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Refugee Camp Economies

ERIC WERKER

Harvard Business School, Soldiers Field, Boston, Massachusetts 02163, USA
ewerker@hbs.edu

This paper describes the economy of a refugee camp. Key distortions to the economy of Kyangwali Refugee Settlement in Uganda are noted and the findings are used to construct a generic model of a refugee camp economy. Camp economies are influenced by host country policies, such as restrictions on refugees' movement and work, as well as by the physical and economic isolation of the site. Moreover, market outcomes interact with the nature of humanitarian assistance and the special demographic composition of the refugees to determine the prices and quantities that characterize the market. An awareness of the dynamics of the refugee camp economy has important implications for practitioners and scholars alike.

Keywords: refugee camps, refugee economics, refugee camp markets, refugee welfare, livelihoods

Introduction

In 2004 there were over 3.9 million refugees and internally-displaced persons (IDPs) residing in some 300 camps overseen by the United Nations High Commissioner for Refugees (UNHCR 2005). UNHCR's operating budget was nearly US$1 billion (UN 2004), much of which was spent on assisting refugees and IDPs in camps. If these persons produced the same as typical citizens of a Zambia or a Senegal, their Gross Domestic Product would be on the order of US$4–6 billion, measured in purchasing power parity. Yet, for the most part, these populations live in the most extreme examples of the welfare state. Often this makes sense: having recently escaped horrendous circumstances, travelled hundreds of miles and in poor health, refugees ought to be taken care of by the international community. More often, however, the unique distortions imposed by the camp regime stifle the productivity and thus the economic welfare of refugees, causing them to live in poorer conditions than is necessary.

The purpose of this paper is to identify the economic distortions—positive and negative—that affect refugees or IDPs living in camps and to outline a simple framework within which the economy of a refugee camp can be understood. In doing so, it should help to explain the precarious economic positions of most camp refugees as well as offer some basic intuition to practitioners who are the *de facto* managers of these economies. The paper was written from October through December, 2005, and revised in July 2006. The second section draws heavily from the author's unpublished Refugee Law Project Working Paper 7, Kampala, Uganda. The fieldwork in Uganda was conducted during August 2002.

The Economy of a Refugee Camp

There is no typical refugee camp economy, but a broad picture can be painted, illustrated with data gathered from previous descriptive research on refugee camp economies.[1] Refugee settlements may be more like cities than camps (Pérouse de Montclos and Kagwanja 2000), for settlement economies tend to be rich and varied. The primary economic actors are the refugees, many of whom come with productive capabilities, access to commercial networks and capital of some sort. There may also be nationals living among the refugees, taking advantage of business opportunities in the camp or posing as refugees to benefit from humanitarian aid. Humanitarian agencies and the host government supply private and public goods to the refugees, often including food, medicine, shelter, sanitation, education and security. Refugees achieve their livelihoods from agricultural production, wage labour, small businesses, outside remittances, lending/investing and humanitarian rations. Typically, a camp will have one or more trading centres where small businesses are concentrated in addition to organized markets for trading in locally-produced and imported goods.

No camp is totally closed to traffic in goods, capital and people; as such, the markets in the camp are connected with domestic (and therefore international) markets through refugee and national traders. Moreover, given the refugees' connection with their home country, the camp economy may have strong links to markets in the refugee-producing country. Finally, due to the nature of law enforcement within the camp and the composition of the refugee population, the camp may also have strong ties to grey and black markets in the host country and abroad—a manifestation of the 'transborder shadow economies' that Duffield (2001) describes as characterizing the political economy of post-Cold War conflict.

Before proposing a framework describing the refugee camp economy, this paper offers a study of the key market distortions present in the Kyangwali Refugee Settlement in Uganda. Many of these distortions extend to the economies of refugee camps more generally. With a better understanding of camp economies, an appreciation of some of the disappointing conditions and complex aid dilemmas in refugee camps can be gained. This understanding should contribute to the literature on refugee sustainable livelihoods (e.g. Scoones 1998; Jacobsen 2002) and on war economies more generally (e.g. Smock 1996; Kaldor 1999; HPG 2003).

This paper proceeds as follows. The second section describes the economy in Kyangwali, focusing on key distortions relative to the surrounding economy. The third section then generalizes these distortions and proposes a model within which any camp economy can be understood, discussing some 'smart' interventions. The fourth section concludes, returning to the puzzle of the Afghan refugees.

Market Distortions in Kyangwali Refugee Settlement

Uganda is an ideal place to conduct a case study of refugee camp economies as it tends to give refugees more choice on their settlement relative to many other countries in Africa. Refugees in Uganda can be found both in camps as well as self-settled, and though the overall refugee policy is liberal relative to much of Africa, there are nonetheless restrictions that refugees—especially those living in camps—face. Amongst camps in Uganda, Kyangwali (at the time of the field research in 2002) was one of the least problematic from an economic perspective, possessing ample land and a suitable climate for agriculture. This implies that whatever distortions affect the economy in Kyangwali should be amplified in more 'typical' refugee camps.

