

# **OHR Reconstruction and Return, March 1998**

## **RRTF: Report March 1998**

An Action Plan in support of the return of refugees and displaced persons in Bosnia and Herzegovina

## **March 1998**

### **C. Pillars**

29. The following pages are aimed at defining for each of the “pillars” a concrete program, which could be effectively supported by donors assistance. Each part consists of four main sections:
- A description of the background in the sector, for both outlining essential data and defining the exact problem to be addressed;
  - A definition of achievable objectives in the sector and an indication of the corresponding cost estimates;
  - A list of policy measures which should be taken by the various levels of Government, as a preliminary or a complement of donor assistance – but as a condition for donor support to be effective;
  - A list of activities which could be supported by donors, with an indication of their degree of priority, and of possible implementation mechanisms.

### **C.1. Political Environment and Security**

#### **A. BACKGROUND**

30. The foremost concern of refugees and displaced persons considering return to their places of origin is security, and more generally the existence of an acceptable political environment. The Stabilization Force (SFOR) has made a critical contribution in that respect, and its continued presence is clearly essential. International support is key to unlocking a number of potential movements, particularly with respect to minority returns. Some external financial assistance may be necessary to that effect, but the main effort required is political, and both Entities should be strongly encouraged to design and implement a framework conducive to return and reintegration.
31. The issues to be addressed cover a broad variety of areas. They are often very practical and subject to continual modification (some problems are resolved, new difficulties arise). There are three different types of issues to consider:

##### **i. Political issues**

In many instances, political authorities still oppose returns, and particularly minority returns – even when their constituencies may have more moderate views. Their reluctance is one of the major causes of petty day-to-day harassment of returnees. It fuels the fears pre-war inhabitants may have regarding return, and renders their successful reintegration more difficult.

A durable solution still needs to be found to ensure the right to return of Croatian Serbs, who are currently refugees in Republika Srpska (and in the Federal Republic of Yugoslavia). Resolving this issue would facilitate effective minority returns in Republika Srpska, both for political (equal treatment to all throughout the region) and practical reasons (need to free the housing space these

refugees are currently occupying).

The lack of inter-Entity communications (e.g., regular post service, telecommunications, regular public transport) is an obstacle to the return of displaced persons: experience shows that most returning displaced persons take a step-by-step approach (successive trips, followed by temporary stays, and eventually return) – which requires adequate inter-Entity communications. Although the UNHCR-chartered bus services have proven extremely helpful, much remains to be done to normalize the situation.

## ii. **Security**

Potential returnees express an overall concern about the stability of the current political situation – but their primary concern is whether or not they can trust local authorities. Anecdotal reports of violence, including several murders, against minorities who returned to Central Bosnia underscore the seriousness of the security issue.

Return of pre-war neighbors is perceived as a security guarantee (which explains the observed pattern for minorities to return in large groups). Potential returnees identify “ideal neighbors” as being original residents who “behaved properly” during the war, but are not necessarily of the same ethnic background. There is a high level of distrust vis-à-vis displaced persons from other ethnic backgrounds (and of course vis-à-vis people suspected of atrocities).

Police professionalism and justice are essential. In many instances, the behavior of the police forces is still an impediment for returns, and particularly for minority returns. In 1997, IPTF initiated a program aimed at retraining police officers, restructuring police forces and promoting multi-ethnic participation to police tasks, with successful first results.

## iii. **Hostile environment**

**Levy of “war taxes”.** Legislative acts are still in place which call for the payment of “war taxes” by returnees. Such taxes are often arbitrarily administered (with “fluctuating” tax rates), and used as a disincentive for return (and in particular minority return).

**Access to administrative documents.** Returnees have to register with local authorities not only to be eligible for social safety net benefits or medical insurance, but also to obtain administrative documents (e.g., ID, property registration, etc.). In many instances, registration, and more generally issuance of administrative acts, remains subject to arbitrary decisions at local level. Returnees are also often requested to complete such formalities at local police stations – a difficult step to take for many minority returnees.

**Discrimination and harassment.** Day-to-day discrimination still affects returnees, and particularly minority returnees – especially when it comes to access to the social safety net and payment of pensions. Discrimination against minority children and teachers in schools is also a concern. Harassment has been observed in many instances against minority returnees, ranging from verbal aggression to vandalism, arson and even assault.

**Media.** The media (especially television) is still often used to propagate fear and hatred of other ethnic groups. This plays an important role both in the fear of minorities to return and in the reluctance of residents to accept them. Exaggerated program focus on “national traditions” may also result in widening the gap between communities, and discourage minorities from returning to areas which they no longer feel as being “their” homes.

