The Growth of Refugee Inc.

Sept. 14, 2015 Wall Street Journal
Anton Troianovski in Vienna, Manuela Mesco in Lesbos, Greece, and Simon Clark in London

In Europe, everybody from small shopkeepers to private equity find ways to profit from the migrant flood

The annual report in 2013 from a multibillion-dollar London private-equity firm that counts a French pastry baker and a Dutch shoemaker among its holdings touted a new opportunity with “promising organic and acquisitive growth potential.”

That investment was the management of refugee camps.

“The margins are very low,” said Willy Koch, the retired founder of the Swiss company, ORS Service AG, which runs a camp in Austria that overflowed this summer with migrants who crossed from the Balkans and Hungary. “One of the keys is, certainly, volume.”

Since early 2014, more than a million people have claimed asylum in the European Union. Germany alone is preparing for at least 800,000 asylum-seekers this year. The surge, experts say, amounts to the biggest movement of people in Europe since World War II. The crisis has produced harrowing tales of tragic deaths and lives in upheaval.

It is also giving shape to an industry that everyone from small Greek shop owners to some of America’s biggest pension funds are benefiting from: the business of migration.

In many ways, private companies are increasingly defining the European migration experience. In some cases, the companies see potential to win favor with a future group of European consumers, a welcome jolt amid the Continent’s economic doldrums. In other cases, they are stepping in to help provide services that governments can’t or won’t. At times they have provoked protests from advocacy groups who accuse them of cutting corners in order to profit from human misery.

Some of the businesses, in turn, say they are sensitive to the risks of working with vulnerable people, and they argue that neither governments nor charities can meet on their own the huge range of demands resulting from the tide of migrants now arriving in Europe.

“Because of our involvement it is a better service run more efficiently,” said Guy Semmens, partner at Geneva-based private-equity firm Argos Soditic, which previously invested in ORS.

There are also profits to be made. In Germany, Air Berlin PLC was paid some $350,000 last year operating charter flights to deport rejected asylum seekers on behalf of the government. In Sweden, the government paid a language-analysis firm $900,000 last year to verify asylum-seekers’ claims of where they were from. In Athens, a Western Union
branch has been disbursing €20,000 a day (about $22,600) to migrants, reaping fees on each transaction.

“I’m making at least twice the money I was making last year,” said Mohammed Jafar, the Afghanistan-born owner of the branch. “I wouldn’t make this in any other country in Europe.”

In one corner of the continent, the business of selling to migrants arriving in Europe begins on Greek islands in the eastern Aegean Sea, which have seen nearly 290,000 people arrive by boat this year so far. About 70% of them are Syrians, who were often middle-class families and have money to spend for their journey.

Tourists to tents

For businesses on the islands that have been battered by the country’s economic woes and a dearth of Greek tourists, the migrants are a welcome sight. Stores that used to focus on tourists now offer tents, sleeping bags and food to people crossing in rubber boats from Turkey and hoping to reach Northern Europe.

Since the spring, hundreds of migrants have been arriving daily on the Greek island of Lesbos, having made the brief sea journey from Turkey. This summer, Michalis Michalakellis, who owns a souvenir store near the port, began quizzing them on what they would be interested in buying. The answer: bread, canned meat and beans. So he found a supplier in Athens to send him what he needs.

“About 200 people come and buy something every day,” Mr. Michalakellis said of the arriving migrants. “It’s good money.”

Elsewhere, the severe lack of shelter for the migrants—the Greek government has struggled to put in place any meaningful reception system—has sparked demand for tents, sleeping bags and even hotels.

At the three-star Lesvion Hotel in a marina close to Lesbos’s port, Syrians stay while waiting for local bureaucrats to finish paperwork permitting them to reach the mainland and, ultimately, Northern Europe. Giannis Ververis, a receptionist there, said many Syrian guests not only pay for their rooms in full but also buy extras such as breakfast.

“We don’t even have to make a discount for them,” he said. “They don’t ask for it at all.” After the summer, when demand from tourists slows, the hotel may consider offering discounts to the migrants to attract more of them, particularly those with less money to spend.

The opportunity is sparking competition among some businesses. Phone companies have begun selling the migrants European SIM cards so they can call family members back home or contact smugglers to help with the rest of their journey. Last month, Greek telecom operator Cosmote dispatched salespeople to the ports and migrant reception centers to peddle €12 SIM cards designed for the migrants. Days later, Vodafone Group PLC, the British phone giant, responded with a special offer of a €10 SIM card that comes with a 50% discount on ferry tickets to Athens, the next stop on most migrants’ journey north.
A Vodafone spokesman said that the offer isn’t part of the company’s standard packages for Greece. He added that it is likely to be a local reseller’s initiative. Cosmote didn’t reply to a request for comment.

Other businesses have an eye on the long-term potential of a large new customer group. Extrabanca, an Italian bank catering to non-Europeans, has already been growing along with a foreign-born population in Italy that has surged from 2% of the population in 2001 to nearly 9% today.

When Chief Executive Ramzi Hijazi took the helm late last year, he saw a chance to expand beyond a customer base that is 40% composed of Chinese and Filipinos. (The vast majority of the nearly 500,000 seaborne migrants who have landed in Italy in the past several years have been African and Middle Eastern.) So the bank is working on new advisory services aimed at asylum applicants, including assistance with Italian bureaucracy. In the longer term, once the migrants attain permanent status, Mr. Hijazi envisions offering them help with everything from loans to help in repatriating the remains of deceased to their home countries.

The surge in businesses looking to sell to the migrants is generating some friction, as tensions rise along with the numbers of people seeking food, water and shelter.

