

RESEARCH

Open Access



The effect of internal forced displacement on small and medium enterprises in the host community, in case of Amhara region, Ethiopia

Tefera Getachew Dagnachew*

*Correspondence:
tgetachew54@gmail.com

Department of Economics, Wollo
University, P.O. Box 1145, Dessie,
Ethiopia

Abstract

Ethiopia is highly challenged by the growing ethnicity-based conflict and large numbers of people are forcibly displaced from their origin. This study examines the effect of growing internal forced displacements on small and medium enterprises in the Amhara region, Ethiopia. The study used firm-level data for the years between 2015 and 2021. To analyze the effect of IDPs, the study used a panel-instrumental approach. The estimated result finds that large forced IDPs affect enterprises' production. Small enterprises are highly affected by IDPs compared to medium enterprises, and this is due to the greater influence of the informal sector on small enterprises.

Keywords: Small enterprises, Enterprises exit, Forced displacement, Informality

Introduction

There were over 55 million internally displaced populations across the world at the end of 2020, of these 48 million were displaced as a result of conflict and violence. Most new displacements triggered by conflict and violence were recorded in sub-Saharan Africa, specifically the Democratic Republic of the Congo and Ethiopia (IDMC, 2020). In 2018, Ethiopia recorded the third-highest number of displacements worldwide, with 3,191,000 internally displaced persons (IDPs) identified, and this number increased to 4.23 million identified IDPs in 2021 (IOM, 2021). Internally displaced are persons or groups who have been forced or obliged to flee or leave their homes or places of habitual residence, in particular as a result of or to avoid the effects of armed conflict, situations of generalized violence, violations of human rights, or natural or human-made disasters, and who have not crossed an internationally recognized state border (UNHCR, 2010).

Many studies were done on the impact of refugees on the host community and on the refugees themselves. However, the literature on the impact of internal forced displacement on the host community was very limited. The characteristics of internal forced displacement are different from refugees (Paolo & Kirsten, 2021). Unlike refugees, who require a special legal status as a result of being outside their country and without its protection, IDPs remain entitled to all the rights and guarantees as citizens and other habitual residents of a particular state. IDPs have been compelled to leave their homes

and often cannot return because they face risks at their places of origin, from which state authorities are unable or unwilling to protect them, because they might have been specifically prohibited from returning, or because their homes have been destroyed or are being occupied by someone else (UNHCR, 2010). It is a sudden shock; typically, they carry some small savings with them but little else because of the sudden nature of the shock, and they tend to move to destinations based on proximity and security criteria rather than personal networks (Ceriani & Paolo, 2018).

The effect of forced internal displacement on the host community is probably different from the effect of refugees. Sudden and large inflows of forced migration may induce sizable effects on the hosting economies by increasing demand for public services and modifying the decisions made by workers and firms (Sandra & Hernan, 2019). This study focused on the effect of IDPs on small and medium enterprises, which are the main engines of developing economies.

Small firms are more sensitive to economic shocks, and refugee inflows are concentrated in the informal sector, where most small and medium firms operate (Kurz & Senses, 2016; Vannoorenberghe, 2012). In developing countries, small and medium enterprises play a major role, and they represent about 90% of businesses and more than 50% of employment. Formal SMEs contribute up to 40% of national income in developing countries (WB, 2021). IDPs are mostly displaced from rural to urban areas without legal identification, and they have low job experience and low education levels that may complicate integration into formal markets (Ibañez & Moya, 2006), which triggers IDPs to join the informal sectors, which require low skills (Galiani & Weinschelbaum, 2012). The growth of SMEs depends on external factors like informality (Skenderi et al., 2017). Altindag et al. (2020) investigated that refugees affect the intensive and extensive margin of production and the impact of refugees on firms is concentrated in the informal economy. A study in Colombia by Sandra and Hernan (2019), on the impact of IDPs on the manufacturing sector, finds that a large inflow of IDPs affects the production of firms negatively. The study expects that IDPs may have a great effect on small and medium enterprises in the host community.

