The Costs Come before the Benefits

Why Donors Should Invest More in Refugee Autonomy in Uganda

Aziz Atamanov
Johannes Hoogeveen
Benjamin Reese
Abstract

When host countries allow refugees to earn income, two main groups benefit: refugees, who become financially autonomous, and international institutions that can reduce the humanitarian aid that would otherwise be needed to support refugees. Uganda is one of the more progressive countries when it comes to promoting the financial independence of refugees and shifting from humanitarian aid to development ways of working. This note considers how successful refugees in Uganda have been in becoming financially independent and estimates how assistance has been saved due to these efforts at economic inclusion. Using the international poverty line of US$2.15 in 2017 purchasing power parities to proxy the costs of basic needs, the results suggest that the amount of total aid needed was reduced by almost 45 percent. They also show that many refugees live in poverty, implying that the present combination of aid and work is inadequate to assure a decent standard of living. While more assistance is needed in the short run, reductions in development assistance are feasible but require upfront investments in refugee earning capacity to realize them.

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Why Donors Should Invest More in Refugee Autonomy in Uganda

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Keywords: Uganda, refugees, aid, self-reliance, inclusion

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1 Dutch expression (de cost gaet voor de baet uyt) displayed on the front of an 18th century former trade information office in Amsterdam conveying the idea that one must make investments first, whether in terms of time, effort, or finances, before one can reap the rewards.
Introduction

The East and Horn of Africa and Great Lakes region is host to about five million refugees and asylum seekers. Uganda hosts the largest number of them, 1.56 million in 2023. This is followed by Sudan, Ethiopia and Kenya hosting 960,000, 926,000 and 624,000 refugees and asylum seekers, respectively (UNHCR, 2023). Most refugees in Uganda are from neighboring countries where political instability, civil conflicts and violence made people flee their homes. More specifically in Uganda, refugees from South Sudan accounted for 58 percent of all refugees and asylum-seekers, refugees from the Democratic Republic of Congo accounted for 32 percent, and refugees from Somalia, Burundi, Eritrea, Rwanda, and other countries accounted for the remaining share. About 92 percent of refugees live in designated refugee settlements and 8 percent live in Kampala. The largest numbers of refugees lived in Adjumani, Bidibidi and Nakivale settlements in Uganda’s West Nile Region. South Sudanese tend to live closer to their home country in the West Nile, while Congolese refugees tend to live in the South-West region. Refugees in Kampala are least homogeneous with Somalian refugees being the largest group.

As well as hosting the largest number of refugees in Africa, Uganda is widely recognized for having one of the world’s most progressive regimes conducive to the integration of refugees into national systems and promoting their self-reliance through economic inclusion (Betts 2021). According to World Bank (2019), the regulatory framework stipulates a number of key refugee protection principles and freedoms: i) property rights and access to land, ii) right to access employment and to engage in income generating activities, iii) right to access public social services including education and health, iv) freedom of movement and association and v) the right to documentation and equality before the law.

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**Figure 1.** Population of refugees and asylum-seekers across selected countries in 2023, thousand people

**Figure 2.** Population of refugees and asylum-seekers across settlements in Uganda, thousand people


Note: The data for 2023 is available up until the mid-year.
Even though Uganda has been at the forefront of efforts to include refugees in its economy and to ensure the financial autonomy of refugees, these efforts have only been partially successful. Poverty among refugees was 46 percent in 2018, almost three times higher than among host communities, 18 percent.² And despite receiving land and having other opportunities to earn incomes, most refugees (54 percent) reported that aid was their main source of income (World Bank 2019). Refugees have thus been unable to become financially autonomous and continue to depend on assistance for their survival.

This note explores the factors that contribute to the successful economic inclusion of refugees. There are at least two reasons why this question is of interest. First, when refugees become financially autonomous, this improves their dignity and agency. And second, the more income poor refugees earn, the less their dependence on aid is. Investing in the financial autonomy of refugees today reduces the need for international assistance in the future.

Following the approach used for the Global Costing of Refugee Inclusion, successful inclusion is defined as earning sufficient income to be no longer poor and to consume more than the (international) poverty line. This definition opens two tracks for investigation: first, how much aid would be needed if the policy objective were to bring refugee consumption up to the poverty line. The answer to this question is found by identifying the poverty gap for refugees. This opens the second track which explores the factors that determine, or at least that are associated with, the size of the poverty gap.

