“Recent events have proven once and for all that the destruction of whole societies in the Middle East is not a regional problem, but a global crisis... and it is a crisis that is not only a humanitarian emergency but also a political emergency.”

Madeleine K. Albright, former U.S. Secretary of State

Overview

This working paper presents the case for a sustainable global economic strategy for the Middle East given the impact of the refugee crisis. The Middle East Recovery Plan (MERP) will work towards long-term stabilization and it will require partnerships and alliances with international and local governments, the private sector, and civil society. Syrian refugees and organizations must also be partners in designing this strategy to ensure sustainability. We hope this paper will help spur the discussion and collaboration that is necessary to lay the foundation for Syria’s neighbors, to recover and grow, contributing to regional and global stability.

The inadequate political response by the international community following the eruption of protests in 2011 has resulted in 115,627 Syrian civilians deaths as a result of the conflict (this includes 12,517 children and 8,062 women). Overall, it is estimated that 250,124 people have been killed. Military operations by the regime, the metastasis of violent extremist groups, and deplorable economic conditions have all exacerbated displacement, accounting for “the largest movement of refugees and internally displaced people in the last three decades.” There are currently 4.2 million registered Syrian refugees in the world, 98 percent of which are in Turkey, Lebanon, and Jordan.

Approximately half of these 4.2 million refugees are children, of whom 80 percent are not enrolled in school. An International Labour Organization (ILO) survey showed that 47 percent of families in the region could not afford to send their children to school. Faced with few opportunities to work themselves, parents are increasingly relying on their children to earn income in order to help provide food and shelter for their families. As a result, the region risks a lost generation that, absent intervention, will cause further political and economic destabilization in the region with global ramifications that we are only beginning to see.

With the continuation of a violent civil war and no viable political resolution in sight, many Syrians face no other option than to flee their homes seeking refuge in neighboring countries and now Europe. The ability of local host countries to deliver long-term services is rooted in the strength of their institutions and economy. A strong economic foundation is critical for long-term peace and stability. Designing a sustainable economic plan for the region will require the support of the entire international community. As such, this working paper will outline what we hope will be the beginning of discussions on a Middle East Recovery Plan for the region, particularly Lebanon, Jordan, and Turkey, which have taken in the majority of refugee populations.

The region has long faced the highest levels of unemployment in the world due to weak economic institutions and a lack of employment opportunities. World Bank projections from 2010 highlighted that 100 million jobs would be needed by 2020 to meet the youth demographic shift, a number the region was already ill equipped to meet. The impact of the refugee crisis means that additional strain has been placed on already weak economic institutions in the region, and ignoring these economic and labor market challenges will have severe global security and political ramifications. A coordinated international strategy involving the financial commitment of international organizations, countries of the G20 governments; and the private sector is imperative. Given the current scale of displacement,
the potential to lose a generation due to gaps in education and employment and the rise in violent extremism, now is the time for a more comprehensive global economic plan to lay the foundation for future stability.

A coordinated international proposal for a Middle East Recovery Plan is only sustainable if existing laws and barriers to allowing legal employment and working permits for refugees are addressed. Syrian refugees are extremely hard working and entrepreneurial and have the potential to positively impact economic growth and private sector development. Not allowing refugees the right to work and help themselves is a missed opportunity given the enormous potential they have to contribute to the region and host country economies. This is consistent with and further addressed through The Right to a Future, a report published jointly by Care, the Danish Refugee Council, International Rescue Committee, Norwegian Refugee Council, Oxfam, Save the Children, and World Vision7.

**The Middle East Recovery Plan**

A Middle East Recovery Plan, similar to the European Recovery Program or “Marshall Plan” that followed the Second World War, is needed to address the magnitude of the Syrian conflict and its effects on neighboring countries, namely Turkey, Lebanon, and Jordan. The Marshall Plan pulled post-war Europe out of ruin—participating European economies eventually surpassed prewar levels of GDP by at least 35 percent.8 A similar, proportionate response is required to promote stabilization and growth in Syria and neighboring countries.

