

# FISCAL ARCHITECTURE OF DISPLACEMENT

## *Sovereign Finance and the Recurrent Fiscal Obligation Problem*

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### ABOUT THIS SERIES

*Governing Displacement* is a policy brief series examining displacement governance at the intersection of institutional design and development finance, with Southeast Asia as the primary analytical ground. It draws on the author's forthcoming chapter in Khemanitthathai, Banerjee, and Middleton (eds.), *Displacement in Southeast Asia under Neo-geopolitics* (Palgrave Macmillan, forthcoming). The frameworks developed — the displacement continuum as governance diagnostic, sustainable inclusion as governance response — are applicable across middle-income displacement contexts where legal reform is constrained and fiscal integration remains the operative challenge.

## The Problem

Displacement governance is still largely approached as a humanitarian financing problem. International appeals remain chronically underfunded, while governments hosting displaced populations are expected to absorb long-term pressures through fragmented and temporary funding arrangements. Yet the deeper constraint is structural: the systems that ultimately determine state absorption capacity are not humanitarian financing systems, but sovereign fiscal systems.

Countries hosting displaced populations operate within sovereign financing systems shaped by debt sustainability and sovereign risk management. These systems shape infrastructure investment, social protection expansion, and long-term absorptive capacity at scales far exceeding humanitarian financing. In a global sovereign bond market exceeding US\$65 trillion, even a few basis points shift in borrowing costs can outweigh entire annual humanitarian appeals.

The central constraint is not a lack of financing, but the institutional divide between displacement governance and sovereign finance. Humanitarian systems continue to fund displacement as temporary emergency expenditure, while sovereign systems resist treating displacement-related spending as a recurrent fiscal obligation. Yet even limited

integration of displacement into sovereign borrowing and resilience financing frameworks would mobilize investment far exceeding current humanitarian financing.

*The central challenge is not temporary financing, but how to incorporate displacement into ordinary state budgets without creating perceptions of unlimited long-term fiscal responsibility.*

## Fault Lines and Fiscal Architecture

The displacement continuum introduced in [Brief 1](#) argued that protection failures emerge where governance systems cease to follow displaced populations across categorical, temporal, and territorial boundaries. Sovereign finance increasingly reproduces these fault lines through architectures organized around bounded liabilities, temporary expenditure, and reversible commitments.

**Categorical** fault lines reflect welfare systems designed around stable populations and sector-specific eligibility rules, while displacement results in forms of movement that fiscal systems were not designed to accommodate. **Temporal** fault lines reflect how sovereign budgeting distinguishes between temporary expenditure and recurrent obligation, even though displacement routinely outlasts emergency financing windows and project cycles. **Territorial** fault lines reflect fiscal systems that allocate responsibility by administrative

jurisdiction rather than population movement, disconnecting financial responsibility from displaced populations as they move.

Across all three fault lines, the same dynamic recurs: the institutional difficulty of converting exceptional displacement expenditure into ordinary sovereign obligation. Fragmentation persists because displacement does not fit the fiscal logic around which sovereign systems are organized.

*Sovereign fiscal systems are designed for fixed populations, while displacement is mobile and long-term.*

## Sovereign Finance as Governance Constraint

Middle-income states increasingly operate within sovereign financing environments shaped by credit ratings, debt sustainability assessments, and investor expectations regarding long-term fiscal exposure. While sovereign risk frameworks increasingly recognize climate adaptation and disaster resilience as legitimate macro-fiscal investments, displacement-related expenditure remains associated with open-ended fiscal liability. Policies that convert temporary displacement support into recurrent sovereign obligation may therefore be interpreted less as resilience investment than as expanded contingent liability.

Contemporary sovereign risk frameworks increasingly recognize climate vulnerability and disaster exposure as macro-fiscal risks affecting borrowing costs and repayment capacity, yet displacement remains weakly integrated despite generating substantial long-term fiscal pressure. The result is a structural preference for temporary, discretionary, and externally financed arrangements over recurrent sovereign incorporation. Expanding access to health systems, social protection, and municipal services for displaced populations may improve long-term stability, but can also increase

perceived fiscal exposure within sovereign risk assessments.

For finance ministries, the concern is not abstract: even small ratings shifts affect borrowing costs across broader debt portfolios. Sovereign finance systems therefore favor bounded liabilities, reversible commitments, and time-limited financing structures over open-ended incorporation into ordinary state systems.