The author, along with a team of researchers from the Refugee Law Project in Kampala, undertook field research in Kyangwali in August of 2002. The purpose of this research was to understand the infringements on refugees' economic freedoms and to disseminate the findings to the community of governmental and non-governmental actors who maintain and shape the refugee-hosting system in Uganda. The data gathered during this trip will be used in the present article to establish some 'stylized facts' about the nature of refugee camp economies in order to understand camp economies outside the Ugandan context.

Kyangwali Refugee Settlement is located in Hoima District in Western Uganda on 91 square kilometres of land, approximately 80 kilometres from the town of Hoima. According to UNHCR's information office, in July 2002, 6,852 refugees were living in Kyangwali, including 5,323 Congolese, 1,384 Sudanese, 112 Rwandese, 20 Kenyans, 10 Burundians and 1 Ethiopian. Of these, 54 per cent were male. Previously, the land had been home to the refugees displaced from the conflict in Rwanda beginning in 1960. The majority of these repatriated in 1994–1995, and the camp was vacant until 1997 when the crisis in Eastern Democratic Republic of the Congo (DRC) flared up.

With its location far from the Sudanese border, the settlement became a destination for Sudanese refugees who were considered security cases. Many of these were refugees awaiting resettlement in a third country; according to the Ugandan official in charge of the settlement, Kyangwali acquired the reputation of being a 'protection' or 'resettlement' camp.

The sole implementing partner conducting all the programmes in the settlement is Aktion Afrika Hilfe (AAH). The land in Kyangwali is plentiful (the settlement had housed several times as many refugees during the height of the previous refugee influx) and fertile. The AAH administrator explained that when refugees arrive, they are given a package of non-food items, including farming and cooking equipment, as well as a tarp and blankets. In addition to receiving a plot of land and seeds to plant, the new arrivals receive from two to four seasons of food rations. The refugees also receive free health care, primary education, water and access to community service workers and income-generating programmes.

The economy in the settlement is fairly complex. Incomes are produced through a variety of means. Most refugees are either engaged in agricultural production or are receiving food rations from AAH. A minority of refugees have businesses in the settlement, ranging from small stalls at the weekly market to shops or teahouses in the main trading centre. In most cases, the refugees acquired the capital to start these businesses from goods or money brought from home; loans (including from AAH, but also from one another); own-labour production; or remittances from abroad. Still some refugees rely mostly on remittances; this is probably more prevalent in Kyangwali than in other settlements because of more frequent connections with third countries through the higher rates of resettlement.[2]

The settlement has, or is close to, several weekly markets. The markets themselves are humble, containing agricultural products in small quantities; imported goods like matches and dishware; and some processed products from the settlement such as fried breads and alcoholic brew. There is also a trading centre with a couple dozen shops selling grains, imported goods, sodas, beer and cigarettes. Regular trucks come from Hoima supplying these shops; in addition, traders from Hoima and as far away as Kampala and Arua come during harvest time to purchase the agricultural production of the refugees.

Policy Distortions

As in other countries, refugees in Uganda face a set of restrictions that ordinary citizens do not. These restrictions, particularly related to movement and employment, produce important distortions for the economy of Ugandan refugee camps.

Restrictions on movement. In order to travel outside the settlement, refugees require a permit issued by the settlement commander. This procedure, perhaps justifiable in the interests of national security, hinders the economic activity of the refugees by: (1) preventing them from participating in more lucrative markets, (2) increasing uncertainty for participation in outside markets and (3) increasing the time costs of participating in outside markets.

A refugee who has produced a sack of beans, for instance, has four options to sell the produce. She may sell the sack to a wholesaler in the settlement or outside the settlement, or she may sell small quantities from the sack in the settlement or outside the settlement. The bureaucratic restrictions on travel—namely, that permits longer than a couple of days are difficult, in practice, for the refugees to obtain—prevent most refugees from selling their beans in small quantities outside the settlement. Yet it is this method, perhaps in the public market in Hoima, that is often the most profitable for individual farmers. As one refugee commented, 'We can get permits to leave the settlement and sell our produce in Hoima, but the duration of the permit is limited to a few days. This makes it difficult to sell all the produce.' For farmers and non-farmers alike, the uncertainty of market access prevents them from engaging in any useful planning. A Congolese man sums it up:

> To go to Hoima, we need to get a permit from the camp commander and sometimes he refuses to give the permit. I don't know why he refuses the permit. Sometimes he gives, sometimes he refuses. For us who aren't farmers, that's a problem—it's a risk.

The costs of uncertainty are compounded by simple transaction costs, in the form of waiting and inflexibility.

To acquire a permit, refugees must visit the settlement commander's office on one of two scheduled days each week. The rigidity of this system—effective from a narrow managerial standpoint, yet inefficient from an institutional perspective—increases the 'costs' of participating in outside markets. First, refugees must travel from their homes to the office, a trip that could take over an hour. Second, refugees must wait at the office to see the commander. Third, refugees must have the foresight to plan ahead when exactly they will require access to an outside market. As described by a refugee: 'Getting a permit to leave the settlement is a problem since the camp commandant issues permits only two days a week. This creates delays in selling our produce.'