**Civil Society.** Effective reintegration of refugees and displaced persons requires substantial involvement of the civil society. The absence of participatory mechanisms and the weakness of local NGOs in many parts of the country makes it difficult for residents and returnees to find satisfactory solutions for challenging or complementing the policies of local authorities towards reintegration.

**Education.** Availability of “suitable” education for their children is one of the major concerns of returnees. Separate curricula reflecting differences in ethnic identity have been developed

throughout the country which are, in some parts, unacceptable to minorities. Subjects particularly open to ethnic interpretation are religion, history, language/literature and to a lesser degree music, art and geography. Some text books contain passages which may contribute to ethnic hatred and intolerance. And, in some cases, children are asked to identify themselves by ethnicity and teachers are discriminated against.

32. Although the situation remains far from satisfactory, the political situation has improved over the last months regarding the acceptance of eventual minority return, and readiness to ensure their security, in particular in Republika Srpska. This is, in part, as a result of strong international pressure. This “opening” may, however, be partly due to political opportunism, and continued efforts are needed to avoid that only “token” minority returns are accepted (to obtain external financial support) – too insignificant to create the necessary stimulus for eventual large minority return to take place.

## B. Objectives and Cost Estimates

33. Specific actions should be undertaken to develop an appropriate political environment for facilitating the reintegration of refugees and displaced persons. Assistance in the sector should aim to remove all political constraints to return and reintegration. Beside continued support for SFOR, the assistance program should include:
- Encouraging, under overall OHR coordination, authorities in Bosnia and Herzegovina (and in Croatia) to address pending political issues;
  - Supporting UNHCR and other key actors in addressing protection issues, in Bosnia and Herzegovina as well as in a broader regional context; and
  - Supporting IPTF in upgrading police forces for improved security over the medium-term.
34. Since the initiation of the reconstruction program, the donor community has committed about US\$600 million for peace implementation, social and fiscal support, with a very significant impact on the ground. In 1998, an additional US\$90 million will be needed for reintegration-oriented activities to improve both political environment and security (see Table 4).

<b>Table 4:</b> <b>Reintegration-related Political Environment and Security Program External Financing Needs</b> (US\$ million) 1998 Requirements	
Police restructuring and training	37
Technical assistance / Monitoring	3
Social and fiscal support	50
<b>Total</b>	<b>90</b>

## C. Policy Requirements

35. Success of the overall assistance program is inextricably linked to promoting a political environment where refugees and displaced persons can make free and informed decisions about choosing their place of residence. External financial assistance will have little impact if these minimal conditions are not met. Donors should therefore unanimously and strongly encourage the State and the Governments of both Entities, as well as Cantonal (in the Federation) and municipal authorities to take a number of key measures, including:
- i. **Enhancing acceptance of return, including minority return.**

Local authorities should be encouraged to accept return of all pre-war inhabitants regardless of their

ethnicity. A two-fold effort is needed from the international community:

- In day-to-day activities, donors' implementing agencies should remind local authorities that compliance to all provisions of the Dayton Peace Agreement is key for sustained peace and prosperity in the country.
- Under the overall coordination of the OHR, and in particular through the RRTF regional frameworks, specific efforts should be made to exert adequate pressure to make it possible for groups with high political visibility to return ("political brokerage"), and to "open" key areas (e.g., Sarajevo Canton).

**ii. Implementing UNHCR and other key actors' recommendations for removing legal and administrative obstacles to return.**

Issues of concern for refugee and displaced persons to return are often closely associated with local circumstances, and are subject to rapid changes. They often correspond to individual incidents which require very practical answers (e.g., changing the place where minority returnees have to register, resolving accommodation difficulties of a returnee family, etc.) – and drawing an exhaustive list of such issues in this paper is therefore both impossible and unnecessary.

A number of organizations (principally UNHCR, but also OSCE and specialized human rights groups) are closely monitoring these issues, and are in constant dialogue with all relevant authorities to help addressing them. Donors should strongly encourage Bosnia and Herzegovina's authorities to implement UNHCR recommendations, and in the short-term to resolve the problems of "war taxes" and registration. For each issue, practical mechanisms for providing sufficient encouragement should be designed within the framework of the RRTF.

**iii. Developing a neutral media.**

Two types of actions are required:

- In the short-term, both Entity Governments should ensure that public media does not propagate opinions which could compromise the environment for successful reintegration of returnees and displaced persons, and particularly minorities. Particular attention should be given to news programs, but also to TV documents (about traditions, other countries, etc.). Recommendations made by the various international actors involved in this field, including the Organization for Security and Cooperation in Europe (OSCE) and OHR, should be implemented.
- In a second phase, measures should be taken to ensure the development of non-governmental media, including TV broadcasts (with country-wide or at least Entity-wide coverage). The entrance of truly independent operators should be encouraged.

