

The Economic and Fiscal Effects of Granting Refugees Formal Labor Market Access

Michael Clemens, Cindy Huang, and Jimmy Graham

Abstract

There are over 25 million refugees in the world today and most of them—especially those in developing countries—do not have formal labor market access (LMA). That is, they do not have the right to work or own businesses. In this paper, we argue that granting refugees formal LMA has the potential to create substantial benefits for refugees and their hosts, including reduced vulnerability and higher incomes for refugees, improved labor market outcomes and higher incomes for natives, and positive fiscal effects for the host governments. Overall, even short of formal LMA according to our definition—wherein refugees’ access to the labor market is unrestricted by the government in law and in practice—greater rights around work and business ownership enable greater benefits. Moreover, the fewer barriers there are to realizing these rights in practice—whether related to government policy or otherwise—the greater the benefits. But there may also be costs associated with granting formal LMA for certain groups in the host population and the full range of benefits is not guaranteed. The existence and magnitude of these benefits and costs is determined by key contextual factors, including the current extent of informal LMA for refugees, characteristics of the labor market, the skill and demographic profiles of refugees, the geographic location and concentration of refugees, and, crucially, policy choices and the political context. By creating and implementing policies that support vulnerable people regardless of status, help natives adjust to and benefit from changes, facilitate refugee labor market integration, and grant refugees the complementary rights that will help them succeed (such as freedom of movement), policymakers can amplify the benefits of formalization and mitigate the costs—making formal LMA a critical lever for generating positive outcomes from the presence of refugees.

Keywords: refugees, benefits, formalization, labor market access, work rights, freedom of movement, impact, labor, wages, employment, fiscal effects, productivity, CRRF, Global Compact

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Michael Clemens
Center for Global Development

Cindy Huang
Center for Global Development

Jimmy Graham
Center for Global Development

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Center for Global Development
2055 L Street NW
Washington, DC 20036

202.416.4000
(f) 202.416.4050

www.cgdev.org

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Executive Summary

Refugees have the potential to be major economic contributors to their host countries.¹ However, to maximize their contributions and achieve improved well-being and progress towards self-reliance, refugees need formal labor market access. In many countries—especially developing countries—refugees’ access to labor markets is limited to the informal market. But this is starting to change. As new longer-term approaches are explored and new incentives are created, some countries are beginning to expand labor market access (LMA) and other rights to refugees. This paper previews the economic and fiscal effects of the provision of formal LMA to refugees—which we define as the right, unrestricted by the government in law and in practice, to seek employment and start a business—and argues that it is a critical lever for unlocking the potential contributions of refugees *that are already present in a given country*. In other words, once a country is hosting refugees, there will be many more benefits to letting them work than to not letting them do so. Overall, even short of formal LMA according to our comprehensive definition, greater rights and fewer government restrictions around work and business ownership enable greater benefits. Moreover, the fewer barriers there are to realizing these rights in practice—whether related to government policy or otherwise—the greater the benefits. The paper focuses on the potential benefits that could be generated from formal LMA and the policies that could be implemented to facilitate these benefits and mitigate or avoid potential costs.

The outcomes of extending formal LMA to refugees will depend heavily on the context and there are five contextual factors that will be especially important in determining outcomes. First is the current extent of labor market access: in some situations, refugees are already integrated into the informal labor market (i.e., they are working in informal markets alongside natives), whereas in others they are mostly restricted to camps. In the latter situation, there will likely be far greater adjustments if formal LMA is granted. For example, in Turkey, most refugees are living in urban areas and a large portion are working informally. In Kenya, while many are working informally, they are doing so almost exclusively in camps. Granting formal LMA and freedom of movement would lead to more labor market adjustment in Kenya than Turkey.

Second is the skill and demographic profile of refugees, which will determine the degree of complementarity between refugees and natives, which in turn influences labor market outcomes. In Jordan, the inflow of refugees with characteristics different than those of natives (which were therefore complementary) led to an increase in the number natives working in the formal sector. Because refugees were filling low-skilled informal jobs, natives upgraded to formal jobs (Fallah et al. 2018). The skill profile of refugees will also determine the extent to which refugees enter the formal market, which in turn influences the amount of adjustment that will take place when informally working refugees are granted formal access. For example, in Uganda, where the refugee population is relatively low skilled, a small

¹ This paper is a more detailed version of a CGD policy brief, which can be found at: <https://www.cgdev.org/publication/economic-and-fiscal-effects-granting-refugees-formal-labor-market-access-brief>

proportion have entered the formal market despite the fact that they have been granted more rights in seeking formal employment than in most developing countries (Vemuru et al. 2016).

A third key factor is labor market characteristics. Where the informal market is larger, granting formal access will likely have less of an impact. In Burundi, the informal market accounts for about 49 percent of GDP, such that the majority of employment opportunities are likely informal (Hassan and Schneider 2016). At the same time, a large portion of refugees in Burundi are already in urban areas, and thus likely working informally (Huang and Graham 2018). Given the size of the informal sector, these refugees may be relatively unconstrained by a lack of formal LMA, such that granting it may lead to relatively little labor market adjustment. To be clear, the provision of formal LMA would still benefit refugees in this situation: some would find formal work and even informally working refugees could benefit due to greater bargaining power and the prospect of facing less harassment for working. But, because the shift of workers to the formal sector would likely be smaller, there would be less adjustment in the labor markets, especially among natives. Other influential features of the labor market are its flexibility, which determines how quickly markets adjust to changes, and the unemployment rate among the specific groups that would compete with refugees.

The fourth factor is geographic location and concentration. If refugees are located in areas with many employment opportunities, they will be more likely to benefit from formal LMA. For example, Syrian refugees living in Istanbul are in close proximity to formal work opportunities that they can take advantage of, but Afghan refugees in the Federally Administered Tribal Areas of Pakistan may not have the same opportunities. And if refugees are highly concentrated, they may have less access to employment opportunities on average and compete more with natives. These factors can be addressed by policies that allow and encourage movement, but they will play significant roles in the short term in any case.

The fifth factor is policy choices and the political context. In a recent paper, *Migration is What You Make It*, we showed that the outcomes of migration are largely shaped by the *how* of migration, rather than *how much* (Clemens et al. 2018). Similarly, in the case of refugee LMA, policy choices are a major factor in determining outcomes. Furthermore, policy choices and implementation are constrained and guided by the political context. Therefore, the wide range of political economy factors that influence policies are also crucial determinants of outcomes. There are some promising approaches to overcoming political barriers to implementing beneficial policies, such as communicating the economic benefits that refugees bring in order to build support for formal LMA. However, in a time of growing anti-refugee rhetoric and action, more research is needed to better understand the existing and potential interplay among refugees' economic contributions, policy choices (including those around formal LMA), and the political environment.

Understanding the existing empirical literature on the impact of refugees on labor markets and fiscal outcomes is a prerequisite to characterizing the effects of granting formal LMA. The literature shows that the average effect on labor market outcomes is typically small or null. The Mariel Boatlift, for example, an event that resulted in an influx of Cuban refugees

to Miami that increased the low-skilled labor force by 20 percent in three months, had no impact on employment or wages for low-skilled natives. In some cases, the average negative effect is significant. Braun and Omar Mahmoud (2014) show that an inflow to West Germany led to job displacement of 3 natives for every 10 refugees. This result was driven by the concentration of refugees in certain sectors, as well as the similarity of migrants and non-migrants in that setting. Policies to reduce high concentrations could have prevented such significant job displacement.

A more common outcome is to have small average effects and more significant positive and/or negative outcomes for certain groups. In Turkey, workers with more education have benefitted from the refugee inflow, while less educated workers have been more likely to be harmed in terms of job displacement (Del Carpio and Wagner 2015). Over the long run, these negative effects are less likely to be present. Cohen-Goldner and Paserman (2011) show that refugee inflows to Israel lowered wages in the short run, but these effects disappeared as soon as four years after their arrival. As these adjustments occur, it is essential to recognize these costs and implement policies and interventions that can help mitigate short-term negative effects, offset the costs, and encourage positive effects, such as occupational upgrading among natives.

Similarly, fiscal effects are typically small and sometimes positive, becoming more positive over time as refugees integrate into the labor market. In the United States, the average refugee becomes a net positive fiscal contributor after just eight years (Evans and Fitzgerald 2017). If policies are enacted to facilitate labor market integration, effects should be more positive. For example, Marbach et al. (2017) show that the sooner asylum seekers are allowed to work, the better their labor market outcomes will be, and the more they will pay in taxes.

In situations where refugees are mostly confined to camps and then granted formal LMA (along with some degree of freedom of movement), the labor market and fiscal effects will likely resemble those of refugee inflows, because many will enter the non-camp economy for the first time. In situations where refugees are already working informally, the results will likely be even milder, because much of the labor market adjustment will have already occurred.

In addition to having minor average impacts, granting formal LMA can create many benefits: formality is a critical lever for generating benefits from the presence of refugees. That is to say, once a country is hosting refugees, there will be many more benefits to letting them work than to not letting them do so. Primarily, formal LMA will allow them to be more productive as employees and as business owners—in both formal and informal sectors—and contribute to making the economy more productive and efficient. In the formal sector, refugees will be more able to apply their skills and take advantage of services that enable business growth. In the informal sector, refugees will likely benefit from less harassment and a greater ability to search for productive work. This greater productivity leads to greater self-reliance among refugees and higher incomes and employment rates among some groups of natives, with especially positive outcomes in the long run. The greater economic productivity also leads to increased spending, producing an extra stimulus, which leads to increased tax revenues and incomes for natives. Other benefits include the possibility of increased trade,

lower prices, and investment in human capital. Other potential benefits specific to refugees include greater workplace protections, greater security and stability for refugees working both formally and informally, and decreased rates of prostitution, child labor, and child marriage.

To give a few examples of some of these positive impacts, in the United States, the formalization of Nicaraguan immigrants led to a 4 percent increase in their weekly earnings ([Kaushal 2006](#)). In Turkey, where refugees have the right to own a business, the average Syrian refugee's formal business employs over 9 people—most of them natives ([Ucak et al. 2017](#)). In the United States, [Dustmann et al. \(2017\)](#) estimate that formalizing unauthorized immigrants increases their consumption by 40 percent. [Bodvarsson et al. \(2008\)](#) show that the increased consumer demand resulting from the Mariel Boatlift refugees led to higher sales for native businesses.

However, there are potential costs to granting formal LMA. Some degree of job competition is real. For example, as refugees first arrive to seek work, they may displace some natives from jobs, particularly those with similar skills and experience. As refugees obtain freedom of movement along with formal LMA, they may gain more access to government services, increasing spending. These costs need to be taken seriously. Without a robust response, there can be negative outcomes from the provision of formal LMA as well as political backlash that derails progress before benefits are realized. The potential costs can be addressed with complementary policies and interventions that offset and mitigate costs.

One of the most important complementary policies is freedom of movement, which minimizes the concentration of any negative impacts while allowing refugees to maximize their potential for productivity in the economy. The case of Uganda—in which refugees have a greater degree of formal LMA and freedom of movement than in most developing countries—illustrates the importance of freedom of movement. [Betts et al. \(2014\)](#) show how refugees have established trade networks throughout the country and into neighboring countries (something which could not be accomplished without freedom of movement), benefitting the Ugandan consumers who buy their goods and Ugandan businesses which they supply.

For those natives that experience job displacement, programs can be implemented to help them find new employment opportunities and upgrade to higher-paying positions. Interventions that connect workers with geographically distant opportunities are a promising approach to improving labor market outcomes ([McKenzie 2017](#)). Similar programs can be implemented for refugees so that they can integrate more quickly into the labor market and make greater economic and fiscal contributions. One example of a simple and effective intervention is language training ([Mousa 2018](#)). Other policies and laws to help refugees succeed include those that increase financial access, lower administrative barriers to formal LMA, create perceptions of stability, enable the recognition of skills and credentials, and allow access to all levels of education. For example, to improve financial access, donors could partner with host governments to provide subsidies to banks to mitigate the risks they face in working with refugees and set regulations that clearly allow refugees to access services ([El-Zoghbi et al. 2017](#)). To offset any increased spending by governments, donors can

provide support to strengthen local systems, which may over time be more cost-effective than continued funding of refugee-specific services. Furthermore, to generate equitable outcomes, policymakers can take measures to ensure that formality leads to equal protections at work for refugees and natives; that programming to support refugees and natives promotes gender equality; and that interventions jointly target refugees and hosts, helping vulnerable populations regardless of status. Finally, in order to maintain the benefits of formal LMA and continue to expand access for refugees, policymakers can communicate positive information about refugees such as the economic contributions they are making.

This paper previews the effects of granting formal LMA to refugees already in a country by drawing on the empirical literature on the labor market impact of refugees and migrants. The paper is important for policy in several ways. It shows that there are many benefits to granting formal LMA to refugees already in a country, and that refugees can contribute when allowed to move and work. This message can be useful to continue building support for developing countries to extend additional rights to refugees. The paper also provides information on what policies should be considered for making formal LMA beneficial for both refugees and host communities. It also makes recommendations on areas for further research, including empirical research on the effects of formalization on natives and how different policies shape outcomes.

I. Introduction

When refugees are allowed to work, they have the potential to more fully contribute to their host communities as employers, employees, taxpayers, and innovators. This enables them to better provide for themselves while also contributing to the economy—to the benefit of their hosts. And when refugees work and become self-reliant, the cost to host governments and donors of hosting refugees declines or disappears. The more restricted they are from labor markets, the less they can contribute and the greater the costs may be to refugees and those supporting them.

Despite these possible benefits and the fact that the right to work is provided by the 1951 Refugee Convention, refugees in many countries do not have formal labor market access (LMA), defined here as the right, unrestricted by the government in law and in practice, to seek employment and start a business.² Generally speaking, while refugees (and asylum

² To illustrate, by this definition, formal LMA could take the form of automatic provision of the right to formally work to all refugees (or those with a similar protected status), without unreasonable limits on the provision of status, with no (or very few) limits on the sectors in which they can work, with laws that clearly define this right and which are upheld in practice. However, by this definition, other barriers—including discrimination, sociocultural barriers, or fees that apply to all businesses regardless of ownership—may still exist in the presence of formal LMA. These barriers can be addressed by complementary policies, which are discussed in section V. Many of the benefits of access to formal labor markets for refugees can be realized by granting less comprehensive access (e.g., if the right to work is only granted for certain sectors), but the closer provision is to our definition of formal LMA, the greater the potential benefits. It is also worth noting that when we refer to the provision of formal LMA, we assume that it will be accompanied by a degree of freedom of movement that at least allows refugees to leave camps and seek opportunities in formal labor markets, albeit not necessarily in the

seekers in most cases) are granted formal LMA in most developed countries, refugees and asylum seekers in most developing countries are given only limited access to labor markets, if any at all ([Helbling et al. 2017](#); [Zetter and Ruaudel 2016a](#)). This means that, in the current context of protracted displacement where the average refugee has spent over 10 years in exile, many of the 25 million refugees in the world today are spending a decade or more without the legal right to work or own businesses ([UNHCR 2018a](#); [Devictor and Do 2016](#)).

To give an idea of the extent of formal LMA in major refugee-hosting developing countries, table 1 describes the extent of formal LMA granted to refugees in 10 of the 11 developing countries hosting the most refugees.³ The table describes the policies governing formal LMA as well as the extent of access achieved by refugees. Because LMA is influenced by a complex set of factors, including legal barriers and de facto barriers such as discrimination, the table provides only a highly simplified breakdown of access. It is also not a representative sample of countries, as we chose the 10 developing countries with data that have the most refugees. But it gives a general idea of trends.

The table shows that the laws in many countries state that refugees can access formal employment, but also that there are many legal barriers to employment. Furthermore, a wide range of practical barriers further limit access. As a result, very few refugees access the formal market in practice. For example, in Turkey, refugees and individuals with international protection status (mostly Syrians) can only apply for permits six months after receiving protection status or temporary ID cards, the permits have geographical and sectoral restrictions, there is a limit to the number of refugees employers are allowed to hire, and interested employers have to initiate the process of obtaining the permit (unless the refugee wants to start a business) and pay a fee of 537 Lira (about 80 USD as of September 2018) ([Zetter and Ruaudel 2016a](#); [Leghtas and Hollingsworth 2017](#)). The result is that only about 7,000 refugees, out of a current 3.5 million, obtained permits between 2011 and 2016. Even in Uganda, which is widely recognized for progressive refugee laws, refugees struggle to access the formal market. Thus, although the only country of these 10 to officially restrict all formal access is Bangladesh, in a de facto sense most other developing countries bar the majority of refugees from the formal labor market ([Zetter and Ruaudel 2016a](#)).

location of their choosing. This is because the government is, in effect, restricting access to formal labor markets if they are restricting refugees to camps, where formal markets are small (if they exist at all). Also in section V, we discuss the merits of a more comprehensive freedom of movement policy.