The restrictions are not limited to interactions between the settlement economy and the external economy. Indeed, the business climate inside the settlement is affected. This comes from the nature of an entire population who cannot freely interact with the outside. It seems logical that such a community would not develop in the same manner as an open community. One refugee who arrived in Kyangwali with capital from his job in Sudan had chosen to run a shop as opposed to some other business: 'Other businesses would involve going up and down. We have to design a business that is consistent with the protection regulations.' Indeed, in all of the research team's time in Kyangwali, we did not come across any refugee business that involved more 'going up and down' than one man on a rented truck with some sacks of produce. Yet this can partly be explained by policy distortions on employment for Kyangwali residents.

Restrictions on work. If a refugee wishes to work outside the settlement, one of two additional permits are required beyond the travel permit. An AAH official explained that in order to work or run a business outside the settlement, refugees need to obtain a *work permit* from the immigration offices of the Gvernment of Uganda in Kampala. To obtain this permit, refugees must first obtain a travel permit from the settlement commander as outlined previously, travel to Kampala, obtain the work permit and travel back to the settlement before the travel permit expires.

These permits are, in practice, required in order to work in the formal sector outside the settlement. Even in the informal sector, a hopeful refugee trader describes the need to have a *trading licence*: 'The price of maize is better in Hoima but the problem is that I need a trading licence to sell produce in Hoima. Without it, the officials there will seize my produce regardless of the fact that I am a refugee.' In the formal labour market, or in the monitorable informal sector, refugees without permits are excluded from positions for which they would otherwise be qualified.

The cost of obtaining a work or trading permit is not solely the result of bureaucratic delay. To be sure, the process can be expensive as well. If one adds up the transportation costs to and from Kampala (around 14,000 Ugandan shillings each way), the cost spent waiting and searching in Kampala (at least USh20,000), and forgone agricultural labour in the settlement (say USh5,000), the price would certainly exceed USh50,000 (approximately US$28). To get a sense of the significance of this amount, the typical farming refugee with whom we spoke made around USh45,000 from selling a season's worth of produce. Moreover, travelling to and from Kampala does not guarantee a work permit. Nor does the USh50,000 include the cost of the work permit itself which, according to an immigration official, costs USh300,000. Thus, the work permit—already made inconvenient by bureaucratic channels—is prohibitively expensive to many refugees. According to one young Sudanese man living in Kyangwali: 'I tried to get employment as a teacher but failed because getting a work permit is costly and difficult.'

Political representation and taxation. Even though the refugees possess a political institution mirroring the form of the local government's system, the Refugee Welfare Council (RWC), nearly all the refugees in Kyangwali with whom we spoke felt remarkably politically disempowered. As one refugee said, 'There is no freedom of association or speech.' This acute perception of political disempowerment seems to have stemmed from a number of politically active refugees having been recently relocated to other refugee settlements. We spoke with many remaining refugees who expressed fear of being transferred out of the camp if they were accused of 'meddling' in politics.

These political restrictions mean that refugees are unable to effect changes in the institutional environment that can benefit them economically. There is potential for multiple small changes that together would have a noticeable positive impact on the refugees' economic situation, yet such incremental change is effectively discouraged by virtue of the fact that the costs of political participation—potentially being expelled from the camp—are so high. It may be this lack of participation that explains a number of inefficient taxes levied on refugees that have greater potential for embezzlement than for community improvement.

We identified three types of taxes that were being levied on the economic activity inside the settlement. The first type was a market participation fee for market days held inside the settlement; approximately USh200 per seller per market day was being paid, supposedly to the RWC. The second type apparently also went to the RWC. This taxed the traders a certain amount per bag of agricultural produce that they had purchased from the refugees, and was administered upon the lorry's departure from Kyangwali. The third type of tax was an annual fee of USh10,000 on each business being run inside the camp. According to the settlement commander, this 'licence fee' was being collected by the mayor of the business community, and it purportedly allows the business community to maintain the trading centre, etc., though the research team was unable to find any evidence of productive expenditures.

Adding to these policy distortions, refugees in Kyangwali are hindered by a small and isolated internal economy.

Isolation Distortions

The refugees' isolation in Kyangwali has far-reaching effects on their welfare. There are several channels through which this isolation restricts their economic freedoms. The more than 80 kilometres of distance to Hoima creates high transportation costs and information costs. These contribute to a smaller internal market and inferior terms of trade for the refugees, where the latter are driven by monopsonist (single buyer) behaviour on the part of the produce buyers and monopolist (single seller) behaviour on the part of the goods sellers.

Transportation costs. Though the road between Kyangwali and Hoima is well maintained, the sheer distance makes transporting goods or people between the two places extremely costly. We were unable to learn of a refugee living in the settlement who owned a car. The shared-taxi service between Kyangwali and Hoima costs approximately USh4,000 per passenger; thus, a round trip would cost USh8,000, or 40 per cent of one month's rent of a typical shop in the trading centre. Clearly, then, the typical shop owner will not be able to travel personally to collect his merchandise; for refugees importing merchandise into the settlement through Ugandan middlemen, the transportation cost of goods is not insignificant. For instance, according to a refugee shop owner, a crate of 24 sodas costs USh1,000 to be delivered from Hoima to Kyangwali, over 8 per cent of the retail price.

One enterprising refugee bought maize and beans in the settlement, paid a national to transport the sacks to Hoima, then resold them there.