**iv. Resolving the education issue**

Education issues go far beyond minority return: the perpetuation of nationalism through schooling is a concern for the overall sustainability of the peace process. More broadly, all three "ethnic" curricula need to be adapted to the requirements of a market-based European society. As part of this process, text books which contribute to ethnic hatred and intolerance need to be removed from schools. Likewise, any discrimination against children and teachers on the grounds of ethnic identity needs to be addressed. Reform in the education sector is made difficult in the Federation by the high degree of decentralization, whereby responsibility for defining education policy rests with Cantonal authorities.

In the short-term, both Entity Governments, and in the Federation all Cantonal authorities, should ensure that acceptable curricula are accessible to minorities in areas of return, textbooks which contribute to ethnic hatred removed and discrimination addressed. Rather than developing separate schooling systems, efforts should be made to expand the scope of what is commonly acceptable. Donors should make their support to school reconstruction conditional on such measures.

In a second phase, a broad review of the existing education systems, particularly curricula, should be

completed, following the efforts initiated by the OHR-chaired Ad Hoc Working Group on Education, for both ensuring their consistency throughout the country and modernizing curricula to suit the needs of the society.

**v. Restoring and developing inter-Entity communications**

Both Entity Governments should make efforts to rapidly restore and further develop the links between both Entities and ensure full freedom of movement, and in particular:

- In the short term, regular postal service should be ensured, and inter-Entity telecommunications further restored; and
- In a second phase, commercially-operated public transport (including railways) should be further restored and developed throughout the country, as per the recommendations of both the OHR-chaired Economic Task Force, and the Commission on Public Corporations (established by the Annex 9 of the Dayton Peace Agreement).

**vi. Preventing discrimination**

Continuous efforts are required in both Entities to prevent and rectify any discrimination (particularly against minorities). Adequate legislation should be passed to that effect, and appropriate administrative measures designed to ensure its implementation.

In the short-term, particular attention should be paid to ensuring that all pensions are being paid in a non-discriminatory manner throughout the country. While there is no evidence of systematic discrimination, fear of losing their only income is one of the main obstacles for pensioners to return. Aside from humanitarian considerations, the return of pensioners is important to “free” currently occupied minority housing units. This issue is rendered particularly difficult by the need to collect employment records disseminated in several countries (e.g., Slovenia, Croatia, Federal Republic of Yugoslavia, etc.) for those who had worked there at the time of Yugoslavia.

## **D. Investment Requirements**

36. To assist the authorities of Bosnia and Herzegovina in putting in place proper conditions for successful reintegration, donor funding is required in support of a three-tiered program:

**i. Support to the IPTF-assisted restructuring of police forces (US\$37 million).**

IPTF has designed a restructuring plan which aims to improve the professionalism of police forces in Bosnia and Herzegovina. Of the US\$72 million requested, about US\$37 million is designated for activities directly linked to reintegration, including:

- Screening police officers for criminal records;
- Testing for skills;
- Providing minimum basic training as necessary;
- Providing specialized training in criminal investigations, crowd control, security, narcotics, etc.;
- Advising law enforcement bodies; and
- Providing urgently needed equipment.

<b>BOX 7: IPTF PROGRAM - PRELIMINARY RESULTS</b>
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- All Cantons have been inaugurated except Western Bosnia and Western Herzegovina.
  - Of the 10,500 authorized Federation police officers, 6,846 have been certified: Una-Sana: 286; Posavina: 289; Tuzla-Podrinje: 575; Zenica-Doboj: 696; Gorazde: 174; Central Bosnia: 954; Neretva: 1,063; Western Herzegovina: 334; Sarajevo: 1,440; Western Bosnia: 524; Federal Police: 511.
  - A Federation Police Academy was established. The first class of 100 includes 33 women and an ethnic breakdown of 58 Croats, 20 Bosniacs, and 22 Serbs.
  - Of the 10,500 authorized Federation police officers, 81 percent completed a one-week Human Dignity course and 28 percent a three-week Transitional Training; of the 8,500 authorized Republika Srpska police officers, 26 percent completed the Human Dignity course.
- Successful continuation of these efforts may be jeopardized by the lack of external financing.

