

# Livelihood Impacts of Refugees on Host Communities

Evidence from Ethiopia

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## Abstract

Most refugee hosting communities are characterized by high levels of poverty with precarious livelihood conditions, low access to public services, and underdeveloped infrastructure. While the unexpected inflow of refugees might bring both constraints and opportunities for improving and maintaining local livelihoods in these communities, the understanding of these effects remains limited. Using a household level micro data set from a 2018 baseline survey of the Ethiopia Development Response to Displacement Impacts Project, this paper assesses the impact of refugee inflow on the livelihood strategies of host communities with respect to diversification and agricultural commercialization. The endogeneity of refugee inflow is addressed by exploiting differences in factors that influence refugee arrival in the host communities. Specifically, the analysis uses potential refugee inflow as an instrument, which is the product of population density and intensity of conflicts (number of fatalities per event) in the closest region of the origin country to the refugee camp weighted by the distance of the refugee camp to the closest region. The paper also constructs an aggregate index to proxy households' livelihood diversification strategies. The findings

show that refugee inflow brings substantial benefits to host communities by creating significant jobs, in which people engage as secondary occupations, and triggers an increasing demand for livestock products. Specifically, while no effect was found on diversification of activities such as a primary occupation and crop product sales, a 1 percent increase in refugee inflow leads to a 2.7 percent rise in diversification of livelihood activities as a secondary occupation and a 15.9 percent increase in the value of livestock product sales. These effects tend to be heterogeneous across refugee hosting regions and the gender of the household head: negative effects were mainly observed in Gambella region, which hosts the largest refugee population in the country, and male-headed households were more likely to benefit from the refugee presence for the whole sample. The paper identifies households' increased engagement in different livelihood activities and access to markets as a potential mechanism for the observed effects. The findings add to the growing literature on the socioeconomic impacts of refugee inflow on host communities by showing an overall positive effect on the livelihoods and welfare of receiving communities.

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# Livelihood Impacts of Refugees on Host Communities: Evidence from Ethiopia

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## 1. Introduction

We are in the midst of protracted refugee crises. According to the latest UNHCR trends report, at the end of 2020, 76 percent of refugees globally (15.7 million) were in a protracted situation (UNHCR 2021).<sup>2</sup> Most refugees reside in low-income countries, and more than eight of every 10 refugees (86 percent) live in countries within territories affected by acute food insecurity and malnutrition (UNHCR 2021a). Refugee receiving host communities also tend to be poor, experience precarious livelihood conditions and face many socio-economic challenges, such as low economic status, poor access to public services, and infrastructural development. For these communities, refugees might bring both challenges and benefits. On the one hand, refugees increase competition for natural resources (e.g., wood for energy, construction, land), public services and infrastructure (e.g., education, health, water supply), and economic opportunities (e.g., traditional livelihoods, labor employment). Refugee inflow may also affect the local market by mainly depressing wages and raising product prices (Vemuru et al. 2020). On the other hand, refugees might also bring benefits to the local communities by: (i) providing skilled and unskilled labor, potentially leading to the establishment of new firms and also improving the performance of existing firms; (ii) creating extra demand for both agricultural and non-agricultural products in the local economy, leading to further intensification and commercialization of livelihood activities; and (iii) attracting humanitarian assistance and, increasingly, development aid (Alix-Garcia et al. 2018; Maystadt and Verwimp 2014). The presence of refugees may also attract infrastructural development projects to host communities.

While these changes affect people's livelihoods – both negatively and positively – in host communities and while the overall effect would depend on the dominance of one effect over the other, our understanding of the effect of refugee inflow on people's livelihoods in host communities is limited. Hence, this paper contributes to bridging this gap by assessing the impact of refugee inflow on the livelihood strategies of host communities. The paper focuses on two main livelihood strategies at a household level: i) the diversification of livelihood activities and ii) the degree of agricultural commercialization. We measure livelihood diversification using two main variables: the degree of diversification of activities as a primary occupation and the degree of diversification of activities as a secondary occupation.<sup>3</sup> The degree of agricultural commercialization is also measured using two variables: the value from the sale of crop and livestock products. We measure refugee inflow (presence) as the number of refugees (population) in the nearest refugee camp to the household location weighted by the household's inverted distance to the camp.