The note is organized as follows. The next section discusses data and presents some key descriptive statistics on refugees and host communities in Uganda. This is followed by a methodological section discussing how own income and aid are complements and how an analysis of poverty gaps informs about the need for assistance. This is followed by two analytical sections. The first identifies refugee poverty gaps, and assistance needs for refugees with distinct characteristics. The following section estimates how much has been saved by including refugees in the economy and explores how more could be saved. Conclusions follow.

² The poverty numbers in World Bank (2019) are based on the official poverty line adopted in Uganda in 1997. There was a need to update this line as it was too old and producing a very low poverty rate. For example, using this line produced a national poverty rate of about 21 percent in 2019/20 compared to more than 40 percent international poverty rate using the USD 2.15 2017 PPP daily poverty line. In order to address this criticism, the poverty line was revised by the Uganda Bureau of Statistics in 2021, but it is not available for the 2018 Refugee and Host Communities Household Survey used in this note. Instead, we are using the international poverty line throughout.
Data and descriptive statistics

Primary data used in this brief comes from the Uganda Refugee and Host Communities Household Survey 2018 (RHCS). The RHCS is one of the few surveys in the region providing a representative picture of the socio-economic status of the refugee and host community population. The survey is representative of the refugee and host population in the West Nile and Southwest regions, and the city of Kampala. The host population is defined as the native population in districts where refugee settlements are situated. One important advantage of the RHCS is that it uses an identical survey instrument as the Uganda National Household Survey (UNHS). The UNHS is the key survey conducted by the Uganda Bureau of Statistics to measure poverty. Using the same instrument allows measuring poverty in the RHCS in a way comparable to how the UNHS measures official national poverty rates.

According to the World Bank (2019), despite all economic inclusion efforts and basic service integration, refugees in Uganda were much more likely to be poor than Ugandans in 2018, 46 versus 18 percent using the national poverty line. This implies that almost half of refugees did not have enough resources to satisfy the minimum daily caloric requirements and basic non-food needs – an issue that has become more acute recently as WFP’s general food assistance has had to be prioritized and reduced for many refugees due to financing shortfalls. Using a different daily poverty line, the international poverty line of US$2.15 expressed in 2017 purchasing power parities (PPP), one finds even higher poverty rates: 70 versus 38 percent accordingly. The highest poverty rate among refugees is observed in the West Nile region reaching 58 percent using the official national poverty line and almost 80 percent using the international poverty line. Having a better educated household head is associated with lower poverty among refugees. There is little difference in poverty incidence among refugees who depend on income from economic activities or aid. However, the poverty rate for refugees who depend on remittances is lower.3

Higher poverty rates among refugees are associated with higher food insecurity and lower asset ownership compared to hosts. About seven out of ten refugee households in Uganda experience severe food insecurity, while for hosts the proportion is five out of ten (World Bank 2019). Food insecurity among refugees in Kampala (57 percent) is lower than in the Southwest (89 percent of households) and West Nile (85 percent). Regarding assets, refugees are less likely to have access to productive assets such as agricultural land and livestock compared to Ugandans. Land ownership and size of land are also significantly lower respectively smaller among refugees than the hosts but with some variation among refugees across settlements and their time of arrival.

Access to basic services among refugees is either on par with hosts or sometimes better according to World Bank (2019). Access to improved water and sanitation is found to be higher among refugee households compared to host households (94 and 39 percent versus 66 and 26 percent accordingly). There are no substantial differences in school enrollment among refugees and hosts with primary enrollment being high, but secondary enrollment being remarkably low for both groups. Elevated costs and language of instruction (which changes from local vernacular to English) are often mentioned as important constraints to staying in school among refugees. There are no major differences in illness prevalence between refugees and hosts, but refugees have slightly better access to health care.

Refugees are less likely to be employed than hosts, with agriculture being the largest sector of employment. Only 28 percent of refugees are employed compared to 64 percent among Ugandans. Unemployed refugees are more likely to be young, with low levels of education, who arrived in Uganda less than two years ago. One in five refugee households own a non-agricultural enterprise which is slightly less than among Ugandans. Among the employed, seven out of ten hosts and half of refugees work in the agriculture industry. As mentioned earlier, refugees are less likely to own land than hosts and mostly have user rights instead of owning the land (World Bank 2019).