³ The other country in the top 11, the DRC, was not included because its situation for labor market access is not described in the source we used for this information, [Zetter and Ruaudel \(2016a\)](#).

Table 1. Extent of access to formal labor markets—in policy and practice—for refugees across major refugee-hosting developing countries

Country	Number of refugees (thousands)	Policies regarding access to formal labor markets	Extent of access to formal labor markets in practice
Turkey	3,480	“Foreigners who have the status of refugee or temporary protection have the right to work for an employer or on their own account upon receiving legal status. However, to work independently or be employed, status applicants or persons having conditional refugee status are obliged to have a work permit issued before they can start working; they can apply for a work permit six months after applying for international protection status.”	“According to the Turkish authorities, as of January 2016 some 7,351 Syrian refugees... had been formally given work permits.”
Pakistan	1,393	“Legally, registered Afghan citizens living in Pakistan [are] subject to Pakistani labour and employment laws, and [are] legally authorized to work in the country.” However, “Refugees cannot hold immovable property or own businesses... [and] Afghan refugees who intend to take up formal employment or education have to submit an application to the Ministry of SAFRON (through the CCAR) and submit an affidavit from their employer.” On the other hand, “permits for working in nongovernmental sectors are not always strictly required.”	“Most refugees, including some skilled and semiskilled individuals, work in the informal sector for daily wages with marginal income.”
Uganda	1,350	“The Refugee Act of 2006 guarantees that recognized refugees shall receive the same treatment as ‘aliens generally in similar circumstances’ regarding the right to engage in gainful employment... suggesting that refugees are a group with the right to work... However, for some, the right to work under the Refugee Act 2006 and the 2010 regulations is subject to legal interpretation, especially in relation to work permits.”	“In principle, refugees have the right to work and to establish their own businesses,” but “as a consequence of [various] obstacles [including a lack of clarity over the need for permits and high permit costs], most refugees enter the informal economy.”
Lebanon	999	“To obtain a work permit a foreigner [including refugees] must apply to the Ministry of Labour and have a work contract with a Lebanese employer for	“Most [working] refugees from Syria work informally with poor

Country	Number of refugees (thousands)	Policies regarding access to formal labor markets	Extent of access to formal labor markets in practice
		a minimum period of six months; the work contract has to be certified by a notary public.” There is also a fee for permits and “foreigners need to show they have expertise or professional skills in a field in which no Lebanese candidates are available; for technical and professional positions the employer must prove that he or she tried for three months to find a Lebanese candidate but failed... In principle, non-Lebanese are also excluded from entering professions practiced through association, such as medicine, law, and accounting.”	working conditions and wages: 92 percent have no work contract.”
Iran	979	“Registered refugees are entitled to apply for temporary work permits.” However, “many refugees cannot afford the cost of the work permit or its annual renewal... their ability to choose their employment is severely limited by the restrictions on place of residence and freedom of movement... [and] they are only permitted to work in 16 professional categories.	“Although registered refugees in Iran are permitted to work they face multiple restrictions... the majority of refugees are thus excluded from the formal sector.”
Bangladesh	932	“Refugees registered before 1992 and undocumented Rohingya have no formal right to work in Bangladesh... Refugees and foreigners are also not allowed to be self-employed, engage in trade, or own property.”	“Refugees registered before 1992 and undocumented Rohingya have no formal right to work in Bangladesh... Refugees and foreigners are also not allowed to be self-employed.”
Sudan	907	“Refugees are dependent on obtaining a work permit from the Department of Labour before being able to enter wage-earning activities. When applying for a work permit, refugees are asked to present their qualifications and supporting documents, and may be told that their skills and qualifications are widely available and that there are no job opportunities, precluding issuance of a work permit.”	“Even though the Asylum (Organisation) Act 2014 does allow refugees to work, the reality is far from what the legislation calls for... In 2012, only 180 refugees received work permits.”

Country	Number of refugees (thousands)	Policies regarding access to formal labor markets	Extent of access to formal labor markets in practice
Ethiopia ⁴	889	“Ethiopia’s Ministry of Labour and Social Affairs only grants work permits to foreigners when there are no qualified nationals available and in practice does not grant work permits to refugees.”	“There are no formal employment opportunities for refugees in Ethiopia.”
Jordan	691	“To obtain work permits, the employer and future [refugee] worker must provide... a valid Ministry of Interior service card, a copy of the work contract, a valid occupational licensure certificate, and proof from the Social Security Corporation of the worker’s registration. The procedure involves showing that the job requires experience or skills unavailable among Jordanians; and if the worker is applying for the first time, the application is referred to a committee at the ministry for approval. Yet even in open sectors, there are quotas for foreign workers.”	“In 2015, the International Labour Organization (ILO) reported that only 10 percent of Syrian refugees in Zaatari camp and elsewhere in the country had obtained work permits for their current jobs, while the majority of those who applied for permits were denied.”
Kenya	432	“To be able to work in Kenya, refugees must apply for ‘Class M’ permits... Applications for permits must be accompanied by a recommendation from a prospective employer and must include a letter from [the Department of Refugee Affairs] confirming status.”	“In practice, [permits] are rarely issued... The majority [of urban refugees] are engaged in economic activities in the informal sector.”

Sources: Total refugee numbers are for 2017 from the UNHCR Population Statistics time series data for refugees and people in refugee-like situations for all origins ([UNHCR 2018b](#)). LMA information is based on the report from [Zetter and Ruaudel \(2016a\)](#).

Why do refugees have so little access to formal markets in most developing countries? One reason is a fear that refugees will drive down wages and take jobs from natives. In 2015, a member of the Turkish parliament claimed that “our people think [Syrians] are stealing jobs and they worry about their future” and that refugees “should go back to their own countries” ([Aslan 2015](#)). In contexts where unemployment rates are high, as they are in many refugee-hosting developing countries, fears of refugees taking jobs may be especially pronounced. There may also be fears that refugees, if allowed to integrate into the labor

⁴ Although the Ethiopian government currently allows refugees little-to-no formal LMA, they have committed to making a range of pro-refugee policy changes. Notably, they are working with donors to expand their industrialization agenda, with the goal of creating 100,000 jobs and making 30 percent of them available to refugees ([Huang et al. 2018](#)).

market, will overuse services, reducing their quality and costing taxpayers money. Countries of first asylum are also reluctant to acknowledge the refugee presence as long term, or to create favorable conditions that may lead to new refugee arrivals. Seeing formal LMA as a step toward permanent integration, they are therefore inclined to prevent it. Furthermore, refugees are sometimes viewed as security threats that should be “contained” in camps (Zetter and Ruaudel 2016b). Aside from these fears, certain groups in the host society may have a vested interest in maintaining the status quo and preventing formal LMA. For example, some businesses may benefit from a large supply of informal refugee workers that have no labor rights and are forced to accept lower wages. Some business elites may also want to limit formal competition, and may have more influence over government policy than informal workers. Together, these fears and interests create a difficult political environment that inclines governments toward a more restrictive stance regarding refugee LMA and rights more broadly.

While many of the fears are for the most part not borne out in the evidence (discussed in detail below), they are understandable and common in both developed and developing countries. Some fears are realized to some extent and for some groups, and may be more likely to come to fruition *in the absence of sound, evidence-informed policies*. For example, some degree of labor market competition between refugees and natives exists, governments may have to marginally increase spending to accommodate refugees if donors do not provide enough support, and quality of services can decline if the right policies are not in place.

Therefore, international support is needed to help developing country governments overcome political economy barriers and transition to greater formal LMA for refugees. For example, international actors can provide support to governments—financial, technical, or otherwise—to help offset or mitigate costs. They can also facilitate a conversation to show that hosting refugees is not a zero-sum game between refugees and citizens, and that policies that seek to avoid these perceived costs actually lead to their realization in many cases. For example, large refugee inflows typically have minor average effects on local wages and employment rates, but the effects are more pronounced when the absence of formal LMA crowds refugees into small corners of the informal sector. This appears to have occurred during the first two years of the flood of Syrian refugees into Turkey (Del Carpio and Wagner 2015). Thus, it should be made clear that *formal LMA itself can mitigate labor-market impacts on natives*.

In recent years, this kind of international support has helped build a growing recognition of the reality of protracted displacement and productive policy responses, creating an opportunity for progress towards greater formal LMA for refugees. In 2016, UN Member States unanimously adopted the New York Declaration for Migrants and Refugees, which “[encouraged] host Governments to consider opening their labour markets to refugees” (UN 2016). Toward this goal and others, the Declaration also laid out plans for a Comprehensive Refugee Response Framework (CRRF), which aims to ease pressure on host countries, expand access to resettlement, foster conditions for refugee returns, *and build refugee self-reliance*, of which LMA and employment are core components (UNHCR 2016). In this way, it enables and incentivizes host governments to expand formal LMA even in the face of political challenges. Some developing countries with restricted refugee LMA, such as

Ethiopia, have already embraced the CRRF. In partnership with UNHCR and the World Bank, they are receiving greater international support while also expanding formal LMA for refugees ([Huang et al. 2018](#)).

With these opportunities emerging, there is a growing interest among policymakers, civil society organizations, and private sector actors (who are becoming increasingly involved in supporting refugees) in understanding what the economic and fiscal effects of granting formal LMA to refugees will likely be. This paper previews these effects, highlighting the potential benefits and discussing the policies that should be implemented to facilitate benefits and mitigate potential negative outcomes.

Currently, there is a large body of literature that examines the impact of refugee inflows and immigration more broadly on host economies, of which a small portion is focused on developing countries. There is some research on the impact of granting amnesty (and with it formal LMA)⁵ to irregular immigrants or formal LMA to asylum seekers in developed countries, but this research focuses on the impacts for migrants or refugees rather than natives—and there is no such research for developing countries that we are aware of.

In this paper, we draw from this literature to discuss the likely effects for natives and refugees of granting formal LMA (along with some degree of freedom of movement)⁶ to refugees *that are already present* in a given developing country. In doing so, we utilize both the empirical and theoretical literature on this topic. To our knowledge, this is the first paper to draw from all strands of related literature to preview the effects of granting formal LMA to refugees that are already present in a country.

In some cases, we build upon research on economic migrants because the mechanisms of impact are the same or similar in the context of economic migration and refugee inflows. Despite similarities, it is important to note that refugees and economic migrants differ in at least two important dimensions. First, refugees tend to come in larger waves in a shorter period of time to countries of first asylum, such that the impacts may be more concentrated. Second, economic migrants and refugees are subject to different selection processes that may affect their characteristics and success in labor markets. Irregular migrants and refugees often “self-select” (from among a population that is facing conflict, economic hardship, or other drivers of displacement and migration) for somewhat similar reasons, but irregular migrants are probably more likely to be migrating for reasons that make them more likely to succeed in labor markets (such as pursuit of economic opportunity) than refugees (who are more likely to move as a result of fear and risk aversion) ([Cummings et al. 2015](#); [Ceriani & Verme 2018](#)). Regular migrants are often selected by destination countries based on skills or

⁵ Amnesty refers to the provision of legal status for irregular migrants that are already residing in a destination country.

⁶ When we refer to the provision of formal LMA, we assume that it will be accompanied by a degree of freedom of movement that at least allows refugees to leave camps and integrate into the broader economy, albeit not necessarily in the location of their choosing. This is because formal LMA will have little value if refugees are not permitted to leave camps, where formal markets hardly exist (if at all). In section V we discuss the merits of a more comprehensive freedom of movement policy.

potential economic contributions, making them even more likely to succeed ([OECD 2011](#)). These differences have important implications for fiscal and economic effects, and we take care to be aware of them in our analysis.

In other cases, we draw from research from developed countries. This also has important implications for interpretation, as developed and developing countries tend to differ in terms of tax structures, government spending, labor market structures, and other factors that matter a great deal for fiscal and economic effects. We are also careful in noting these differences in our discussion.

Based on this research, we argue that formality is a critical lever for generating benefits from the presence of refugees—particularly when they are already working informally. Overall, even short of formal LMA according to our comprehensive definition, greater rights and fewer government restrictions around work and business ownership enable greater benefits. Moreover, the fewer barriers there are to realizing these rights in practice—related to government policy or otherwise—the greater the benefits. However, formal LMA does come with certain costs. As refugees first arrive to seek work, they may displace some natives from jobs, even if on a small scale (e.g., [Del Carpio and Wagner 2015](#)). These effects are likely more pronounced when refugees are *only* able to work informally (because competition is more concentrated), but the provision of formal LMA may still create new winners and losers. And when refugees achieve greater inclusion outside of camps, they will likely use more government services, which costs money and comes with the possibility of reducing service quality (e.g., [Ammar et al. 2016](#)).

But a wide range of benefits will likely offset and outweigh these costs. When refugees are allowed to work formally, they may compete more with natives in the formal sector, but they will also compete *less* with natives in the informal sector, where most displacement usually occurs. Formal LMA can therefore reduce negative labor market impacts on natives. Refugees will also be more able to apply their skills in the labor market, grow their businesses, and meet labor shortages—thereby increasing productivity, creating new jobs, and increasing incomes for natives. As an example, with formal LMA, refugees could fill the formal jobs in sectors that natives do not want to work. The result would be to expand the output of those sectors, leading to the creation of new, higher-paying jobs that natives will want ([Clemens 2017](#)). And with the formal right to own a business, exceptional refugee business owners can grow their firms without fear of retribution, access financial services that stimulate growth, and, as a result, hire more employees, source from and supply native-owned businesses, and offer new products to the market. In Turkey and Uganda, where refugees can formally own businesses, there is evidence of these positive outcomes taking place ([Ucak et al. 2017](#); [Betts et al. 2014](#)).

As refugees become more productive with formal LMA, they will also contribute by spending more in the economy. As a result, they will pay more in taxes, offsetting fiscal costs they exert. In the United States, the average refugee is a net fiscal contributor after 8 years ([Evans and Fitzgerald 2017](#)). And the sooner refugees are allowed to access the labor market, the sooner they will become net contributors ([Marbach et al. 2017](#)). In the meantime, donors can provide support to offset costs. For example, countries that embrace

the CRRF and extend greater rights to refugees will have access to greater concessional finance and other resources. Another outcome of greater refugee productivity and spending will be a stimulus to the economy. Research shows that native businesses benefit from the increased consumer demand that working refugees bring ([Bodvarsson et al. 2008](#)).

There is also an array of policies that can be implemented to amplify these benefits and mitigate the costs that occur. For example, policies can be implemented and rights granted to refugees that will improve their labor market integration—to the benefit of refugees themselves and natives. Interventions can also be used to help natives adjust to changes, supporting them if they are negatively affected and helping the displaced find new jobs. The costs are real possibilities, so it is essential that well-funded support systems and complementary policies accompany formal LMA. Otherwise, the costs can accumulate and lead to political backlash that undermines progress.

This paper seeks to increase understanding of the possible benefits of granting formal LMA to refugees already in a country, as well as the policies that can be implemented to mitigate and offset costs. While such evidence is only one factor in policymaking, we hope that this paper is a contribution to discussions on extending formal LMA to refugees. It can be a resource for host governments, donors, civil society organizations, and private sector actors, including global businesses. Global businesses can play an important role in addressing refugee crises, including as employers of refugees or partners in policy engagement ([Huang 2017](#); [Tent Foundation 2018](#)). By better understanding the benefits of formal LMA and engaging refugees, they may be even more willing to get involved.

The rest of the paper proceeds as follows. Sections II and III provide a foundation for the discussion of the impact of granting formal LMA: section II discusses the key determinants of effects across different countries and section III reviews the existing empirical literature on the fiscal and economic impacts of refugee inflows. The following two sections make up the discussion of the likely impacts: section IV outlines the potential benefits to granting formal LMA and section V discusses the policies that can amplify benefits and mitigate potential costs. Section VI concludes and discusses areas for further research.

II. Key Factors Shaping Outcomes

Before previewing the effects of granting formal LMA it is necessary to understand the key factors that will shape outcomes across countries: the current extent of LMA, the skill and demographic profiles of refugees, the size and composition of the informal market, the geographic location and concentration of the refugee population, and policy choices and the political context. This section discusses these factors.

