

More than 1.6 million people applied for asylum in the OECD in 2015 and about a million additional asylum seekers were registered in the first eight months of 2016. They need shelter and accommodation, as well as provision for other basic needs including health, and their children need access to schooling. Those who will be granted a refugee status will need access to the labour market so as to foster their integration and contribution to the host country economy. Immediate support to asylum seekers, as well as education and training costs for refugees, require significant upfront investments. These are essential both for humanitarian reasons and in order to ensure refugees are able to contribute to the host country. But how are these costs shared across levels of government?

This edition of **Migration Policy Debates** assesses the challenges that inflows of asylum seekers and refugees present for intergovernmental fiscal relations. It provides an overview of the current overall fiscal burden due to migration flows, how this is distributed across government levels and between jurisdictions, and how intergovernmental fiscal frameworks can support the successful integration of migrants.

Who bears the cost of integrating refugees?

Key findings

- The cost for processing and accommodating asylum seekers is estimated around €10 000 per application for the first year but can be significantly higher if integration support is provided during the asylum phase. The annual costs decline considerably in the following years.
- In many countries the cost of integrating refugees is largely borne by sub-central governments (SCG), in particular for social expenditure, housing and education. SCG fiscal costs mainly arise after the refugee status has been granted.
- Fiscal transfers have become the main instrument for central governments to fund rising integration costs at the sub-central level. Still, payments generally cover only a fraction of the actual costs of receiving SCGs.
- Many countries have opted for lump-sum payments to SCGs. The characteristics and needs of certain groups of refugees, or different local costs, are generally not taken into account.
- Most payments are upfront, but some countries have developed time-dependent transfers that decline over time. Declining financial support may spur SCGs to integrate refugees quickly and effectively.
- Countries have so far refrained from re-assigning sub-central responsibilities, such as the responsibility for social spending, to central government.
- SCGs which do a particularly good job of integrating migrants rarely receive specific financial rewards. Such incentives could be strengthened.

What is the issue?

Overall, government spending for the reception and integration of people seeking international protection varies significantly across countries. It is particularly difficult to assess given its distribution across various parts of the central government and across government levels. Spending related to asylum covers many different items, ranging from the registration and processing of asylum applications, to providing long-term integration services for those who will be granted a refugee status. On average across the main reception countries in Europe, the cost for processing and accommodating asylum seekers is estimated around €10 000 per application for the first year. This figure can be significantly higher if integration support is already provided during the asylum phase. It is also higher for particularly vulnerable groups, such as unaccompanied minors. In the case of resettled refugees, security checks and transportation have to be added to the cost of support.

For the countries most affected by the recent refugee surge, the costs can thus be quite high. For example, Germany, which received as many as 900 000 asylum seekers in 2015 (according to the latest estimates), spent €16 billion (0.5% of GDP) on its migrants in that year. Sweden, which received 163 000 asylum seekers in 2015 (the highest per capita ratio ever registered in the OECD at 1.6% of total population), spent €6 billion (1.35% of GDP). Outside Europe, the United States spent USD1.56 billion during fiscal year 2015 (0.01% GDP) on administering one of the largest resettlement programme in the OECD: 70 000 migrants in FY 2015/16, to be expanded to 110 000 in FY 2016/17. Canada, which extended its resettlement programme to welcome 25 000 additional Syrian refugees in 2014/15, estimates the cost of this additional effort amounted to CAD 510 million over the next six years.

The distribution of spending between different levels of governments is often unclear and critically depends on where people stand in the asylum process since the asylum process and reception is generally handled at the central level while support provided to recognised refugees is generally dealt with at the local level. A “typical” allocation of responsibilities across governments is shown in Table 1. Across the OECD, the share of SCGs in refugee-related spending can be broadly estimated at between 35% and 45%, but there are large disparities across countries depending on their level of decentralisation and the organisation and history of humanitarian migration. For example, Table 2 shows how the cost of support to refugees is shared in Austria and how this share evolved over time.

