

## FIXED INCOME

# The Crisis No One is Talking About

### BARINGS INSIGHTS

The migration patterns stemming from Venezuela's economic collapse provide key ESG insights, especially for Colombia and other neighboring countries, and particularly when compared to the case of Syrian refugees in Turkey.



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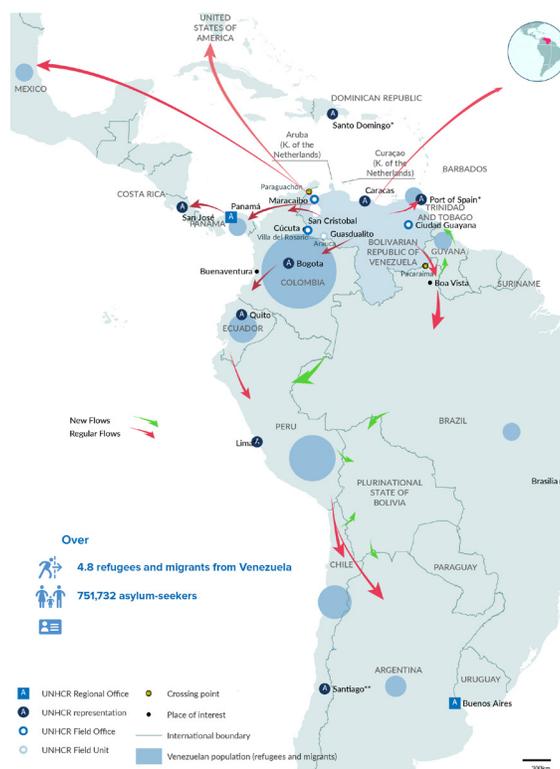
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**Facts**

- From 2015 to the end of 2019, 4.6 million Venezuelans—or 16% of the population—fled the country, and according to some estimates that number could reach 6.5 million by December 2020. For comparison, 4.8 million Syrians left their country in 2015 and 5.5 million—or 25% of the population—fled between 2011 and 2019.<sup>1</sup>
- The international community has spent \$605 million to support Venezuelan refugees and internally displaced people. This translates to \$131 per Venezuelan refugee, far less than the \$3,400 spent per Syrian refugee.<sup>2</sup>
- Approximately 2 million Venezuelans are living in other South American countries as immigrants without refugee status or asylum claims.<sup>3</sup>
- Most refugees exit through Paraguachón—a city on the border that has been described as chaotic and uncontrolled, with reports of smugglers exploiting forced migrants daily. Refugees with the direst needs are protected in the Maicao UNHCR camp, while many others go to squatter camps by the border.<sup>4</sup>

The current refugee crisis in Venezuela is unique in that it is not a result of conventional war or conflict. Rather, it has been driven by worsening economic conditions. Since 2013, the Venezuelan economy has contracted by 65%, deterioration many believe was avoidable.<sup>5</sup> In roughly the same period, the undernourishment rate has quadrupled and the U.N. estimates that approximately 300,000 people’s lives have been put at risk due to limited access to medical treatment. The country has also been plagued by water and electricity shortages, while violence has skyrocketed. These severe humanitarian impacts have led droves of Venezuelans to flee.

**FIGURE 1: Venezuelans Have Fled Their Country in Droves**



SOURCE: UNHCR. As of December 31, 2019.

1. Sources: The Brookings Institution; U.N. Refugee Agency, UNHCR. As of December 2019.
2. Source: UNHCR, OCHA. As of 2020.
3. Source: UNHCR.
4. Source: UNHCR, Brookings Institution analysis.
5. Source: IMF. As of October 2019.

## Role of Neighboring Countries

Venezuela’s neighboring countries—namely in Latin and South America as well as the Caribbean—have taken in the majority of these refugees. The Colombian government hosts the largest number, with over 1.6 million living there in 2019, making up 3% of Colombia’s total population.<sup>6</sup> The country has launched over \$230 million in credit lines for infrastructure and private investment in areas with high refugee density.<sup>7</sup> Peru, Ecuador and Chile have also taken in refugees—with Peru taking in 860,000 and both Ecuador and Chile taking in more than 370,000 each. However, these three countries imposed visa restrictions on Venezuelans in 2019, leading to an increase in undocumented migration and more migrants fleeing to Colombia.