Current Extent of Labor Market Access

One of the most important factors determining the impact of granting formal LMA is the current extent of refugee labor market access, including informal access. Although formal LMA is widely restricted in most developing countries, employment in the informal sector is widespread ([Zetter and Ruaudel 2016a](#)). This informal work takes place both in and outside

of camps, but camp-based work tends to be more isolated from the rest of the economy. While refugees in camps still interact with local economies and may even take part in trade networks that reach well outside of camps, their broader labor market integration is necessarily limited ([Betts et al. 2018](#)). In contrast, refugees outside of camps are more likely to be integrated into the informal economy alongside natives.⁷

Based on this logic, in order to approximate the extent to which refugees are already part of the informal economy, table 2 shows the proportion of refugees outside of camps in the same refugee-hosting countries as table 1. While this is certainly an extremely rough approximation, the goal is not to provide accurate estimates of rates of informal work—rather to illustrate that in some countries refugees are likely already interacting extensively with locals in informal economies, and in others they are mostly restricted to camp economies. For example, in Turkey, only 7 percent of refugees are in camps and the rest are in urban areas. In contrast, the majority of refugees in Kenya are based in camps. In other countries, the composition is more mixed, with some in the informal sector and others restricted to camps. Worldwide, about 55 percent of refugees with known locations live in non-camp urban areas, 9 percent live in non-camp rural areas, and 35 percent live in camps.⁸ In developing countries, about 38 percent of working-age refugees are in major urban areas (with populations greater than 300,000), which have especially large amounts of economic activity, implying greater opportunities for labor market integration ([Huang and Graham 2018](#)).

Across these different contexts, the impact of granting formal LMA will be substantially different—particularly if it is accompanied by greater freedom of movement in situations where refugees are largely in camps. The cases of Kenya and Turkey illustrate the likely variation in impacts. In Kenya, most refugees are confined to camps with relatively limited economic opportunities ([Betts et al. 2018](#)). Thus, if able to move and work formally, a large number of refugees would likely leave the camps and enter the broader national economy over a relatively short period of time, such that the effects may resemble the effects of initial refugee inflows that have been seen elsewhere. On the other hand, the effects of granting formal LMA in Turkey would be much different. With many already working informally, a large degree of labor market adjustment has already taken place. Any additional benefits and costs from granting formal LMA would result from the relatively minor movement of refugees to formal markets or other areas of the country (assuming greater freedom of movement).

⁷ In this paper, we consider the effect of formal LMA on natives (people born in the host country) and do not consider how it could affect other groups in the host population—namely regular and irregular migrants—differently. It is important to note the effects for these other groups may indeed be different. For example, it may be that irregular immigrants benefit less from the formalization of refugee businesses than natives because they are less likely to be hired by formal businesses. However, most of the impacts would be the same. For example, all groups should benefit from the increase in consumer spending, the higher productivity of informal refugee businesses, and the improved fiscal effects (at least indirectly).

⁸ Based on calculations from the annex tables from [UNHCR \(2018\)](#)

Throughout the rest of the paper, the differences across these various situations will be addressed. For simplicity, we refer to the different types of situations in a binary sense—as “situations where refugees are already working informally” and “situations where refugees are restricted to camps”—but it should be kept in mind that in reality it is not black-and-white, and effects will be a mix of those from each theoretical situation.

Furthermore, it should be noted that some refugees remain in camps or settlements despite already having the legal right to leave. For example, in Uganda, refugees are in practice not restricted from moving throughout the country ([Zetter and Ruaudel 2016a](#)). However, because of various factors, including the fact that they are not permitted to receive aid outside of settlements, many remain in the settlements ([IRRI 2014](#)). And, generally speaking, the high perceived and real costs of moving to switch jobs and find work often preclude individuals from doing so, even when the benefits of moving would likely offset the costs ([Hollweg et al. 2014](#); [Bryan et al. 2014](#)). Therefore, in the absence of interventions that support refugee mobility, a large portion of refugees in camps would likely stay there following the provision of formal LMA and freedom of movement. This would alter the impacts, leading to fewer adjustment costs and benefits for the broader economy and potentially more adjustment costs and benefits for the economies surrounding camps. Throughout the paper, we analyze impacts based on the assumption that a large portion will in fact leave the camps, but not necessarily all. We also discuss policies for encouraging movement in section V.

Table 2. Proportion of refugees outside of camps (and thus more likely participating in local informal economies) in major refugee-hosting developing countries

Country	Number of refugees (thousands)	Proportion in non-camp urban areas	Proportion in non-camp rural areas	Proportion in camps/settlements	Size of informal economy (% of GDP)
Turkey	3,480	93	0	7	33
Pakistan	1,393	68	0	32	31
Uganda	1,350	5	65	30	33
Lebanon	999	100	0	0	31
Iran	979	.	.	.	17
Bangladesh	932	0	0	86	43
Ethiopia	889	2	0	89	.
Jordan	691	80	0	20	16
Kenya	432	2	0	92	26

Sources: Total refugee numbers are for 2017 from the UNHCR Population Statistics time series data for refugees and people in refugee-like situations for all origins ([UNHCR 2018b](#)). Refugee location information is based on the statistical annexes to the 2017 UNHCR Global Trends report ([UNHCR 2018c](#)). Informal economy size is for 2013, from [Hassan and Schneider \(2016\)](#).

Notes: Not all proportions add up to 100 because some data for refugee locations is missing. See [Huang and Graham \(2018\)](#) for a visualization of locations from 2016. Missing data is indicated by “.”. Sudan is excluded for missing data on all dimensions.

Characteristics of the Labor Market

A second set of factors that will determine effects is the characteristics of the labor market. One aspect of labor markets that matters is the size and composition of the informal market. Whereas in developed countries informal markets are relatively small, they tend to account for large portions of the developing country economies. As illustrated in table 2, the size of informal markets in developing countries is consistently large, but still varied. Furthermore, segmentation is a common feature of these markets ([Kucera and Roncolato 2008](#); [Heintz and Valodia 2008](#)). In other words, it is common for there to be two types of informal firms. There are informal firms that have been created as a last resort to avoiding unemployment and, being less productive, are not competitive with formal firms and are unable to enter the formal market due to entry costs and taxes—these firms are in the segmented market. There are also firms that are informal by choice because it is advantageous for them to be informal (because they benefit from greater labor market flexibility or tax avoidance, for example) and which are relatively competitive with formal firms—these firms are in the competitive market. Firms in the competitive informal market have smaller wage gaps in comparison to formal firms and are generally more productive than informal firms in the segmented market ([Gunther and Lauvnov 2006](#)).⁹ They may therefore provide more attractive employment opportunities for refugees with a wider range of skill levels.

If the informal market is larger—particularly the competitive informal market—refugees may be more able to find work, apply their skills, and earn incomes commensurate with their skill and education level in the informal market. As a result, they may have less need to enter the formal market and one might expect a smaller shift to the formal market following the provision of formal LMA. As section IV discusses, there are still important potential benefits to formal LMA for refugees that continue working informally. Therefore, the provision of formal LMA can still have very meaningful impacts in countries with large informal markets. But the *labor market adjustments*, especially for natives, should be smaller.

Another important factor of labor markets is their flexibility. Labor markets are more flexible when it is easier to fire and hire workers, the replacement rate (i.e., the percentage of workers’ salaries that are paid out by pensions) is lower, wages are less rigid, and business entry costs are low. For example, evidence shows that when countries have more flexible

⁹ This characterization is somewhat simplified, but illustrates that there are varying degrees of productivity among informal firms. Other authors have made similar distinctions, classifying informal firms as upper vs. lower tier, voluntary vs. involuntary, and parasitic vs. survival ([Maloney 2004](#); [Fields 1990](#); [Ulysea 2018](#)).

labor markets, the impact of immigration is usually more positive ([Angrist and Kugler 2003](#); [D'Amuri and Peri 2014](#)). That being said, policies that determine labor market flexibility are politically sensitive and changing them involves trade-offs.

A third important characteristic of labor markets is the unemployment rate *among groups that would compete with refugees for jobs*. If there is more unemployment among these groups, there may be more competition and thus they may experience some negative effects. Higher unemployment rates may also worsen labor market outcomes for refugees ([Mask 2018](#)). That being said, it may be hard to determine the rate of unemployment among this specific group, as it would require knowing who would compete with refugees. Skill level alone would not be a good determinant; often, refugees or migrants fill jobs that natives do not want, even if they are of similar skill levels (see below for further discussion). Thus, while unemployment among certain groups will factor into the effects, something as simple as the overall unemployment rate or unemployment among the low-skilled natives would not be a strong indication of the impacts.

Skill and Demographic Profiles

Another important factor in determining the impact of formal LMA is the skill and demographic profile of the refugee population. First of all, it will partially determine the degree of complementarity or substitutability between refugee and native workers. Refugees are complementary to natives when they have different characteristics, especially in terms of education, experience/age, gender, and language. There is also reason to believe that, even when natives and refugees share all of these characteristics, refugees are complementary to a degree. This is because their experience in a different country and culture may give them different skills, limitations, motivations, and occupational interests that affect what jobs they are willing to do, whether they are willing to relocate to find work, the abilities they possess, etc. ([Ottaviano and Peri 2011](#)). Nonetheless, the more different refugees are than natives, the more likely they are to be complements rather than substitutes.

Complementarity is an important factor because it shapes labor market effects—especially in the short term. Groups that are most similar to refugees—their substitutes—are most likely to be negatively affected, and groups that are different than refugees—their complements—are more likely to benefit. When refugees are substitutes, they are more likely to compete directly with natives and potentially displace them from employment. When refugees are complementary they facilitate productivity, which results in improved labor market outcomes for some natives. It is also worth noting that some (but certainly not all) of the features that make refugees complements, such as language differences, may also make it harder for them to achieve full social and economic inclusion. While they could make refugees less likely to displace natives from jobs, they may make it harder for refugees themselves to find jobs, especially in the near term.

Skill levels will also determine the degree to which refugees enter the formal market—a crucial factor in situations where refugees are already working informally. If the refugee population is relatively skilled, one might expect a larger shift towards new opportunities in the formal sector because skilled workers are more likely to work formally ([Boeri and](#)

Garibaldi 2005). This could create competition with skilled natives and potential substitution effects, but could also create complementary effects by encouraging natives to upgrade occupations. Generally speaking, if the refugee population is relatively unskilled, fewer effects—both positive and negative—may be seen as a result of formal access for refugees already working informally, because fewer will likely enter and compete in the formal market.

Research from Calderon-Mejia and Ibanez (2016) helps demonstrate this point. Studying the labor market effects of mostly low-skilled internally displaced persons (IDPs) in Colombia—who, as citizens, had formal LMA—they found that the large majority of job displacement took place in the informal sector. One reason for this concentrated impact was that the formal labor market was very rigid, leading to slow adjustment. But the fact that the IDPs were low-skilled was another important factor, as they were less likely to compete for formal jobs. These outcomes were specific to the context of Colombia, but they demonstrate that low-skilled workers are more likely to compete in the informal market than the formal market. Therefore, if they are already working informally, they are unlikely to create a large degree of competition upon being granted formal LMA, because few will seek work in the formal market and thus few changes will take place.

But this does not necessarily mean that a more skilled refugee population will have greater negative effects. Skilled workers may be more productive or may be needed to fill certain labor shortages, such that they have a more positive effect for natives. Some research also suggests that skilled workers are less likely to be substitutes than unskilled workers because they are more likely to need language skills, institutional knowledge, and more advanced training to become perfect substitutes for natives (Orrenius and Zavodny 2007).

Similarly, the skills and experience of the refugee population will affect their overall integration into the labor market, not just the formal market. For example, many refugees are displaced from rural areas and settle in urban areas, bringing with them skills that are applicable in an agrarian context, but not in cities (Buscher 2017). In these cases, where refugees are settling in very different contexts, they may have a more difficult time integrating into the labor market. This could have negative implications for their fiscal contributions, but also could mean they will displace fewer natives from employment.

Geographic Location and Concentration

When refugees are relatively dispersed throughout the host country and located in areas with more economic opportunities, the outcomes will likely be more positive, especially in the short term (e.g., Beaman 2011). If refugees are in areas with many employment options, they will be more likely to benefit from formal LMA. For example, Syrian refugees living in Istanbul are in close proximity to formal work opportunities that they can take advantage of, but Afghan refugees in the Federally Administered Tribal Areas of Pakistan may not have the same opportunities.

If refugees are highly concentrated, they may also have less access to employment opportunities on average. For example, in Bangladesh, nearly a million Rohingya refugees are located around Cox's Bazar, a district with relatively little economic activity in which the

creation of enough job opportunities to accommodate the entire refugee population is unlikely. As discussed in greater detail below, this higher concentration could also lead to greater labor market competition with natives.

Also discussed below, these factors can be addressed by policy: freedom of movement and other incentives for mobility can reduce geographic concentration and allow refugees to travel to areas with job opportunities. Nonetheless, in the short term, there will no doubt be a transition period during which geographic location and concentration will play a major role in influencing outcomes of formal LMA.

Policy Choices and the Political Context

A final crucial determinant of effects is policy choices. Policymakers have the ability to facilitate positive outcomes and avoid or mitigate costs—this is true for migration outcomes more broadly and refugee LMA is no exception ([Clemens et al. 2018](#)). Thus, regardless of the role played by the aforementioned contextual determinants, the impact of granting formal LMA is ultimately a policy choice.

For example, to mitigate the possibility of native displacement, refugees should be given freedom of movement, which would reduce the concentration of labor supply shocks. And to address any displacement that does take place, interventions can help natives upgrade to new occupations. To amplify the benefits of formal LMA, refugees should be able to easily verify their professional credentials and skills. This would help them be more productive, raising their incomes and fiscal contributions. These and other policy choices are discussed in greater detail in section V.

The policy choices that are made and policies that are implemented are of course influenced by the environment in which policy decisions are made. For example, perhaps because people tend to be more receptive to immigrants in the context of favorable macroeconomic conditions, governments tend to enact more immigration controls during economic downturns ([Ruist 2016](#); [Hainmueller and Hopkins 2013](#); [Mayda 2010](#)). Formal LMA policies for refugees may be easier to implement when there is strong international support to incentivize changes, as there was with the Jordan Compact ([Huang et al. 2018](#)). In the context of growing nationalism, political parties tend to take more restrictive stances towards immigration ([Goldin et al. 2018](#)).

These and other political economy factors play a crucial role in determining policy choices and subsequent implementation, and thus the outcome of moves toward greater formal LMA. As section V discusses, there are promising approaches to facilitating the implementation of productive policies in restrictive political economy contexts—such as communicating the benefits of formal LMA. However, in a time of growing anti-refugee rhetoric and action, more research is needed to better understand the existing and potential

interplay among refugees' economic contributions, policy choices (including those around formal LMA), and the political environment.¹⁰

III. The Labor Market and Fiscal Effects of Refugee Inflows: Summary of Existing Evidence

To understand the impact of giving formal labor market access to refugees *that are already present in a country*, it is important to first understand the effects of refugee *inflows* into a country. Given the large empirical literature on this topic, it is useful background. This section reviews the evidence for the effects of refugee inflows, with a focus on labor market and fiscal effects. The following section will examine the specific effects of granting formal LMA to refugees already present in a country.

Labor Market Effects

Most research finds that the average effects of refugee inflows (and similar influxes of migrants) on wages and unemployment—for both developed and developing countries—are minor or null. A large literature shows that this is often true even in the case of very large, short-term influxes (e.g., [Clemens and Hunt 2018](#); [Card 1990](#); [Friedberg 2001](#); [Hunt 1992](#); [Angrist and Kugler 2003](#); [Carrington and de Lima 1996](#); [Fakih and Ibrahim 2016](#); [Fallah et al. 2018](#); [Del Carpio and Wagner 2015](#); [Tumen 2016](#); [Ceritoglu et al. 2017](#); [Akgunduz et al. 2015](#); [Mansour 2010](#); [Ruiz and Vargas-Silva 2016](#)).¹¹

As an example, [Clemens and Hunt \(2018\)](#) reconcile findings from various studies to show that the Mariel Boatlift, an event that resulted in an influx of Cubans to Miami that increased the labor force by 7 percent over the course of three months in 1980, had no impact on employment or wages. In a developing country context where refugees could only work informally for the most part, [Fakih and Ibrahim \(2016\)](#) and [Fallah et al. \(2018\)](#) study the influx of Syrians to Jordan, which raised the size of the labor force by 9 percent, and find no average negative effects among Jordanians as a whole or among education subgroups.

In some cases, more substantial average negative effects have been observed. For example, [Calderon-Mejia and Ibanez \(2016\)](#) found substantial negative effects of Colombian IDPs, with every 10 additional IDPs leading to the displacement of 3 non-IDPs on average, but [Morales \(2017\)](#) shows that these effects disappeared over time as the economy adjusted. From another context, [Braun and Omar Mahmoud \(2014\)](#) show that several waves of

¹⁰ A sixth key factor that could potentially be highly influential is the amount of time that has elapsed since the arrival of large numbers of refugees in the country. However, the direction of the impact of this duration is theoretically ambiguous. If refugees have spent more time in country on average, they may be more likely to have acquired language skills, knowledge of markets, and other skills/knowledge that could help them succeed in the formal labor market. On the contrary, research from a developed country context shows that asylum-seekers are more likely to achieve labor market success if they are allowed to enter the labor market shortly after arriving in-country ([Marbach et al. 2017](#)). This could imply that if refugees have spent a longer amount of time in the host country without being able to work, they may have less success integrating into the formal labor market.