Table 1. Typical assignment of responsibilities for refugee-related tasks and functions in decentralised countries

| Central government | Sub-central government |
|----------------------------------|---------------------------------|
| Registration | Primary and secondary education |
| Asylum procedure | Social welfare, minimum income |
| Refugee camps, emergency housing | Housing after the refugee camp |
| Immediate first aid | Active labour market policy |
| Possibly basic language training | (Extended) language training |
| Civic integration training | |
| Returns | |

Table 2: The cost of integrating refugees by level of government: the case of Austria

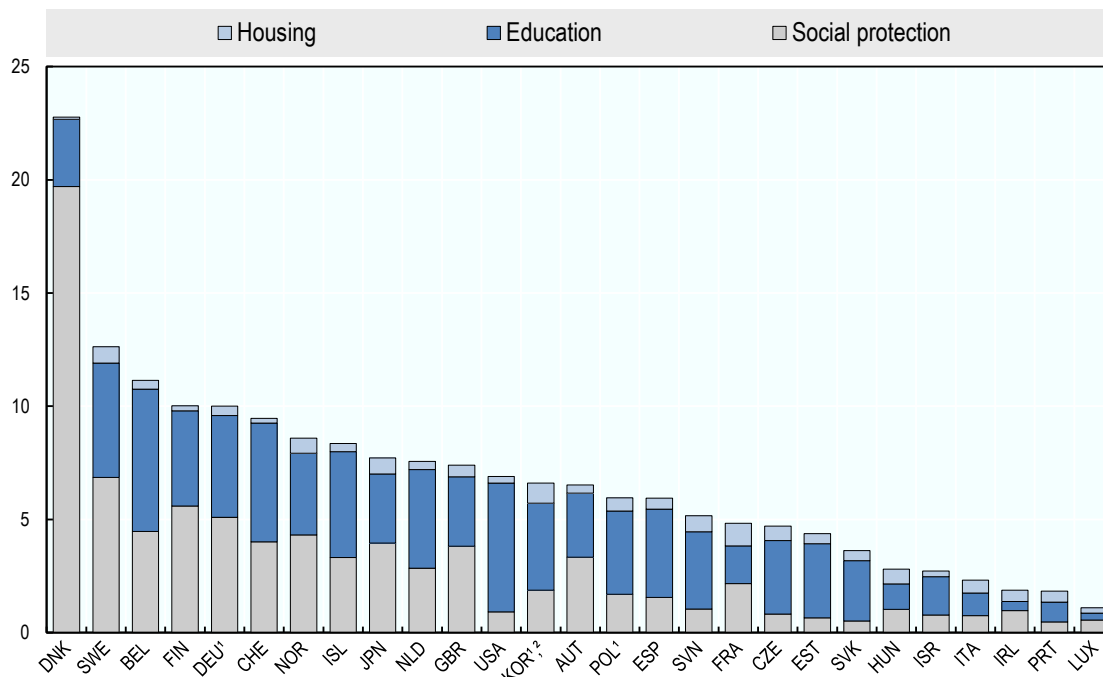
| Expenditure on refugees, asylum and integration in % of GDP | 2014 | 2015 | 2016 | 2017 |
|---|--------------|--------------|--------------|--------------|
| Federal Government | 0,14% | 0,24% | 0,50% | 0,50% |
| Länder + municipalities | 0,09% | 0,14% | 0,23% | 0,25% |
| General State | 0,23% | 0,37% | 0,73% | 0,75% |

Source: Austrian Ministry of Finance (2016).

Social protection and education spending are among the most important expenditure items with respect to the asylum seekers and refugees in the early settlement phase. The spending of SCGs on these issues varies widely (see Figure 1). Social protection and education form the largest spending categories, while housing is

less important although it often shows up in the “social protection” category in the form of individual housing benefits. The countries that received the largest number of asylum seekers per resident population also tend to be more decentralised, such as the Scandinavian countries and Germany. Their SCGs are thus more affected.