This study contributes to the literature by analyzing the impact of internally displaced populations on small and medium enterprises in developing countries. Small and medium enterprises are the most sensitive sector which is expected to be affected by large population shocks. Most of the previous studies considered developed nations, and their study focused on the effect of refugees on the host economy,¹ which may be different from the behavior of IDPs. This study contributes to the literature by analyzing the effect of forced IDPs on small and medium enterprises' productivity, input demand, entry, and exit in developing countries. Additionally, the study contributes to the literature by examining the sectorial effects of unskilled internal forced displacement on small and medium enterprises in developing countries where the informal sector dominates. This study has basically the following research questions:

- What effect does forced internal displacement have on the production of small and medium enterprises?

¹ The studies include (Lewis & Peri, 2015) USA, (Ottaviano et al., 2018) Italy, (Dustmann & Glitz, 2015) Germany.

- What effect does forced internal displacement have on input demands on small and medium enterprises?
- Do internal forced displacements have an effect on small and medium enterprises' decision to exit and enter into the business?
- Which sector of small and medium enterprises is affected by internal forced displacement?

Theoretical framework

Based on the theory of the Marshallian factor-demand for a competitive labor market, Borjas and Monras (2016) investigated the effect of refugees on the receiving countries, and they found a negative effect on the host country's position on the labor market and a positive effect on the position of complementary workers. A study by Bozzoli et al. (2013) investigated how the arrival of refugees affects the host economy. They found a positive effect of refugees on the demand for goods and the self-employment conditions, and this is due to self-employment in the informal sector and rising demand for goods. Maystadt and Verwimp (2014) extend the effect of refugees on local economies through channels of price, employment, wage, and business.

Extending the idea of Altındag et al. (2020), the model is formalized as follows to analyze the effect of a large population shock on the host economies' overall production. The host economy is composed of workers and enterprises and divided into formal and informal economic sectors. Formal enterprises can employ workers either formally or informally. The enterprises in each sector are assumed to use only labor for production, and workers in the host economy can be internally displaced (*d*) and locals (*r*). The displaced population may have high (*h*) or low (*l*) job skills. Since internally displaced populations are mostly displaced from the rural part of the country, they lack experience and are displaced without documents. The local workers may have either low or high skills. Given this, the local economy is endowed with different types of workers $\bar{l}_d, \bar{l}_{r,l}$ and $\bar{l}_{r,h}$, where each worker has one unit of time.

The study assumes the small and medium enterprises (formal) chooses labor from internally displaced, local high skilled and local low skilled to solve the problem of production:

$$\max_{l_d, l_{r,l}, l_{r,h} \geq 0} p_f Q_f - w_{in} [\gamma l_d - l_{r,l}] - [w_f + T] l_{r,h}, \text{ with } Q_f = \tau_1 [l_r l_d + l_r l_{r,l}] + \tau_2 [l_r l_{r,h}], \tag{1}$$

where $0 < \tau_1 < \tau_2$ and *T* represent cost that displaced paid to the government by formal employees. The solutions to this maximization problem yield the formal labor demand output and output supply can be expressed as:

$$l_f^d = \frac{p_f \tau_1}{w_{id}}, \tag{2}$$

$$l_f^l = \frac{p_f \tau_1}{w_{ir}}, \tag{3}$$

$$l_f^h = \left(\frac{p_f \tau_2}{w_f} + T \right), \tag{4}$$

$$Q_f^s = \tau_1 l_r \left[\frac{p_f \tau_1}{w_{id}} \right] + \tau_1 l_r \left[\frac{p_f \tau_1}{w_{ir}} \right] + \tau_2 l_r \left[\frac{p_f \tau_2}{(w_f + T)} \right]. \tag{5}$$

To analyze the effect of a positive shock of internal displacement on formal enterprises, consider the equilibrium, when all the quantities are produced and employees are hired in the equilibrium are a function $(P_i, p_f, w_{id}, w_{ir}, w_f)$.