He was able to purchase beans at USh20,000 per sack and sell them in Hoima at USh25,000, for a difference of USh5,000 per sack. However, USh3,000 per sack were paid to the Ugandan middleman for transportation cost, leaving this refugee with USh2,000 per sack. Considering the difficulty and uncertainty of obtaining a travel permit and the risk of being caught by Ugandan authorities for not possessing a trading licence, this business was hardly lucrative. All in all, transportation costs resulting from the physical isolation of the settlement were a real barrier keeping the refugees from participating in external markets.

Information costs. The physical isolation of the camp also resulted in higher costs of gathering information about the external economic situation. As the typical shop owner is unlikely to purchase his own merchandise in a market town, he will not be able to learn about other prices, new goods or alternative suppliers. Refugee labourers looking for work are less likely to find out about opportunities without paying the transportation cost of leaving the settlement.

The information costs affect farmers as well as shop owners. Without knowing which crops are likely to fetch higher prices at harvest, which fertilizers (and quantities of fertilizer) are most effective, or who is growing what, refugees are hindered in their efforts to maximize the profits from their agricultural production. Such reasoning may partly explain the twin observations that: (a) many of the refugees we spoke with could not get more than USh3,000 per 100 kilograms of maize (less than US$2) from the last harvest when other crops fetched over USh20,000 per 100 kg sack, and (b) nearly all farming refugees grew maize. Every Kyangwali farmer seems to have bet with a loser, and lost.[3] As one Congolese put it: 'We don't know the information about the exterior; moreover, we do not have the means to purchase transport to see [the prices outside the settlement] for ourselves. The problem is that we don't have enough contact.'

Market size. Economists since the time of Adam Smith have recognized the benefits of market size (1998: 26). Larger markets allow people to specialize in the trades that they are best at, instead of having everyone grow their own food, build their own houses, grind their own grain and mend their own clothes. Isolating a market is effectively equivalent to making it smaller. And if the market is poor and capital-starved to begin with, its isolation and small size will prevent its participants from specializing, which reduces overall productivity and purchasing power. The settlement's small market size also has ramifications for the internal labour market, whose outcomes are inferior for two reasons. One, the market size is smaller, so productivity and thus wages are lower. Two, what professional jobs do exist within the settlements naturally fall under the settlement's main employer: AAH. Though there are qualified refugees living in Kyangwali, AAH does not remunerate those refugees it does employ at professional wages. A Congolese social worker, for example, received USh30,000 per month while his Ugandan supervisors were earning several times that.

Terms of trade. Terms of trade, in this situation, refer to the relative prices of the goods produced by the refugees but sold to those outside the settlement, and the goods produced outside the settlement but consumed by the refugees. The transport costs, information costs and small internal market combine to produce a situation where the refugees in Kyangwali depend on a small number of traders from Hoima and Kampala to buy agricultural produce from the refugees and to sell goods to the refugees. Due to the transport costs and small market, trade will tend to be concentrated in the hands of a few traders, creating situations that are ripe for discriminatory pricing. On both the purchasing of imported goods and the selling of settlement-produced goods, this weakens the refugees' terms of trade, effectively decreasing the value of their labour inside the settlement.

In Kyangwali, because there are only a few traders selling the refugees matches, soap and dishware, the refugees have to pay more than they would buying from wholesalers in a competitive market such as Hoima or Kampala. Even if the traders do not specifically collude to try and cheat the refugees, such a market can sustain higher prices much more easily than in a city with many wholesalers. Likewise, with only a few buyers purchasing the maize and beans grown by the refugees, the refugees will get lower prices for their produce than they would get if they were in a more competitive market.

A 45-year old Congolese shop owner in Kyangwali (with no formal education) demonstrated her grasp of the situation:

> Few traders come in from Hoima. They hike the price—they are not fair in pricing their stuff. They always like to take a lot of produce and when we compare the exchange with them it's unfair. They are doing it to us because we don't have means of looking for other markets.

This woman is essentially summing up this paper's descriptions of market distortions in Kyamgwali thus far. Refugees face restrictions to movement and to work, which keeps them in the settlement. Once in the settlement, they are isolated from other markets because of transportation and information costs. This isolation, combined with a low level of capital, results in a small local market and exploitative links with the outside market.

Beyond the distortions due to Ugandan policy and physical isolation, the camp economy is distorted by the identity of its economic actors.

Distortions Related to the Identity of the Refugees

As mentioned previously, Kyangwali has a high incidence of refugees with legitimate security concerns. Many of these view the settlement as a secure place, and see the towns of Uganda as potentially threatening. One Sudanese woman places this insecurity at an equal level of importance with the bureaucratic difficulties of travel: 'The problem of my insecurity makes me not to move around.' Another Sudanese refugee, a Sudanese People's Liberation Army (SPLA) deserter, had specific security fears: 'We are worried that if we go to Kampala and other major towns to sell our produce at favourable prices, the SPLA will abduct us.'[4] This refugee highlights the link between physical insecurity and market distortions.