The Middle East in 2015 is not Europe in 1948, but the general principles of assistance to accomplish a joint recovery program based on self-help and mutual cooperation apply. There is a tendency to shy away from any reference to the Marshall Plan due to its cost (an estimated $160 billion in today’s dollars). But the original Marshall Plan was not entirely based on aid – it also strengthened institutions and focused on private sector economic growth. In the Middle East, aid is needed to deal with the immediate crisis, but so too are measures to promote long-term investment in the economy and security of the region.9 The establishment of strong economic institutions and dynamic public-private partnerships, which were key components of the original Marshall Plan, will be critical to long-term sustainable development in the Middle East as well.

While admirable and under resourced, existing efforts by the United Nations tend to address symptoms of the crisis, rather than underlying causes. The Middle East Recovery Plan must be holistic, mutually beneficial to donors, investors, and local communities, and not result in long-term dependency. It should establish strong financial institutions, vibrant local economies, and dynamic public-private partnerships. This approach can foster long-term political, economic, and social stability in those countries in dire need of infrastructural and institutional assistance.

Most importantly, a Middle East Recovery Plan must include Syrians as well as Iraqi and Palestinian refugees as co-designers in an economic recovery plan. Their ownership in a long-term development strategy is key for sustainability. Embedding policies and programs that meet the direct needs of Syrian

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9 Ibid
entrepreneurs, professionals, and laborers will also ensure that the Middle East Recovery Plan empowers them to contribute to the rebuilding and reconstruction of their society, their region, and, eventually, Syria itself.

As we look toward developing resilient and sustainable solutions for local host communities to absorb existing and incoming refugees, there is no quantity of aid or grant funding sufficient to address all critical needs. As a result, the commitment of the international community, including the U.S., Europe, the Gulf Cooperation Council, and other G20 countries is critical in order to enable tangible economic growth. The key to sustainability is to build economic vitality from the bottom up, allowing entrepreneurs to flourish and small and medium-sized enterprises (SMEs) in the region to grow. This growth requires investment to build the capacity of local governments, financial institutions, and the private sector.

**Shifting to a Comprehensive Economic Solution**

The immediate need for aid from the international community is key for the short-term relief of refugee communities. However, the Middle East Recovery Plan seeks to form the foundation for the future medium-to-long term stability of the region. There has been extensive research and several reports done to design effective solutions and strategies on addressing the current crisis in the Middle East. For example, the United Nations and partners launched a major new humanitarian and development appeal in December 2014. Known as the Regional Refugee Resilience Plan, or 3RP, the strategy represents a shift in aid delivery for the region. Despite the improved framework, the response itself remains largely underfunded having reached only 45 percent of its goal. Recommendations for resiliency in local host countries do not impact refugees and offer limited livelihood options for refugees based solely on aid, which is not sustainable in the long-term.

While regional governments in Lebanon, Turkey, and Jordan have developed strong national resiliency plans in accordance with 3RP parameters, there remain major gaps in the funding and, consequently, implementation of such plans. In fact, only $2.02 billion of the total $4.53 billion 3RP total funding appeal has been met, leaving a gap of $2.51 billion. In terms of countries, Lebanon has received 46 percent of its required funding. Turkey has received 32 percent of required funding, and Jordan has received 45 percent. The shortage in funding has limited the ability to address sustainable development needs in the areas of education, health, and livelihoods.

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12 Ibid
The 3RP report lays out the existing funding gaps for sustainable development goals. Most notably is that livelihoods has received $26 million in funding with a gap of $451 million. Moreover, those funds are intended to support livelihood programs for host communities, not refugees. Livelihoods is one of several key pieces of the 3RP report, but it fails to underscore both the need to address the barriers to work faced by Syrian refugees as well as the systemic importance of an economic overhaul in the region. The Middle East Recovery Plan aims to address this gap, not simply as a long-term humanitarian response to the refugee crisis, but as a fundamental necessity for the development and stability of the region as a whole. Without an economic foundation, the long-term sustainability of delivering key services such as education and health is not viable.