¹¹ For a summary of the findings from this literature, see [World Bank \(2018\)](#).

refugees that came to West Germany between 1944 and 1950 increased the population from 39 million in 1939 to 48 million in 1950 and had significant negative short-term effects. On average, for every 10 percentage point increase in refugees, native unemployment rose by about 3 percentage points. But this result was driven by effects in labor market segments with a very high concentration of refugees, and more generally, by the relatively high similarity of the migrants and non-migrants specific to this setting. In labor market segments where refugees accounted for less than 15 percent of the labor force, no effects were observed. Over the medium term, the negative unemployment effects disappeared and the growth in the labor supply became a major economic boon: by 1960 unemployment was “virtually nonexistent” and the refugees “provided an important labor reservoir for the booming postwar industry.”

In the more common instances of minor or null *average* effects, it is typical to observe significant positive or negative effects *for certain groups* in the population. Groups that are most similar to refugees are more likely to be negatively affected by substitution effects, and groups that are different than refugees are more likely to benefit from complementary effects.

The recent inflow of refugees to Turkey illustrates the potential substitution and complementary effects of refugee inflows. Overall, there was a substantial but marginally significant (at only the 10 percent level) average negative effect on employment, with workers displaced at a rate of about 3.2 for every 10 refugees. (Displacement effects were likely high in part because refugees were restricted only to the informal market, causing more concentrated competition.) But the effects were not evenly distributed. While native workers with the least education experienced very substantial job displacement (at a rate of 8.6 workers displaced for every 10 refugees), workers with “medium” educational attainment experienced no net loss in employment while also experiencing an increase in formal employment rates—which is evidence of occupational upgrading—at a rate of 3.6 more formal workers for every 10 refugees (Del Carpio and Wagner 2015). Similarly, in the context of Jordan, where no average effects were observed, there was an increase in employment rates and hours worked per week for public sector workers, but immigrant workers in Jordan became more likely to work in the informal sector and worked fewer hours overall (Fallah et al. 2018; Malaeb and Wahba 2018).

It is also common for varied impacts to occur across genders. Sometimes women are the most likely to benefit. Research from various settings—including the United States, Italy, Malaysia, and Hong Kong—finds that higher-skilled women tend to benefit from the greater availability of cheap domestic labor, which allows them to spend more time working outside the home (Furtado and Hock 2010; Barone and Mocetti 2011; Tan and Gibson 2013; Cortes and Pan 2013). However, they may also be the most negatively affected. In Turkey, for example, native women were less likely to benefit from the increase in low-cost refugee informal labor, and thus experienced more negative impacts, being displaced at a rate of 6 women for every 10 refugees. Because few women work in the construction sector, they were not able to benefit from the influx of refugees to that sector (i.e., upgrade to formal jobs in the construction sector, as men did). Many refugees also work in agriculture, where Turkish women *are* heavily employed. But because women in agriculture almost exclusively

work informally, they were less likely to acquire any formal jobs created in the sector. Thus, the displacement experienced by women in the informal sector—something that many groups experienced—was not offset by an increase in formal jobs, as it was for other groups (Del Carpio and Wagner 2015).

Nonetheless, negative effects for certain groups do not necessarily accompany large refugee inflows. The case of the Mariel Boatlift provides evidence for this, wherein no education or racial subgroup of pre-influx residents—including those with high school education or less and Hispanics, the most likely substitutes—experienced negative outcomes (Clemens and Hunt 2018).

In the long run, any negative effects experienced shortly after large inflows will likely disappear and may even translate into positive outcomes. Examining the long-term labor market effects of the over 3 million refugees resettled to the United States since 1975, Mayda et al. (2017) find no significant impacts. Studying the impact of refugee immigration to Denmark, Foged and Peri (2016) find evidence of job displacement in the short run of low-skilled natives, but also find that this same group tended to upgrade to higher-skilled occupations with higher wages in the long run. Thus, the net effect of exposure to refugee arrivals on low-skilled natives was a three percent *rise* in earnings. Similarly, Cohen-Goldner and Paserman (2011) find minor negative effects on wages (and no effects on employment) of large refugees inflows to Israel in the short run, but null wage effects after as little as 4 years. They argue that it takes time for capital to adjust but, as new capital investments are made to match the increased labor supply, the labor market outcomes revert to pre-influx levels.

In the short term, as will be discussed in greater detail in section V, policies can be implemented to prevent or mitigate short-term negative effects. Notably, to prevent a high concentration of refugees as seen in the Germany case, freedom of movement should accompany formal work rights, such that refugees are able to move to meet labor demand. This may also include efforts to facilitate movement, such as information dissemination and enabling refugees to continue receiving social and economic support in new locations.

Fiscal Effects

The fiscal effects of refugee inflows are contingent upon a variety of contextual factors, but they are usually minor and tend to become more positive over time. The most comprehensive studies—which take into account the many ways that immigrants influence government costs and revenues over the long term—find that effects are typically positive, sometimes negative, and consistently within one percentage point when considered as a percent of GDP (Liebig and Mo 2013; Nowrasteh 2015). In a recent such study, a report from the National Academy of Sciences forecasts the fiscal impact of a new immigrant to the United States (and their descendants) over a 75-year period and estimated that they would, on average, contribute a net positive \$259,000 in net present value—that is, the short-term cash equivalent of a long-term flow (National Academies of Sciences, Engineering, and Medicine 2017, p. 434). This figure reflects immigrants of a similar skill and

age distribution of recent immigrants, and reflects the full fiscal effect across all levels of government.

Fewer studies have been conducted for the effects of refugee inflows specifically, but they also find that the fiscal effects of refugees are relatively small. Studying the short-term effects of recent refugee inflows to Sweden, a welfare state that spends heavily on a refugee population that accounts for over 5 percent of the population, [Ruist \(2015\)](#) finds that the net fiscal cost is close to 1 percent of GDP. Crucially, however, these costs will diminish over time and likely become positive as refugees become more integrated into the labor market and thus contribute more in taxes. [Evans and Fitzgerald \(2017\)](#) analyze the effects of refugees in the United States to show that, although the average refugee exerts a fiscal cost for the first seven years in-country, their effect is neutral by the eighth year, and after 20 years they have made a net contribution of \$21,000. [Alden and Hammarstedt \(2016\)](#) conducted a similar exercise for Sweden to show that the net cost of a refugee diminishes drastically over their first seven years in-country.

These studies find increasingly positive effects over the long run because it takes time for refugees to integrate into the labor market—i.e., to find jobs and earn higher wages—and as a result pay more in taxes, stimulate the economy, and use fewer government services ([Cortes 2004](#)). Therefore, probably the most important determinant of refugees' fiscal effects is the degree to which they integrate, succeed, and remain in the labor market. These factors are in turn determined by how quickly refugees are allowed to access the labor market following arrival and their skills, education level, language ability, and age ([Marbach et al. 2017](#); [Rowthorn 2008](#); [Bach et al. 2017](#); [Storesletten 2000](#)). As will be discussed in greater detail below, to the extent that policies allow refugees to access the labor market and help them expand their skills, they should facilitate positive fiscal effects.

Few (if any) rigorous studies have been conducted that analyze the fiscal impact of refugees in developing countries, and there are a number of differences between developed and developing countries that make it difficult to predict the effects ([Bohme and Kups 2017](#)). First, as mentioned above, characteristics of the refugee population such as skill level and age profile will partially determine effects, and the typical refugee population in developed and developing countries may differ. Second, the spending and tax structures in developing countries are substantially different ([OECD and ILO 2018](#)). While governments may spend less on certain services for refugees in developing countries, the expansion in tax revenues may be smaller if refugees are spending mostly on goods that are not taxed. Third, labor market structures may make it harder (or easier) for refugees to integrate into the labor market. Fourth, the fiscal contributions of humanitarian assistance are an important factor in developing countries but not developed.

Despite these differences, a recent analysis of the fiscal effect of immigrants in a variety of developing countries found that—similar to the effects observed in developed countries—the net effect was consistently small, sometimes positive, and sometimes negative, with labor market integration as a determining factor ([OECD and ILO 2018](#)). It is therefore reasonable to think that the effects of refugees in developing countries, while likely to vary across

contexts, could also be similar to the effects in developed countries—*as long as refugees are granted access to labor markets and other basic rights, such as freedom of movement.*

To summarize the labor market and fiscal effects of refugee inflows, the average effect on labor market outcomes is typically small or null. In some cases, it is negative and significant, but policies can help avoid significantly negative outcomes. More commonly, significant positive and/or negative outcomes only occur for certain groups that are close substitutes for refugee workers. Policies can also help mitigate these negative effects and encourage positive effects. Regardless, negative effects are less likely to occur over the long run. Similarly, fiscal effects are typically small and sometimes positive, becoming more positive over time as refugees integrate into the labor market. If policies are enacted to facilitate labor market integration, effects should be more positive.

IV. Potential Benefits of Granting Formal Labor Market Access

While the fiscal and labor market effects of refugee *inflows* have been examined deeply (though more research is needed for developing countries), less attention has been paid to the effects of granting formal LMA—defined as the right, unrestricted by the government in law and in practice, to seek employment and start a business—to *refugees that already present in a country* and in many cases already working informally. This section discusses these effects and focuses on the benefits, including the labor market benefits, fiscal benefits, and other economic benefits for both hosts and refugees. It also discusses how the effects and benefits will differ in situations where refugees are already working informally and where they are mostly restricted to camps. The benefits and the ways they differ across situations where refugees are working informally vs. restricted to camps are summarized in table 3.

It is important to note that, as discussed in section II and illustrated in table 2, country contexts are not black-and-white in terms of in camps versus out of camps. But the distinction helps illustrate how impacts will differ across contexts. It is also worth reiterating that the provision of access to formal labor markets is not black-and-white either. As table 1 shows, the provision of access to formal labor markets, in law and in practice, can take many different forms. In this section, we highlight the benefits of providing comprehensive formal LMA, as defined in the preceding paragraph and more thoroughly in section I. The closer provision is to our definition of formal LMA (i.e., the less restrictive LMA is), the greater the benefits will be. But, even short of our version of formal LMA, greater rights around work and business ownership enable greater benefits. Thus, the benefits we describe in this section could still come to fruition in the case of less comprehensive formal access, but would likely be of a lesser magnitude.

Improved Standard of Living and Reduced Vulnerability for Refugees

Formal LMA provides refugees with greater dignity, security, and workplace protections; reduces the likelihood of cognitive stunting among children and rates of child labor, child marriage, and other negative coping mechanisms; and increases the likelihood of successful durable solutions.

While this paper focuses on the economic benefits of granting refugees formal LMA, it is important to recognize and begin with a rights-based perspective. In other words, even if providing refugees with the right to work and own a business did not lead to clear economic or fiscal benefits, it would still be important to provide as a form of protection for the world's vulnerable. The 1951 Refugee Convention and the related 1967 Protocol, which has been ratified by nearly 150 countries, recognize the right to work as one of the "minimum standards" for the treatment of refugees ([Wirth et al. 2014](#); [UNHCR 2010](#)). In this sense, allowing refugees to access labor markets affords them a measure of dignity and basic rights. According to refugees themselves, access to employment is a top priority. Among Syrian refugees surveyed in Turkey, it was ranked behind only safety, family reunification, and meeting basic needs ([Bellamy et al. 2017](#)).

Extending formality could also increase workplace protections for refugees that obtain formal work and refugees that continue to work informally. Generally speaking, workers are more vulnerable in the informal sector, where working conditions are typically more hazardous, minimum wage laws and other labor rights often do not apply, and employers are more likely to exploit workers ([ILO 2018](#)). These risks are especially potent for refugees and even more so for refugee women, who face a higher risk of gender-based violence in the informal economy ([De Vriese 2006](#); [Buscher 2017](#)). Thus, the acquisition of formal work could reduce workplace vulnerabilities. Formal LMA could also reduce vulnerabilities for those who continue working informally. In many countries, certain labor protections like minimum wage apply to all workers, including those in the informal sector ([ILO 2017b](#)). If formal LMA is granted, legitimizing refugees in the workforce, refugees should also have greater bargaining power in demanding fair wages and pursuing legal recourse for unfair pay or other mistreatment.

The prevalence of negative coping mechanisms may also be reduced following formalization. For example, in Jordan, rates of child labor among Syrian refugees are high, with economic need found to be a main cause ([ILO 2014](#)). Child marriage and prostitution among refugees, negative coping mechanisms that disproportionately harm women and girls, also tend to result from refugees' dire economic situations ([Bartels et al. 2018](#); [De Vriese 2006](#)). To the extent that formalization increases household incomes, the prevalence of these negative coping mechanisms will likely decrease. This would be to the obvious benefit of refugees and would also benefit host communities affected by them.

Formalization could further benefit refugee children by reducing anxiety that hinders childhood development. Studies from the United States have shown that having an undocumented parent causes children to be more likely to be diagnosed with anxiety disorders ([Hainmueller et al. 2017](#)). Research also shows that this anxiety leads to stunted

educational progress and cognitive development. These outcomes occur in part because of the child's exposure to their parents' psychological distress, which is associated with their unstable undocumented status ([Yoshikawa and Kholoptseva 2013](#)). These mechanisms are no doubt also present—and perhaps stronger—for refugees that fear deportation and job instability working informally. Similarly, the mental health of parents can be negatively affected by unemployment ([McKee-Ryan et al. 2005](#)).

Moreover, refugees may be less likely to face retribution, particularly deportation, for working informally if formal LMA has been granted. In countries like Jordan, where some formal LMA is allowed but the vast majority of the refugee population is legally not allowed to work, working without a permit can be grounds for deportation ([Krafft and Sharpless 2018](#)). Those refugees that do have work permits report that the permits legitimize their presence, making them less vulnerable to deportation even when working informally ([ILO 2017a](#)).¹² In Ecuador, where all refugees are automatically granted the right to work upon being granted refugee status, deportation for working informally is not a problem ([van Teijlingen 2011](#)). In this case, an absence of deportation is tied to refugee status rather than formal LMA. But in other countries where refugees have formal status but not formal LMA, deportation is still a problem. Thus, while it is possible that informal work could remain a deportable offense following the provision of formal LMA, it seems that informal work would be less problematic for refugees with work rights.

Finally, with self-reliance also comes a greater likelihood of successful durable solutions. If refugees can provide for themselves through employment, they are more likely to build and maintain their economic assets and livelihood skills. As a result, they will be more capable of returning to and successfully supporting themselves in their home countries when they find it is safe to do so ([Harild et al. 2015](#)). That being said, some evidence shows that improved self-reliance may decrease refugees' *incentives* to return because economic success in the host country makes return less necessary or less desirable in relation to staying ([Stefanovic et al. 2015](#)). Nonetheless, if they *do* return, they will be more likely to do so successfully. The success of other durable solutions—local integration and resettlement abroad—should also be improved. The sooner refugees are allowed formal LMA, the more successfully they integrate into the labor market and the more they contribute economically ([Marbach et al. 2017](#)). And if refugees are allowed to develop their skills in the country of first asylum, they will more likely succeed in the labor market of a country to which they are resettled. They may also be more likely to be resettled through complementary pathways, such as skilled labor visas; groups like Talent Beyond Boundaries are helping connect skilled refugees with these opportunities ([Talent Beyond Boundaries 2018](#)).

¹² Some refugees with permits continue working informally, particularly if they want to work in sectors not allowed by their permits.

Increased Labor Market Productivity—Raising Incomes for Refugees

When refugees are allowed to work, their potential for productivity is unleashed and they are able to earn incomes. When given formal LMA, refugees can be even more productive as they can apply their skills in the labor market and seek employment more freely, thus earning higher incomes.

Formal LMA gives refugees the opportunity to be more productive and earn higher incomes. Informal firms are typically less productive, pay lower wages, and demand lower-skilled labor ([La Porta and Shleifer 2014](#)). This means that refugees have a lower potential for productivity and earnings in the informal sector and high-skilled refugees will be less able to apply their skills productively.