In addition to security fears, there may be linguistic barriers to refugees. As the vast majority of the refugees in Kyangwali are from Francophone countries, those with professional qualifications may not find a market for their skills in Uganda. Even the leaders of the Congolese refugee community were uncomfortable expressing themselves in English. Moreover, few of the refugees speak the local languages in Hoima. Most do find common languages, such as Kiswahili, that they are able to use to communicate with some Ugandans, but on the whole these linguistic differences create barriers to finding both formal and informal employment in the hosting area, and hence lead to different economic outcomes inside the settlement.

The Nature of the Public Sector

With the exception of the three, somewhat arbitrary, taxes imposed on the refugees by their own representatives, the public sector largely consists of the implementing agency running the camp. The Ugandan government does not levy any taxes on the refugees, except on economic activity (work or trading permits) outside the settlement. In a typical developing country, the government spends approximately 20 cents for every dollar produced by the economy. In Uganda, UNHCR spends approximately US$65 per refugee (UNHCR 2006: 161), whereas the sales value of a typical harvest for a refugee family in Kyangwali is of the order of US$25. This implies that the specific nature of the programmes could have an even larger impact on economic outcomes than would be the case in a normal economy. Additionally, many of the outlays are in food and materials, implying a distortion in the markets for grains and tools, as refugees may monetize their handouts.

Thus distortions in policy—especially restrictions on movement, labour and political participation—and distortions from the isolation of the camp—working through high information and transportation costs as well as through reduced market size and inferior terms of trade—combine with refugee characteristics and the nature of the public sector to create the unique dynamics of a refugee camp economy. The following section will build on these observations towards a conceptualization of the refugee camp economy.

Conceptualizing the Refugee Camp Economy

Having explored one camp economy in detail, a few observations can be made about distortions to the economies of refugee camps in general.

In this section, those generalizations, or 'stylized facts,' are laid out, referencing where possible observations on other refugee settlements from the forced migration literature, and a generic model of the refugee camp economy is constructed. The model is intended to serve as a lens to understand any camp economy rather than a rigorous quantification of the Kyangwali settlement in Uganda.

Host Country Policies

Refugees, in general, receive different treatment from nationals in the country of asylum. Host country policies can be divided into two categories, restrictions and benefits.

As noted in Uganda, two restrictions that refugees often face are limitations on movement and on employment, even though this practice is contrary to the 1951 Refugee Convention. Restrictions on employment outside the camp have obvious effects on refugees living in the camps. First, refugees are excluded from legitimate labour markets outside the camps, just as illegal immigrants in an industrialized nation are excluded from many jobs. Related to this, refugees who remain in the camp labour market may have a difficult time matching their skills to labour demand, especially if the camp allows only agricultural production, for example. Restrictions on movement are more subtle, yet still of first-order importance: refugees engaged in productive activities will have reduced access to outside markets, which may affect the effective price they receive for their labour inside the camp. Regarding the Kakuma camp in north-western Kenya, for example, refugees 'are not allowed to move freely outside of it, and they may not seek education or employment outside of it' (Jamal 2000: 8). In addition, informal practices of discrimination by citizens of the host country against refugees can exacerbate the distortions caused by the formal arrangements put in place by the host country (Dick 2002: 25–26).

A common benefit that refugees receive, including the refugees in Kyangwali, is on paying taxes. While the 1951 Convention allows for taxes to be levied on refugees up to the level that nationals pay, in practice this is often not applied to refugees living in the camps. In Pakistan, for example, Afghan refugee truckers were exempted from the licensing fees that their Pakistani counterparts were charged (Farr 1993: 123). These policies interact with the isolation of the camp to determine the institutional environment that refugees face.

Isolation

Refugee camps can be isolated in a variety of ways. The most obvious is physically. Kenya's two main camps, for instance, are located in remote parts of the country. Pérouse de Montclos and Kagwanja describe the reasoning:

> The government feared that the refugees might become settled in valuable areas of the country, especially in the highlands. Accordingly, the Kakuma

> and Dadaab camps were located in a semi-arid environment with a density of less than 0.05 inhabitants per hectare, compared with 5 in rural districts like Kisii (2000: 207).

Since host governments are essentially giving up land that could be used for their own benefit, the land allocated for refugees does not tend to be of the highest quality. Kakuma and Dadaab in northern Kenya are obvious examples of infertile, low rainfall areas; Kibreab (1994: 49–52) points out similar tendencies for settlements in eastern Sudan, noting that the age of the camp is negatively correlated with agricultural yields. This points to the static position of refugees in areas often characterized by frequent crop rotations or large pastoral movements. Similarly, it is unheard of for camps to be located on sites containing extractable goods like oil or minerals. This isolation from primary materials can be assumed to affect the composition of production within the refugee camps.

Describing isolation as a factor differentiating refugee camp economies does not imply that all refugee camps are isolated: many camps are located near urban centres; have free entry and exit; and/or access to primary materials. What distinguishes an isolated refugee camp from a remote indigenous village is that the refugees have not *chosen* to be isolated, and in most cases the separation may be quite suboptimal for their particular skill sets.

Humanitarian Assistance

One important distorting characteristic of humanitarian aid is that it is typically delivered disproportionately to refugees living in the camps, even in countries that permit refugees to self-settle. As Kibreab notes of Sudan, ‘Although the number of refugees in the organized settlements is small, most international aid is directed to them, to the neglect of the self-settled refugees’ (1994: 48). Similarly, with a few exceptions, refugees in Uganda only receive humanitarian assistance if they reside in the refugee camps (Huff 2002). Thus, by changing the cost-benefit schedule of the refugees’ residential choice, humanitarian assistance can impact whether refugees choose to live in the camps or not.