The impact of refugee inflow on household livelihood strategies can be causal if there are no confounding factors that affect livelihoods in host communities when refugee inflow changes. This is unlikely as refugee flow and the location of refugee camps are not random (see e.g., Baez 2011). Refugee camps are often situated close to international borders, among others, to allow for easy repatriation of the refugees when stability is restored in their countries of origin. In addition, refugees often seek shelter in the nearest refugee camp once they arrive in the host country, which is arguably true in most hosting countries as refugees often travel on foot for

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<sup>2</sup> According to UNHCR, a protracted refugee situation is a situation in which at least 25,000 refugees from the same nationality have been in exile for at least five years in a given host country.

<sup>3</sup> Diversification of activities is calculated using the inverse Simpson diversity index. In constructing the index, we considered both agricultural and non-agricultural livelihood activities.

hours (Ruiz and Vargas-Silva 2018). Hence, to identify the causal impact of refugee inflow on livelihood diversification and commercialization, we employ a two-stage least squares (2SLS) econometric specification strategy using potential refugee inflow as an instrument. Potential refugee inflow is constructed as the product of population density and intensity of conflicts (number of fatalities per event) in the closest region of the origin country to the refugee camp weighted by the inverted distance of the refugee camp to the closest region<sup>4</sup> (i.e., the shortest distance to the border between the refugee camp and the bordering country of origin). Similar (weighted) instruments have been used in the literature (e.g., Baez 2011; Fallah et al. 2019) and proved to be an appropriate instrument to study the socio-economic impact of refugees on host communities.

Livelihood diversification and agricultural commercialization are the two main common strategies that people in low-income countries adopt to improve or maintain their livelihood and welfare. Given the prevailing under-developed insurance market in the event of shocks, households tend to pursue several income generating activities. However, potential barriers such as low asset endowment hinder households' successful livelihood diversification (Ellis 2000; Martin and Lorenzen 2016; Loison 2015). As most households in low-income countries do not have access to cash-based income earning activities (e.g., salary employment), they often sell their products (e.g., crop, livestock) in the market to make a living and meet cash requirements (school fees, buying fuel, etc.). However, due to limited access to markets and to information on market prices, the degree of agricultural commercialization is low (Newshan et al. 2018). An unexpected and sudden inflow of refugees might bring both benefits and constraints to the local economy, which might then create or shrink opportunities for livelihood diversification and agricultural commercialization. Hence, it is important to understand how livelihood strategies of people in host communities change in the presence of refugees. The current paper attempts to address whether refugee inflow expands or diminishes opportunities for livelihood diversification and agricultural commercialization.

Our findings show that refugees bring substantial benefits to host communities through creating more jobs that people engage in as a secondary occupation, and raising demand for livestock products. Refugee inflow has a positive impact on diversification of livelihood activities as a secondary occupation and on commercialization of livestock products. Specifically, a 1 percent increase of the refugees' presence<sup>5</sup> leads to a 2.7 and 15.9 percent increase in the diversification of livelihood activities as a secondary occupation and value of livestock product sale, respectively. It should be noted that this analysis is taking place during a period where refugees in Ethiopia were prohibited by law from seeking work outside designated camps. This has changed after 2019 because of the revised Ethiopian Refugee Law. These effects tend to be heterogeneous across regions and to a limited extent, vary depending on the gender of the household head. The negative effects tend to be concentrated in Gambella, a region that hosts most of the refugee population in Ethiopia and where the refugee population is as large as the population of the region. Overall, compared to women-headed households, households with a male head seem to benefit through increased diversification of activities as a secondary

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<sup>4</sup> Region refers to the administration level 1 from the Database of Global Administrative Areas (GADM). The nearest region to the refugee camp is identified as the one that has the shortest straight distance to the refugee camp among all neighboring regions in the major refugee source countries.