Figure 1. Social protection, education and housing spending at the sub-national level
% of government spending



Note: Non-consolidated data for DEU, KOR and POL. 2013 data for KOR.

Source: OECD National Accounts (2016).

In this context, there are two key questions: How have intergovernmental transfers responded to the surge of asylum seekers and refugees? What are the key challenges and policy options?

How have governments used transfers to respond to the surge of asylum seekers and refugees?

Intergovernmental grants – the main revenue source for sub-central governments in more than half of OECD countries – cover spending needs of SCGs or equalise tax raising capacity across different SCGs. Such transfers ensure similar public service levels for all citizens in areas such as education, health care or social welfare.

Fiscal transfers to SCGs have become the main instrument for central government to fund rising integration costs of refugees at the sub-national level. Transfers depend on the responsibilities assigned to SCGs and usually co-fund social benefit payments, housing, integration programmes, language training and – if decentralised – labour market integration. Many transfers explicitly include the number of immigrants and refugees living in a jurisdiction in the allocation formula. Other transfer systems feature indicators such as the local unemployment rate or the percentage of low-income households, which tend to be related with the cost of integrating refugees. As such, the existing system of intergovernmental grants assumes a considerable share of the additional fiscal costs of migrant integration, that SCGs are incurring.

The extent to which transfers cover for SCGs the true costs is, however, debated: In Germany, the federal government claims that around 70% of the additional fiscal cost to sub-national government is covered, while the states claim that it is closer to 40%. In general, central government hardly ever reimburses SCG's full cost incurred.

However, not all intergovernmental transfers have such adjustments for population size as described above and the cost per capita between national residents and humanitarian refugees can differ substantially from that of other low income groups. Some systems, especially in federal countries, rely on their tax-raising capacities, which is not necessarily a good indicator for refugee-related costs at the sub-national level. In these cases, special central government support for sub-national programmes for migrant integration might become necessary.

Countries have developed several types of grants, reflecting the various policies for which SCGs are responsible. In Denmark, the largest refugee-related grant is earmarked for social welfare benefits (a municipal responsibility in many decentralised countries), integration programmes and language training. Germany applies a block grant that partially covers the cost of housing and social benefits, which before 2016 were under full state and municipal responsibility. The Swedish government funds language training and labour market integration over a period of two years and then hands responsibility over to the municipalities. Some transfers are incentive-based, depending on integration efforts or outcomes. Denmark disburses a small grant whose size is linked to municipalities' success in labour market integration. Finally, some cost incurred is covered by the general equalisation system rather than specific grants. For instance, both the Danish and the Dutch general municipal equalisation grants are traditionally based on indicators that account for refugee-related fiscal cost.

Most transfers are of the lump-sum type, *i.e.* unrelated to actual sub-central spending. Decoupling transfers from actual spending is thought to foster sub-national incentives to integrate refugees as effectively as possible. Switzerland, for example, provides to cantons CHF6 000 per refugee, earmarked for refugee integration. The United Kingdom developed time-dependent transfers, which decline with the number of years that have passed since a refugee arrived in the country. Transfers to local governments are provided over a four-year horizon, tapering from GBP5 000 per person in their second year in the United Kingdom, to GBP1 000 per person in the fifth year. In France, the ministry of interior provides a lump sum of €1 000 per asylum seeker to municipalities, to support the development of new reception facilities for asylum seekers. In Germany, the federal government provides a fixed sum of €670 per asylum seeker per month. Recently, the federal government agreed to provide the 16 German states with an additional €8 billion until 2018 for the integration of refugees and social housing projects. The Belgian federal government also recently increased contributions to municipal welfare centres. In the United States, at least 40% of the refugee resettlement budget goes directly to the states to provide integration services and social assistance. States receive federal funds based on the number of refugee accepted and allocate the funding through a state-run office, non-profit organisations or a public-private partnership.

There has been no large re-assignment of responsibilities for refugees in the OECD countries so far. Countries have also refrained from re-assigning sub-central tasks to central government. Responsibility for policy implementation still remains at the sub-national level, while transfers cover a part of the additional sub-central costs, and no additional taxing power has been granted to SCGs. The European commission has, however, reinforced existing financial instruments and developed new ones to help member states and their SCGs to respond to the refugee surge (see Box 1).