The case of ORS Service, the Swiss company that runs migrant reception centers, illustrates the complexities of the private sector stepping in for the government to provide critical services to a vulnerable and rapidly expanding population.

In the early 1990s, Mr. Koch was a temporary-employment executive when he hit upon an opportunity: staffing a shelter for asylum seekers near the Swiss city of Basel.

The customers—governments—were dependable payers, and the source of demand—global conflict and upheaval—showed no sign of drying up. He built a company, ORS Service, and won contracts over rivals such as the Red Cross and Christian charities by promising to work more efficiently and avoiding taking political stands.

Mr. Koch retired and cashed out in 2005. Since then, the company has been sold three times to different private-equity groups. The first private-equity owner was Argos Soditic, which sold in 2009 to Zug, Switzerland-based Invision Private Equity AG at a price tag in the tens of millions of Swiss francs, earning Argos Soditic more than three times the amount it invested, according to a person familiar with the situation.

“It’s an excellent business,” said Mr. Semmens, head of Swiss operations at Argos Soditic. “It’s a logistics, care and hostelry business which happens to cater to refugees.”

London-based private-equity firm Equistone Partners Europe Ltd.—which touted the opportunity in its annual report—bought the business for an undisclosed sum in 2013. The firm has raised close to $4 billion for two buyout funds since spinning out of British bank Barclays PLC in 2011. Equistone’s investors include American public pension funds California State Teachers’ Retirement System and Maryland State Retirement and Pension System, and the General Organization for Social Insurance of Saudi Arabia.
European governments have increasingly contracted out the task of caring for migrants, ranging from converting buildings into shelters to organizing language and psychological services to help them adjust.

Claim of efficiency

ORS has expanded from Switzerland into Austria and Germany, competing with the nonprofit organizations that traditionally cared for migrants in Europe. The company recorded revenue of $99 million last year, according to Chief Executive Stefan Moll-Thissen, who wouldn’t disclose its profits. It had about $33 million of revenue in 2007.

The company now offers a range of refugee-related services, from setting up shelters to providing food and managing the camps. In Austria, the company won the right in 2011 to manage all of the federal government’s asylum-seeker shelters. The government, trying to cope with the more than 65,000 asylum applicants it has received since January 2014, paid ORS some $24 million last year to run camps housing the people.

ORS’s contractual obligations include offering German classes, providing special protection for minors and teaching refugees Austrian values such as “the importance of punctuality and reliability.” The government pays ORS a set rate for every camp it runs plus an additional price for every asylum seeker it houses. (It doesn’t disclose the figures.)

ORS’s main competitors are nonprofits such as the Swiss Red Cross, Caritas and the Protestant charity Diakonie, which also bid for government contracts to provide migrant reception services.

Current and former ORS executives said that given the intense pressure to cope with the huge surge in demand, ORS is better equipped to do a better job at a better price. Mr. Moll-Thissen said the company’s overhead is minimal, with employees at the shelters representing 85% of the company’s workforce. It has also developed proprietary computer programs to track the residents and services at every camp.

Nonprofit organizations “have apparently reached the limits of their capabilities,” Equistone said in a written response to questions.

Migrant aid groups such as Diakonie said ORS is able to offer a lower price by cutting corners on personnel that they never would. They said their priority is meeting the needs of migrants rather than of governments and investors.

“Charities have no chance” in competing with ORS, said Hugo Köppel, who heads refugee services at the Swiss Red Cross. “We know refugees from A to Z. Our primary customers are the people we care for, not the contracting authority.”

A spokesman for Caritas in Switzerland declined to comment.

Mr. Moll-Thissen denied cutting corners, arguing instead that the profit motive has made his company leaner and more effective.

The notion that private companies can do a better job caring for migrants than nonprofits is being put to the test. ORS has come under fire in particular for the conditions of a camp on the grounds of an old military school in the Vienna suburb of Traiskirchen.
The century-old school’s buildings are packed with beds to house 1,800 people. But over the course of this year, the camp grew to become one of the biggest in Europe, with more than 4,500 residents at some points in recent months. Thousands of people were forced to sleep outside, often under bushes or trees.

The United Nations’ refugee agency described the conditions at the camp as being “beneath human dignity.” Advocacy group Amnesty International identified lacking medical and psychological care and described “blatant ignorance and thoughtlessness” in how the camp was run.

“The result is not just bad, it is completely unacceptable,” Heinz Patzelt, chief of Amnesty International in Austria, said last month, describing the camp as far understaffed and existing personnel as not up to the task. “It’s not a question of resources—it’s a question of organization.”

Mr. Moll-Thissen said ORS is doing all it can to improve conditions at the Traiskirchen camp, which he called a difficult task considering the sudden and huge rise in numbers of people there. In the space of a few months, the company increased staffing by 50%, while its security subcontractor doubled staffing, he said.

At Traiskirchen, “any professional would be brought to the limits of what is possible,” he said. “The team there does its very best, and in extremely difficult conditions.”

A spokesman for the Austrian Interior Ministry said the government is satisfied with the company’s job and will continue to honor the contract.

Amnesty and the U.N. said Friday that conditions at Traiskirchen have improved significantly in recent weeks, with the continuing overflow now being housed in tents rather than being forced to sleep outside.

As the refugee flow into Europe intensifies, Mr. Moll-Thissen said his company’s top priority is to meet the demands of existing customers that urgently need to shelter more people. But he said he sees opportunity for expansion, as exemplified by a rural district in southwest Germany that hired the company recently to set up a 500-bed shelter using housing containers.

“We are currently being contacted by many parties with the inquiry: ‘Can you do this? Are you interested in doing this?’ ” Mr. Moll-Thissen said, referring to authorities inviting ORS to bid on new contracts.