Implementation has started, with marked success both in retraining police officers and in promoting the presence of minorities within police forces. Efforts have initially concentrated in the Federation (with some delays in Croat cantons), but were recently extended to Republika Srpska (see Box 7). Donor financial support is needed for this essential program to continue at a satisfactory pace. The IPTF has assessed funding requirements at about US\$105 million over a two-year period. This estimate includes personnel needs, equipment and cash. Assistance can be provided in cash or in kind, and channeled through the UN Trust Fund for the Police Assistance Program in Bosnia and Herzegovina, or directly to IPTF (for seconded staff) or to the Entity (or Cantonal in the Federation) Governments, e.g., for equipment (in close coordination with IPTF and under its monitoring).

Assistance to local police forces (and in particular provision of equipment) should be made conditional on their ensuring the satisfactory security of returning refugees and displaced persons. Efforts should also be made to encourage minority police officers to return, and local authorities to reintegrate them into their police forces.

## ii. **Technical assistance (US\$3 million)**

Some technical assistance may be necessary to assist both Entity Governments in designing the necessary legislation and the corresponding administrative arrangements. Donor support will also be needed to continue to monitor the effective implementation of required reforms, and to support the further development of local NGOs.

## iii. **Social and fiscal support (US\$50 million)**

In view of current budgetary difficulties at all levels of Government, external support is necessary for the effective functioning of both the social safety net and public services in return areas. A fiscal and social program for 1998 (including initial support for essential reforms in these fields) has been designed by both the World Bank and IMF. Within this framework, about US\$50 million will be directed to activities which are critical for successful reintegration, especially:

- The correct functioning of the currently underfunded social safety net; returnees and displaced persons are among those who are most in need of social support. As

part of the overall safety net system, grant assistance should be provided to the most vulnerable; and

- Funding for school repairs, provision of textbook and other teaching materials, support for teachers' salaries and recurrent costs, as well as technical assistance for curricula development and textbook analysis.
- The development and adequate functioning of public institutions, especially for the delivery of social services, in areas of return, but more generally for effective governance. Infrastructure repair, training, equipment and some operating cost support are necessary.

Donor budgetary assistance aimed at facilitating reintegration should be made conditional, to some degree, on the effective establishment and enforcement of a legal environment conducive to return and reintegration.

## C.2. Economic Revival and Employment

### A. BACKGROUND

37. Successful economic revival is key to effective reintegration of refugees and displaced persons. At this stage, unemployment is one of the major impediments for many to resume a normal life, while many of those currently receiving regular incomes are reluctant to move (and consequently to return to their place of origin or even to Bosnia and Herzegovina). There are two facets to this issue:

<b>BOX 8: UNEMPLOYMENT RATES - TENTATIVE ESTIMATES</b>		
FEDERATION (BY CANTON)		REPUBLIKA SRPSKA
Una - Sana	46.5	Eastern Region
Posavina	64.3	Western Region
Tuzla - Podrinje	27.7	Average
Zenica - Dobo	24.4	Unemployment rates in the Federation of Bosnia and Herzegovina, pre-war conglomerate
Gorazde	39.4	
Central Bosnia	32.8	
Neretva	34.4	
Western Herzegovina	18.5	
Sarajevo	33.9	
Western Bosnia	35.3	
Average	32.5	

- High unemployment rates prevail throughout the country. Assessing the exact extent of the problem remains difficult in the absence of reliable statistics. Social surveys show, however, that about a third of Bosnia and Herzegovina's labor force is currently unemployed, with substantial variations between cantons and regions (see Box 8). Such employment rates are comparable to those of the immediate pre-war period (27 percent in 1991) or in less dynamic countries in the region (e.g. FYR Macedonia, with an unemployment rate at 36 percent in 1995).
- Returnees and displaced persons are particularly affected. Several surveys have been conducted to assess the extent of unemployment among returnees, but sample populations were often too limited and too specific to be representative. However, they all

indicate significant unemployment rates. With regard to displaced persons, preliminary surveys indicate that unemployment is about 20 to 30 percent higher than for residents, and average salaries 20 to 30 percent lower than those of residents. The difficulties returnees and displaced persons face stem from different reasons:

- i. social networks play an important role in Bosnia and Herzegovina for finding jobs, and returnees and displaced persons have less access to efficient networks;
- ii. public and socially-owned sectors remain predominant in the economy (accounting for 59 percent of jobs in the Federation, and 67 percent in Republika Srpska) and local authorities tend to privilege their constituencies (i.e. the residents) in job allocation;
- iii. there is an element of resentment vis-à-vis returnees which impedes their full reintegration in the labor market; and
- iv. ethnic minorities are clearly discriminated against in many instances, particularly for access to public jobs.