A large body of literature on amnesties (which provide the legal right to residency and work) for irregular immigrants in developed countries provides evidence that formalization leads to wage and productivity increases (e.g., [Kossoudji and Cobb-Clark 2002](#); [Pan 2012](#); [Rivera-Batiz 1999](#); [Amuedo-Dorantes et al. 2013](#); [Amuedo-Dorantes et al. 2007](#); [Kaushal 2006](#); [Orrenius et al. 2012](#)). Studying the mechanisms for this increase, some research has documented greater occupational mobility ([Kossoudji and Cobb-Clark 2002](#); [Steigleder and Sparber 2016](#)). Other research finds evidence of increased returns to human capital, such that their skills and education are more likely to translate into higher earnings ([Hall et al. 2010](#)). [Lofstrom et al. \(2013\)](#) argue that this is due to the possibility that it is harder to obtain skilled employment as an unauthorized worker, because the cost to employers of training and then losing a skilled worker via deportation is greater, and documentation for high-skilled occupations may be more closely scrutinized. Likely as a result of this greater return to human capital, evidence also shows that skilled workers are the most likely to benefit from formalization ([Lofstrom et al. 2013](#); [Kaushal 2006](#); [Orrenius et al. 2012](#); [Ruhs 2017](#)). Most research finds that formalization also leads to increased *investment* in human capital—probably due to the greater return to human capital that legalization creates—suggesting greater incomes in the long run ([Pan 2012](#); [Mendez et al. 2016](#); [Cortes 2013](#); [Mukhopadhyay 2017](#)).¹³

Some research finds that formalization also increases employment rates, reasoning that employers will have a greater demand for workers that are not at risk of deportation and that workers will have more options for employment ([Devillanova et al. 2017](#); [Orrenius et al. 2012](#); [Amuedo-Dorantes et al. 2013](#)). Others find either a null or negative effect, but argue that drops in employment rates or rates of labor force participation are not necessarily negative outcomes. For example, it may be as a result of higher reservation wages (due to increased eligibility for unemployment benefits that enable them to search longer for a good match) or decreased need for all members in a family to work ([Amuedo-Dorantes et al. 2007](#)).

¹³ An exception is when it is more feasible for undocumented migrants to enroll in school than work formally, such that formalization allows those that were in school only because they could not work to enter the labor market ([Amuedo-Dorantes and Antman 2017](#)).

Several studies have observed differences across genders. For example, [Amuedo-Dorantes et al. \(2007\)](#) found that women were more likely than men—by about six percentage points—to drop out of the labor force upon regularization. The authors reason that this was due to increased access to social services and wages, such that one member of a given household was more able to stay home. And because women were less skilled on average, they were more likely to do so. However, studying the same amnesty but using different data and methodology, [Pan \(2012\)](#) finds that amnesty actually increases women’s labor force participation, but not men’s. Although differing in their findings, both these studies show that the impacts of formalization can differ not only across skill levels, but also genders. In many developing countries—where women are more restricted by social norms and have had fewer opportunities for education, work experience, and skills development—women in general are less likely to work in the formal sector ([Buscher 2017](#)). In South Asia and the Middle East and North Africa, only 20 percent of wage employment outside agriculture is held by women ([Drechsler 2008](#)). If these rates were to hold among refugee women following the provision of formal LMA, they would indeed benefit less (at least directly) from formalization.

To sum up the research from this subsection, when immigrants have formal access, they earn more (especially in the long run), work (and wait for) better jobs, better utilize their skills, and invest more in skill development—but impacts vary across groups.

What would be the effect of granting formal LMA on refugees’ productivity in situations where refugees are already working informally? Although the outcomes observed in these studies would be somewhat different in the context of refugees in developing countries, the mechanisms of impact would likely remain the same, such that the magnitude rather than direction of impact would change. For example, in both contexts, formalization allows workers to move more freely to find work, apply for more jobs, and better match their skills to employment ([Devillanova et al. 2017](#); [Ruhs 2017](#)). In Turkey, for example, there are many highly educated Syrian refugees currently working in the informal sector in professions that do not utilize their skills ([MMC 2017](#)). With formal LMA they would be able to find jobs where they could put their education to good use (for themselves and the economy). They should also have more bargaining power in negotiating wages or demanding fair pay ([Hirsch and Jahn 2015](#)). This would apply to workers in both the formal and informal sector. By having more freedom to choose employers and less fear of retribution, they should have greater power in demanding fair wages regardless of the sector. And when employment prospects are limited by an inability to leave camps or access formal markets, refugees will be less likely to invest in education and skill development.

One major difference that could affect the magnitude of impact from granting formal LMA regards the distinction between irregular migrants, on whom the aforementioned is based, and refugees. As mentioned in section I, there are reasons to believe that irregular migrants may be more likely to experience labor market success, on average, than refugees. Therefore, they may be more likely to benefit from opportunities for formal work.

The two largest differences between developed and developing countries that would likely affect this magnitude are the proportion of skilled refugees and the size of the informal

market. Given the large size of informal markets in developing countries, it is likely that a large portion of refugees would remain in the informal market even after being granted formal LMA ([Hassan and Schneider 2016](#)). This would diminish the effect but not necessarily eliminate it. With freedom of movement, refugees could match with jobs better in the informal economy and therefore be more productive. And increased work rights may make it easier to search for different job opportunities with fewer negative consequences, *including in the informal sector*. For example, as mentioned above, refugees in Jordan have claimed that having formal work permits has given them an increased sense of security, even when working informally. They claimed that it made them less vulnerable to deportation by legitimizing their presence and making them more secure when being inspected at checkpoints ([ILO 2017a](#)).

Regarding the second major difference between country contexts—the proportion of skilled refugees—the limited data available suggests that refugees in developing countries are likely to be low-skilled and therefore would likely remain in the informal sector even if provided formal LMA. And even if the low-skilled were to shift to the formal sector, the research mentioned above still suggests that they would be less likely to benefit. Data on refugee skill profiles is scarce, but a few surveys have provided snapshots. In Uganda, a non-representative World Bank study surveying 350 refugees from a mix of urban and rural areas found that 43 percent of survey participants were engaged in the labor market, and only 12 percent were formally employed—slightly more than a fourth of the total working population ([Vemuru et al. 2016](#)). They also found that only 29 percent had participated in secondary school, indicating relatively low skill levels. Of course, these figures are highly contextual, but similar trends are seen elsewhere. For example, in Zaatari camp in Jordan, 75 percent of men surveyed had completed no more schooling than up to grade 9, and most had experience in low-skilled work ([UNHCR 2017](#)).

Despite these caveats, some refugees will still benefit; while the majority are not high-skilled, many clearly are, and many would likely shift to formal work. And the research from developed countries has clear implications: formalization will improve their labor market outcomes. Moreover, those that are low-skilled and continuing working in the informal sector will still benefit and may be more likely to invest in skills and experience future improvements.

In contexts where refugees are mostly confined to camps, the effects of formalization on refugee productivity would potentially be even larger. In addition to benefiting from access to the formal market in all the ways discussed above, refugees would experience the additional benefit of being able to access work in the informal market outside of camps. And even if they were to stay in camps, refugees could still benefit from having the right to work. In Uganda, for example, a large portion of refugees live in planned settlements but still interact extensively with the broader national economy ([Betts et al. 2014](#)). On the other hand, it is feasible that there would be a smaller increase in refugee productivity following the provision of formal LMA in contexts where refugees are mostly confined to camps *if* a large portion stayed in camps following provision. This could be due to a fear of losing access to NGO and donor services, for example, and could result in fewer refugees integrating into the broader informal economy or the formal economy. Regardless, the

direction of impact would still be positive, with refugees becoming more productive contributors to the economy.

Increased Labor Market Productivity—Improving Labor Market Outcomes for Natives

When refugees make the economy more productive by engaging in the labor market, they benefit natives. By filling labor shortages, complementing natives, and expanding the labor supply, they create new employment opportunities and induce natives to upgrade to higher-paying occupations.

The productivity increase resulting from formal LMA would not just benefit refugees—it would benefit the wider the economy. Illustrating this point, [Ortega et al. \(2018\)](#) estimate the benefits of providing permanent formal status to the nearly 800,000 immigrants previously protected under DACA in the United States. They find that, over the long run, it would increase United States GDP by 0.8 percent—amounting to \$15.2 billion per year. Similarly, [Edwards and Ortega \(2017\)](#) estimate that providing amnesty to all irregular immigrants in the United States would increase their economic contribution from 3.1 percent of private sector GDP to 4.8 percent.

The context of this study is distinct from those of refugees in developing countries but, once again, the mechanisms of increased productivity—including an increased ability to fill labor shortages and apply their skills—are the same. When refugees add to productivity in these ways, they create positive labor market outcomes for natives, complementing them in the workforce. By filling the more manual-intensive jobs, refugees allow task specialization, encouraging natives to upgrade to higher-paying, skill-intensive occupations ([Peri 2012](#)). By filling labor shortages, refugees make businesses more productive and thus more capable of hiring new employees and stimulating related industries ([Clemens 2013](#)). Another effect of filling labor shortages is to make individuals more productive by enabling them to spend more time in the labor force ([Furtado and Hock 2010](#)). And even in developing countries with large low-skilled populations and high unemployment rates, there are often labor shortages. In Jordan, for example, low-skilled jobs are seen as unattractive to natives and are typically filled by migrants ([Ajluni and Kawar 2014](#)). Malaysia provides an example of the benefits of filling such shortages, wherein immigrants filled a labor shortage for domestic workers, which led to a higher labor force participation rate for native women ([Tan and Gibson 2013](#)). Furthermore, by expanding the supply of labor, refugees can create scale effects, lowering the cost of labor in a way that makes businesses more productive, leading to new employment opportunities ([Ozden and Wagner 2014](#)). [Altindag et al. \(2018\)](#) suggest that this may be happening in Turkey. Refugees can also pass on valuable vocational skills to natives by working alongside them, as has been documented in Uganda ([Betts et al. 2014](#)).

On the other hand, letting refugees access labor markets can result in some displacement—particularly to the extent that they are substitutes. But, to reiterate the findings discussed above, research from Turkey and Jordan showed that the negative impact of refugees on informal markets is usually minimal. And research from Colombia discussed above suggests that a low-skilled group of migrants to a country with a large informal market will have even

smaller impacts on formal markets, because they will mostly stay in the informal market. Moreover, [Morales \(2017\)](#) and [Foged and Peri \(2016\)](#) provide evidence that these negative effects will likely diminish or become positive over time. Nonetheless, the short-term negative effects, however minor, should be taken seriously. Individuals displaced from jobs should be supported by well-funded programs and policies that anticipate these possibilities. Such policies are discussed in section V.

What would the labor market effects on natives be of granting formal LMA if refugees are already working informally? Generally speaking, the effects would likely be very minor, potentially with no average effects for any education groups. Already we have seen that the impacts of refugee inflows are usually minor. And because of the large size of informal markets in developing countries and the fact that refugee populations are generally low skilled, it is likely that a large portion of refugees would remain in the informal market even after being granted formal LMA, such that few changes would occur. In this way, the bulk of substitution effects, to the extent that they exist at all, would have already taken place.

Still, some refugees may move to the formal market, resulting in a variety of different positive and negative effects. First, on the positive side, they may have more complementary and productivity-enhancing effects in the formal sector, benefitting various groups in the population. For example, if skilled refugees obtain formal employment and improve their firm's productivity, the firm may be able to hire more low-skilled natives. Likewise, if low-skilled refugees fill positions in the formal sector that natives do not want, they can improve productivity, creating new opportunities for higher-skilled positions in the firm. Second, to the extent that refugees that move to the formal sector were displacing natives in the informal sector, then formalization may reduce displacement and any minor downward pressure on wages that may have existed for some groups (likely lower-skilled groups). Third, to the extent that informal workers were driving down wages in either the formal or informal sector by working below minimum wages or as a result of their low bargaining power, formalization could reduce downward pressure on wages by giving these workers increased bargaining power and allowing them to demand fair wages ([Bailey 1985](#)). Once again, lower-skilled groups would likely benefit. So, the overall effect of granting formal LMA in this situation would likely be positive for these low-skilled groups.

On the negative side, increased bargaining power could reduce productivity-enhancing scale effects. That is, with more bargaining power, refugees may demand higher wages, resulting in more expensive labor and thus lower productivity among some firms ([Chassambouli and Peri 2015](#)). Skilled refugees may also substitute more for skilled natives in the formal sector ([Orrenius and Zavodny 2012](#)). In this case, interventions can be targeted to support natives who are displaced from their jobs.

Perhaps the only empirical research on the topic comes from the United States, where [Cobb-Clark et al. \(1995\)](#) find that formalization of irregular workers led to an average wage increase in the manufacturing sector. The authors are not able to say definitively whether the wage increase was driven by immigrants or natives but, given the increase, it is unlikely that the wages of natives dropped substantially; they more likely increased. This research

therefore finds more evidence of formalization creating complementary effects than substitution effects.

Altogether, however, given the thin empirical literature on this topic, theoretical literature that is ambiguous on the direction of impact, and importance of contextual factors, the overall direction of the effects of refugees moving from the informal to formal market after being granted formal LMA are not easy to predict. Regardless, given the relatively low level of skilled labor among these refugee populations (implying that fewer would be competing in the formal sector), the magnitude would likely be small. And lower-skilled natives would be more likely to benefit. Furthermore, the research mentioned above also suggests that the effects would become more positive over time: it takes time for occupational upgrading to occur and for capital inflows to match the increased labor supply. Policies, discussed in section V, can also improve outcomes.

What would the labor market effects on natives be of granting formal LMA and freedom of movement if refugees are mostly restricted to camps? Most likely, they would resemble the effects of refugee inflows more broadly. Many would likely stay in camps, but many others would likely enter the informal or formal markets within a relatively short period of time. Thus, refugees would complement certain groups of natives—especially the higher-skilled natives—improving productivity and creating employment opportunities. There would be small or null labor market effects, concentrated among closest substitutes (mostly lower-skilled natives), with the magnitude depending on the key factors discussed in section II. Over time, these negative effects would diminish and disappear, turning into positive effects as natives upgrade to higher-paying occupations. Again, policies can amplify benefits and mitigate costs.

Increased Firm Productivity—Raising Incomes for Refugees and Improving Labor Market Outcomes for Natives

When refugees are allowed to own businesses, they are given the opportunity to earn incomes and contribute to the economy as buyers, suppliers, and employers. When given the ability to own formal businesses, these benefits can be amplified for the more exceptional refugee business owners.

When refugees have access to labor markets they can start and grow businesses—to the benefit of natives as well as themselves. In Turkey, which allows refugees to own businesses formally, from 2011 to 2017, Syrian refugees started a total of 6,033 formal companies, employing 9.4 people on average—a total of about 56,710 people, most of whom are natives (Ucak et al. 2017). In Uganda, Betts et al. (2014) show that refugee-owned businesses provide valuable services to natives, who often rely on them for the provision of goods and as suppliers and distributors.

In situations where refugees are already working informally, formal LMA could have various impacts. Many firms would no doubt remain informal; simply having the option to formalize does not lead many firms to do so, and it would not necessarily benefit them to do so (de Mel et al. 2013; Benhassine et al. 2018). In Turkey, for example, there are an estimated

4,000 to over 14,000 informal firms in addition to the 6,000 formal firms ([Karasapan 2017](#)). But even informal firms could benefit from the right to formality. It could reduce the harassment they face and thus allow them to be more productive. By the same mechanism, other refugees may be induced to start businesses.

Other businesses or potential business owners would benefit more directly from the ability to formalize. When firms are informal, there is a limit to how much they can grow, as informal firms typically must remain small to avoid detection. Furthermore, formal firms can take advantage of access to financial services, contract enforcement, and other services to further grow their businesses ([Farrell 2004](#)). So, while the average business would likely not formalize, granting formal LMA would remove the limits to productivity that would allow more exceptional firms to thrive. These businesses, being more productive, would have a greater ability to hire natives, pay them more, and contribute to the economy more broadly. And with the prospect of the potential benefits tied to formality, other refugees with large potential for productivity may be induced to start formal businesses; there is some evidence of formalization encouraging businesses ownership in the United States ([Fairlie and Woodruff 2010](#)).

Furthermore, as some businesses formalize, there may be additional network effects. Refugees may be more likely to gain employment if fellow refugees are hiring. As evidence, research from the United States shows that refugees are more likely to be employed within the first 3 months of arrival if there is a greater presence of business owners that share their country of origin ([Dagnelie et al. 2018](#)). Thus, the refugee business owners that benefit from formalization and make their firms more productive may be inclined to hire more refugees (in addition to natives), improving outcomes for those refugees and creating indirect benefits for natives—including fiscal benefits, benefits from increased demand, and benefits from potential complementarity.

When refugees are restricted to camps, they may have small businesses, but their employees will likely be mostly (or probably exclusively) refugees. Allowing them access to the rest of the economy would enable them to hire natives and benefit the economy more broadly. This would be true even for those that remain informal. In South Africa, refugees are allowed a degree of freedom of movement and are given limited formal LMA but many still work informally and own informal businesses. In a study by the South African Migration Programme (SAMP), about a quarter of the informal businesses surveyed were found to employ at least one native ([Crush et al. 2017](#)).

One potential downside to the entry of both formal and informal firms, relevant in all situations following the provision of formal LMA, is the possible displacement of native firms. However, economic theory suggests that when new businesses are allowed to enter the market, there is a possibility the increased competition will push existing native firms to become more innovative and productive ([Aghion et al. 2015](#)). Empirical evidence from the United States and Turkey shows that displacement effects are usually mild and may not occur at all ([Akgunduz et al. 2018](#); [Fairlie and Meyer 1997](#)). Evidence from China shows that the entry of large and medium-sized firms can increase productivity ([Aghion et al. 2015](#)). In situations where there are already informal refugee firms, given generally low rates of

formalization in developing countries, granting formal LMA would likely have especially minor displacement effects because few refugee firms would become formal (La Porta and Shleifer 2014).