Using Eqs. 1 and 5 the production of the enterprises are given:

$$\frac{dQ_f}{d\bar{l}_d} = \frac{\partial Q_f}{\partial P_f} \frac{dP_f}{d\bar{l}_d} + \frac{\partial Q_f}{\partial P_i} \frac{dP_i}{d\bar{l}_d} + \frac{\partial Q_f}{\partial w_f} \frac{dw_f}{d\bar{l}_d} + \frac{\partial Q_f}{\partial w_{ir}} \frac{dw_{ir}}{d\bar{l}_d} + \frac{\partial Q_f}{\partial w_{id}} \frac{dw_{id}}{d\bar{l}_d}. \tag{6}$$

Consider that the formal and informal products are independent goods:

$$\frac{\partial Q_f}{\partial P_f} = 0. \tag{7}$$

Given the assumption of the model:

$$\frac{\partial Q_f}{\partial P_f} > 0, \frac{\partial Q_f}{\partial w_f} < 0, \frac{\partial Q_f}{\partial w_{ir}} < 0, \frac{\partial Q_f}{\partial w_{id}} < 0.$$

It is possible to derive the following conclusion about the effect of internal displacement shock on formal small and medium enterprises.

If $\frac{dQ_f}{d\bar{l}_d} \geq 0, \frac{dw_{id}}{d\bar{l}_d} \leq 0, \frac{dw_{ir}}{d\bar{l}_d} \leq 0,$ and $\frac{dw_f}{d\bar{l}_d}$ it will be true that $\frac{dQ_f^s}{d\bar{l}_d} > 0.$

Here below is the theoretical framework to identify the effect of population shock on employment and wages based on (Del Carpio & Wagner, 2015). Large population shock impacts the productivity of the local economy either directly or indirectly. To analyze the effect of internally displaced populations on the mean wage \bar{W} of the host community. Consider the two scenarios of the developing countries with internal displacement ($d=1$) and without internal displacement ($d=0$). The mean wage is given as (w_g) the weight depends on the number of people in the group (N_g) and the number of people employed in the fraction is given as (π_g) :

$$\bar{W}_{d=j} = \frac{\sum g N_g \pi_{g,d=j} W_{g,d=j}}{\sum g N_g \pi_{g,d=j}} j = (1, 0), \tag{8}$$

where the study allows the wage and employment to depend on the internally displaced population. To empirically estimate the values of a change in mean wage, the study used the baseline year of 2014 (when there were no large displacement issues in Ethiopia).

Data

Internal displacement data

The study employed different sources of internal forced displacement data. The data for internally displaced population into Amhara region were collected from IDMC (internal displacement monitoring center), IMO, Amhara disaster and risk management office

and DTM Ethiopian site assessment for the year 2015–2021. These data were aggregated annually for the study period. The data sources are the best sources of displaced population information in the context of Ethiopia, and they consist of information about the origin and causes of internal displacement. Zone-level displacement data are collected from the Amhara disaster and risk management office.

The data for regional labor outcomes are collected from the annual employment survey and the CSA annual survey. This data source represents the working-age population in the region, and the data give detailed information about labor supply in the region. The population information in the region comes from the annual CSA survey. To construct the instrumental variable, the study used the national population census conducted in 2007 for the last time before the issue of internal displacement became common in Ethiopia. The census includes all relevant information to construct the instrumental variable.

Enterprises data

Regarding the number of enterprises in the region, the study used data collected from the micro- and small enterprises office for the years 2016–2021. The data include both small and medium enterprises in four different sectors (service, manufacturing, construction, and trade). The study did not include the urban agriculture sector due to a lack of comprehensive data for the year under consideration. The data include information on production-related variables, including employment and wages, and contains information on the physical quantities and prices (valued at factory-gate prices) of each output and input used or produced. The sample includes all zonal administrations in the region, where large numbers of small and medium enterprises are found and displaced populations are located.

The enterprise's establishment and liquidation data were collected from the trade and investment office and the small and medium enterprises office. This data includes information on the number of new and existing small and medium enterprises established and their capital and ownership structure. The data cover the years 2015 to 2021. During these years, the area was a strong recipient of IDPs from different parts of Ethiopia, mainly Oromiya, Benshangul Gumuz, and Tigray, which were mainly caused by violence and conflict. The sample consists of all zonal administrations in the region where large numbers of SMEs and displaced populations are located.