**FIGURE 2:** Venezuela vs. Syria (2015–2019)

	Host Country	Number of Refugees Two Years Into Crisis	Total Number of Refugees	International Support Two Years Into crisis	Total International Support
Venezuela	Colombia	1,600,000	—	\$115 million	—
	Peru	860,000	—	\$24 million	—
	Ecuador	370,000	—	\$41 million	—
	Chile	370,000	—	\$5 million	—
	Brazil	200,000	—	\$68 million	—
	Caribbean	100,000	—	--	—
	Others	1,100,000	—	\$352 million	—
	<b>Total</b>	<b>4,600,000</b>	<b>—</b>	<b>\$605 million</b>	<b>—</b>
Syria	Turkey	249,000	3,600,000	\$180 million	\$4 billion
	Lebanon	127,000	880,000	\$967 million	\$6.9 billion
	Jordan	239,000	659,000	\$934 million	\$5 billion
	Iraq	64,000	244,000	\$194 million	\$1 billion
	Others	8,000	162,000	\$225 million	\$2.5 billion
	<b>Total</b>	<b>762,000</b>	<b>5,500,000</b>	<b>\$2.5 billion</b>	<b>\$19.4 billion</b>

SOURCES: UNHCR; OCHA. As of 2020.

These Latin American countries, generally speaking, have been applauded for their generous response to the crisis. The Colombian government, for instance, has indicated that it is trying to legalize as many new arrivals as possible, giving the refugees work permits and access to education and medical services. But these responses are not without economic implications—Colombia’s Finance Minister has stated that the additional cost of educating, housing, and meeting the health needs of Venezuelan migrants could reach 0.8% of the country’s GDP in the short term.<sup>8</sup>

Perhaps unsurprisingly, tensions between migrants and their host communities are growing, and in our view could become a risk to social stability. In Peru and Brazil specifically, governments have been wary of accepting more refugees in fear of continued social pushback. While on the national scale Colombia continues to support Venezuelans fleeing their situation, local mayors have called Venezuelans criminals and have made attempts to restrict migrants from entering their cities, in some cases even trying to return them back home. Public opinion has also shifted as the number of migrants has increased, and Colombian public surveys show a growing disdain toward these migrants, who were welcomed just a few years back.

6. Source: UNHCR. As of February 2020.

7. Source: Speech from Ivan Duque. As of February 14, 2019. Government of Colombia.

8. Source: Quote to The Financial Times. As of February 2020.

## Impact of COVID-19

The pressure that COVID-19 has exerted on many of these economies has caused a population of Venezuelan migrants to return home. In Colombia, for example, while the government has promised Venezuelan migrants emergency food and protected them from eviction on paper, these decrees are not being widely enforced. By some estimates, this has left half of Venezuelan migrants in Colombia facing starvation.<sup>9</sup> In April 2020, shortly after the coronavirus began to take hold, roughly 50,000 Venezuelans had already returned to their home country, by bus and by foot, according to government officials. But the return isn't promising for these migrants—more than half of all doctors have left Venezuela, and there are only an estimated 8 hospital beds per 10,000 people.<sup>10</sup>

*“The unfolding of this humanitarian crisis provides important and unique ESG insights for stakeholder countries.”*

## ESG Takeaways

The unfolding of this humanitarian crisis provides important and unique ESG insights for stakeholder countries. For Venezuela, [as described in detail in a previous ESG-focused piece](#), emigration patterns in the past helped us more confidently predict the low likelihood of a regime change. Recent emigration data, especially regarding politically active individuals, has since allowed us to rule out completely the likelihood of an effective regime change, at a time when the market thought otherwise.