Box 1. Mobilising EU financial instruments to respond to the refugee crisis

Before the start of the refugee crisis, the EU budget already allocated €4.5 billion for migration for 2015 and 2016. A further increase of the EU budget of €2 billion and €1 billion was agreed for the 2015 and 2016 budget, respectively. Those measures were mostly intended to increase the budgetary allocation for the Asylum Migration and Integration Fund (AMIF) and the Internal Security Fund (ISF), for reinforcement of the EU Syrian trust fund (created in December 2014) and for financing the EU relocation mechanism. In March 2016, the Commission put forward an additional proposal for the establishment of an emergency assistance instrument to be used within the European Union to provide a faster, more targeted response to major humanitarian crises, for which €700 million is planned over 2016-18. In parallel, the Commission has launched two emergency funds to tackle the external dimension of the crisis: the new European Emergency Trust Fund

for Africa (€1.8 billion) and the Refugee Facility for Turkey (€3 billion), complementing and enhancing the EU Regional Trust Fund set up in response to the Syrian crisis.

Although the allocation to the AMIF and ISC for the programming period 2014-2020 amounts to €3.1 and €3.8 billion, respectively, the parts of the EU budget that are potentially relevant to refugees involve a much larger share of the EC budget (EC, 2015). All EU states except Denmark participate in the implementation of these Funds. The AMIF, for example, covers actions aiming at promoting the effective integration of non-EU nationals. Beneficiaries of the programmes implemented under AMIF can include, among other things, state and federal authorities, local public bodies and non-governmental organisations. The European Structural and Investment Funds (ESIFs) can also provide substantial support to the labour market integration of migrants and to the construction of reception facilities.

To support member states' resettlement efforts under the targeted EU schemes (i.e. resettlement from third countries of first asylum to the EU), the Commission proposed in July 2016 to provide €10 000 from the EU budget for each person resettled. The funds will be allocated from the AMIF (ERF/AMIF). Beneficiary member states of relocation (such relocation of asylum seekers from Greece and Italy to other EU member states) get €6 000 per relocated person. Countries benefitting from the relocation receive €500 for each person relocated to cover transport costs.

The role of SCGs in integrating refugees raises several fiscal policy questions

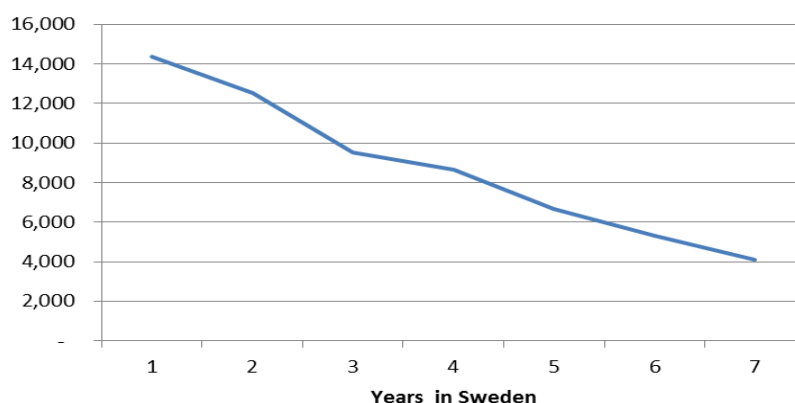
Migrants and refugees are unevenly dispersed across jurisdictions