Empirical strategy

To analyze the effect of internal forced displacement on small and medium enterprises, the study used a panel-instrumental approach, which is the best method to control the endogenous problem due to the non-random nature of displaced populations. The displaced populations may move for different reasons, like to more secured areas where there are better job opportunities, where their relatives are, where illegal armed groups are not active, or they might choose areas where businesses are good, which leads us to estimate biased results on the effect of small and medium enterprises. To avoid biases due to the non-randomness of the data, the study used a panel-instrumental approach.

The model specification is given as follows:

$$\ln(Y_{imt}) = \beta_1 \text{PrcIDP}_{mt} + \beta_t + \beta_i + \epsilon_{imt}, \quad (9)$$

$$PrcIDP_{mt} = \gamma \text{ predicted Inflows}_{mt} + \gamma_t + \gamma_j + \mu_{imt}, \tag{10}$$

where i stand for SMEs, m stands for zone, and t stands for year; Y represents the small and medium enterprises decisions on production, sales, employment and nominal wage, entry and exit and input demands²; $PrcIDP_{mt}$, represents the percentage of IDP inflows to the population of working age³ (multiplied by 100) for elasticity interpretation; $\beta_t, \beta_i, \gamma_t$ and γ_j represent year and enterprises fixed effects.

Predicted forced inflows is the instrumental variable and it is developed and adopted from the original idea of Card (2001) and Lewis and Peri (2015), which suggests past migration patterns are predictors of future migration, basically, the destination of migrants are affected by factors associated with relatives, family backgrounds or other types of ties that can positively contribute to the migrant’s sustenance:

$$\text{Predicted inflows}_{mt} = \left(\text{Internal forced outflows}_{jt} \times \frac{\text{Migrants}_{mj}^{2007}}{\text{Totalmigrants}_m^{2007}} \right) \times 100, \tag{11}$$

where $\text{Internal forced outflows}_{jt}$ measures the number of individuals who were displaced by violence in zone j and year t ; j represents the total group of zones; Total migrants_m is the total number of individuals who live in zone m , but who were not born there in 2007; and Migrants_{mj} is the total number of individuals born in zone j who are living in zone m in 2007. In the year 2007 Ethiopia conducted a population and housing census before the issues of internal forced displacement becomes a big issue.

Results and discussion

Effect of internal forced displacement on small and medium enterprises production

First, the study analyzes the effect of internal forced displacement on SME production. To estimate the effect of IDPs on SMEs’ production, the study used gross production as a proxy. Table 1 presents different estimates for comparison purposes, and each column presents a single regression result. Due to the issue of bias, the study focuses on the instrumental variable regression results.

The two-stage estimate finds that there is a negative effect of IDP inflows on the gross production of small enterprises⁴; the result suggests that a 1% increase in internal forced displacement inflows leads to a 0.44% decrease in gross production of small enterprises in the region. The estimate for medium enterprises finds no evidence that the IDPs inflows affect the gross production of medium enterprises.

This negative and significant result is in line with the study of (Sandra & Hernan, 2019), who studied the impact of Colombian IDPs in the host community. This may be because small firms are affected by sudden population shocks, which increase the number of informal competitors. The informal sector supplies lower-quality products at a

² To measure the effect of IDPs on production of small and medium enterprises the study used gross production which is measured by the factory gate price plus inventories for both small and medium enterprises. To measure the effect on probability of firm exit and entry the study used the number of firms that join SMEs and exit for the year 2015–2021. For input demand, the study used total employment and nominal wage of small and medium enterprises.

³ Working-age population in the context of Ethiopia age above 15 years.

⁴ Small Enterprises in the context of Ethiopia are firms that employ 6–30 with the total assets of $\$2301 < = \$69,500$. Medium enterprises are enterprises with the total asset of $\$69,500 < = \$100,000$.