The COVID-19 shock had a substantial negative impact on refugees who demonstrated a much slower recovery than Ugandans. According to results from phone surveys conducted since onset of the COVID-19 pandemic (Atamanov et

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3 These are mostly Somalian refugees living in Kampala and who are not getting aid.
al., 2021), one year after the beginning of the pandemic, employment rates among refugees had not returned to pre-lockdown March 2020 levels. This contrasts with a full recovery in employment among Ugandans. Refugees were also found to have significantly lower access to medicine, medical treatment, and sufficient drinking water in February/March 2021 than Ugandans. More than half of refugee respondents experienced depression symptoms, with a higher incidence among female refugees and elderly. This is ten times higher than among Ugandans.

**Methodology**

Once refugees are provided asylum in a country and their legal, registration and security needs are met, they need food, sanitation, hygienic products, and essential non-food items. These costs can be covered by two broad sources of funds: humanitarian aid and household own resources. Successful integration and economic inclusion of refugees bring with it higher self-reliance and less reliance on humanitarian assistance (Figure 5).

<table>
<thead>
<tr>
<th>Figure 5. Role of household income and aid in covering costs of basic needs across different scenarios</th>
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<tbody>
<tr>
<td></td>
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<tr>
<td></td>
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<tr>
<td>no economic opportunities</td>
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</table>

In this note, the focus is first on identifying how much it would cost if basic needs were met through aid alone, and next, how the need for assistance depends on the degree of economic inclusion of refugees. The assessment starts by defining basic needs. One way to do so is by using monetary poverty lines. Not only do they capture the cost of a minimum standard of living, they follow a well-established methodology. Typically, poverty lines consist of two parts. The first part covers a food allowance needed for adequate nutrition based on a minimum caloric intake using a nationally relevant basket of goods. The second part covers a non-food allowance reflecting the cost of essential non-food items such as clothing, shelter and private expenses on health and education (Ravallion 1998). Those individuals who consume less than the poverty line are considered poor.

Once a poverty line is defined, its full value can be used as proxy for costs in a baseline scenario in which refugees are not earning any income and need aid to cover all their basic needs. This is referred to as the “no economic opportunities” scenario. This is a hypothetical construct, also the costliest, as it assumes refugees do not earn any income. In practice, refugees do find opportunities to earn money even in the most restricted environments. By allowing refugees to work, the amount of assistance needed to cover basic needs is lower. This is called the “current” scenario. This can be measured by removing humanitarian aid from total household consumption, and then taking the difference between the poverty line and pre-assistance consumption (the poverty gap). This difference indicates

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Refugees also need access to health, education and other services which are often provided by humanitarian partners.

In this note it is assumed that refugees have no savings and no access to credit markets. While this is a strong assumption, it seems reasonable in view of the low earning of refugees, which makes saving very difficult and limits the ability to borrow, even informally.

This is a static exercise without any behavioral changes.
how much aid is needed to bring the consumption of refugees to the poverty line. This is the cost for basic needs under the “current” scenario. It is lower than the costs under the “no economic opportunities scenario” and the savings can be viewed as an economic inclusion dividend made possible by the prevailing refugee policies.

The last hypothetical “full inclusion” scenario uses the current poverty gap of Ugandan hosts as proxy for basic needs costs in case an average refugee resembles an average Ugandan in terms of human capital, access to productive assets and economic opportunities. Obviously, the “no economic opportunities” and “full economic inclusion” scenarios are hypothetical and only serve as upper and lower bounds for aid necessary to cover the costs of basic needs.7

This note quantifies the amounts needed to cover the costs of basic needs using the daily international poverty line of US$2.15 in 2017 PPP. It is transformed into US$ in 2022 prices to make it more relevant. Using this, the cost of basic needs for one refugee in Uganda is about US$343 a year under the “no economic opportunities” scenario.8

<table>
<thead>
<tr>
<th>Figure 7. Share of consumption provided in-kind or for free by consumption per capita quintiles among refugees</th>
</tr>
</thead>
<tbody>
<tr>
<td>drop in consumption, %</td>
</tr>
<tr>
<td>Poorest</td>
</tr>
</tbody>
</table>

Source: RHCS 2018, WB staff calculations.
Note: Quintiles are constructed for refugees only.