38. Experience in other Central and Eastern European countries shows that it takes many years to resolve the unemployment issue, and that the transition to a market economy is accompanied by significant changes in labor market composition (less agriculture and industry, more services; less public employment, more private or self-employment). In Bosnia and Herzegovina, many refugees and displaced persons (as well as residents) will have to change jobs, and will often no longer find employment opportunities where they formerly worked.

## B. OBJECTIVES AND FINANCING REQUIREMENTS

39. Within the framework of the overall reconstruction program presented in December 1995 by the EC and the World Bank, specific action should be taken in the employment sectors to facilitate reintegration. Such assistance aims to support the creation of sustainable jobs accessible to returnees and displaced persons, through:

- Promoting private sector development to generate jobs in a sustainable manner over the medium-term;
- Implementing emergency measures to alleviate unemployment during the transition period, with a view to avoiding encouraging movements to areas with no economic viability; and
- Preventing and reducing discrimination against returnees and displaced persons.

In the context of the general high levels of unemployment in Bosnia and Herzegovina, international support obviously cannot be targeted only on returnees and/or displaced persons without exacerbating tensions and making reintegration difficult.

40. Since the initiation of the reconstruction program, the donor community has committed about US\$600 million in support of employment (agriculture, industry and finance, and short-term employment generation), with a very significant impact on the ground. In 1998, an additional US\$125 million will be needed for reintegration-oriented activities in the employment sector (see Table 5).

**Table 5:**

**Reintegration-related Employment Program**

External Financing Needs

(US\$ million)

1998 Requirements

Provision of Critical Inputs	34
Support for Private Sector Development	52



Short-term Employment Generation	22
Support to Economic Transition	12
Technical Assistance	5
Total	125

## C. POLICY REQUIREMENTS

41. External assistance alone will not be enough to ensure the sustainable economic reintegration of refugees and displaced persons. In the absence of institutional reforms, donor assistance is likely to have limited impact, and both Entity Governments should be strongly encouraged to immediately start addressing some of the main issues which fall under their responsibility (and do not require substantial financial assistance to be resolved), including:
- i. Promoting the implementation of a legislative and regulatory framework conducive to growth and private sector development. Bosnia and Herzegovina still faces many of the challenges of transition economies. Donor assistance will achieve very few sustainable effects if it is not strongly backed up and eventually substituted by private sector involvement.
    - In the short-term, steps should be taken to further reduce payroll taxes (including social taxes), currently at about 50 percent of gross salary, vs. 18 percent for OECD countries and 30 percent for Central and Eastern Europe, and to rapidly privatize public enterprises.
    - In a second phase, a number of other key reforms should be undertaken, including: setting up an effective legal framework for private sector activities (e.g., property rights, contract laws, commercial law, bankruptcy law, etc.); liberalizing the economic system and policies, including labor market reforms; implementing reform of the payment bureaus; developing measures to attract foreign investors; and reforming the financial sector.
  - ii. Establishing an anti-discrimination legal and administrative infrastructure, to prevent discrimination against returnees, relocatees and displaced persons in the employment market. The Sarajevo Return Conference, held on February 3, 1998, under the joint chairmanship of the US, the EU and the OHR, outlined an agenda for preventing discrimination. It called specifically for the establishment of a Cantonal Return and Employment Commission to “set up rules, policies and procedures to address discrimination in the workplace and disseminate the information widely to the public and develop an anti-discrimination code of employment practices and promote its adoption by local public and private enterprises” Similar efforts should be undertaken throughout Bosnia and Herzegovina:
    - In the short-term, Cantonal (in the Federation) and Regional (in Republika Srpska) Employment and Return Commissions should be established throughout the country, with mandates similar to that of the Sarajevo Return Commission; emphasis should be put on defining effective implementation mechanisms for the Commissions’ decisions.
    - In a second phase, a set of anti-discrimination laws should be passed and enforced to guarantee fair labor standards of employment, fair work environment (no harassment), fair banking principles (credit allocation based on economic criteria only), and fair access to vital information (e.g., employment records, etc.).
42. In the medium-term an effort should also be made to: reform the labor market and to increase its efficiency, reform the education system (especially by developing vocational training suited to economic needs), and address key policy issues in each sector.