Table 1 Effect of internal forced displacement on small and medium enterprise production

Dependent variable in logs	Gross production	
	Small enterprises	Medium enterprises
Panel A: OLS ^a		
Percentage share of IDPs ^b	0.021* (0.005)	− 0.003 (0.0610)
Adj. R. squared	0.26	0.32
Panel B: 2SLS ^c		
Percentage share of IFDP ^d	0.0044*** (0.0002)	− 0.009 (0.0120)
Panel C:		
	Percentage share of IDPs (%)	
First stage dependent variable	0.85***	0.26***
Predicted internal displaced inflows	(0.312)	(0.050)
First stage F. Statistic	65.5	67.23
Observations (for all panels)	1025	1101

Each coefficient corresponds to a separate regression and all panels include controls for zone and year fixed effects. The standard errors clustered at the zonal level are shown in the parenthesis. *** Represents significant level at 1%, ** represents significant at 5% and * represents significance at 10%

^a Ordinary least square estimation

^b Internal displaced populations

^c Two-stage least square estimation

^d Internal forced-displaced populations

lower price compared to formal firms (La Porta & Shleifer, 2014). IDPs might demand more products from the informal sectors at a lower price, which reduces the market share of formal small enterprises. The unfair competition from the strong informal sector might reduce the productivity of formal small enterprises.

Overall, the result suggested that IDP inflows negatively affect the production of small enterprises, and the study documented that there is no evidence that the production of medium enterprises is affected by IDPs. This shows that the effect of internal forced displacement is strong on small enterprises, and as the size of the firm increases, the effect might reduce since the informal sector's effect is more on small and micro-enterprises.

Effect of forced internal displacement on input demand

To analyze the effect of internal forced displacement on input demand in small and medium enterprises, the study is based on the available data on permanent employment and wages. The estimated result indicated that internally displaced populations do not have a significant effect on both employment and wages in small and medium enterprises. This result is in line with the result of Ibañez & Moya, (2006), suggesting that IDPs mostly lack education and work experience. Sandra and Hernan (2019), also supporting the result that forced migrants are mostly displaced from agricultural areas, where most of them are insufficiently skilled for available roles in their new environment. Forced displaced workers are not able to find jobs that fit their education and experience, and they may have to change occupations, which takes time (Paolo & Kirsten, 2021) (Table 2).

Table 2 Effect of forced internal displacement on input demands

Dependent variable in logs	Small enterprises		Medium enterprises	
	Permanent employment	Wages	Permanent employment	Wages
Panel A: OLS				
Percentage share of IDPs	0.245 (0.089)	− 0.021* (0.003)	0.0062 (0.063)	0.047 (0.009)
Adj. R. squared	0.21	0.18	0.21	0.16
Panel B: 2SLS				
Percentage share of IFDP	0.009 (0.008)	− 0.0018 (0.246)	0.352 (0.087)	− 0.025 (0.003)
Panel C:				
First stage dependent variable	Percentage share of IDPs			
Predicted internal displaced inflows	− 0.0025*** (0.001)	− 0.084*** (0.025)	0.053*** (0.014)	0.046*** (0.003)
First stage F. Statistic	19.05	19.05	20.24	20.24
Observations (for all panels)	1025	1025	1101	1101

Each coefficient corresponds to a separate regression and all panels include controls for zone and year fixed effects. The standard errors clustered at the zonal level are shown in the parenthesis. *** Represents the significant level at 1%, ** represents significant at 5% and * represents significance at 10%. The estimate controls age, education and marital status

In developed nations, negative effects on wages should be expected to be much more prevalent in the short run following a population shock (Verme et al., 2020). However, in developing countries, large and sudden numbers of refugees face the problem of overpopulation, which leads to higher competition for the resource (Baez, 2011). The insignificant effect might be because in Ethiopia, most of the IDPs come from a rural area with a low level of education, which makes it hard for them to integrate with the urban population, and the urban areas have a large number of unemployed people.