To avoid asylum seekers settling mainly in the border regions and big cities where they initially arrive, most countries have established dispersal keys to ensure a more even distribution across the country. Germany established the “Königstein key” which distributes asylum seekers to the states based two-thirds on tax raising capacity and one-third on population. Within the states, similar keys often operate to distribute resources further down the line to the communities, but these keys tend to rely on population size. Denmark's municipal dispersal key relies on population, but adds criteria such as the number of non-citizens in a municipality or personal characteristics of migrants such as family ties. Belgium's planned dispersal key was similar but was finally not activated. Dispersal is less common for those who have received refugee status, although this tends to be largely determined by the initial allocation. European countries that have been the most exposed to the recent refugee surge, such as Germany, Sweden and Austria, have, however, also adopted more stringent dispersal measures for refugees as well. In OECD settlement countries (e.g. Australia, Canada, New Zealand, Norway and the United States), resettled refugees are distributed to specific communities, although the allocation depends more on welcoming capacity than on equalising factors. Uneven dispersal may put high fiscal costs on some communities and strain their public finances.

A rising share of spending takes place at the sub-central level

In most countries, the cost of registration, reception and emergency support is borne by central government while the cost of integration after the initial reception (in the case of asylum seekers, after having obtained international protection) rests largely with SCGs, although some grants are generally provided to cover the initial cost. The costs for the reception and integration of refugees are high, especially in the early years, as shown by data from Sweden (Figure 2) and Australia (Table 3).

Figure 2. Estimated average annual cost per refugee by length of stay in Sweden, in Euros



Source: Fiscal Council of Sweden (2016).

Note: Costs include current public spending but exclude public investment (e.g. infrastructure spending)

Table 3. Estimated net fiscal impact of a new arrival on the Australian government budget, by visa category and years of residence, 2010–11, in Euros

| Years of residence | 1 | 2 | 3 | 10 | 20 |
|--|--------|-------|-------|------|------|
| Family | 2692 | 762 | 546 | 2552 | 1854 |
| Labour (including accompanying family) | 4549 | 5110 | 5573 | 6291 | 7028 |
| Humanitarian (including refugees) | -12399 | -3463 | -3112 | -603 | 2410 |
| All permanent immigrants | 2709 | 3154 | 3409 | 4645 | 5132 |

Source: OECD Calculations based on data from Access Economics and DIAC Migrants' Fiscal Impact Model.

Note: The negative figure of -12 399 means that on average, a humanitarian migrant to Australia incurred a net fiscal cost of more than 12k Euros in the first year after arrival.

Once asylum seekers become refugees and settle, the sub-national share in refugee-related cost is bound to rise at least initially. Moreover, sub-central fiscal costs are less predictable than those of central government, because integration is a process with many uncertainties:

- **Partial and/or delayed reimbursement of costs.** Many central governments compensate SCGs for the costs related to the reception and integration of refugees. However, these grants generally cover only part of the cost and are often delayed or, in the case of schooling, tend to be refunded according to the number of pupils at the beginning of the school year and do not account for arrivals throughout the year. Especially in areas with high immigration, the speed at which population-based fiscal transfers are adapted is particularly important, at least in the many countries where such transfers are an important source of the local public purse.
- **Fiscal imbalance across SCGs.** The SCGs that bear the costs of integration are not necessarily those who benefit from its success. In most countries, refugees are free to move if they are gainfully employed and do not claim social welfare benefits.¹ While internal migration is welcome from an employment and integration perspective, it may create an imbalance between those jurisdictions that assumed the initial education, training and other integration costs and those that benefit from refugee's acquired skills and contributions once in employment. In Denmark, refugees are basically free to move across jurisdictions, but the new municipality may decline disbursing social benefits under certain conditions. In Belgium and the Netherlands, despite their compulsory dispersal keys, one of the biggest challenges is that the concentration of refugees in urban areas, which may create a

1. Germany's integration law of 2016 allows the States to require humanitarian refugees to settle in the municipality to which they are assigned to but leaves them freedom to move if they find work elsewhere.

disproportionate burden to their social welfare systems in the medium and long term, especially if employed refugees lose their job. In countries like Italy, which many refugees are transiting for their final destination, most SCGs will struggle to reap the benefits of successful integration.