**Rationale for the Middle East Recovery Plan**

The first step in The Middle East Recovery Plan is to encourage local host countries to overcome the legal employment barriers currently in place towards refugee communities and begin to leverage the positive potential of many refugees have to contribute to host country economies in the form of their own human capital and transnational connections. Indeed, many refugees have the ability to impact host economies positively, and there are numerous political, economic, business, and security reasons for doing so.

**Political**

Identifying a political solution for Syria must be the first priority for the international community. The lack of response and inability to identify a political solution early on has created a stalemate, increasing sectarian factions, and exacerbating violence. However, after almost five years of civil war, a political solution will not be enough to rescue the region from the impact of Syria's civil war on neighboring countries. The international community must also make a strong political commitment to share the cost of the refugee influx in local host countries and invest economically in the future of the region.

**Security**

Studies show that feelings of disenfranchisement, social isolation, lack of access to opportunity, and injustice among a population create a market for violent groups to grow and recruit members. Weak government institutions, the inability to deliver services, and a lack of economic opportunity are all increasing in Turkey, Jordan, and Lebanon, and without the support of the international community, the potential for additional violence and unrest will only increase. It is thus imperative that the international community rallies behind local host communities to provide economic and institutional support that can strengthen these countries, mitigate minority discrimination, and provide alternative pathways away from violence.

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16 Definition: a means of securing the basic necessities of life including food and shelter.
19 Ibid
Economic

Local host governments incur major infrastructural costs from refugee migration. Also costly is the delivery of health and education services on a large scale. Still, despite these expenses, World Bank data reveals that refugee migration has led to economic growth in Turkey, Lebanon, and Jordan. The growth of the Lebanese economy, for example, has exceeded expectations over the past two years, with the World Bank estimating 2.5 percent growth. This growth is due to the increase in both the consumption and purchase of local goods and services by refugees settling in local host communities. Refugees are able to purchase local goods and services from their own income and savings, remittances of relatives abroad, or international aid.

This economic growth has prevented GDP decline in Lebanon, Turkey, and Jordan, however, over the long term, the effects of war will become more evident if the international community does not begin to plan for the long-term effects the refugee crisis has had on host countries. Water consumption in Jordan, for example, has already risen by about 20 percent since the refugee crisis began, and this is the Kingdom’s largest infrastructural need. In addition, over time the war will impact aggregate incomes, which have increased less than the size of the population. The war has also hurt the standard of living with per capita average incomes declining 11 percent in Lebanon and 1.5 percent in Turkey and Jordan.

There are other economic reasons for investing in the region, including its rapidly growing population of youth who are valuable human resources. A growing youth population underscores the need to create more jobs to meet labor market demands. If done properly, leveraging the potential and talent of this youth population, both those of its own citizens and refugees, will be a net gain for the region and those who invest in it. For example, costs to host a Syrian refugee at Zaatari camp in Jordan may exceed $10,000, but when these individuals are successfully integrated into host economies, the results are a net positive. Syrians are productive and entrepreneurial. In Zaatari refugee camp, 2,500 bicycle shops generate nearly $14 million per month by one UN report estimate. This is further proof that many Syrian refugees have tangible, useful skills that can be leveraged by allowing them the opportunity to work.

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While there are still significant economic challenges that need to be addressed, leveraging this positive trajectory and designing a strategy that further benefits local businesses and the economy must be an essential component of a comprehensive recovery plan.

The international community can play a significant role in supporting the large scale economic development plans for local host countries. Economic reforms that increase access to job opportunities bolster long-term economic resiliency. For example, there is a need to integrate the massive labor potential of Middle East nations into the formal economy, as many unskilled workers and small businesses operate in informal sectors of the economy. The informal sector accounts for 20 percent and 30 percent of Jordan and Lebanon's GDPs, respectively. Addressing the informal sector will help governments generate tax revenue, create wage and job security, and improve services.