Effect of forced internal displacement on small and medium enterprises exit and entry

The study also analyzed the effect of internal forced displacement on small and medium enterprises' entry and exit using data for newly established and liquidated small and medium enterprises available in the region from 2015 to 2021. The estimated result indicated that forced internal displacement affects the decision of small and medium enterprises to exit. The two-stage estimated result indicated that a 1% increase in IDP inflows increased small and medium enterprise exits by 0.35% and 0.29%, respectively. This result is in line with Sandra and Hernan (2019), suggest that IDP inflows may be fully absorbed by the informal economic sector and the pressure from the informal firms on small and medium enterprises may lead the small and medium enterprises to exit from the market and this is a common practice in developing countries. The increase in the informal sector reduces the market share of small and medium formal enterprises, and the informal business can supply products at a lower price than formal firms since they are exempt from taxes and regulations, which forces the small and medium enterprises to exit the business (Table 3).

The significant effect of IDPs on an enterprise's exit might be due to the special characteristics of internal forced displacement among refugees. IDPs move mostly due to ethnicity-based conflict and political instability, and most of them lose their assets, which

Table 3 Effect of forced internal displacement on small and medium enterprises exit and entry

Dependent variable in logs	Small enterprises		Medium enterprises	
	Entry	Exit	Entry	Exit
Panel A: OLS				
Percentage share of IFDP	0.120*	0.0015**	−0.003	0.023**
	(0.0032)	(0.0006)	(0.056)	(0.0037)
Adj. R. squared	0.06	0.06	0.15	0.15
Panel B: 2SLS				
Percentage share of IFDP	0.223	0.0035***	−0.099	0.0029**
	(0.071)	(0.0012)	(0.029)	(0.0008)
Panel C				
First stage dependent variable	Percentage share of IDPs			
Predicted internal displaced inflows	1.003***	0.990***	1.012***	1.026***
	(0.0012)	(0.051)	(0.067)	(0.0024)
First stage F. Statistic	26.3	26.3	24.9	24.9
Observations (for all panels)	908	628	740	456

Each coefficient corresponds to a separate regression and all panels include controls for zone and year fixed effects. The standard errors clustered at the zonal level are shown in the parenthesis. *** Represents the significant level at 1%, ** represents significant at 5% and * represents significance at 10%

affects the whole economic system of the country and disturbs the business environment. This may create frustration and insecurity for small and medium enterprises to operate in normal conditions.

The estimated result shows no significant evidence that forced internal displacement affects small and medium enterprises' entry. This result is in line with the results of Yusuf et al. (2018), who stated that firms' entry does not seem to be affected by refugees.

The overall analysis of this estimate indicated that a large inflow of forced internal displacement plays a detrimental role for small and medium enterprises' existence and their operation in developing countries.

Effect of internal displacement on small and medium enterprises by sector

Table 4 estimates the sector-based effect of internal forced displacement on SMEs. In the Ethiopian context, there are five SME sectors, but due to a lack of data on urban agriculture, the study analyzes the effect of IDPs on the other four sectors using nominal sales data. The sector-based estimate finds a positive and significant effect of IDPs on the service and trade sectors. The two-stage estimated result shows that a 1% increase in IDP inflows in the region increased sales in the service and trade sectors by 0.56% and 0.23%, respectively.

The positive and significant effect of IDPs on the service and trade sectors is in line with the result of Paolo & Kirsten, (2021), which suggests that forced migrants usually carry a minimum amount of savings in kind or cash, and this small amount of savings is spent on primary goods and services like food, health care, and shelter, which are mostly supplied by the trade and service sectors. The hospitality sector is highly affected by a large aggregate demand shock due to refugee migration (Altindag et al., 2020). The positive effect on these sectors might be that they supply goods and services that are easily demanded by low-income, forced-displaced populations. Sales of small and medium

Table 4 Effect of internal displacement on small and medium enterprises by sector

Sector	Service	Trade	Manufacturing	Construction
Dependent variable in logs	Sales			
Panel A: OLS				
Percentage share of IFDP	0.0085*** (0.0019)	0.023** (0.007)	0.091*** (0.0002)	− 0.015 (0.0035)
Adj. R. squared	0.26	0.21	0.03	0.19
Panel B: 2SLS				
Percentage share of IFDP	0.0056*** (0.0021)	0.0023*** (0.0001)	0.021 (0.560)	0.002 (0.004)
Panel C				
First stage dependent variable	Percentage share of IDPs			
Predicted internal displaced inflows	1.25*** (0.078)	1.120*** (0.0023)	1.25*** (0.069)	0.025** (0.007)
F. Statistic	31.5	31.8	32.02	41.3
Observations (for all panels)	358	374	356	352