Humanitarian aid can also affect the behaviour of refugees once they are living in camps. Humanitarian assistance to refugees can be divided into two approaches: blanket assistance and targeted assistance. Blanket assistance could be simplified to ‘give each refugee a bundle of aid,’ whereas targeted assistance would be to ‘give refugees aid if they fit into category X.’ Each affects refugee economic behaviour,[5] but targeted assistance is especially distorting. While blanket assistance may reduce the number of hours a refugee works if his only goal is to provide food for his family, targeted aid may give him incentives to work harder (if, for example, it is tied to cultivating land) or to work less hard (if all poor people receive full rations).

Aid distribution in Ugandan refugee camps tends to target those identified as especially vulnerable.

An important distinction between blanket and targeted humanitarian assistance is that targeted assistance should affect the demographic makeup of the refugee camp in addition to affecting market outcomes.

Camp Demographics

The population makeup in a refugee camp is unlikely to mirror the population of the refugee-producing country. Depending on the nature of the conflict, certain members of the refugee-producing country will find higher costs to staying put, higher benefits to becoming a refugee, and/or lower costs to flight. If the conflict targets a particular ethnic group, for example, we should expect that ethnic group to be proportionally better represented among the refugee population than among the sending population. Likewise, if the opportunities for education are better for refugees, we should expect those members of the refugee-producing country with stronger preferences for education to be better represented. Moreover, becoming a refugee implies a certain savvy and access to information networks, as well as the ability to afford the journey.

The demographic composition of refugees is likely to differ between camp and non-camp areas. Two factors may drive the difference. The first is humanitarian assistance, especially targeted aid. Those refugees who value the aid more should be more likely to live in the camps. This group usually includes children, adolescents, women and the elderly, who are less able to provide for themselves outside the camp (Crisp 2003: 121). As Kuhlman notes, 'it is likely that the so-called vulnerable groups . . . tend to be more heavily represented in settlements' (1994a: 130). A second factor is the market outcomes which, as argued above, should differ between the camp and outside. Depending on the type and extent of host-government policies, isolation and humanitarian assistance, the costs of labour and goods as well as the return on capital should differ. Each individual refugee may have a preference regarding which economic environment is more suitable for him to make a livelihood, and the amalgamation of these preferences should result in different demographic make-ups.

Perhaps most important, the demographic composition of the camp can affect the security situation inside the camp, a concern that did not surface during our fieldwork in Kyangwali. Yet other refugee camps, notably those in eastern Zaire in 1996 (Salehyan and Gleditsch 2006: 347), have been notoriously unsafe as a result of deep belligerent influence into the camp's social and political fabric. This insecurity can have important ramifications on economic outcomes.

Modelling the Refugee Camp Economy

The factors which differentiate a refugee camp economy from a normal economy may be interdependent. For example, changing the terms of humanitarian assistance would not only alter the economic outcomes inside the camp, but it would also alter the demographic makeup of the camp. This, in turn, would change market outcomes through a different track and potentially bring about further changes in humanitarian policy.

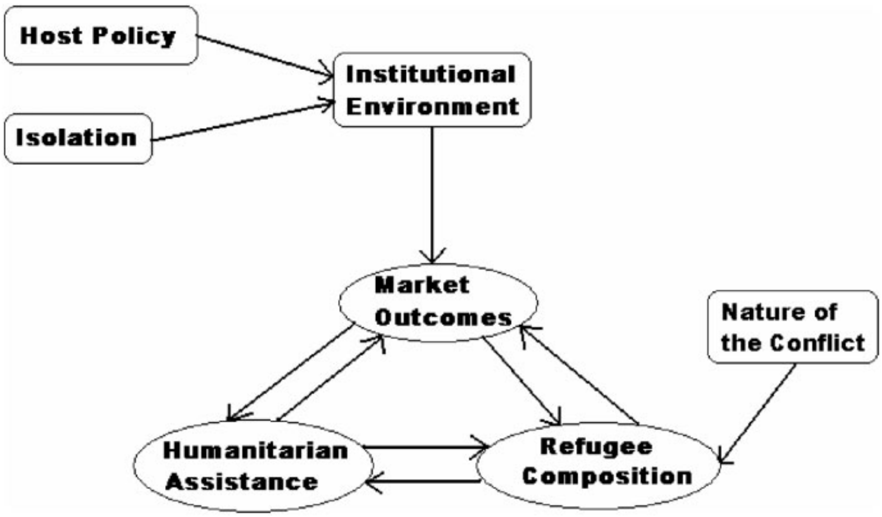
Figure 1 depicts a stylized model of the refugee camp economy, recognizing the possibility of interdependence among the factors and the market outcomes. Of the four variables presented here, two—host policies and isolation—are modelled as externally-determined. If host policies are decided through legislative debates, and camp locations are unlikely to change, it simplifies the model to treat these factors as independent variables. The types of policies that refugees face and the isolation (or lack thereof) of the camp combine to form the 'institutional environment,' or the basic rules and constraints, of the camp. Here, many economic determinants such as transport costs, transaction costs, information costs, risk of expropriation, and violation fee schedules are determined. In addition, these determinants affect malleable outcomes, such as the attractiveness of investment, the type of production and labour within the camps and the relative prices of goods inside the camp.

