

THEMATIC SERIES

The ripple effect: economic impacts of internal displacement

This thematic series focuses on measuring the effects of internal displacement on the economic potential of IDPs, host communities and societies as a whole



ASSESSING THE ECONOMIC IMPACTS OF INTERNAL DISPLACEMENT

Conceptual Framework

JUNE 2018

INTRODUCTION

The large numbers of new and cyclical displacements reported each year affect the achievement of economic and social development goals. Protracted displacement is increasingly becoming the norm and, combined with regular new displacement, it increases the vulnerability and exposure of already marginal populations and overstretches governments' capacities to respond. As such, internal displacement is both a driver and outcome of a steady accumulation of risks, undermining progress on the 2030 Agenda, the Sendai Framework, the Paris Agreement, the Agenda for Humanity, the New Urban Agenda and their related national and regional strategies.

It is imperative that the current focus on international emergency response and humanitarian aid be complemented with longer-term, country-led interventions, but the case for significant investment in risk reduction, durable solutions for those displaced and the prevention of new displacement is yet to be made. Uncovering the hidden cost of internal displacement in terms of the economic development of affected people, countries and regions, and estimating the return on investment in reducing displacement for national governments and their partners would help to make that case.

Past studies have assessed the impact of international migration and refugee flows on work and other singular dimensions such as health or education. Others have attempted to assess the socioeconomic impact of cross-border or internal displacement at the local level, mostly using qualitative approaches.

No one, however, has made a systematic, quantitative estimate of the overall impact of internal displacement on an economy, and doing so requires new concepts and methods. This document introduces a new conceptual framework to assess the economic impact of internal displacement comprehensively across dimensions, time, countries and displacement contexts.

WHAT IS INTERNAL DISPLACEMENT?

Internal displacement refers to the forced movement of people within the borders of the country they live in, and it affects many millions of people each year.¹ IDMC recorded 11.8 million new internal displacements associated with conflict or violence in 2017, and 18.8 million associated with sudden-onset disasters such as tropical cyclones, floods and earthquakes.² Millions more have been forced from their homes by development projects and slow-onset phenomena such as drought, climate change impacts and environmental degradation. South and East Asia tend to be the regions most affected by sudden-onset natural disasters, while Sub-Saharan Africa and the Middle East record the highest numbers of people displaced by conflict and violence.

Internal displacement encompasses a wide range of situations that vary significantly in scale and severity. Some people move

suddenly and in large numbers if the area they inhabit becomes a battlefield for rival factions in a conflict, or is devastated by a major disaster. Others leave in a trickle after years of withstanding the cumulative impacts of violence, criminality or drought, or because they are not longer able to access basic services or sustain their livelihoods. Some are evacuated in a relatively planned and orderly manner by public authorities before a natural hazard strikes. Others are forced to move to make way for the construction of dams, highways or nature reserves.

Some will have their lives threatened, their safety endangered and their mental health affected, while others remain relatively secure. Some will receive humanitarian assistance, financial aid or compensation from their government or other institutions, but many more are left to fend for themselves. Their displacement may last a few days or weeks, particularly in the case of planned evacuations before a sudden-onset hazard, but in other circumstances it may last for years or even decades. All of these situations affect not only the safety and wellbeing of the people displaced, those who depend on them and their host communities, but also local and even national economies, both directly and indirectly.

HOW DOES INTERNAL DISPLACEMENT IMPACT AN ECONOMY?

The impacts of internal displacement on an economy can theoretically be either positive or negative, and sometimes both at the same time. This depends largely on the perspective taken and whether one considers who benefits or who pays. A drop in wages in a host area caused by the sudden arrival of additional labour in the form of internally displaced people (IDPs) is positive for employers but negative for local workers. An increase in rents in a host areas is similarly good for landlords but bad for local tenants. A comprehensive assessment should consider both sides of these coins, but evidence shows that internal displacement overall represents a burden on an economy, particularly when it is not well planned or managed, as tends to be the case during crises.

The costs of internal displacement arise from a wide range of impacts, including on markets for labour, goods and services, and across a range of sectors. There are also long-term costs associated with deteriorating physical and psychological health, social cohesion and changing cultural and group identities. Some of these latter costs that involve a changing social, economic and political landscape may ultimately be impossible to assess.

Internal displacement affects economies in many overlapping and interconnected ways. Its impacts may be direct, when a municipality rents out hotel rooms to accommodate evacuees during a tropical cyclone; or indirect, when the same municipality has to reduce financial support for new entrepreneurs because it has had to reallocate some its budget to deal with the disaster. They may be felt in the short term if the capacity

of existing emergency rooms in a host community has to be increased to care for newly arrived IDPs, or in the longer term, if investment in new hospitals are needed to meet the needs of the growing population when displacement becomes protracted. Some impacts are tangible, when crops and livestock are lost. Others, such as months of lost education, are intangible. They may affect individuals, including IDPs, their families or their hosts, but can also disrupt the way society functions, in the communities of origin or destination.