<sup>5</sup> As explained above, refugee presence is the number of refugees (population) in the nearest refugee camp to the household location weighted by the household's inverted distance to the camp.

occupation and livestock product sale. We identify households' engagement in different individual livelihood activities and access to market as potential mechanisms for the observed effects.<sup>6</sup>

This paper adds to the emerging literature on the microeconomic consequences of refugee presence in host communities. Existing studies have examined the impact of refugee presence or shock on several host community outcomes, including consumption and wealth (Alix-Garcia et al. 2018; Becker and Ferrara 2019; Ayenew 2021, Kadigo et al. 2022), child health (Baez 2011; Tatah et al. 2016; Wang Sone and Verme 2019), labor market participation (Becker and Ferrara 2019; Fallah et al. 2019; Ruiz and Vargas-Silva 2015), education (Bilgili et al. 2019), and gender roles (Ruiz and Vargas-Silva 2018). While the majority of these studies found a positive effect of refugee presence on local communities, there are some notable exceptions, such as Baez (2011) who documented a negative impact on child health and educational outcomes in Tanzania and Ayenew (2021) who reported a negative effect on consumption. The effects tend to be heterogeneous by observable characteristics of household in the host communities – rural residents, low skilled individuals, the poor and women tend to bear the negative consequences while relatively high skilled individuals tend to benefit (see e.g., Ruiz and Vargas-Silva 2015; 2019; Ayenew 2021). Although prior studies cover several socio-economic outcomes, to our knowledge, none have investigated the effect of refugee presence on household's livelihood strategy choices. Hence, the current paper contributes to this literature by investigating the impact of refugee presence on people's livelihood strategies in refugee host communities.

The paper is also related to the literature on the determinants of an improved livelihood (welfare) in low- and middle-income countries. The existing literature has (i) investigated the nature and drivers of poverty and poverty dynamics (see e.g., Adato et al. 2006; Naschold 2012) and (ii) emphasized understanding on the nature and dynamics of livelihood of people using household income portfolio from different activities, asset endowment of different types and contexts (see Angelsen et al. 2014; Jiao et al. 2017). While the literature acknowledges the importance of exogeneous shocks (e.g., refugee inflow, drought, land appropriation) in influencing people's welfare (livelihood) as well as welfare (livelihood) dynamics (see e.g., Wunder et al. 2014; Giesbert and Schindler 2012), the current literature tend to focus on investigating the effect of natural (e.g., drought) and policy shocks (e.g., land appropriation) rather than a shock arising from a potential large and sudden influx of people.

To the best of our knowledge, there is a paucity of empirical evidence on the nexus between refugee inflow and livelihood strategies. Fallah et al. (2019) examined the impact of Syrian refugees on employment outcomes of host communities in Jordan and documented a positive effect even though the hosts changed the type of work they engaged in, and the refugees competed with less educated individuals. Tumen (2016) and Bağır (2018) examined the impact

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<sup>6</sup>The conflict in Northern Ethiopia has caused substantial internal displacement and hindered effective delivery of humanitarian assistance to the affected populations. About 2.1 million, 250,000, and 112,000 people in Tigray, Amhara, and Afar region, respectively, have been internally displaced. As a result of the conflict, two refugee camps in Tigray (i.e., Hitsats and Shimelba) were destroyed in January 2021, and thousands of refugees that sheltered in the camps fled. UNHCR, together with the Ethiopian Agency for Refugees and Returnees Affairs (ARRA), has been working to locate the refugees. The two institutions have also been facilitating the relocation of thousands of Eritrean refugees in three camps (i.e., Mai Aini and Adi Harush in Tigray region and Berhale in Afar region) (UNHCR 2021b). These substantial internal displacements and changes in the refugee situation could affect our findings in Afar and Tigray region.