These tentative outcomes interact with both humanitarian assistance and the demographic selection of refugees. Whether the market is healthy, equitable, large, or constricted will affect the humanitarian interventions prescribed: how targeted the food distribution is, whether income-generating activities are pursued. Moreover, they also serve to attract certain refugees to come and live in the camp and deter others from trying their luck integrating with the host population. Humanitarian assistance is further shaped by the selection of refugees living in the camp—large numbers of unaccompanied elders or minors will encourage programmes that, again, increase the attractiveness of the camp area to broken families. The composition of refugees, then, impacts the humanitarian aid delivered, as it also impacts the markets, especially through insecurity. If the market outcomes from the institutional design and the assistance programmes are conducive to investment, the demand for labour will increase while the price of goods should decrease.

Refugee selection is modelled as also being influenced by an externally-determined variable, the nature of the conflict. As described previously, the nature of the conflict will determine who becomes a refugee and what they arrive with. This can affect market outcomes and aid programmes if those who become refugees tend to be from more educated classes or tend to arrive with valuable commodities or even weapons from the region of conflict.

Multiple equilibria. The model described in Figure 1 supports multiple equilibria. For identical values of institutional environment and nature of the conflict, we can imagine different sets of market outcomes depending on the order of moves of the interdependent variables. First assume that

Figure 1
Stylized Refugee Camp Economy



a humanitarian organization sets up in an empty site designated by the government and begins offering a complete array of aid products to anyone who arrives without any possessions. We should expect refugees to arrive with no possessions. Furthermore, the lack of wealthier refugees and the generosity of the aid organization should make the returns to investment very low, which discourages investors and limits labour supply and demand. Very likely, a visit to this camp some time later would continue to find a poor population entirely dependent on handouts for their sustenance.[6] The surrounding area or urban centres would likely be inhabited by the refugee elite.

Now assume that, instead of the aid agency arriving first, a group of enterprising refugees arrived, looking to take advantage of tax-free status and cheap labour. They set up a carpet-weaving plant and create some cheap housing. Healthy, independent refugees move to the camp to seek employment and avoid paying taxes. Earning wages, they spend money, creating opportunities for a profitable service industry, which in turn attracts barbers, cooks, bartenders and musicians. Humanitarian aid may be limited to sanitation and education, which lowers the cost of doing business and upgrading skills, but avoids attracting low-productivity refugees. A later visit would probably see industries in addition to the initial carpet weaving, and even a sizeable proportion of nationals from the refugee-hosting country employed in the camp. As predicted by the model, this positive economic outcome would be accompanied by a positive (economically-speaking) selection of refugees.

To be sure, Kibreab observes in Eastern Sudan:

> According to the staff of the UNHCR subbranch office in Gedaref, Towawa was one of the most successful projects in the east. This was mainly due to the demographic characteristics of the settlers who, owing to their age and unmarried status, could move easily from place to place in search of employment opportunities. A high proportion of the residents were single men. Unlike the refugees in the other settlements, most of the refugees are in their most productive age (1994: 56).

The model in this paper would explain the outcome slightly differently: where Kibreab attributes the success of the camp to its demographics, this paper's framework would point to a more complex process involving feedback mechanisms that produces both the demographic and the economic outcomes.

This notion of multiple equilibria does not deny the importance of host country policy, or isolation, or even the nature of humanitarian assistance in determining the economic outcomes of the refugees. A refugee camp in a country that encourages refugees to work in normal labour markets will obviously face different prospects than one in a country where there are regular army sweeps for refugees who have stepped outside of the camp. Furthermore, humanitarian policy choices are crucial to arrive at the optimal equilibrium, above and beyond the coincidences-of-timing example sketched above.

Interventions

Thinking about maximizing economic outcomes within refugee camps is a fairly unorthodox way to view the goal of refugee interventions. It is not clear that a healthier economy inside the camp is necessarily optimal, if in other respects it is more desirable to have refugees living integrated with the host population. That having been said, there are many situations where improving the economic outcomes within the camp can be a simple, robust way to improve the lives of refugees.

One class of intervention is to improve the institutional environment of the refugee camp. This can be pursued by lobbying host governments to offer better policies for refugees. Policies that improve the refugees' freedoms to work and move, that increase the returns on investment, reduce the risk of expropriation, increase the size of the market and reduce bureaucratic costs and delays should have positive impacts on refugee camp economies. Reducing the isolation of the camp (by decreasing the barriers to entry and exit of people and goods, or lobbying for new camps to be placed nearer to urban centres) should, in most situations, result in an institutional environment more conducive to economic prosperity.