Thailand's Health Insurance Card Scheme shows that credit-compatible integration is possible. The scheme extends substantial health coverage to migrant populations while limiting perceptions of open-ended fiscal exposure through cost-sharing and bounded eligibility. The form of inclusion matters as much as inclusion itself.

As explored in [Brief 2](#), infrastructure finance illustrates how displacement governance is increasingly shaped through sovereign financing systems rather than humanitarian architecture. Across Southeast Asia, displacement generated through large-scale infrastructure investment routinely outlasts project cycles and safeguard timelines. Safeguard frameworks govern displacement as a project risk, while displacement itself unfolds longitudinally across sectors, jurisdictions, and budget cycles. Projectized finance consequently favors bounded obligations and reversible commitments over long-term incorporation into ordinary state systems.

## From Liability to Resilience

Yet public finance itself is increasingly evolving in a different direction. Contemporary resilience-oriented fiscal frameworks increasingly seek to pre-position institutional and financing capacity before shocks occur rather than relying primarily on emergency response afterward. IFIs increasingly recognize climate shocks, disasters, and pandemics as macro-critical fiscal risks requiring resilience-oriented financing architecture. Displacement both amplifies and prolongs the fiscal consequences of shocks: it

concentrates service demand immediately after crises and sustains fiscal pressure long after emergency financing ends. Yet displacement remains weakly integrated into sovereign resilience planning despite operating through precisely the mechanisms these frameworks are designed to address.

Existing instruments already demonstrate how this resilience architecture operates in practice. The World Bank's Crisis Preparedness and Response Toolkit and the IMF's Resilience and Sustainability Trust pre-position financing for systems designed to scale during shocks — adaptive social protection, municipal service capacity, and interoperable registries. These are the same systems displacement-responsive governance requires, yet displacement remains largely absent from these frameworks as a sovereign resilience investment category.

The expansion of sovereign social and sustainability financing further suggests that parts of sovereign finance architecture increasingly recognize certain forms of social expenditure as resilience-oriented investment, including municipal infrastructure and essential services.

Displaced populations remain only partially incorporated into adaptive systems because inclusion continues to be viewed primarily through the lens of fiscal exposure rather than long-term resilience. Yet portable social protection, interoperable registries, and adaptive service delivery increasingly function not simply as social expenditure, but as sovereign resilience infrastructure.

*Sovereign finance systems recognize fiscal liabilities more readily than investments in resilience.*

## The Reform Agenda

If fragmentation is fiscally produced, reform must target sovereign fiscal systems directly. The first requirement is integrating displacement into sovereign resilience planning. Debt sustainability assessments and resilience

frameworks increasingly treat climate and disaster exposure as macro-fiscal risks. Displacement-related pressures — including demands on municipal services, welfare systems, and urban infrastructure — should likewise be treated as sovereign resilience challenges rather than external humanitarian burdens.

The second requirement is expanding displacement-sensitive financing instruments. Existing disaster-risk financing mechanisms already provide models through contingency credit lines and resilience-oriented budget support. Similar tools could support displacement-responsive systems without requiring governments to assume unlimited long-term fiscal commitments.

The third requirement is designing integration systems compatible with sovereign financing constraints. The form of incorporation matters as much as the principle of inclusion. Cost-sharing arrangements, bounded eligibility systems, and resilience-oriented financing structures may enable meaningful inclusion while limiting perceptions of open-ended fiscal exposure. Many displacement-responsive investments already align with existing sovereign social and sustainability financing categories linked to resilience and essential services, yet remain weakly integrated into sovereign financing frameworks.

The fourth requirement is stronger alignment between sovereign finance and displacement governance. Fiscal consolidation frameworks and debt sustainability targets may unintentionally restrict the baseline incorporation displacement-responsive governance requires. Current approaches often fail to distinguish between open-ended entitlement expansion and investments that reduce future instability and emergency expenditure. Article IV consultations and World Bank Public Expenditure Reviews provide natural entry points for operationalizing this distinction.

The reform agenda is about architecture rather than substitution: embedding displacement-responsive capacity within the sovereign fiscal systems through which resilience is increasingly governed.