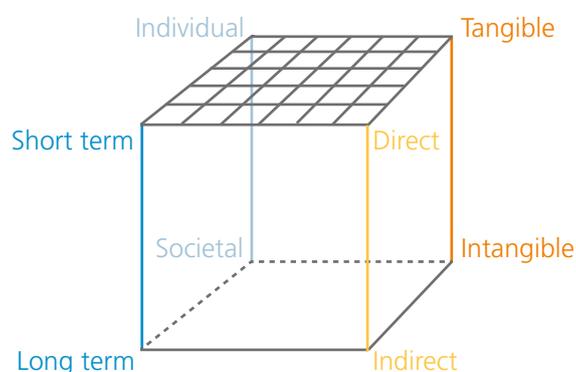


Figure 1: Different types of economic impacts

Previous efforts to analyse the costs of internal displacement have looked largely at human and social impacts and have mainly adopted qualitative or mixed-method approaches. The few quantitative assessments that exist focus on short-term, direct and tangible costs felt at the individual level - the cross-hatched area of figure 1 - by adding up costs such as the provision shelter, food and emergency healthcare to IDPs.

Longer-term, indirect and intangible costs, those felt at the societal level, have yet to be estimated. The absence of comprehensive quantitative assessments, including the costs of lost opportunities such as reduced productivity, diverted development investments and deteriorating social stability, means that the real costs of internal displacement remain hidden.

WHO BEARS THE COST OF INTERNAL DISPLACEMENT?

Internal displacement translates into significant financial costs for individuals, households, communities of origin and destination, the private sector, local and national governments and humanitarian aid agencies and international donors. This is illustrated by anecdotal and local case studies, but strong evidence at the national and regional level is lacking.³

The costs associated with the initial phase of displacement, when people are first forced to flee, include the provision of shelter, food, healthcare, transport and other basic services to those affected. Such costs are often borne by IDPs themselves, host communities and humanitarian organisations, but they should be considered contingent liabilities of local and national governments. Governments are responsible for acting before,

during and after shocks to reduce their impact on households, the economy and public operations. They are in a position to invest in prior risk reduction to reduce the post-crisis burden for all concerned, but many do not.

Longer-term costs can be understood in terms of lost opportunities, or the economic potential, of IDPs and their host communities. The physical and psychological trauma, lost assets and reduced income, consumption, production and tax revenue associated with internal displacement also affect the broader economy. Ultimately the burden is born by society as a whole.

ASSESSING THE ECONOMIC IMPACT OF INTERNAL DISPLACEMENT

Assessing the economic impact of internal displacement in a transparent and methodologically sound way will demonstrate how it damages local and national economies, particularly when it is unplanned or badly managed, and that investing in reducing its scope and intensity makes economic sense. The cost of displacement will become fully apparent, as will the trade-offs that need to be weighed up by decision-makers before, during and after crises. Development and humanitarian planning will become risk-informed.

Our proposed conceptual framework adopts a much broader approach than anything attempted to date. It not only looks at the cost of humanitarian aid and emergency responses, but also considers longer-term consequences on the economic potential of individuals and societies. The quantitative results from such an assessment will still not provide a comprehensive measure of the economic impact of internal displacement, however, because many costs are not currently measurable and will only become so through in-depth research and improved data.

As such our estimates will be conservative, but they will still serve as a solid starting point for more in-depth and granular assessments of the economic impacts of different displacement situations.

WHAT ARE THE KEY DIMENSIONS TO CONSIDER?

Previous studies have highlighted seven major dimensions through which internal displacement has a potential impact on an economy: housing and infrastructure, livelihoods, social and cultural, education, health, security and the environment.⁴

If displacement is well-planned and managed, some of these dimensions should actually improve as a result. The security of people evacuated from an area at risk of a disaster should improve in their new location. People displaced to make way for a development project should, in theory at least, have

equivalent or even better economic opportunities in their new community.

In most cases, however, IDPs and often host communities become more food insecure and have less access to health-care, education, housing and work. Their social networks are disrupted and there is often an increase in violence and insecurity. All of these dimensions are inter-related, and all of them affect the physical and mental health of those affected, and reduce their economic potential in the short and longer term.