A second class of intervention is through humanitarian assistance programmes. The assistance that is already extended to refugees can be structured so as to harness their economic potential. At first glance, this seems similar to moving along the 'relief to development' continuum (e.g., Demusz 1998) in that the long-run economic health of refugees should be a focus of the agencies' efforts. Yet by placing the humanitarian actor within a richer model of the camp economy, this paper encourages deliverers of humanitarian products to look at the effects of their actions on the demographic makeup of the camp, and to note that the possibility of multiple equilibria may justify certain policies that narrower analyses would reject. Two 'smart' interventions, namely bundling and vouchers, exemplify some of the economy-friendly policy choices available to humanitarian agencies.

An example of bundled goods is food-for-training, where recipients undergo training in order to receive the food assets (see, for example WFP 2004). Here, the refugee receives a good that promotes economic growth (training) in addition to the good that saves his life (food). Another scheme might give refugees vouchers instead of direct handouts, allowing the refugees to benefit from the production, trading and consumption of the good, instead of just the consumption. With appropriate limitations on where the vouchers can be spent, this should help the camp economy grow at the same time that basic needs are met. Catholic Relief Services (CRS), for example, holds seeds fairs as part of its programming in Sub-Saharan Africa, where beneficiaries are given vouchers to purchase seeds at a specified fair, and at the end of the day seed sellers are reimbursed by CRS for the vouchers they received in trade (CRS 2002). An interesting aspect of vouchers is the extra flexibility and efficiency it bestows upon the refugees. For example, ration cards are frequently traded in marketplaces within and around the camp (Jacobsen 2005: 27).

A third class of intervention involves the humanitarian actor directly targeting the distortions and constraints faced by camp residents. For instance, the NGO administering the camp can reduce the costs of transport and isolation by organizing transportation of goods or people to market centres, as well as by providing or facilitating market information. These services may provide public good benefits by bringing more prosperity into the camp, which should strengthen not only individual livelihoods but also the internal market.

In a protracted refugee camp situation, there is the risk that the camp is already rutted in a 'bad' equilibrium. If this is the case, changing a couple of programmes may not pull the camp economy out of its rut. For instance, if there is no agricultural production inside the camp, and all the entrepreneurial class of refugees is living in the city, it is unlikely that a seed fair would be much better for the economy than simply distributing seeds (unless the refugees were able to get better selection and higher quantities than under a handout system). Likewise, an income-generating activity to train refugee tailors is unlikely to increase welfare unless there is a market for refugee-produced textiles. To get out of a bad equilibrium, in all likelihood a combination of a change in the institutional environment and smart humanitarian programmes would be necessary.

Whether the situation is protracted or emergency, this conception of the refugee camp economy calls into question some methods of evaluating refugee programmes. Taking the composition of refugees and economic outcomes into the picture, it would seem misguided to reward organizations based on numbers of beneficiaries, for example. A refugee programme must be evaluated not on what it is doing, but on the difference of livelihoods between the existence and non-existence of the programme. And, according to the arguments of this section, this must take into account the institutional environment of the refugee camp area, economic outcomes, the nature of the conflict and the composition of the refugee population—both within and outside the camp.

Conclusion

This paper has argued, with reference to Kyangwali settlement in western Uganda, that the economies in refugee camps behave uniquely and that policy makers who work with refugee camps can benefit from an awareness of the distortions affecting the economic lives of camp refugees. In particular, market outcomes are influenced by the institutional environment which itself is determined by host-country refugee policies and by the isolation of the camp. Those outcomes interact with the demographic make-up of the refugees and the nature of humanitarian assistance to obtain the prices and quantities that characterize the refugee camp economy.

By understanding the complex economic dynamics of a refugee camp, as represented in the framework of this paper, policymakers and camp managers can better comprehend the poverty or prosperity of the refugees for whom they work. For any refugee camp, the variables outlined in the model can be matched with actual data in order to generate a more nuanced, prescriptive view of the camp economy. Good managers can select their interventions carefully in order to harness refugees' immense capabilities—and aspirations—to improve their own quality of life.

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1. Jacobsen (2005) offers an excellent analysis of refugee livelihoods. Kuhlman (1994b) describes economic integration in the country of asylum.
2. Pérouse de Montclos and Kagwanja (2000: 216) find a demand for communication with the exterior in Kakuma Refugee Camp in Kenya, a refugee population also characterized by high resettlement.
3. Development economists have a variety of explanations for why a suboptimal group outcome might occur. See Banerjee (1992), Ellison and Fudenberg (1993), or Foster and Rosenzweig (1995) for some contrasting theories.
4. Interview, Kyangwali, 9 August 2002. This does not appear to be an unreasonable fear: cases of abduction by SPLA have been described in the north of Uganda (Hovil 2001; Hovil and Werker 2001).
5. Kibreab (1993: 331) states, 'Whenever basic needs, defined in terms of certain minimal amounts of essential commodities, are met by the international donor community, problems of incentive are considered inevitable.' Kibreab's definition leaves ambiguous whether the aid is blanket or targeted.
6. Kibreab (1993, 1994) engages this notion of 'dependency' in greater detail. His definition (1993: 330) includes two parts: the 'incapability of achieving economic self-sufficiency' and 'the lack of capability to function independently . . . even *in the presence of enabling interventions* or when the opportunity to earn an income exists.' The first part of his definition describes a state or view of a slice in time, while the second part describes what economists refer to as a stable equilibrium, when the system reverts to its outcome even if incrementally pushed away.

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