## Conclusion

The central challenge in displacement governance is no longer simply coordination between institutions, but how displacement is incorporated into ordinary state systems. As humanitarian financing contracts and displacement becomes increasingly prolonged, the limits of parallel and temporary delivery models are becoming more visible. Governments may accommodate displacement temporarily through emergency financing and exceptional administrative arrangements. Sustainable inclusion requires something more difficult: integrating displacement-related expenditure into ordinary budget systems without creating fears of unlimited long-term fiscal responsibility.

Displacement governance has therefore entered the age of sovereign finance, even if policy debates have not fully recognized the shift. The fault lines across displacement governance are no longer sustained only through legal ambiguity or fragmented mandates, but through sovereign financing systems that favor temporary commitments and bounded liabilities over long-term incorporation.

For international financial institutions, the implication is strategic rather than humanitarian. The challenge is no longer simply managing displacement through projects and emergency response, but helping shape the fiscal systems through which resilience and long-term absorptive capacity are built. The unresolved question is whether displacement-responsive systems will continue to be treated primarily as fiscal liabilities, or whether they will increasingly be recognized as investments in long-term sovereign resilience and stability.

### KEY MESSAGES

Fragmentation persists not primarily because of coordination failure or legal gaps, but because sovereign fiscal systems are organized around bounded liabilities and temporary expenditure.

The central institutional constraint is the recurrent obligation problem: how to move displacement-related spending into ordinary state systems without creating perceptions of unlimited long-term fiscal responsibility.

The displacement continuum's categorical, temporal, and territorial fault lines are increasingly reproduced through budgeting systems structurally mismatched with the mobile and long-term realities of displacement.

Sovereign finance creates structural disincentives against institutionalizing displacement-related expenditure. Within sovereign risk frameworks, long-term inclusion may be interpreted less as resilience investment than as expanded fiscal liability.

Current sovereign finance systems recognize liabilities more readily than resilience investments, underinvesting in adaptive systems that reduce long-term instability.

Projectized finance and infrastructure safeguards cannot substitute for sovereign integration because displacement routinely extends beyond project timelines, compensation frameworks, and administrative jurisdictions.

The form of inclusion matters as much as the principle of inclusion. Fiscally sustainable integration mechanisms may expand coverage while limiting perceptions of open-ended sovereign exposure.

The resilience turn in public finance creates a major reform opportunity. Existing IFI resilience instruments already provide operational entry points for displacement-responsive financing without requiring entirely new institutional architecture.

## Priority Actions

**For international financial institutions and development banks:** Integrate displacement-related fiscal pressures into sovereign resilience analysis, debt sustainability assessments, and country diagnostics. Expand displacement-sensitive financing instruments and adaptive social protection support. Treat investments in municipal services, interoperable registries, and portable welfare systems as core components of sovereign resilience. Provide technical assistance on fiscally sustainable inclusion strategies in middle-income bond-issuing states.

**For the IMF:** Review Article IV surveillance, fiscal conditionality, and expenditure frameworks for unintended constraints on displacement inclusion and resilience-oriented investment. Distinguish between open-ended

entitlement expansion and investments that reduce future instability and emergency expenditure. Coordinate surveillance more systematically with development bank initiatives on adaptive social protection and sovereign resilience.

**For governments engaged in fiscal and public financial management reform:** Recognize displacement-related expenditure as a manageable fiscal risk rather than an exceptional humanitarian contingency. Progressively integrate displacement-responsive systems into ordinary budgeting and intergovernmental transfer frameworks so fiscal responsibility can better follow population movement across jurisdictions. Engage finance ministries directly on displacement as a fiscal planning and sovereign resilience challenge.

### About the Author

Samuel Cheung is a Senior Adviser at UNHCR. He served most recently as Chief of Protection from Violence and Displacement at UNHCR headquarters and, prior to that, as Global Protection Cluster Coordinator, leading protection operations across more than thirty humanitarian crises worldwide. Before joining UNHCR, he advised Asian sovereigns on bond programs and structured finance at Allen & Overy LLP in Hong Kong. He holds a JD from Georgetown University and a BA in Public Policy from Duke University. The argument advanced in this series — that displacement governance is fundamentally a fiscal and institutional design problem — reflects that convergence. Views are the author's own.

### WHAT FOLLOWS IN THIS SERIES

**Brief 5** applies the displacement-as-sovereign-risk analysis to ESG frameworks and sustainable finance instruments.