To address the long-term funding gaps facing host countries, particularly Lebanon and Jordan, a Middle East Recovery Plan should focus on creating pathways to economic opportunity that serve both refugee communities and local host communities.26

**Recommendations**

The Middle East Recovery Plan will focus on strengthening economic and financial institutions that help expand economic opportunity in the private sector in Turkey, Jordan, and Lebanon. While these policies have long been discussed and debated, little has been done to truly address the economic crisis in the region, and there has never been a greater political, social, or national security imperative to garner the full-fledged commitment of the international community. Through this Recovery Plan, suggested recommendations include, but are not limited to:

**Greater coordination between international organizations, including the World Bank, International Monetary Fund, G20 countries, and regional actors to design a coordinated strategy for economic development and growth in the region, as well as commitment to the long-term financial investment needed to support Middle East recovery.** There must be a coordinated commitment by the international community to put forward the funding, investment tools, and incentives to build a viable economic eco-system in the region. This does not only include aid funding, but also loan guarantees, political risk insurance, trade cooperation, co-investment with the private sector, and a wide-range of other financial tools and packages that will lay the groundwork for long-term economic sustainability.

**Partnership and coordination with host nations and regional civil society leaders are vital.** Members of local organizations are better poised to impact positive change in their respective communities. While grand strategic planning and operational expertise from the UN, INGOs and donor countries are necessary, tactical execution from local leaders fosters agency among recipient populations. The UN, INGOs, and donor countries must actively engage those who are on the ground in Turkey, Lebanon, and Jordan, working to build resilience in their communities. Consultation sessions must better

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amplify the voices of local humanitarian specialists and people from affected communities.

Legalize the employment of refugees in host communities: Creating opportunities for refugees to work legally in host countries is critical for long-term sustainable economic development. Turkey, through its 2014 “law on Foreigners and International Protection,” has begun to implement this process. In Jordan and Lebanon, legalization of employment for refugees is politically controversial as refugees are seen as taking jobs from the local host community. However, a recent ILO study showed that, in fact, Syrian workers, who tend to work low-skilled jobs, do not compete with Jordanians who are mostly educated and avoid working in sectors such as construction and basic services. In the medium-term, the influx of Syrian refugees actually increases economic output. Therefore, it is in the economic interest of the host countries to legalize the employment of refugees in host communities and it is the job of the international community to help support the creation of economic opportunity.

Encouraging private sector investment is key to supporting long-term economic development of the region and creating formal private sector jobs. While the region presents significant risk for private sector investment, international organizations such as the World Bank, International Monetary Fund, development finance institutions, and aid organizations can provide political risk packages, and other insurance products that mitigate risk and create a more conducive pathway for financial growth. It is important to highlight the role of infrastructure development, as improving business regulations, promoting better access to finance, and building more transparent financial institutions can take time before producing tangible, positive results. Infrastructure investment builds confidence by creating jobs and “putting in place the roads, housing, utilities, and communications platforms necessary for long-run growth.”

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Historically, the public sector has existed as the main driver of growth for Middle East economies, but this cannot continue given budget crises and political issues. To promote private sector investment, governments must level the playing field. A recent World Bank report highlights how regional policies “are captured by a few privileged firms with deep political connections and that these policies persist despite their apparent cost to society.” Governments in the Middle East need to pass legislation that encourages, not curtails, competition.

Increasing access to finance for small and medium sized enterprises (SMEs): SMEs in The Middle East and North Africa (MENA) represent about 80 percent of all business, and account for nearly 40 percent of employment. However, access to finance is consistently one of the top three growth constraints reported by SMEs in the region. Risk-averse commercial creditors or growth-oriented private equity (PE) firms are not meeting the financing needs of these SMEs, re-
sulting in high demand for finance in this significant market segment. Creating opportunities for SME financing by strengthening the banking sector through loan guarantee models and flexible direct financing schemes that meet local needs will help businesses expand and create more opportunity for regional business growth.