Regardless, there is evidence that firm displacement can be substantial. Fairlie and Meyer (2003) find that the entry of immigrant firms to U.S. cities over a ten-year period displaced native firms at a rate of no less than about 4 native firms for the entry of every 10 immigrant firms. Therefore, although significant displacement is uncommon, the possibility of displacement should be taken seriously. If formal LMA is granted, international actors should work with governments to ensure that interventions like Active Labor Market Programs (discussed in section V) and safety nets are in place to support those whom are displaced and help them upgrade to higher-paying employment.

The benefits gained from formalizing refugee business ownership would very likely outweigh the costs: while likely having small displacement effects, the new formal businesses and more secure informal businesses would contribute by providing valuable services, creating new employment opportunities, increasing spending in the economy, creating the possibility for increased innovation, and strengthening trade networks.

Increased Consumer Spending—Raising Incomes for Native Firms

When refugees work and earn incomes, they spend more in the economy. This increased spending benefits native businesses and has positive ripple effects throughout the economy. When refugees work formally they can earn higher incomes and spend even more, thus amplifying these benefits.

When refugees are more productive and earn greater incomes as employees and business owners, they also contribute to the economy by spending more, increasing consumer demand to the benefit of native businesses and their employees. Betts et al. (2014) illustrate the contribution refugees make as consumers in Uganda. They find that 97 percent of the refugees surveyed in Kampala bought their daily necessities from natives, and that 80 percent of refugees in Kampala identified native merchants as their main suppliers for their “primary livelihoods.” In South Africa, Crush et al. (2017) find that refugee business owners in their sample spend an average of about \$2,500 per month at wholesalers and pay an average of about \$350 in rents per month to property owners.

As long as this additional spending created by refugees is more than whatever decrease in spending they may cause by displacing natives (who will have less income to spend in the economy in the short term as a result of being displaced), they should create positive impacts by increasing consumer demand. This is a highly likely outcome given that refugees typically have minor or null average displacement effects when they enter the labor force. As an example, Bodvarsson et al. (2008) found that the Mariel Boatlift refugee inflows to Miami raised per capita retail sales, which in turn positively influenced employees’ wages in addition to businesses’ incomes. In Tanzania, farmers expanded production and sales in response to the refugee presence (Maystadt and Verwimp 2014). Businesses in Turkey are also benefiting from the refugee presence, likely due in part to increased spending and the expansion of construction to accommodate the refugees (Altindag et al. 2018). Refugees’ effects on

natives' incomes via consumer spending will also likely become more positive over time; as refugees become more integrated into the labor market, they will likely earn more, spend more, and develop increasingly strong trade and supply networks with natives.

When refugees are working informally, they can certainly have these positive consumer demand effects. But if they are given formal LMA and a more stable status, the effects will likely be larger. [Dustmann et al. \(2017\)](#) find that undocumented immigrants in the United States consumed about 40 percent less than documented immigrants. They argue that they consumed less because, due to their unstable situation in terms of possible deportation and job insecurity, they perceived a need to save more. They were also prevented from spending on certain things, such as renting apartments or other goods requiring formal status, and they could not access the financial services needed to facilitate larger purchases. And, as discussed above, they were likely to earn less working informally. Thus, by granting formal LMA to refugees along with associated rights—such as the ability to access to financial services, live outside of camps, and enter formal contracts—spending may increase for refugees working both formally and informally.

When refugees are restricted to camps, their interactions with the broader economy will be much more limited. They will earn less money that can be spent in the economy, and the money they do earn will less likely be spent at native businesses. Allowing formal LMA would increase consumer demand among refugees and allow natives to benefit from that demand.

Larger Government Revenues—Improving Fiscal Effects

When refugees are working and spending, they pay taxes. When they work formally, they likely pay more in taxes. The more integrated they are into the labor market, the greater their fiscal contribution and the more quickly their net fiscal impact will become positive.

All of the aforementioned channels of positive impact—increased productivity of refugees in the labor market, complementary effects for natives, and increased spending—also contribute to improved fiscal impacts. Because when individuals earn and spend more, they contribute to greater tax revenues through a variety of channels. As discussed above, extensive research from developed countries has shown that the main factor in determining fiscal effects of immigration and refugees is labor market integration ([Liebig and Mo 2013](#)).

Newer research in developing countries has found the same ([OECD and ILO 2018](#)). While tax structures tend to be different in developing countries, they are nonetheless set up such that higher incomes lead to more taxes. To illustrate, an [OECD and ILO \(2018\)](#) study shows that, across 10 developing countries of varying income status, indirect taxes—comprised of taxes on international trade, goods, and services—are proportionally larger than in developed countries, ranging from 40 percent to 78 percent of total revenue. Tax on income, profits, and capital gains was nonetheless substantial in most countries, ranging from about 15 percent to 50 percent.

This analysis suggests some of the channels through which formal LMA affects revenues in developing countries. When refugees obtain informal or formal work and increase their incomes, they will likely pay more in taxes—particularly through indirect means. If refugees are in camps, they may be less likely to buy taxable goods, as they will be more likely to receive aid or spend money at informal refugee businesses in the camps. However, to the extent that formal LMA improves their incomes by allowing them to find formal work around the camps, they will likely still spend more at formal businesses around the camps and thus contribute to taxes indirectly. Furthermore, if refugees work formally or own formal businesses, they are likely to pay even more as they may pay direct taxes on income or contribute to tax-paying businesses.

Moreover, even when operating informal businesses in the broader economy, they are likely to contribute substantially to revenues. [Crush et al. \(2017\)](#) found that the informal businesses they surveyed in South Africa spent an average of \$2,500 per month at wholesalers—many of which were formal and thus paid direct taxes. They also found businesses in Cape Town paid an average of about \$70 in rent per month that went to the municipal government, and \$150 per year for licensing fees. Finally, when refugees complement natives or stimulate native businesses through consumption, they lead them to pay more taxes as well.

On the other hand, it is possible that greater formal LMA, when accompanied by freedom of movement, could result in greater government spending, as refugees may be more likely to use government services, including health and education systems, or create wear and tear on infrastructure.

In situations where refugees are already working informally outside of camps, the net fiscal effects of granting formal LMA will likely be positive, contingent upon the current extent of service use among refugees and whether formal LMA is accompanied by an expansion of service availability. As theoretical research from [Machado \(2017\)](#) shows, the effect of formalization on migrants/refugees that are integrated into the informal market depends on how much taxes and service use increase relative to each other. If refugees are already using services to a large degree and/or formalization does not create new avenues for refugees to use services, allowing formal LMA should have a clearly *positive* impact on fiscal outcomes (because government spending may not change but tax contributions will almost certainly increase). This is a likely outcome because it is often the case that refugees that are integrated into the informal market in developing countries are already using government services (e.g., [Ammar et al. 2016](#)), and an expansion of service availability for refugees does not need to accompany formal LMA. Nonetheless, even if service use does increase, fiscal effects may be only slightly negative. To illustrate, in a study from the United States, [Cascio and Lewis \(2017\)](#) find that the increase in the use of welfare services following amnesty was mostly offset by increases in taxes. Either way, the research discussed in section II shows that the effects will become more positive over time.

In situations where refugees are in donor-funded camps and exerting very little fiscal cost on host governments, the fiscal effects of granting formal LMA will once again depend on context. For example, if only refugees that are more likely to work leave the camps, then

the impact will more likely be positive. If a large proportion of refugees that leave the camps have little labor market success, the effects will be more negative.

The effects will also depend on the extent of access that refugees have to services and the extent to which humanitarian and development actors support government service provision. If many refugees leave camps, humanitarian actors may shift some of their support to the government services that refugees would begin to use. In contexts where refugees are already integrated into the informal market, it is common for donors to provide additional support, thus offsetting and even improving fiscal outcomes (e.g., [Tatah et al. 2016](#)). The more service use increases following the provision of formal LMA, the more negative fiscal effects will be. The more support donors provide, the more positive effects will be. And, to reiterate, the research discussed in section II shows that the effects will become more positive over time.

Other Mechanisms for Economic Benefit

When refugees have formal LMA, they are more likely to expand trade networks, invest in human capital, and lower prices, and less likely to undermine unions, contribute to the growth of the informal sector, or disincentivize human capital investment among natives.

Formal LMA can create economic benefits via increased trade, greater investment in human capital among natives, and stronger unions. There is a robust empirical correlation between migration and trade volume ([Bohme and Kups 2017](#)). Causality has not been well established but, theoretically, immigrants could increase trade by leveraging connections abroad to create trade opportunities, creating demand for imported goods from their home countries, or stimulating economic growth and thus demand for foreign and domestic goods alike ([Tadesse and White 2008](#); [Briant et al. 2013](#); [Poot and Strutt 2010](#)). [Betts et al. \(2014\)](#) have provided anecdotal evidence of this occurring in Uganda, where refugee traders tend to build networks to their origin countries. Some have built networks reaching as far as Ghana, the Netherlands, or Dubai. Furthermore, if refugees are allowed to own businesses, those that return to their home countries may maintain ties and trade relationships with the former host country.

Because immigrants can better build these trade networks when working or owning businesses, to the extent that the provision of formal LMA allows refugees to work more and grow their businesses, it could also increase trade. Since substantial portions of developing country revenues often come from tariffs, government revenues may increase as a result ([OECD and ILO 2018](#)). It could also increase the balance of trade and generate the many other benefits associated with trade.

It was discussed above that the lack of formal LMA can discourage refugees from investing in human capital. The same may also be true for natives. Refugee camps generate economic rents due to the excessive market power and “consequent improved terms of trade” enjoyed by certain groups of natives. [Alix-Garcia et al. \(2017\)](#) argue that the availability of these rents disincentivizes investment in skill development. Furthermore, [Hunt \(2017\)](#) shows that a larger presence of immigrants encourages natives to invest more in human capital in order to

be more competitive in the labor market. If refugees were to enter the labor force, they could have the same effect.

Formalization may also strengthen unions, to the benefit of native workers. Informal refugee workers may not be able to join unions, and as such may weaken collective bargaining. And even when they can join, their illegal status may make them reluctant to organize, for fear of retribution ([Bailey 1985](#)). Therefore, if granting formal LMA increases the ability of refugees to join unions and organize, formalization may improve collective bargaining and thus wages.

In contexts where refugees are working informally, granting formal LMA can help limit the expansion of the informal sector. To the extent that governments want to limit its growth—in order to increase tax revenues or generally regulate more of the economy—this can be an important outcome.

Price decreases may be another result of formal LMA, in a way that benefits producers and consumers. Refugees can impact prices by increasing demand (creating positive effect on prices), or increasing the labor supply (creating a negative effect on prices) ([Bohme and Kups 2017](#)). Most research finds that the latter effect is usually stronger (except for housing prices), such that prices tend to fall as a result of immigration ([Lach 2007](#); [Cortes 2008](#); [Baghdadi and Jansen 2010](#); [Zachariadis 2012](#)).

In the context of forced displacement, it is a bit more complicated. First, a greater spatial concentration of refugees may mean absorption into the labor market is more difficult, while demand pressures may remain high. Working in the other direction, food aid can lower prices, but without benefitting (and actually harming) producers. Thus, in camp settings, where refugees rely on food aid and refugees are less integrated into the labor market, prices changes create winners and losers ([Alix-Garcia and Saah 2010](#); [Maystadt and Verwimp 2014](#)). The provision of formal LMA and freedom of movement could remove these effects by reducing the spatial concentration of refugees, reducing the need for food aid, and allowing refugees to join the labor force and increase the labor supply (and thus lower prices in a beneficial way). To illustrate, in their simulation of the effects of granting formal LMA and freedom of movement to refugees in Kakuma camp in Kenya, [Alix-Garcia et al. \(2017\)](#) show that the price effects of refugees on the area surrounding the camp are large, but the effects on the broader economy are nonexistent.

In situations where refugees are already working informally, granting formal LMA would likely create beneficial negative effects on prices. Refugees may earn and spend more, thus putting upward pressure on prices, but would also be more able to integrate into the labor market, thus increasing the labor supply and putting downward pressures on prices. Especially if given freedom of movement, they would more closely resemble regular migrants, which have been shown to create lower prices.

Table 3. Summary of benefits of formal LMA and differences across situations where refugees are working informally vs. restricted to camps

Benefits of formal LMA (alongside greater freedom of movement for those currently in camps)	Differences across situations	
	Refugees are already working informally	Refugees are mostly restricted to camps
<p>Improved standard of living and reduced vulnerability for refugees: Formal LMA provides refugees with greater dignity, security, and workplace protections; reduces the likelihood of cognitive stunting among children and rates of child labor, child marriage, and other negative coping mechanisms; and increases the likelihood of successful durable solutions.</p>	<ul style="list-style-type: none"> ➤ To the extent that refugees in this situation are at greater risk of deportation, the decrease in cognitive stress may be especially large. 	<ul style="list-style-type: none"> ➤ Increase in likelihood of improved well-being and self-reliance is especially large, as informal and formal work opportunities will emerge.
<p>Increased labor market productivity—raising incomes for refugees: When refugees are allowed to work, their potential for productivity is unleashed and they are able to earn incomes. When given formal LMA, refugees can be even more productive as they can apply their skills in the labor market and seek employment more freely, thus earning higher incomes.</p>	<ul style="list-style-type: none"> ➤ Adjustment costs will be lower and displacement of natives less likely, as most of the substitution effects (if there are any) will have already occurred. ➤ Magnitude of effects will likely be smaller, with the main benefits being that skilled workers will be able to be more productive as formal workers and informal workers can be more productive due to the ability to work and look for employment with greater impunity. 	<ul style="list-style-type: none"> ➤ Even larger increase in incomes due to a greater expansion of opportunities.
<p>Increased labor market productivity—improving labor market outcomes for natives: When refugees make the economy more productive by engaging in the labor market, they benefit natives. By filling labor shortages, complementing natives, and expanding the labor supply, they create new employment opportunities and induce natives to upgrade to higher-paying occupations.</p>	<ul style="list-style-type: none"> ➤ Competition in the informal sector will likely <i>fall</i>, benefitting lower-skilled natives. Competition in the formal sector will increase marginally, but refugees may bring valuable skills that increase productivity. 	<ul style="list-style-type: none"> ➤ Effects—including both positive and minor negative—will be larger. There may be more displacement, but there will also be a greater expansion in complementary effects, occupational upgrading, etc.
<p>Increased firm productivity—raising incomes for refugees and improving labor market outcomes for natives: When refugees are allowed to own businesses, they are given the opportunity to earn incomes and contribute to the economy as buyers, suppliers, and employers. When given the ability to own formal businesses, these benefits can be amplified for the more exceptional refugee business owners.</p>	<ul style="list-style-type: none"> ➤ Average effects will be smaller, but more exceptional refugee business owners will be able to take advantage of formal LMA to grow their businesses. 	<ul style="list-style-type: none"> ➤ Larger benefits will accrue to both natives and refugees, as both informal and formal businesses will be able to enter the broader economy.

Benefits of formal LMA (alongside greater freedom of movement for those currently in camps)	Differences across situations	
	Refugees are already working informally	Refugees are mostly restricted to camps
<p>Increased consumer spending—raising incomes for native firms: When refugees work and earn incomes, they spend more in the economy. This increased spending benefits native businesses and has positive ripple effects throughout the economy. When refugees work formally they can earn higher incomes and spend even more, thus amplifying these benefits.</p>	<ul style="list-style-type: none"> ➤ A greater sense of security and stability may be the main mechanism increasing spending. 	<ul style="list-style-type: none"> ➤ Because refugees will experience larger increases in income and greater exposure to non-camp economies, increases in spending at native businesses will also be greater.
<p>Improved fiscal effects: When refugees are working and spending, they pay taxes. When they work formally, they likely pay more in taxes. The more integrated they are into the labor market, the greater their fiscal contribution and the more quickly their net fiscal impact will become positive.</p>	<ul style="list-style-type: none"> ➤ Net fiscal effects may be more positive. Assuming impacts on service use will not change much as a result of formal LMA, the resulting increase in taxes paid will exceed any increases in government spending. 	<ul style="list-style-type: none"> ➤ Effects will depend more upon the support governments receive from donors and humanitarian organizations. With adequate support, effects can be positive in the short term; they will likely be positive in the long term regardless.
<p>Other mechanisms for economic benefit: When refugees have formal LMA, they are more likely to expand trade networks, invest in human capital, and lower prices, and less likely to undermine unions, contribute to the growth of the informal sector, or disincentivize human capital investment among natives.</p>	<ul style="list-style-type: none"> ➤ To the extent that informally working refugees are weakening unions' collective bargaining, this effect should disappear (or become equal to that of informally working natives). 	<ul style="list-style-type: none"> ➤ The increase in the ability of refugees to expand trade networks will be especially large, as they will be able to leave camps. ➤ The disincentives to human capital investment among natives (which only exist around camp economies) are mitigated in this situation.