Going forward, we believe that regularly updated Venezuelan migration data will continue to offer key insights into the economic and political trajectory of the country. This is in line with Tiebout's theory of Voting with Feet<sup>11</sup>, which suggests that emigration is a way of expressing political views. As we assess the current situation in Venezuela, there appears to be a large, structural asymmetry of information between foreigners and Venezuelan migrants—due largely to the fact that macroeconomic and political data out of Venezuela are infrequent, unreliable and flawed. Migration patterns can therefore tell us a great deal about how Venezuelans themselves are evaluating the health of their own country, and in turn help inform our ESG assessment. To that end, we will be monitoring Venezuelan migration data (both outgoing and return migration) to get a sense of if and when change becomes more likely.

For the host countries, particularly Colombia, we are considering how influxes of forced migration are handled, and view it as an indicator of the host government's commitment to social resilience and economic sustainability. In the case of Colombia, the country's dedication to provide health, education and economic resources to Venezuelan refugees can be seen as a positive measure of shock management, program efficiency and policy risk openness.

## Putting the LatAm Migration Crisis in Context

Considering the similarity in terms of statistics and rapidity of migration, we believe it is worthwhile to compare Colombia with Turkey, another refugee-receiving “transit” country. Both countries have absorbed the largest number, by far, of refugees from Venezuela and Syria, respectively. However, their policy responses have differed significantly, and in both cases have helped inform our investment stance on the host countries.

9. Source: World Food Programme, Global Report on Food Crises, 2020.

10. Source: International Rescue Committee. As of April 2020.

11. See: Tiebout, Charles (1956). “A pure theory of local expenditures”. Journal of Political Economy.

## Turkey

## Colombia

### Refugee Inflow in First Two Years of Crisis

249,000 (2013)

1.6 million (December 2019)<sup>12</sup>

### International Funding Received in First Two Years<sup>13</sup>

\$180 million (2013)

\$115 million (2020)

### Initial Response to Refugee Inflow

- Expecting the Assad regime to tumble, Turkey declared an open door policy to Syrians in October 2011, extending them “temporary protection” that provided the right to a lawful stay until safe return conditions were established in Syria and granted them access to health, education and labor market entry. Refugees who possess Temporary Protection IDs could apply for work permits in certain sectors and regions, and social and psychological support were available for groups with special needs.
- For those refugees in camps, the government was commended for providing space for non-governmental organizations (NGOs) to provide protection and proper resources.
- As for the majority of refugees, who settled in urban areas, the response was not as supportive. A lack of formal policy left many refugees to fend for themselves and rely on ad-hoc support from various local organizations or friends and family members already in the country.
- The Colombian government made efforts to integrate migrants from the beginning, providing timely border assistance, ensuring universal emergency healthcare and providing as many refugees as possible with temporary protection documentation. School-aged children were given access to education immediately, and a long-term policy strategy was developed to take action on healthcare, water and sanitation, labor market integration, childcare and humanitarian aid.<sup>14</sup>

### Characteristics of Refugee Settlement In-Country

- Once considered a transit country by many migrant populations, the EU deal in 2016 quickly turned Turkey into a migration stopping point. Refugees and migrants of all origins arrive in Turkey and must decide whether to stay in a country that still lacks a formal procedure for integration, to turn to a different transit country or to return home. Today, refugee settlement in Turkey is 90% urban<sup>14</sup>, with the municipalities handling most services for refugees. Though the camps are well-funded, refugees choose to move to urban areas to have financial independence and reunite with family.
- It has also become increasingly difficult for Syrians to receive refugee status in Turkey, so those who enter the country without refugee status are not allowed to access the camps.
- About half of Syrian refugee children are in school in Turkey, but most of this schooling is private, Islamic education funded by outside groups. The government, in realizing the need to integrate for public safety reasons, has begun moving Syrian students into the Turkish public school system, albeit slowly.
- The needs of refugees registered in Colombia (in camps and urban areas) are being met, with adequate social and economic programs.
- However, of the Venezuelans in Colombia, 60% lack formal status in the country, largely due to illicit border crossings, which makes it difficult for them to access essential services. For this marginalized population, there are risks of human trafficking and exploitation by armed groups. The lack of access to health care is particularly worrisome considering the impact of the COVID pandemic.<sup>16</sup>
- Thousands of these migrants headed back to Venezuela to flee Colombia’s COVID lockdown, which hints that migration from Venezuela to Colombia may not necessarily be as permanent as the Colombian government is estimating.