**Increasing support for microfinance institutions:** There are a number of microfinance institutions across the region whose reach has been limited due to the lack of finance and technical support. Infusing capital and providing technical assistance to the existing microfinance institutions across the region will help strengthen their capacity to support many of the emerging refugee micro-enterprises (especially among women) in Lebanon, Jordan, and Turkey. Microfinance can provide much needed capital to micro-scale entrepreneurs trying to sustain themselves during this period of transition.

**Increasing technical assistance and capacity building for small and medium sized enterprises:** SMEs tend to lack best practice corporate governance, financial disclosure, and transparency, human resource practices, marketing, etc. The majority are small, family run businesses that are not very sophisticated and do not necessarily have substantial growth potential absent additional capital and improved business practices. Therefore the impact for the SME is dramatically increased when a combination of technical assistance (TA) and capital are made available.

**Match labor market needs with vocational training for workers:** Coordinating with the local private sector to identify the key skills needed to fill private sector jobs is critical to conduct effective vocational training that meets labor market needs and leads to employability across the region. Creating secure jobs in the private sector will ease the burden on local governments, who now employ 70 percent of the formal sector.

**Support for local innovations – allow for experimentation in providing services:** Many local social enterprises have sprouted in Lebanon, Jordan, and Turkey that have developed innovative ways to create employment opportunities for refugees. For example:

NaTakallam is a virtual exchange platform that “aims to provide employment for Syrian refugees in Lebanon by pairing them with Arabic language learners over the Internet.” Through NaTakallam, launched in 2015, English speakers who want to learn colloquial Arabic can pay Syrian refugees living in Lebanon to chat with them, while also raising awareness about the crisis. Seventy percent of NaTakallam’s revenue goes back to the Syrian Arabic tutors and 30 percent goes towards additional development of the platform. Though the startup is in its infancy, there are already 80 students matched with 15 conversation partners. NaTakallam has requests for 500 additional sign ups and is developing its platform to accommodate increased demand.

In Jordan, the tech community has embraced Syrian entrepreneurs. Technology accelerators such as Oasis500 have actively recruited Syrians to their programs, helping to attract early-stage funding from local venture funds like Wamda Capital.
Target women and youth: The Syrian civil war will cause a significant shift in demographics across the region with a majority being women and youth. We are risking a lost generation of children. Almost one million children between the ages of 5 and 17 are not enrolled in school. Working through local organizations to provide additional access to education and ensuring that all programs target and focus on youth is key to the success of long-term sustainable development. Women, especially between the ages of 15 and 49, represent one million of the over four million refugees. They lack adequate access to health services and are highly vulnerable to violence and sexual assault. It is critical to actively conduct outreach to ensure that a comprehensive economic development strategy makes a concerted effort to address these issues.

Conclusion

The scale of Syria’s conflict has massive ramifications on the region and the world, especially for the refugees that flee, the host communities, and countries that are caring for them. The international community must work together to prevent further instability at the local and regional levels by enabling Syrians to do what they want: stay closer to home and preserve the chance to return.

For Syria, its people, the region and the world, we need to avoid a lost generation of children without education, reverse a brain drain of skilled workers and professionals who are unable to make their contribution at home, and mitigate pressure on struggling services in host countries. The global community cannot allow for further deterioration in Syria and its neighboring countries of Turkey, Lebanon, and Jordan. As the international community looks at long-term development, it must find ways to relinquish short-term aid-driven models in favor of more efficient and innovative financing mechanisms. A political commitment to share the challenge of the refugee crisis, and invest in the region is a long-term investment that will benefit the region and the global community as a whole. This generation of youth has already proven themselves to be resilient problem-solvers and ready to become productive members of society. We simply need to create an eco-system that allows them to achieve these goals and, consequently, create a foundation for regional stability.