V. Key Policy Issues

Policymakers can facilitate the potential benefits of formal LMA that have been highlighted and mitigate the potential costs. This section will discuss the key policy issues that influence the outcomes of granting formal LMA. The policies, summarized in table 4 along with one example of the importance of each, are grouped into four categories. The first, *expand rights for refugees*, discusses the rights that should be extended to refugees as complements to formal LMA to help them integrate into the labor market more quickly and create greater economic and fiscal contributions. The second category, *help hosts adjust*, outlines the policies that will help natives and host governments adjust to changes, so that they benefit more and experience fewer costs. Third, *facilitate refugee labor market integration* includes the policies, in addition to rights, that will facilitate benefits. Finally, *crosscutting policies* discusses policies that relate directly to both refugees and natives.

Expand Rights to Refugees

Grant Freedom of Movement

Freedom of movement allows refugees to travel to meet labor demand, thus making them more able to fill shortages. It also makes them more able to apply their skills by finding jobs that best fit their abilities. The likely result is greater productivity and complementarity.

There is some evidence that refugees may be more prone to move to meet labor demand than other groups in the population. [Sarvimaki et al. \(2018\)](#) show that farmers that were displaced in Finland as a result of World War II were more likely thereafter to move to urban areas to engage in higher-earning, non-agricultural occupations. The reason they give is that people derive utility from continuing to live in a location where they have been for a long time. Upon being displaced, the Finnish farmers lost their “location capital,” such that they were more willing to relocate for more productive employment opportunities. This same mechanism of lost location capital causing greater mobility could also apply to refugees in developing countries today. The economic benefit to the host country could be large. [Borjas \(2001\)](#) argues that immigrants are more mobile and responsive to regional differences in economic opportunities than natives (for different regions than refugees), and that the resulting annual efficiency gain for natives in the United States is between \$5 billion and \$10 billion.

As suggested by [Braun and Omar Mahmoud’s \(2014\)](#) aforementioned research from Germany, another benefit of the freedom of movement could be to reduce the concentration of labor flowing into a given area, which could diminish the possibility of displacement. A study on refugees in Kenya provides evidence of this. [Alix-Garcia et al. \(2017\)](#) simulate the effect of allowing all refugees (over 180,000 of them) in Kakuma camp to work and move freely. Overall, they predict that the effects for the local economies (where refugees make up about a fifth of the population) surrounding the camp would be substantial, especially in the short term. But if refugees were to move to other parts of the country, the local effects would become more positive. Meanwhile, the effects for the entire Kenyan economy would be small but positive: they predict that impacts on employment and GDP would be slightly positive and the impact on income per person would be null. In other words, if labor market integration were concentrated, the results would likely be negative in the short term. But if refugees were allowed to integrate into the labor market throughout the broader economy, they could benefit the economy in the ways discussed in section IV.

Even if refugees were to continue residing in camps, giving them the freedom to move in and out of the camps could confer many benefits. [Betts et al. \(2014\)](#) shows how this has been the case in Uganda, where refugees living in settlements develop trade networks throughout the country. Similarly, freedom of movement would enhance businesses’ productivity, enabling them to, for example, develop intranational or international trade networks. Syrian business owners in Turkey have cited a lack of freedom of movement as one impediment to growth ([Ucak et al. 2017](#)).

Policies aimed to improve freedom of movement should do more than just grant legal freedom of movement. There are many barriers to movement aside from legal restrictions, including the cost of moving, fear of discrimination while traveling, work permits tied to specific employers, loss of aid upon leaving camps or settlements, and more ([Hollweg et al. 2014](#); [Zetter and Ruaudel 2016a](#); [ILO 2017](#)). Lowering these de facto barriers in addition to de jure barriers will be key to facilitating mobility. For example, it should be legal for refugees to receive support from aid organizations outside of camps. To offset the cost of moving, donors could subsidize transportation.

Furthermore, policymakers should consider the possibility that some refugees will be more inclined to locate themselves based on the availability of certain services, such as health care, rather than job opportunities. This could dilute the effectiveness of the freedom of movement policy as a measure for improving labor market outcomes for refugees and natives. To the extent refugees locate themselves based on these other priorities, policymakers should consider how to incentivize movement for employment. For example, they could ensure that refugees have access to services regardless of location, provide temporary housing, or actively promote the existence of employment opportunities in various geographic regions.

Another factor to consider is that relocating refugees to locations that the refugees themselves have not chosen may not be an effective means to achieve policy goals like reduced geographic concentration. To illustrate, in Turkey, non-Syrian refugees are assigned to live in one of 62 “satellite” cities throughout the country, not including major cities such as Istanbul, Ankara, and Izmir. The result is that many work informally outside of their assigned cities ([Leghtas and Sullivan 2018](#)). Thus, the policy of assigning location seems to be ineffective at reducing concentration while essentially eliminating many of the benefits associated with formalization.

Facilitate Financial Access

Allowing refugees financial access could generate benefits through a number of channels. Some formal jobs require employees to have bank accounts, such that financial access can improve integration into the formal labor market. Financial access can also improve labor market success by enhancing resilience, which reduces asset depletion in times of shock ([El-Zoghbi et al. 2017](#)). Thus, to enable refugees to integrate into and succeed in the labor market, barriers to financial access for refugees should be low.

Access to finance can also lead to increased consumption. [Dustmann et al. \(2017\)](#) argue that one of the reasons that undocumented workers in the United States spend less is that they do not have access to loans and financing options that facilitate larger purchases.

Finally, finance, by providing a source of funds both for long-term investment and for smoothing income to address short-term costs, is important for stimulating business growth. As with formalization, not all businesses will be able to leverage financial access to grow, but for the more productive businesses, a lack of access would be a major impediment to growth. In Turkey, a top recommendation from Syrian business owners is for the

government to “treat Syrian investors like Turkish citizens concerning banking transactions, giving them the freedom to carry out financial transfers” ([Ucak et al. 2017](#)). In South Africa, one of the largest constraints to businesses seems to be finance; in one study, the main source of start-up capital reported by businesses owners was personal savings, and very few reported having access to funding from banks, NGOs, or UNHCR ([Crush et al. 2017](#)).

To increase financial access, legal restrictions—including the need for identification that refugees do not have—should be lowered ([El-Zoghbi et al. 2017](#)). But that is only the first step. A number of de facto barriers impede access for refugees, including a lack of understanding among banks about the rights of refugees ([Zetter and Ruaudel 2016a](#)). Even among immigrants more broadly, access to finance may be lower because they have shorter credit histories, they are viewed as less stable, they are perceived as riskier due to higher business failure rates (in some contexts), and they are discriminated against ([OECD 2011](#); [Blanchflower 2009](#); [Albareto and Mistrulli 2011](#)).

There are a number of options for addressing these issues. For example, livelihoods programs could be implemented with microfinance components or components that help and/or encourage refugees to access financial services, aid could be disbursed through formal financial mechanisms to encourage take-up of those mechanisms, subsidies can be provided to banks to mitigate the risks they face in working with refugees, and information about financial services could be targeted at refugees ([El-Zoghbi et al. 2017](#); [Chehade et al. 2017](#)).

Expand Access to Education

Over the long run, access to education will be key to facilitating the economic contributions of refugees. The average refugee is in exile for over 10 years, and among those who have been displaced for over 5, the average is over 21 ([Devictor and Do 2016](#)). This means that many refugees will be (and are) growing up in a protracted context. Without access to education, they may eventually enter the host country’s labor market with few skills, thus limiting their opportunities to make positive contributions. In Pakistan, “refugees [consider] the lack of access to the Pakistani educational system to be the main reason for not getting formal employment” ([Zetter and Ruaudel 2016a](#)).

Help Hosts Adjust

Facilitate Occupational Upgrading

We have discussed that when natives are displaced, they sometimes experience improved labor market outcomes over the medium-to-long run because immigration facilitates task specialization, wherein natives upgrade to more advanced, higher-paying occupations. There is a large literature documenting the prevalence of immigration-induced upgrading (e.g., [Foged and Peri 2016](#), [Peri and Sparber 2009](#), [Amuedo-Dorantes and de la Rica 2011](#), [D’Amuri and Peri 2014](#)). But certain policies make it more likely.

Active Labor Market Programs (ALMPs) may help natives achieve occupational upgrading. To increase the likelihood that the increased competition from refugees leads to natives upgrading rather than being displaced into unemployment, governments and donors can implement ALMPs to help natives 1) develop the skills needed to upgrade and 2) find new employment opportunities. ALMPs include vocational training, wage subsidies to employers, transportation support, matching services, business start-up assistance, public works programs, and more.

Unfortunately, these programs have been found to have a very mixed degree of effectiveness in both developed and developing countries (McKenzie 2017; Betcherman et al. 2004). Nonetheless, some approaches hold great promise. For example, Maitra and Mani (2016) have shown that job trainings can be conducted in a highly cost effective manner. Programs that overcome “spatial mismatch” (wherein employers and potential workers are geographically distant) via job search programs or transportation subsidies have also proven highly effective (McKenzie 2017). Other promising approaches include cash transfer programs combined with job search assistance or start up training, and business development services (Baird et al. 2018; Fox and Kaul 2018).

Adapting some of these more successful ALMPs to the context of displacement may be helpful not only in reducing substitution effects, but also in generating *positive* outcomes for displaced natives and the businesses benefitting from task specialization.

Support the Most Vulnerable Native Populations

There is some evidence that refugee inflows can lead to adverse outcomes for the most vulnerable native groups (Whitaker 2002). Often the closest substitutes to refugees, they may be more likely to be displaced. As alluded to in the freedom of movement subsection above, granting formal LMA along with freedom of movement may alleviate these problems. If freedom of movement leads to a more dispersed population, these impacts will likely be diminished. Nonetheless, there still may be some displacement of vulnerable individuals following the provision of formal LMA. Development actors should therefore be prepared to provide support to the most vulnerable native groups in the areas that are most likely to experience adverse outcomes. In the long run, these groups are likely to experience upgrading and other positive outcomes. But in the short run, interventions such as cash transfers or other safety net programs may be important.

Support Government Spending on Refugees

The previous section showed that, under certain circumstances, the net fiscal effect of granting formal LMA may be negative in the short term. To offset these costs, donors can provide fiscal support to governments and help finance any increase in service provision. For example, in Jordan, UNHCR has provided funding and support to the government delivery of healthcare in order to allow refugees the same access to health services as natives

(Bellamy et al. 2017).¹⁴ Supporting service provision is an increasingly common approach among donors in refugee-hosting developing countries and, when done well, can have the additional effect of improving service quality (Clemens et al. 2018). In Guinea, for example, due to the support that donors provided to the Guinean health system in response to the inflow of roughly 500,000 Liberian and Sierra Leonean refugees, health outcomes significantly increased among natives in areas with large numbers of refugees (Van Damme et al. 1998). More recent approaches, such as the World Bank’s IDA18 financing window, involve direct support (via concessional loans) to governments and are creating new opportunities for medium-term solutions (Huang et al. 2018).

Facilitate Refugee Labor Market Integration

Provide Livelihoods Support to Refugees

Programs similar to ALMPs can also be implemented for refugees. For refugees, they are more typically called jobs and livelihoods programs. These programs can help refugees achieve self-reliance while also working towards many of the other benefits mentioned above. For example, the more integrated refugees are into the labor market, the stronger their fiscal contributions. The more productive their businesses, the more natives they can hire.

Livelihoods programs can take many forms, including skills trainings, information provision, cash transfers, microfinance, and initiatives to connect refugees with job opportunities (Jacobsen and Fratzke 2016). Importantly, they can help refugees thrive in the informal as well as formal sector. Trainings and other interventions related to skills are crucial because refugees (as well as immigrants in some cases) face a number of unique obstacles. For example, they often do not speak the host country’s language(s), business owners may not be familiar with local markets and may lack the networks to understand them, and they may be experiencing mental health problems as a result of displacement (Saliba 2018; OECD 2011; Jacobsen and Fratzke 2016).

As with ALMPs, evaluations of livelihoods programs have produced mixed findings and, in a review of livelihoods programming in developing countries, Jacobsen and Fratzke (2016) show that few rigorous evaluations have been carried out. Nonetheless, they find that some promising approaches have emerged—particularly those which are more holistic. For example, the graduation approach, which begins by helping refugees meet basic needs before helping them gain self-reliance, has proven to effective in some contexts. They also show that market research plays a key role, such that skills trainings should take into account labor market demand. Work that takes these insights into account is already being conducted by ILO and UNHCR and could be expanded (UNHCR and ILO 2018).

¹⁴ However, more recently, funding shortages have led UNHCR to reduce support and, in response, the government has made access to health services increasingly expensive for refugees (Bellamy et al. 2017; HRW 2018). This illustrates the importance of donor support in generating positive outcomes for refugees and hosts.

Mousa (2018) reviews evidence from a developed country context, for which there have been more evaluations. She shows that some approaches, many of which could apply to developing countries, are especially promising. They include language training, cash transfers paired with financial literacy training, and more innovative approaches such as targeted placements. For these, algorithms can be used to predict where refugees will have the best labor market outcomes, though policymaker should still allow freedom of movement following placement, for reasons discussed above (Bansak et al. 2018). This approach has been developed for resettlement but, to the extent that data is available, it could also be applied if refugees are locally integrated and resettled within the country of first asylum.

Another finding from the review from Jacobsen and Fratzke (2016) is that policy factors—such as freedom of movement and ease of formal LMA—play a significant role in the outcome of livelihoods programs. Freedom of movement has been discussed extensively and other policy factors are discussed below.

Enable Skill Verification and Recognition

It is common for refugees to have skills, degrees, or other certifications that they received in their home country but which are not recognized in the host country, or which they cannot secure from their country of origin (Zetter and Ruauadel 2016a). This is an obvious problem for refugees who want to be as productive as possible while also obtaining fulfilling employment, and it is also a major loss for their host communities. One of the strongest determinants of an immigrant's (or refugee's) success in the labor market is their skill level, which in turn determines their fiscal contributions (Rowthorn 2008). Helping refugees verify their skills and degrees so that they can apply them in the labor markets is therefore an important means to improve net fiscal effects. It can also enable refugees with highly valued skills to contribute them to society.

In developed country contexts, skills recognition has proven a successful means for improving immigrants' labor market outcomes (OECD 2017). Mousa (2018) highlights it as one of the most effective means for improving outcomes for refugees. Furthermore, experience from OECD countries provides a breadth of evidence for best practice in establishing systems for skills verification, including the establishment of one-stop centers for receiving assessment and verification (OECD 2017).

Lower Administrative Barriers to Formal LMA

Many of the policy approaches mentioned above—such as freedom of movement, financial access, and skills development—are all measures to improve labor market integration. But perhaps the simplest such measure that can be taken is to lower the administrative barriers to access. Primarily, the process for obtaining formal authorization to work or own businesses should be as easy as possible. Research shows that the faster refugees are able to access the labor market, the more successful they will be in the long run (Marbach et al. 2017; Bakker et al. 2014). And, if administrative barriers to formal LMA are high enough to prevent most refugees from succeeding in gaining access, then formal LMA (as defined in section I) has not in fact been granted and many of the benefits listed above will not be realized—or they will be realized to a lesser degree.

Ideally, individuals with refugee status would be automatically granted formal LMA and would not need permits. A permit system and associated administrative barriers would likely deter some otherwise-eligible and -qualified refugees from entering the formal market, limit skills matching, make it difficult for refugees to achieve formal employment, and create extra costs for employers as well as refugees ([ILO 2017a](#)).

In cases where permit systems are in place, they should not be tied to employers, as this can lead to exploitation and reduce refugees' bargaining power ([Buffoni et al. 2017](#); [MMC 2017](#)). Permits should also not cost money. Furthermore, "one-stop shops," which would offer services to facilitate the process of business creation or obtaining work permits, could be created. Such centers have been created in Ghana and Cote d'Ivoire for immigrant entrepreneurs and in South Africa for immigrants more broadly ([OECD and ILO 2018](#); [Kola 2008](#)). The government should also have clear policies on refugees' rights. Often, various stakeholders, including different levels of government and employers, interpret and apply policies differently. This can lead to a restriction of access in practice when in fact refugees have the legal right to access ([Zetter and Ruaudel 2016a](#)).