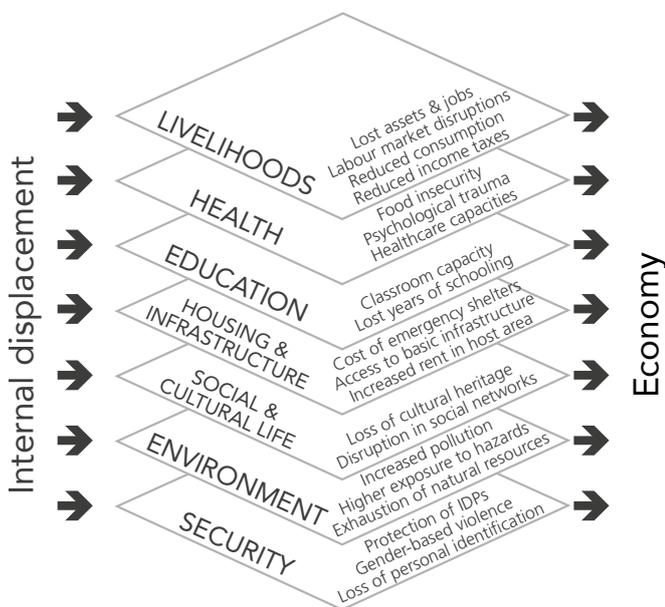


Figure 2: Economic impact dimensions

Figure 2 illustrates our approach to assessing the short and longer-term economic impacts of internal displacement on IDPs, host communities and communities of origin, the private and public sectors and humanitarians in each of the key dimensions.

PRACTICAL OPTIONS FOR QUANTITATIVE ASSESSMENTS

Quantifying the economic impacts of internal displacement is not without challenges, particularly when it comes to differentiating them from those of disasters, conflicts or other drivers of displacement. A conflict may have repercussions for an economy in terms of destroyed infrastructure, lost direct foreign investments and a depleted workforce and consumer base. These may help to drive displacement, but they differ from the impacts of displacement itself.

One approach to quantifying economic costs is counterfactual analysis, in which actual data is compared with projections of what the data would have been without internal displacement. This, however, is problematic in many ways. There is often no baseline data available for the period directly before displacement, nor is it possible to ensure that the difference in the actual and projected data is the result of displacement rather

than other factors at play during the same time period, such as a global economic crisis, climate change or new technologies. Actual and counterfactual GDP comparisons can also be misleading. In times of war, for example, the production of weapons can lead to an increase in GDP.⁵ The same is true of reconstruction work following a disaster.

Another approach might be to run a gap analysis, in which a country's national averages for indicators such as life expectancy, employment rate and years of schooling are compared with the corresponding averages for the internally displaced population. Here again though, other factors may explain the differences, when for example IDPs come from a disadvantaged ethnic group or a less developed province. This approach also requires data disaggregated by displacement status, which is rarely available, and when it does exist it tends not to be comparable across countries because it is collected using different methodologies.

Statistical models are also an option. Different models will provide different perspectives and specific insights. The system dynamics approach can be used to describe the relationships between various dimensions and indicators and their impact on internal displacement. The disability-adjusted life-year approach can be adapted to account for lost productivity caused by displacement. The multiplex network approach focuses on the inter-connectedness of national economies and the effect of displacement on the entire system. Risk-based economic models can help to evaluate the potential economic impacts of displacement crises, and the costs and benefits of policies intended to reduce those impacts.

WAYS FORWARD

This conceptual framework will form the basis for the research on the economic impacts of internal displacement that we and our partners will develop and conduct over the coming years.

Three priority areas emerge, which set the boundaries for the first months of the research and will further inform the framework itself.

First, we will endeavour to assess the impacts of existing displacement. This will highlight both the cost of long-term and protracted displacement and the positive contributions that IDPs make to their host communities and economies. The early phases of this work will be time-intensive, but relatively clear-cut, and will aim to arrive at rough, top-line estimates of costs in monetary terms at the city, country and global level.

Second, we will seek to estimate the cost of new displacement and displacement risk in order to illustrate the financial burden of recurring displacement on national budgets and highlight the additional costs associated with future risk, which in turn may have an impact on national spending and development gains.

Third, modelling the different ways in which internal displacement affects an economy and the relationship between those dimensions will not only better reflect complex realities, but will also provide first insights into policy options. By identifying impact chains, modelling agent behaviours and system dynamics, findings from the first two areas of work can be put into country and city contexts to deliver results relevant to decision-makers and policy development.

We have started to work on these three areas, drawing on a multitude of quantitative and qualitative research methods and approaches to assess the impacts of internal displacement across a range of situations. Given the size and complexity of the task in hand, we invite interested experts and institutions to contact us for future collaboration.

NOTES

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Cover photo: Internally displaced children study at a community based school in Nangarhar province, Afghanistan. The majority are from families originating from Kunar province but are unable to return because of ongoing conflict. Credit: Andrew Quilty/Oculi for NRC, November 2014

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