## D. INVESTMENT REQUIREMENTS

43. Assuming that the regulatory environment is appropriate, donors should also aim to maximize the impact of their assistance. In particular, donors should try to leverage private savings and reserve scarce grant resources for those who most need them. In most areas, programs have already been initiated. Whenever possible, existing instruments should be used or adjusted, rather than new projects developed (which is both time- and resource-consuming). Financial assistance is needed in support of a five-pillar program:

i. **Provision of Critical Inputs (US\$34 million)**

Critical inputs are necessary in many cases to restart economic activities: seeds, farm equipment or livestock for farmers, raw materials or small equipment for factories, etc. Such assistance should be provided on a credit basis, with soft loans or grants reserved for the most vulnerable. An effort should be made to develop transparent allocation mechanisms, adequately targeted with a bias in favor of returnees and displaced persons (and to avoid supporting enterprises involved in organized relocation of displaced persons aimed at preventing returns of pre-war inhabitants). Focus should be on activities that can become sustainable over the medium-term (hence the preference for credit or soft loans). Effective mechanisms have already been designed and used for similar projects (e.g., for providing agricultural inputs, livestock and farm equipment) and could be usefully used once again to channel donor resources to priority areas where large population movements are taking place.

ii. **Support for Private Sector Development (US\$52 million):**

A number of financial instruments have already been developed to support private sector involvement: micro-credit, lines of credit, start-up grants (see Box 9), guarantees for foreign investors, equity funds, etc. Guidelines for effective use of donor contributions have been set by the Industry Task Force. Efforts should include:

**BOX 9: EC-FUNDED START-UP GRANTS FOR SUSTAINABLE EMPLOYMENT**

Over the past two years, the EC has successfully contributed to the (re)start of local enterprises by financing labor costs (on a grant basis) for part of the staff for time periods of less than six months. The program is implemented through the "Mission Locale de Strasbourg" (MLS). The MLS is responsible for, inter alia, selecting beneficiaries (with a potential for sustainability beyond the start-up period), ensuring that staff is effectively employed directly by the company in case of success, and paying wages directly to workers (at 100 DEM a month). About 75 percent of the staff initially financed by the EC is now regularly employed by the beneficiary companies and more than 2,700 sustainable jobs have been created at an average cost of about US\$800 per job (including project management).

- Providing continued support to existing operations, particularly lines of credit and micro-credit projects. Success for such operations is essentially linked to the setting up of effective institutions, with a view to developing financial self-sustainability. Donors should focus their efforts on gradually strengthening existing credit institutions rather than on multiplying ad hoc projects (see Map 8 on existing micro-credit projects).
- Filling the existing gaps in terms of lending instruments, both geographically and in

terms of lending conditions (loan size and duration). Effort should be made to extend progressively the coverage of credit institutions throughout Bosnia and Herzegovina. In addition, new instruments should be developed, especially to provide credit for small enterprises (in amounts between US\$10,000 and US\$50,000), medium enterprises (in amounts between about US\$170,000 and US\$570,000), and for agricultural activities.

- Encouraging returnees, and particularly minority returnees, to “come back with a job “. Regardless of efforts made by the international community, minority returnees are likely to be subject to discrimination at least during an initial phase. Attempts should be made to encourage them to develop activities that could generate an income once they have returned (possibly through specifically targeted micro-credit or training schemes, with a focus on “movable” activities). Specific programs could be further developed in Western host countries to that effect.

### **iii. Short-term Employment Generation (US\$22 million)**

It will take years for private sector activities to develop to the level required to generate a sufficient number of jobs, particularly in areas where destruction has been severe. To avoid impeding population movements and stabilizing unnecessarily people in their current places of residence, efforts have to be made to provide short-term employment. Different schemes are already in place (public works, subsidized employment, income-generating projects) and could be expanded upon or replicated. Since these schemes are relatively expensive (about US\$350 per person-per month for short-term non-sustainable jobs), they should be carefully targeted to areas where they may have the highest impact, politically as well as economically. This would include:

- Financing public works or subsidized employment in municipalities which have demonstrated their readiness to comply with Dayton Peace Agreement provisions (e.g., “Open Cities”). Continued emphasis should, however, be placed on developing demand-driven mechanisms for selecting public work projects, in order to ensure that resources are directed in response to locally-identified priority needs. Subsidized employment should also be limited to activities with potential for financial self-sustainability beyond the start-up period.
- Generating temporary employment in areas of return for a several-month transition period until regular income can replace aid (e.g., to support rural returnees during the few months necessary to restart agricultural activities). Focus should be on income-generation projects, and possibly on public works. Priority should be given to areas in which both large returns have taken place and sustainable activities can be developed during the transition period.