Each coefficient corresponds to a separate regression and all panels include controls for zone and year fixed effects. The standard errors clustered at the zonal level are shown in the parenthesis. *** Represents the significant level at 1%, ** represents significant at 5% and * represents significance at 10%

enterprises may be driven by a consistent increase in demand for the service and trade sectors due to an increase in population. The study finds no significant evidence that the internal forced population inflows affect the manufacturing and construction sectors.

Overall, the study suggested a positive effect of IDPs on the sales of SMEs in the service and trade sectors. In developing countries, these two sectors (service and trade) relatively supply goods and services, which are affordable at low prices compared to manufacturing and construction. A lower price attracts IDPs, who are displaced with no or minimal savings.

Conclusion and recommendations

Conclusions

This study examines the effect of forced internal displacement on small and medium enterprises in Ethiopia in the case of the Amhara region. In Ethiopia, the issue of forced internal displacement is a common phenomenon, and large numbers of people are displaced due to ethnic-based conflict and political instability. The estimated result strongly supported the hypothesis that a large number of forced internal displacements negatively affect small enterprises' production performance. The study also investigated whether increases in forced internal displacement inflow increase the probability of small and medium enterprises' existence. The internal displacement due to conflict disrupts the whole economic system of developing countries, which forces small and medium enterprises to exit their business activities. In addition, the study investigated the question of which sector is highly affected by population shocks in developing countries, and the result revealed that large IDP inflows affect the trade and service sectors of small and medium enterprises. Generally, this study concluded that developing economies with large informal economic activities are not able to absorb a large number of unskilled, internally displaced populations, and this affects the growth of small and medium enterprises.

Recommendations

As shown by the negative effect of internal forced displacement on the host communities and considering that the issue of internal displacement is a common phenomenon, the study demands a clear intervention by local and international concerned bodies, and the following suggestions are made.

Most of the internally displaced community flows into urban areas, and the leaders in the urban areas have the responsibility for everyone living in their jurisdiction, including IDPs, and this requires policies that promote self-reliance and encourage integration of displaced individuals into the local communities. IDPs that are from the rural area of the country face different challenges to understand the urban areas economic activities, services, market and other infrastructures. Therefore, local and international organizations should work to develop and improve the capabilities of displaced populations to understand urban settings. Humanitarian agencies should also invest in services that create long-term sustainable growth in urban areas, including professional development, education, training, and other services. Furthermore, by supporting the displaced populations, urban areas can also benefit from the new skills that rural IDPs bring with them.

The study is not free from any limitation; it considers only the short-term effect of IDPs on small and medium enterprises, and further study is needed to analyze the effect of IDPs in the long run using a comprehensive data set at the national level and IDPs' effect on the economies of developing countries.

Abbreviations

IDP	Internally displaced population
IDMC	Internal Displacement Monitoring Center
IOM	International Organization for Migration
UNHCR	United Nations High Commissioner for Refugees
WB	World Bank
SME	Small and medium enterprises
DTM	Displacement tracking matrix
CSA	Central Statistics Authority

Acknowledgements

Not applicable.

Author contributions

I am the only author for this article. The author read and approved the final manuscript.

Funding

There is no funding for this research.

Availability of data

The datasets used and/or analyzed during the current study are available from the corresponding author on reasonable request.

Declarations

Consent for publication

Not applicable.

Competing interests

The author declares that there is no conflict of interest regarding the publication of this paper.