- **Some transfer systems only cover current spending, thereby excluding investment needs.** A large inflow of humanitarian migrants in a community can require infrastructure spending, such as on dwellings, school buildings, or transportation. Since such investment is long lasting and often provides benefits to other jurisdictions, careful coordination between government levels and across jurisdictions is necessary to avoid under- or over-investment (OECD, 2013). This is particularly important in the case of asylum seekers because the likelihood that they will stay depends notably on the treatment of their application as well as on the evolution of the situation in their country of origin. This latter fact is also an issue for those who ultimately obtained temporary international protection.

SCGs' budget for integration is largely determined by central government. The number, the composition and the qualification of refugees who arrive in localities are mostly shaped by decisions and policy developments on which SCGs do not have a direct impact. Moreover, sub-central spending is often constrained by central government regulation – especially for social benefits – and by deficit and debt rules, despite escape clauses in the case of an emergency. Since SCGs can do little to affect spending levels per se, it is important that they make spending as effective as possible in order to help refugees to integrate successfully.

Policy options: towards fair and efficient intergovernmental fiscal frameworks

Integrating refugees involves large upfront short- and medium-term fiscal costs but, if successful, will generate fiscal benefits in the longer term. The net benefits depend on the ability of sub-national integration policies as well as central government fiscal support. As such, the success of integration relies on two factors: 1) that funding is fair, *i.e.* broadly reflects communities' true costs of integration; and 2) that it is efficient, *i.e.* induces communities to help refugees integrate effectively. To strike the right balance between these two factors, the following policy options could be considered:

Keep implementation at the sub-national level. Sub-national governments are well-placed to carry out integration responsibilities. They are close to the local economy and are often well aware about which activities to initiate and where to spend public money. They may try tailor-made solutions, build on experimentation, and find out which practices work best - for instance whether to "first train, then place" or to "first place, then train". Moreover, communities may work together with local civic associations and non-governmental organisations, creating a web of support for integration. Not only in federal countries such as Austria, Belgium and Germany, but also in the unitarian Scandinavian countries, is integration policy widely implemented at the sub-central level.

Central government funding should reflect large cost differences while remaining simple. The fiscal costs per refugee vary across categories of refugees, and financial transfers to SCGs should reflect that. For instance, the allocation of financial transfers should make a difference unaccompanied minors, whose costs are a multiple of those of adults. Such differentiation could also help avoid communities eschewing refugees whose integration is difficult. However, the transfer system should only take important cost differences into account, not all cost differences, and should not be overly complex. A key question is whether or not local differences in housing costs should be accounted for transfers; as such costs tend to be much higher in large cities.

Reduce financial support over time. The overall fiscal cost per refugee declines over time as refugees get more skilled and gradually integrate into the labour market (Figure 1). Transfers to SCGs should reflect such gradual integration. Declining financial support may also spur SCGs to integrate refugees quickly and effectively. Moreover, it underpins a focus on newly arrived refugees, those most in need of help. The United Kingdom put in place a system whereby transfers to local authorities decline with the number of years a refugee spent in the country.

Reward successful integration. Central government could financially reward SCGs that are particularly successful in integrating refugees. In a few countries, the funding of regional labour market offices is tied to performance. Based on that model, Denmark put in place an grant to municipalities – albeit relatively small – that rewards regional job centres for placing refugees in jobs. A similar rewards-based system could be set up for the support of language training. Finally, more taxing power at the sub-national level may also strengthen incentives as SCGs will be rewarded for integration success in the form of more tax revenues.

Revert to the general transfer system. In most countries refugee-related financial support to SCGs could be integrated into the existing intergovernmental transfer system. Most countries have been supporting municipalities through equalisation transfers for long – e.g. for primary and secondary education –, taking the needs of refugees and immigrants into account. Sub-central governments are used to these transfer systems and know how to administer them, although some adaptations for the higher cost of providing language training and other support to refugee children should be accounted for.

Finally, transparent and trustworthy budget information may foster a rational reflection on the true fiscal costs and how much each government level should assume. Having fair and efficient intergovernmental fiscal relations can support and strengthen other policy measures to integrate refugees, and ensure that taxpayer money is spent both effectively.

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