Costs of basic needs for refugees in Uganda and their determinants

Figure 8 shows yearly costs of basic need per refugee which should be covered depending on economic inclusion across three scenarios. If refugees are not working under the “no economic opportunities” scenario overall costs per refugee will be around US$343 in 2022 prices. The current level of economic integration in Uganda allows to reduce these costs by 43 percent to US$193 per capita. The costs of basic needs under “the current” scenario vary across regions from US$10 in Kampala to US$140 in Southwest and US$231 in West Nile regions consistent with the level of poverty observed in three areas. Costs under hypothetical “full economic inclusion” scenario are much lower and equal to US$39 per refugee a year. It is important to check how costs for “current” scenario changes depending on selected characteristics of refugees such as employment status, access to land and its size, social integration, informal barriers to employment and so forth.

7 Figure 6 provides another illustration of how fiscal costs decline with refugee economic inclusion in the labor market.
8 Using the official poverty line generates much lower costs for one refugee – about USD 239 per a year. Using the international poverty line seems to produce more reasonable estimate for the costs of basic needs.
The yearly costs of basic needs assistance to be covered under the “current” scenario and across refugee household characteristics are reported in Figure 9. There are some groups of refugees with much lower needs for basic needs assistance than the average of the “current” scenario costs of US$193 (bars are highlighted in green). For instance, as Figure 9 illustrates, the costs for basic needs for refugees who own land are estimated to be around US$149 or 23 percent lower than the overall average costs.

The costs of basic needs assistance for refugees having land per capita above 0.05 hectare per capita are US$113 or 41 percent lower than the average. Costs for refugees with a working head of household are about US$167 or 14 percent lower than the average. Costs for basic needs assistance for refugees who stayed in Uganda three or more years are US$123 or 37 percent lower than the average. Lastly, basic needs assistance costs for refugees with children having Ugandan friends are US$176 or 9 percent lower than the average. These descriptive results demonstrate how better economic and social integration of refugees and access to productive assets such as land are associated with lower costs for meeting basic needs of refugees.

To evaluate the correlations above more formally, we ran a simple regression model using as left-hand side variable the logarithm of the ratio between pre-assistance consumption to international poverty line. This left-hand side variable measures the gap to be covered to bring refugees consumption to the poverty line. A positive value means consumption is higher, while negative values mean consumption is lower than the poverty line. Household
characteristics discussed earlier enter the regression as explanatory right-hand side variables. We also added a variable measuring the number of mature cattle refugee households own and a dummy capturing if households borrowed or paid back money or borrowed goods. Finally, we also added the dependency ratio to proxy a household’s capability to work. These variables are expected to affect the capacity of refugees to earn income. Finally, we controlled for the region of residence, household size, age, sex, and literacy of the head of the household. Variables with a positive sign are associated with reducing the gap between consumption and the poverty line (lower costs of basic needs), while variables with a negative sign are associated with widening the gap between consumption and the poverty line.