### **iv. Support for Economic Transition (12 million)**

Transition to a market economy and restructuring of economic activities as a consequence of the breakdown of the internal Yugoslav market are resulting in significant changes on the labor market. Returnees and displaced persons are likely to be among those most affected by these changes, and should not be marginalized in the adjustment process. Efforts should be three-fold:

- Support services should be developed for both farmers and small businesses in areas of return to help increase productivity and strengthen efficiency. Support required includes: reequipping veterinary institutes, setting up agricultural extension service network, reviving forestry institutes, and also establishing business centers, and providing training to respond to companies’ needs.
- Employment and job-finding services should be supported. These services are essential to returnees and displaced persons, who do not have access to efficient social networks, for obtaining information on job vacancies.
- Training (and retraining) should be provided to refugees, displaced persons and

returnees, to upgrade their skills and to facilitate their satisfactory reintegration in the labor market. About 60 percent of unemployed displaced persons are looking for jobs which do not require specific qualifications or skills. Learning new skills or obtaining additional qualifications are critical for finding employment opportunities. Training programs could be implemented not only in areas of return, but also in areas of displacement or in countries of asylum (as already undertaken by some of these countries), to best prepare an eventual return.

**v. Technical assistance (US\$5 million)**

For satisfactory implementation of the assistance program, technical assistance is necessary, especially for:

- Project preparation and supervision . These costs should be kept to a minimum by involving local authorities, whenever possible, in the design and implementation of assistance programs.
- Assistance to authorities in Bosnia and Herzegovina in the preparation of necessary policy measures and in their successful implementation.
- Monitoring of adhesion to anti-discrimination procedures, possibly through local human rights organizations, to report on irregularities, mediate whenever possible and provide legal assistance to individuals as required.

## C.3. Housing

### A. BACKGROUND

#### **BOX 10: THE HOUSING SITUATION IN 1991**

Pre-war accommodation standards in Bosnia and Herzegovina were relatively high:

- about 1,295,000 housing units for 4.4 million people;
- a relatively high-quality housing stock, half of which was built after 1971;
- adequate residential infrastructure coverage in urban areas (although services lagged behind in unplanned and privately developed suburbs).

The housing stock was:

- 80 percent privately-owned, mainly in the countryside (owner-built family houses);
- 20 percent was “socially-owned” (i.e. by public companies), mainly in the cities, where public housing (multi-family blocks of rental apartments) accounted for about half of the stock; tenure bestowed many of the benefits of full ownership.

44. Availability of adequate housing space is key to the successful reintegration of refugees and displaced persons. Many possible movements are currently hindered by housing-related difficulties. Current housing shortages for returnees stems from three main factors:

- The pre-war housing stock (see Box 10) suffered considerable damage during the war.

Damage to the stock was not, however, evenly distributed throughout the country – and the overall population has substantially decreased. Housing shortages vary significantly among the regions, and within each region between municipalities and rural or urban communities. In specific places, and for certain categories of beneficiaries (especially the most vulnerable), there is a shortage of accommodation. Such situations are, however, relatively limited and may not be the main impediment to providing returnees and displaced persons with suitable accommodation.

- Almost everywhere throughout Bosnia and Herzegovina, many houses of people who left during the war (and particularly those belonging to ethnic minorities) are currently used to host displaced persons. Refugees and displaced persons often cannot return to their homes without evicting others – which is almost impossible in the absence of satisfactory alternative solution for occupants. In principle, this is primarily a logistical problem: movements should be synchronized, with some sort of temporary accommodation provided where needed. But many “temporary” occupants have no intention of returning to their place of origin (for political, economic or personal reasons), particularly among rural people currently accommodated in cities. Reconstructing villages of origin has proven both costly and relatively ineffective in motivating such people to return: even once their homes are repaired, they tend to stay in town. Assisting them in settling in the urban environment where they currently live may be the only solution to enable the pre-war owners to return.
  - A number of families control several housing units (often theirs and one or several occupied ones): split households, extension of pre-war housing space, returns to villages while keeping a housing unit in the city, etc. A recent UNHCR survey shows that Sarajevo could host an additional 40,000 returnees (i.e. the bulk of the expected returns) with no deterioration in the housing situation (as measured by number of persons per unit) compared to pre-war levels. Preliminary analysis indicates that a similar situation might exist in several other regions. Improving allocation and management of the existing housing space (with decentralized, incentive-based mechanisms) may be more important to support reintegration (and much less expensive) than constructing new housing units.
45. Addressing the housing issue will also require resolving ownership issues. Many refugees and displaced persons have de facto been deprived of their property or tenure (in case of socially-owned dwellings) rights. Property rights should in principle revert to the owners upon reclaim, but in both Entities the rights of the new occupant often take precedence over those of the original occupant.