### Changes in Policy Over Time

- Realizing that assumptions about the short-term nature of these migration flows were incorrect, Turkey leaned in to reactive policies that failed to encourage migrant integration or permanence.
- Over time, Turkey’s openness to migrants has diminished, with the country building a 500 mile-long wall on the Southern border with Syria.
- More peacefully, the government is funding NGOs that manage camps for internally displaced Syrians near the border, providing clean water, sanitation, education, and emergency kits to tens of thousands of Syrians, hoping it will keep them from attempting to enter Turkey.<sup>15</sup>
- Syrians often bear the blame for the country’s economic downturn. As a result, discrimination and hostilities against them are alarmingly on the rise. For example, a wave of attacks against Syrian-owned businesses occurred in Istanbul in late June 2019. In July, Turkish authorities conducted widespread identity checks in Syrian neighborhoods and subway and bus stations. These checks were followed by a wave of deportations of Syrian men to Idlib province at a time when the military offensive was at its worst. Turkish authorities denied these reports. However, NGOs and the international media extensively documented the forcible return of Syrian men, many of whom had been coerced into signing voluntary repatriation forms.
- The Colombian government has conducted economic studies to determine how this influx of migrants has affected its economy. Though the Colombian central bank found that tax revenues from Venezuelan migrants added to 0.03% of GDP, advisors at the IMF estimate that the total contribution of migrant workers and businesses to Venezuela’s 3.3% GDP growth in 2019 was significant. Colombia has committed to the strategy of seeing migration as a source of growth and well-being in the medium-term. Since migrants from Venezuela have similar levels of education to Colombians, their integration in the labor market has been prioritized, both informally and formally.
- New types of settlement permits have been issued, called Special Stay Permits (Nov 2019), that allow Venezuelans with stamped passports and employment offers to receive official wages, be protected by Colombian labor laws, and benefit from national social security and healthcare.<sup>16</sup>

### ESG Insights

- ✓ Policy flexibility
- ✓ Sourcing and managing international support
- ✗ Lack of long term planning
- ✗ Low resilience and absorption capacity
- ✗ Lukewarm redistributive policy
- ✗ Question mark around domestic social cohesion and political stability
- ✓ Policy flexibility and adaptability
- ✓ High resilience and absorption capacity
- ✓ Good social infrastructure and effective redistributive policy
- ✗ Sourcing and managing international support
- ✗ Question mark around border control and trafficking

12. Source: UNHCR. As of 2020.

13. Source: UN OHCA Financial Tracking Service.

14. Source: OECD, as of 2019.

15. Source: Migration Policy Institute. As of April 2015.

16. Source: UNHCR. As of 2020.

*“Going forward, we will closely monitor Venezuelan migration flows as we continue to assess the appropriateness of our current zero weight in the country.”*

## **Conclusion**

As we assess these countries from an investment perspective, migration patterns—particularly as they relate to factors like policy flexibility, ability to source and manage international support, social cohesion and political stability—have provided unique insights in informing our views. Going forward, we will closely monitor Venezuelan migration flows as we continue to assess the appropriateness of our current zero weight in the country. Our positive views on Colombia, on the other hand, were strengthened by this migration analysis given the country’s high resilience and absorption capacity, solid social infrastructure and policy adaptability.

Finally, it is worth noting that the implications of these crises extend beyond just the countries directly involved—in our view to European countries, the U.S. and international organizations such as the UN. While these columns are too short to embark on (geo)political economy of international aid, we were quite struck by the difference in the magnitude of support provided to Venezuelan migrants and their host countries compared with Syrian refugees. Ultimately, we believe developed countries’ attitudes toward these catastrophes of similar magnitude should be incorporated into those countries’ own ESG assessments.

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