<table>
<thead>
<tr>
<th>Variables</th>
<th>Coefficient</th>
</tr>
</thead>
<tbody>
<tr>
<td>Head of household working (base=not working)</td>
<td>0.265***</td>
</tr>
<tr>
<td><strong>Household owns at least one plot of land</strong></td>
<td></td>
</tr>
<tr>
<td>Household does not have land or have use rights on land</td>
<td>-0.168*</td>
</tr>
<tr>
<td><strong>Household does not have land</strong></td>
<td></td>
</tr>
<tr>
<td>Household owns less than 0.05 hectare per capita</td>
<td>-0.116</td>
</tr>
<tr>
<td>Household owns more than 0.05 hectare per capita</td>
<td>0.263**</td>
</tr>
<tr>
<td><strong>Household lives in Uganda one year or less</strong></td>
<td></td>
</tr>
<tr>
<td>Household lives in Uganda 2 years</td>
<td>-0.0762</td>
</tr>
<tr>
<td>Household lives in Uganda longer than 3 years</td>
<td>0.410***</td>
</tr>
<tr>
<td>Household child/children have Ugandan friend</td>
<td>0.233***</td>
</tr>
<tr>
<td><strong>One member household</strong></td>
<td></td>
</tr>
<tr>
<td>Two household members</td>
<td>-0.533**</td>
</tr>
<tr>
<td>Three household members</td>
<td>-0.537**</td>
</tr>
<tr>
<td>Four and above household members</td>
<td>-0.760***</td>
</tr>
<tr>
<td>Dependency ratio (children and elderly over total household size)</td>
<td>-0.712***</td>
</tr>
<tr>
<td>Head of household is literate</td>
<td>0.05</td>
</tr>
<tr>
<td>Number of cattle owned</td>
<td>0.0195***</td>
</tr>
<tr>
<td>Any member borrowed money or goods or paying back</td>
<td>0.289***</td>
</tr>
<tr>
<td><strong>West Nile</strong></td>
<td></td>
</tr>
<tr>
<td>Kampala</td>
<td>1.806***</td>
</tr>
<tr>
<td>Southwest</td>
<td>0.259***</td>
</tr>
<tr>
<td>Head of household age</td>
<td>-0.00533*</td>
</tr>
<tr>
<td>Male head of household</td>
<td>-0.00418</td>
</tr>
<tr>
<td>Constant</td>
<td>-0.129</td>
</tr>
<tr>
<td>Observations</td>
<td>691</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.578</td>
</tr>
</tbody>
</table>

Source: RHCS 2018, WB staff calculations.
Note: *** significant at 1 percent, ** at 5 percent, * at 1 percent. Regression is run for refugee sample only using population weight.

Consistent with the earlier descriptive analysis, there are several household characteristics which are significantly correlated with the consumption to poverty line ratio. Thus, having an employed household head helps to reduce the gap between household consumption and the poverty line. Having at least 0.05 hectare of land per household member and owning at least one plot helps to reduce the gap. Social integration proxied by refugee children having Ugandan friends also reduces the ratio between pre-assistance consumption to international poverty. Given that integration takes time, staying in Uganda three or more years reduces the poverty gap compared to staying in Uganda only one to two years. Ownership of large cattle and the ability to borrow are also found to be associated with a lower poverty gap. The gender of the head of household does not affect the size of the poverty gap controlling for other characteristics of refugees and their location. Households with larger shares of children or with more elderly tend to have a higher gap, presumably because of a lower capacity to work.
A simple comparison between refugees and Ugandan households demonstrates that refugees lag with regards to selected characteristics found to narrow the poverty gap. For example, refugees are less likely to have access to land than Ugandans. If refugees have access to land, the majority do not own it, but have user rights. The size of land also differs a lot among Ugandan and refugee households. Most Ugandans have at least 0.05 hectare per capita, while the majority of refugees have less than 0.05 hectare per capita. Refugee heads of household are also less likely to work and less likely to be literate compared to their Ugandan counterparts. Refugees have higher shares of children and elderly in household size compared to Ugandans. For example, among almost 60 percent of refugee households, more than half of the household members are children and elderly compared to 42 percent of households among Ugandans.

### Economic inclusion dividend

When a development approach to hosting refugees is followed and refugees earn incomes, there are two key beneficiaries. Refugees themselves, who gain dignity, financial autonomy and pathways to self-reliance. And the international community, which can provide less humanitarian aid.  

It is possible to estimate how much money is saved in humanitarian assistance thanks to the inclusion of refugees in Uganda’s economy. For this, refer to Figure 8 to observe that the savings in assistance between the no income and current scenarios are US$150 per refugee per year (US$343 – US$193). Multiplied by 1.5 million refugees that reside in the country, the annual savings are US$225 million. If the aim is to bring the consumption of all refugees to at least the international poverty line, rather than spending US$515 million on basic humanitarian needs assistance every year, US$290 million would be needed to ensure all refugees have a dignified life.

Unfortunately, refugees receive less than US$290 million in assistance, because despite working and after receiving assistance many remain poor with levels of consumption that fall below the poverty line. Humanitarian aid is falling short in Uganda, and refugees bear the burden for it. This burden is well-documented in a 2023 document by the Uganda Refugee Operation which explores the impact of underfunding by humanitarian agencies: it points to high

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9 There is potentially a third beneficiary: the Government of Uganda which might be rewarded by the international community with additional financing in return for its inclusive refugee policies. Assessing this, and how these potential rewards compare to the costs associated with economic inclusion, falls outside the scope of this paper.
food insecurity, children dropping out of school, and negative coping mechanisms like transactional sex and even suicide.

