants who are already in Canada. The fact that we want a new financing model to facilitate additional refugees means that if it cannot also deal with all of the multifaceted issues that these refugees may have, it may put strain on service providers operating without the extra investment from the model.

Similarly, this model creates an incentive to focus on improving the labor market situation of refugees. This may serve as a valuable proxy for other types of integration, and is one of the most important parts of integrating into a society. In addition, many of the interventions that will increase the chance of quality, gainful employment (such as language tuition) will assist with integration more generally. Nevertheless, there is a need to recognize that this model is not intended to supplant all other services, but is an additional tool for helping

to finance integration. Government will continue to provide many essential services, such as healthcare and education.

In summary, the above discussion indicates that the following points are worth considering:

- It could be important to **set some minimum level of service provision**, preventing service providers from ignoring the most challenging cases. Even if some refugees are unlikely to become net economic contributors, receiving countries still have a duty to ensure that they are safe, secure, and comfortable. To this end, provision of certain services can be made a necessary condition for payments to be released; for example, children of a certain age must be in school, and those with medical problems must be treated.
- It might be useful to **explore a hybrid approach**, whereby there are short-term indicators that trigger payments, but also longer-term outcomes that can enhance those payments. For example, a refugee being awarded a permanent employment contract within a year could contribute toward the investor earning back its capital, but this could be paired with some longer-term objectives, meaning that the cost of raising capital is relatively low (due to the early payouts) but the investors remain engaged, and still have a stake in the outcomes of refugees. Another alternative could be to present different options for payments. For example, being accepted into a university course could be an alternative to finding employment and trigger an equivalent (or perhaps larger) payment, given that obtaining a degree is likely to lead to skilled employment.
- Careful consideration should be given to **setting different rates/thresholds of payment for different refugees**. This is true when considering both the international transfer from the resettlement investment fund and payments triggered when outcomes are met; for example, the percentage of earnings of higher-skilled refugees could be smaller.