of Syrian refugees on labor market outcomes in Turkey and reported that refugees negatively impacted the outcomes of low-skilled and less-experienced workers and workers participating in the informal labor market. Taking the case of Rwandan and Burundian refugees in Tanzania, Ruiz and Vargas-Silva (2015) investigated the effect of refugee inflow on the likelihood of adult's outside employment (i.e., wage and salary employment activities) and found a negative impact. Using the same data set as in Ruiz and Vargas-Silva (2015), Ruiz and Vargas-Silva (2018) made intrahousehold comparison of time allocated to farming, firewood, and water, outside employment and schooling activities and found that the refugee inflow decreases the likelihood that women engage in outside employment although the results tend to vary depending on the baseline literacy and numerical skills (prior to the arrival of refugees). Maystadt and Verwimp (2014) investigated occupation-differentiated welfare impact of refugee presence on host communities in Tanzania. They documented a positive impact on the welfare of host communities, which is heterogeneous across host communities' occupation – agricultural wage workers are worse off while self-employed agriculturalists are better off. Kadigo et al. (2022) also reported occupation differentiated welfare impacts of refugee presence in Uganda. Using the case of Congolese refugees in three Rwandan camps, Loschmann et al. 2019 found that living closer to refugee camps increases wage employment, asset ownership and women's engagement in business activity with no effect on subjective wellbeing. In a meta-analysis of 59 studies on the economic impact of forced displacement covering 19 major episodes of forced displacement crises, Verme and Schuettler (2021) confirmed that people in the informal market, and low skilled, young, and female workers are the ones most affected, in terms of losing employment or wages. They also found that the negative effect of refugee presence on host communities verifies in the short-term and tends to dissipate with time. There is also an extensive literature on the effect of migration, particularly voluntary, on labor market outcomes in host communities (see e.g., Borjas 1999; Card 2005; Dustmann et al. 2005). However, this literature tends to focus on high-income countries and has mixed conclusions on the labor market outcome of migration (Longhi et al. 2005; Dustmann et al. 2015).

This paper departs from existing studies in two ways. First, most of the studies only consider a subset of occupation or livelihood activities (mainly employee-based) and do not provide a full picture of the livelihood impacts of refugee presence on host communities. We consider an exhaustive set of livelihood activities in which households (individuals) in the impacted communities may engage.<sup>7</sup> Second, prior studies tend to focus on the different livelihood activities separately (i.e., whether the individual adult members or the household engage in each of the livelihood activities).<sup>8</sup> Therefore, they are unable to infer whether households are diversifying or specializing their livelihoods or are engaging more on the commercialization of activities.<sup>9</sup> The current paper goes beyond the allocation of labor to individual (specific)

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<sup>7</sup> As the data we used does not have a good welfare indicator (e.g., income, consumption, and assets), we could not explore the welfare impact of refugee inflow.

<sup>8</sup> We examined households' engagement in individual livelihood activities as a mechanism for household livelihood strategies.

<sup>9</sup> Generally, households tend to diversify their livelihood when facing negative shocks (e.g., conflicts, droughts) to minimize risk (Ellis 2000a, b). In the case of refugee inflow, households may either diversify or specialize as refugee inflow could be both a negative shock (through increase competition for resources, services, and employment) and a positive shock (through creating opportunities, such as high demand agricultural products, provision of cheap labor).

occupations and looks at household strategies in terms of the degree of occupation diversification and commercialization.

## **2. Refugees in Ethiopia**

Ethiopia has a long history of welcoming refugees fleeing from conflicts, political repression, forced military service, drought, and conflict-induced food insecurity in neighboring countries (Carver 2020; Abebe 2018). In the late 1980s, the country established Hartisheik and Itang refugee camps, among the largest in the world, to host refugees from Somalia and Sudan, respectively. Ethiopia is the third largest refugee-hosting country in Africa and refugees are primarily from South Sudan, Somalia, and Eritrea (Vemuru et al. 2020; Nigusie and Carver 2019).<sup>10</sup> Most of the refugees are in Gambella, Benishangul-Gumuz, Somali, Afar and Tigray regions (see Figure 1). Most of the refugee camps are located close to the international border and in the least-developed areas of the host regions (Vemuru et al. 2020). At the time of data collection (in 2018), the majority of refugees were living in 26 refugee camps, depended on humanitarian assistance and had limited access to services and job opportunities. A significant number of refugees (mainly from Eritrea and Somalia) also live in Addis Ababa with their own arrangements and networks (Nigusie and Carver 2019).

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<sup>10</sup> At the end of January 2022, Ethiopia was the second largest refugee-hosting country in Africa (830,305 refugees in total) with 99 percent of them originating from four countries, namely, South Sudan, Somalia, Eritrea, and Sudan.