Create a Perception of Stability

Another low-cost role governments can play is to simply create the perception among refugees that their presence in-country is stable until conditions for safe, voluntary, and dignified return exist (i.e., that they will not be deported or forced to return). Research from [Dustmann and Gortlach \(2016\)](#) shows that when immigrants perceive a longer duration of stay, they are more likely to consume more and invest more in human capital, thus having a greater stimulus effect in the short-term and stronger labor market outcomes in the longer term. A perception of stability could be created by granting official refugee status, halting any practices of *refoulement*, and avoiding a rhetoric of forced return.

Crosscutting Policies

Respond to Gender Dynamics and Promote Gender Equality

The research discussed above shows that the labor market effects of refugee inflows and formalization can vary across genders. Native women are often the most adversely affected by refugee inflows, and formalization may benefit refugee women less than men. Policymakers and practitioners should therefore conduct gender analyses, which can be used to identify differences in outcomes, needs, and barriers across men and women ([Buscher 2017](#)). They should also create policies that enable and empower women's access to labor markets and viable, sustainable livelihoods.

To give a few examples, if job displacement among natives (to the extent that it occurs at all) occurs disproportionately among women, ALMPs or other support programs can be targeted to women. If refugee women are exposed to fewer employment opportunities following formalization, livelihoods programs can be targeted to up-skilling women refugees or developing their skills in ways complementary to the existing formal workforce. These programs should also address the additional barriers that women face to employment,

including restrictive social norms, the high risk of gender-based violence, and a lack of access to reproductive health services (Buscher 2017). For example, to overcome cultural norms that restrict mobility and the safety risks associated with travelling, female entrepreneurship programs, which allow women to work from home, could be implemented. However, these programs also need to take into account the fact that women face additional barriers as business owners, such as less access to markets, suppliers, and formal financial institutions and time constraints due to a greater number of hours spent doing unpaid care work (Buscher 2014; Carranza et al. 2017). These factors could in turn be addressed by other interventions. For example, practitioners could provide childcare and promote equal responsibility among men and women for unpaid domestic work (Ferrant et al. 2014).

In urban situations, women may be *more* likely to find employment (though likely informal) because, among refugees coming from rural areas, women may have more transferable skill sets. For example, whereas men have difficulty transferring agriculture skills in cities, women may be able to transfer certain skills, such as using experience with household chores to perform paid domestic work. Programming should therefore recognize that many women are the primary source of income while simultaneously in charge of household responsibilities (Buscher 2017). It should also address the resulting marginalization that many men feel, which can undermine programming, by involving men in programming and supporting men as champions of gender equality (Brady 2011; ILO and WED 2014).

Under the right policy conditions, displacement can actually create new opportunities to promote women's empowerment. In displacement contexts, women may have access to reproductive services, formal education, and employment opportunities for the first time. If policies are implemented to support women, they can leverage these new opportunities to advance women's economic empowerment and gender equality (Buscher 2017).

Secure Workplace Protections

As with the provision of other rights, simply obtaining the formal right to workplace protections will not guarantee that those protections are actually in effect. In the case of Ecuador, for example, many of the Colombian refugees that obtain formal work still do not enjoy the protections guaranteed by law (Zetter and Ruaudel 2016a). Policymakers should seek to implement equal protections for refugees and natives. In many cases, doing so will benefit both groups. For example, foreigners in Jordan have a lower minimum wage than natives (Nahhas 2017). This has clear repercussions for migrants' and refugees' wages, but can also make it more difficult for some natives to find work, as employers may have a preference for hiring foreigners so they can pay lower wages.

Programs built on successful examples, such as the Better Work program, can improve protections for both refugees and natives (ILO and IFC 2018). In countries where certain work rights apply universally, these programs can also reach informal workers. Measures could include initiatives to inform refugees and their employers about the rights of refugees and to create safe channels for workers to express grievances. In most cases, interventions to support refugees can and should seek to improve implementation of protections for natives as well.

Jointly Target Hosts and Refugees

Many of the policies and interventions mentioned above (in addition to workplace protections and gender programming) can and should be applied to both hosts and refugees. For example, livelihoods programming and ALMPs are similar in nature, so, when interventions are created to help refugees succeed in the labor market, they should have a component geared towards natives. As an example, an IRC employment hub facilitates job matching for both Syrian refugees and vulnerable Jordanians ([Gordon and Cara 2017](#)). Likewise, programs targeting vulnerable populations, such as cash transfers, should respond to needs rather than status as a refugee, internally displaced person, citizen, migrant, or other. The Cash Learning Partnership in Lebanon provides an example of how this can be done ([Campbell 2014](#)). At the macro level, when policymakers attempt to create jobs for refugees, they should also consider how to grow the pie and create jobs for natives. For example, the World Bank plans to invest in industrial zones in Ethiopia that should create jobs for both hosts and refugees ([Rummery 2018](#)). Such an approach will also be more likely to win support among the host community if it leads to a greater involvement of natives in programming.

Communicating Positive Information about Refugees

Communicating the successes of formal LMA and other positive information about refugees may be key to maintaining benefits and continuing to expand access for refugees. If the host community is aware of the benefits that refugees are bringing and/or empathizes with their situation, they may be more accepting of their participation in the economy. This could help host governments overcome some of the political economy barriers to formal LMA and the implementation of key policies discussed above, leading to a more sustainable implementation of reforms.

As evidence of the potential for economic arguments to change attitudes, [Alesina et al. \(2018\)](#) show that natives in OECD countries consistently underestimate the productivity of migrants in the labor market. Furthermore, higher rates of immigrant unemployment (and likely also *perceptions* of high rates of immigrant unemployment) drive negative attitudes towards immigrants ([Markaki and Longhi 2013](#)). Assuming these trends hold for refugees in developing countries, providing evidence of the productivity and contributions of refugees—such as the high rate at which they hire natives or the complementary effects they have—could lead individuals to view refugees and refugee labor market integration more favorably. Another driver of negative perceptions towards immigrants is the belief that they are negatively affecting the welfare state and exerting fiscal costs ([Muller and Tai 2016](#)). Therefore, theoretically, providing information about the fiscal benefits of refugees or the fact that donors are offsetting costs could improve attitudes.

These studies show that misperceptions of immigrants are common and that these misperceptions can drive negative attitudes towards immigrants (and likely refugees). Other research has shown that the provision of information can *alter* misperceptions and engender more positive attitudes and actions. For example, [Grigorieff et al. \(2016\)](#) and [Hopkins et al. \(2018\)](#) conduct research in developed country contexts to show that when individuals are told the real number of immigrants in their country, they are less likely to claim that there are

too many. Furthermore, [Grigorieff et al. \(2016\)](#) and [Facchini et al. \(2016\)](#) show that providing information to natives on the economic reality and benefits of immigration—including immigrants' actual rates of employment and the economic benefits they bring by filling labor shortages—leads natives to adopt more positive attitudes towards immigrants and more pro-immigrant policy positions, and to take pro-immigrant action (for example, by making small donations to a pro-immigrant NGO). Evidence also shows that other forms of information (not related to the economics of immigration) can impact attitudes and actions. [Adida et al. \(2018\)](#) find that encouraging survey respondents to empathize with refugees' situations makes them more likely to write a letter to the President in favor of refugees. Furthermore, the findings from Grigorieff et al. and Adida et al.'s research show

that groups that are less likely to support pro-immigrant and-refugee policy (in this case, Republicans) can also be impacted, and are sometimes the most likely group to change their opinions in response to information. These findings have positive implications for altering views in anti-refugee environments.

This research shows that there are promising approaches to confronting anti-immigrant sentiment, which could potentially be applied to anti-refugee sentiment. However, more work on the topic is needed in order to better understand how to communicate information in a way that successfully facilitates reform and refugee LMA. For one, research could help uncover what type of information is provision—whether economic or otherwise—is most influential. Furthermore, most of the research to date has been focused on immigration in developed countries, and should be expanded to refugees and developing country contexts.

Finally, and most importantly, research is needed to understand the impact of changing attitudes. Primarily, there is a question of whether changes in societal attitudes can translate into changes in political rhetoric and policy approaches. Today's growing anti-immigrant rhetoric does not seem to be driven by changes in societal attitudes: across European countries, for example, attitudes towards immigrants have become more *positive* in recent years. Rather, it seems to be driven by a rise in political parties and politicians that are drawing on existing nationalist sentiments to win votes and gain power. The presence of these anti-immigrant forces makes it harder for governments and politicians that want to make pro-immigrant or -refugee reforms to do so ([Goldin et al. 2018](#)). This raises several questions: can information provision play a role (alongside other efforts) in altering the entrenched nationalist views that seem to be driving the success of anti-immigrant politicians? Alternatively, can political discourse be shifted away from nationalist sentiments towards the economics of immigrants and refugees in a way that reduces the appeal of these politicians? Another question is how changes in attitudes manifest themselves at a micro level. For example, do more favorable attitudes towards refugees lead to less labor market discrimination, improving labor market integration for refugees? A final question relates to international impacts. If the successes of formal LMA in one country are advertised, will they incentivize reform in other countries?

Table 4. Key policies for improving the impacts of formal LMA and examples of their importance

Key policies	Example of policy importance
<i>Expanding rights for refugees</i>	
Grant freedom of movement	A simulation of the impact of giving refugees in the Kakuma camp in Kenya shows that the impacts would be much more positive if refugees were free to move and integrate into the labor market throughout the country (Alix-Garcia et al. 2017).
Facilitate financial access	When immigrants or refugees have access to finance, they spend more, creating a stimulus for the economy (Dustmann et al. 2017). Policies should grant legal access and lower de facto barriers.
Expand access to education	The average refugee is in exile for over 10 years (Devictor and Do 2016). To make greater contributions over the long run, they need access to education—ideally through government systems (with donor support).
<i>Helping hosts adjust</i>	
Facilitate occupational upgrading	Short-term job displacement of natives often leads those natives to upgrade to higher-paying occupations in the medium or long term (e.g., Foged and Peri 2016). Interventions that connect workers with geographically distant opportunities are a promising approach to facilitating upgrading and improving labor market outcomes (McKenzie 2017).
Support the most vulnerable native populations	Sometimes the most vulnerable natives are the ones that are adversely affected by inflows of refugees or other migrants (e.g., Calderon-Mejia and Ibanez 2016). Safety net and other targeted programs could be implemented to support them in the short term, while they adjust.
Support government spending on refugees	It takes time for refugees to become net fiscal contributors (Cortes 2004). In the short term, donors can provide fiscal support or support government systems directly, as has been done in Guinea, Jordan, and other countries (Van Damme et al. 1998 ; Bellamy et al. 2017 ; Clemens et al. 2018).
<i>Facilitating refugee labor market integration</i>	
Provide livelihoods support to refugees	Programs that help refugees succeed in the labor market—such as language training or cash transfers paired with financial literacy training—provide benefits for refugees as well as their hosts (Mousa 2018).

Key policies	Example of policy importance
Enable skill verification and recognition	Skills recognition programs have proven a successful means for improving immigrants' labor market outcomes, and can be deployed to support refugee self-reliance (OECD 2017). One method for verification is to create one-stop centers for receiving assessment and verification.
Lower administrative barriers to formal LMA	The faster refugees are able to access the labor market, the more successful they will be in the long run (Marbach et al. 2017 ; Bakker et al. 2014). Administrative barriers should not get in the way; one way to get around them is to make formal LMA automatic.
Create a perception of stability	When immigrants perceive a longer duration of stay, they are more likely to consume more and invest more in human capital (Dustmann and Gorlach 2016). Governments can avoid threatening deportation to create that perception among refugees.
<i>Crosscutting policies</i>	
Respond to gender dynamics and promote gender equality	Women and men among both natives and refugees are typically affected differently by refugee inflows and formalization, respectively (e.g., Del Carpio and Wagner 2015 ; Pan 2012). To promote gender equality, policymakers should identify these differences and respond accordingly, such as with livelihoods programs targeted at women.
Secure workplace protections	Formal work does not guarantee the protections that should be granted with formal work—particularly for refugees (ILO 2017a). Policymakers should address the gap between legal rights and practice through programs that, for example, create safe channels for workers to express grievances.
Jointly target hosts and refugees	There are vulnerable individuals in refugee, host, and other populations. The provision of support, such as assistance in finding employment, should apply to both refugees and natives and potentially individuals with other status as well (e.g., IDPs). The IRC employment hub in Jordan provides an example of how this can be done (Gordon and Cara 2017).
Communicating positive information about refugees	If the host community is aware of the benefits that refugees are bringing to society, they may be more accepting of their participation in the economy (Facchini et al. 2016). Donors and other international actors should work with governments to disseminate information on benefits and successes.

VI. Conclusions and Research Agenda

In this paper, we have shown that granting formal LMA to refugees that are already present in a given country unlocks a wide range of potential benefits, including increased self-reliance and standards of living for refugees, improved labor market outcomes for natives, greater tax revenues, and a more productive economy. Many developing countries do not allow refugees to formally work; changing this could enable these positive outcomes to come to fruition. In other words, once a country is hosting refugees, there will be many more benefits to letting them work than to not letting them do so. This will be especially true if international partners work with hosts to implement policies that enhance benefits and mitigate adjustment costs, which are real and serious concerns. Such policies include the freedom of movement, programs to help natives and refugees succeed in the labor market, improved access to various services for refugees, and fiscal support from donors.

A key takeaway is that the impact of refugees on their hosts is a policy choice—starting with the choice to grant formal LMA. Doing so comes with positives and negatives, and policies can enhance the former and reduce the latter.

Moving forward, more research should be conducted to better understand the impact of granting formal LMA and the policies and interventions that can be implemented to improve outcomes. We have previewed the impacts in this paper with the existing research and theory, but more is needed to develop a more thorough understanding. Several questions could guide the research agenda moving forward (we have addressed many of these questions with theory and related empirical research, but more empirical research is needed to address them directly, particularly in developing countries).

- What are the labor market effects of granting formal LMA to refugees that are already present in a country?
 - How do the effects differ across formal and informal markets?
 - How do the effects differ in countries where refugees are mostly in camps vs. already working informally?
 - How do the effects differ across subgroups of the native population?
 - How do certain policies such as freedom of movement or access to financial services influence labor market outcomes of refugees and natives?
 - What other contextual factors influence impacts (such as labor market characteristics, host country income level, etc.)?
- What are the fiscal effects of refugees in developing countries?
 - Many of the costs have been documented, but what are their fiscal contributions?
 - How do the fiscal effects change when refugees are granted formal LMA?
- How does the provision of formal LMA affect the overall welfare of natives and refugees?
 - Through what channels do these impacts mostly occur (e.g., in the labor market, through changes in productivity, changes in prices, etc.)?
 - What groups are most affected?

- What interventions are most effective at:
 - Improving the integration of refugees into labor markets in developing country contexts?
 - Helping natives adjust and upgrade following displacement?
 - Supporting vulnerable populations that are adversely affected?
- What indicators would be most useful in tracking progress towards formal LMA?
 - Which policies should be tracked?
 - Which de facto indicators are most important?
- What indicators would be most useful for measuring the effects of refugees on host populations?
- What data would be most useful for amplifying the benefits of refugees (e.g., data on skills for matching refugees to employers, data on labor shortages, etc.)?
- How can information about refugees be communicated in a way that positively affects societal attitudes, policy choices, and refugee labor market outcomes? (Discussed in section V.)
 - What type of information provision—economic or otherwise—is most influential?
 - How does the impact of information provision differ in developing vs. developed countries and in the context of immigrants vs. refugees?
 - Can information provision play a role in altering the entrenched nationalist views that seem to be driving the success of anti-immigrant politicians?
 - Can political discourse be shifted away from nationalist sentiments towards the economics of immigrants and refugees in a way that reduces the appeal of these politicians?
 - Do more favorable attitudes towards refugees lead to less labor market discrimination, improving labor market integration for refugees?
 - If the successes of formal LMA in one country are advertised, will they incentivize reform in other countries?

A number of initiatives are currently underway that are delving into these questions or creating new data to study these questions. One is the new World Bank-UNHCR joint data center, which will gather new micro data on refugees ([World Bank 2017](#)). Other initiatives include the ongoing HBS/LSMS household surveys, which have begun to incorporate refugee data into the surveys. There have also been a number of evaluations on jobs programs (cited above) but more needs to be done on this topic.

There are a number of emerging opportunities for studying these questions. In Colombia, over 440,000 newly-arriving Venezuelan refugees were recently granted the temporary right to work, bringing the total number with temporary work permits to 880,000 ([Huang and Gough 2018](#)). In Djibouti, refugees that have long resided in camps have also been recently granted formal LMA and freedom of movement ([UNHCR 2018a](#)). In Ethiopia, the jobs compact and implementation of the CRRF will also lead to increased formal LMA for refugees ([Huang et al. 2018](#)). These changes are creating excellent opportunities for investigating the many questions that need to be answered. Capitalizing on these

opportunities could lead to valuable research and policy insights that can improve our understanding of the impact of granting formal LMA and the policies and interventions that can improve outcomes.

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