Received: 9 March 2022 Accepted: 20 February 2023

Published online: 28 February 2023

References

- Altındağ, O., Bakiş, O., & Rozo, S. V. (2020). Blessing or burden? Impacts of refugees on businesses and the informal economy. *Journal of Development Economics*, 146, 102490.
- Baez, J. (2011). Civil wars beyond their borders: The human capital and health consequences of hosting refugees. *Journal of Development Economics*, 96(2), 391–408.
- Borjas, G. J., & Monras, J. (2016). The Labor Market Consequences of Refugee Supply Shocks. NBER Working Paper No. 22656, National Bureau of Economic Research, Cambridge, MA.
- Bozzoli, C., Brück, T., & Wald, N. (2013). Self-Employment and Conflict in Colombia. *Journal of Conflict Resolution*, 57(1), 117–142.
- Card, D. (2001). Immigrant inflows, native outflows, and the local labor market impact higher immigration. *Journal of Labor Economics*, 19(1), 22–64.
- Ceriani, L., Verme, P. (2018). Risk preferences and the decision to flee conflict. The World. *Bank Policy Research Working Paper Series No 8376*.
- Del Carpio, X. V., & Wagner, M. C. (2015). The Impact of Syrian Refugees on the Turkish Labor Market. Policy Research Working Paper No. 7402, World Bank, Washington, DC.
- Dustmann, C., & Glitz, A. (2015). How do industries and firms respond to changes in local labor supply? *Journal of Labor Economics*, 33(3), 711–750.
- Galiani, S., & Weinschelbaum, F. (2012). Modeling informality formally: Households and firms. *Economic Inquiry*, 50(3), 821–838.
- Ibañez, A. M., Moya, A. (2006). *Como el desplazamiento forzado deteriora el bienestar de los hogares desplazados? analisis y determinantes del bienestar en los municipios de recepcion*.
- IDMC. (2020). *Global report on internal displacement*. Norway Refugee Council.
- IOM. (2018, 2021). *Ethiopia national displacement report Ethiopia Displacement site assesment*. Addis Ababa .
- Kurz, C., & Senses, M. Z. (2016). Importing and Exporting firm-level volatility. *Journal of International Economics*, 98, 160–175.
- La Porta, R., & Shleifer, A. (2014). Informality and development. *Journal of Economic Perspectives*, 28(3), 109–126.
- Lewis, E., & Peri, G. (2015). Immigration and the economy of cities and regions. In: *Handbook of Regional and Urban Economics*, Volume 5, pp. 625–685
- Maystadt, J. F., & Verwimp, P. (2014). Winners and losers among a refugee-hosting population. *Economic Development and Cultural Change*, 62(4), 769–809.
- Ottaviano, G. I. P., Peri, G., Wright, G. C., et al. (2018). Immigration, trade and productivity in services: Evidence from UK firms. *Journal of International Economics*, 112, 88–108.
- Paolo, V., & Kirsten, S. (2021). The impact of forced displacement on host communities: A review of the empirical literature in economics. *Journal of Development Economics*, 150, 102606.
- Sandra, R., & Hernan, W. (2019). Is Informality Good for Business? The Impacts of IDP Inflows on Formal Firms. *Policy Research Working Paper 9035*.
- Skenderi, N., Islami, X., & Mulolli, E. (2017). The impact of informal economy on the development of SMES in Kosovo. *International Journal of Management, Accounting and Economics*, 4(5), 2383–3126.
- UNHCR. (2010). Handbook for the protection of internally displaced persons. *Global Protection Cluster Working Group*.
- Vannoorenberghe, G. (2012). Firm level volatility and exports. *Journal of International Economics*, 86, 57–67.
- Verme, P., & Schuettler, K. (2020). *The Impact of Forced Displacement on Host Communities. A Review of the Empirical Literature in Economics*, GLO Discussion Paper, No. 583, Global Labor Organization (GLO), Essen.
- World Bank, (2021). *Small and Medium Enterprises (SMEs) Finance*.

Publisher's Note

Springer Nature remains neutral with regard to jurisdictional claims in published maps and institutional affiliations.

Submit your manuscript to a SpringerOpen[®] journal and benefit from:

- Convenient online submission
- Rigorous peer review
- Open access: articles freely available online
- High visibility within the field
- Retaining the copyright to your article

Submit your next manuscript at ► [springeropen.com](https://www.springeropen.com)