It is straightforward to estimate by how much aid falls short. The post assistance poverty gap of refugees is 28 percent, implying an average annual shortfall in per capita consumption of US$97, or US$145 million per year when applied to all refugees. Rather than offering their full contribution to global burden sharing by providing US$290 million in aid, refugees receive only half, US$145 million.\textsuperscript{10}

Given the growing global demand and increasing costs of humanitarian refugee assistance, it would be more equitable and financially smarter not only to meet the obligations for burden sharing but also to invest additionally in the productivity of refugees. Development partners needs to find ways to capitalize on Uganda’s progressive refugee policy context to better facilitate ways that refugees can capitalize on economic opportunities and access to jobs. This way, considerable savings can be realized in the future for hosting refugees.

Conclusion

Uganda has been at the forefront of refugee integration and social inclusion. The country has created a legal framework that allows refugees to be economically active and offers access to land and housing. This approach has been partially successful. Despite having the right to work, and obtaining land, many refugees remain poor and fail to gain economic independence. Too many refugees remain dependent on humanitarian aid.

This note estimates that at present US$290 million is needed to ensure consumption for all refugees in Uganda is brought up to the international poverty line. Refugees do not receive this much, and the note estimates a shortfall of US$145 million in assistance. This shortfall in burden sharing, due to underfunding is borne by refugees who end up in poverty with levels of consumption that fall below the international poverty line with follow on consequences for food security, nutritional status etc.\textsuperscript{11} US$290 million is, however, a lot less than the US$515 million which would have been needed, had refugees not had the right to work. The question is whether refugee income could be boosted further and the need for aid reduced?

A comparison between refugees and host communities suggests there is potential for refugees to do better. Poverty incidence and the poverty gap for hosts are much lower than for refugees. It is beyond this paper to establish how to increase the productive capacity of refugees. Yet lower ownership of land and its small size, along with limited access to credit are obvious obstacles to productivity which have been found to increase the poverty gap of refugees. Others (Bohnet and Schmitz-Pranghe 2019) have pointed to limited access to agricultural inputs (seed, fertilizer, irrigation) and limited access to markets as obstacles for refugees to reach their productive potential.

There is much to be said to invest in increasing the income earning capacity of refugees through more development focused investments by the international community. When poor refugees earn income, there are two key beneficiaries. Refugee households, who gain dignity and financial autonomy. And the international community, which can provide less humanitarian aid. This note has provided an estimate of the money currently saved by refugees earning their own income: US$225 million. With an eye on the future, it would be worthwhile to invest some of the current savings to increase the productive capacity of refugees.

\textsuperscript{10} It is tempting to compare the estimates of aid needed and aid received by refugees with the numbers available in the account of humanitarian agencies. Unfortunately, without additional analysis it is impossible to make direct comparisons. Not all resources provided by humanitarian agencies will be received by eligible beneficiaries. All assistance programs experience ‘leakage’, so some of the spending on basic needs assistance reported by humanitarian agencies is not picked up as having been received by poor households. Second, the assessment is complicated because reporting by humanitarian agencies mixes direct benefits for households (like food assistance), with cost-of-service provision for services that are then provided free of charge (e.g., for health), with investments in e.g. shelter, which are then made available free of charge to refugees.

\textsuperscript{11} See UNHCR 2023a.
By allowing refugees to participate economically, the Government of Uganda has already created the legal environment which makes it possible to reduce refugee dependence on humanitarian assistance. Thus, Uganda provides an ideal environment to also demonstrate how development investments in refugee earning capacity, can bring about savings in future assistance and provide more long-term and sustainable management models for refugees in the country.

Not only does Uganda provide an ideal environment to further promote economic inclusion, as savings over and above the present US$225 million are made in basic needs assistance, the international community might want to consider sharing this ‘inclusion dividend’ with the host country. After all, Uganda’s policies make economic inclusion feasible, so why should the international community reap all its monetary benefits? In a situation where host communities are at times worse off than refugees (e.g. refugees have better access to certain services) it is critical that some of the inclusion dividend is invested in host communities. Only when all parties benefit - refugees, donors and host communities - is continued economic inclusion of refugees sustainable.
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