## **B. OBJECTIVES AND FINANCING REQUIREMENTS**

46. Within the framework of the overall reconstruction program presented in December 1995 by the EC and the World Bank, specific actions should be undertaken in the housing sector to facilitate the reintegration of refugees and displaced persons. Assistance to the sector should aim to ensure satisfactory accommodation for returnees and displaced persons while respecting property rights. Since housing repairs are expensive (the average reconstruction cost is between US\$15,000 and US\$25,000 per unit), only a small percentage of potential returnees can benefit from grant assistance. The assistance program should therefore be based on a three-fold approach:
- Support for the restoration of property rights as per the procedures agreed to in the Dayton Peace Agreement;
  - Promote the development of efficient market mechanisms: most returnees and displaced persons will not benefit from direct grant assistance, and will be able to resolve their current difficulties only through such mechanisms this will require:

- i. amending existing regulations to liberalize the housing market and ensure better matching between supply and demand (including improving existing space allocation); and
- ii. developing adequate mechanisms for leveraging private financing for housing works (and for mobilizing private savings within the country); and
- o Help address issues which cannot be resolved through market mechanisms, especially accommodation for the most vulnerable through grants extended on the basis of an agreed and transparent list of criteria (which may include social as well as more political considerations).

48. Since the start of the reconstruction program, the donor community has committed about US\$450 million for housing projects, which has had very significant impact on the ground. In 1998, an additional US\$125 million will be needed for reintegration-oriented activities in the housing sector (see Table 6).

<b>Table 6:</b> <b>Reintegration-related Housing Program</b> External Financing Needs (US\$ million) 1998 Requirements	
Development of housing financing schemes	30
Repairs / Reconstruction for vulnerable persons	85
Support to the CRPC	7.5
Technical assistance for legal and regulatory reforms	2.5
<b>Total</b>	<b>125</b>

## C. POLICY REQUIREMENTS

49. In view of their cost, donor-financed reconstruction works are likely to have only a marginal impact on current housing shortages. Remedying current difficulties requires first and foremost improving the sector's regulatory environment, and especially the mechanisms for allocating available space and mobilizing private savings. Donors should strongly encourage both Entity Governments to immediately start addressing some of the main issues which fall under their responsibility (and can be addressed without substantial financial assistance), including:

- i. Ensuring ownership rights are recognized and respected.

This will require:

- for the Federation, publishing and effectively implementing a series of laws, including: the Law on the Cessation of the Application of the Law on Temporary Abandoned Real Property Owned by Citizens; the Law on Taking Over the Law on Housing Relations; and the Law on Cessation of the Application of the Law on Abandoned Apartments; and adopting accompanying regulations;
- for the Republika Srpska, passing legislative acts acceptable to the OHR to amend the Law on Abandoned Property and the Law on Housing Relations;
- for both Entities, implementing all binding decisions of CRPC.
- ii. Setting up an adequate legal environment for the development of a country-wide real estate market.

Such measures would constitute an important step towards resolving the issue of displaced persons who intend to relocate and are currently occupying "abandoned houses" (rendering the return of pre-

war owners impossible). If such “temporary occupants” could dispose of their property (and possibly sell or exchange it), they would have the means to access (without external financial assistance) the local housing market and free the unit they currently occupy – making it possible for the pre-war owner to return.

Such market mechanisms already exist (exchanges of properties across the Inter-Entity Boundary Line) but have been developed in a regulatory vacuum, which often leads to unethical practices. Appropriate legislation needs to be passed (in particular to recognize exchanges and sales made in the other Entity) and the property laws of both Entities need to be harmonized. Each Entity also needs to accept and recognize official documents issued in the other Entity (including identity and property registration documents). To fully implement the Dayton Peace Agreement, a Property Fund must be set up, as required in Annex 7 (see Box 11).

**BOX 11: THE ANNEX 7 PROPERTY FUND**

A number of refugees and displaced persons will not be in a position to use real estate market on a free and fair basis for disposing of their property, since:

1. they may not be able to access it; and
2. price distortions resulting from war and population movements may disadvantage them.

To remedy these difficulties and equalize opportunities, the Dayton Peace Agreement calls for the parties to establish a CRPC-administered Fund in the Central Bank of Bosnia and Herzegovina. This Fund could become the custodian of legitimately abandoned property, and act as a property manager for those wishing to sell, lease or exchange their property. A limited amount of donor financial support will be key for the effective functioning of this Fund (also see below).

50. Improving housing stock allocation. The Sarajevo Return Conference has called for the establishment of a Sarajevo Housing Commission to allocate vacant socially-owned apartments (including those under reconstruction), and to ensure that ethnic minorities are not discriminated against. Building on this initiative, two kinds of measures might be required:
- In the short-term, encouragement should be provided to Entity and, in the Federation, to Cantonal authorities, to set up Cantonal Housing Commissions where necessary to ensure that allocations of socially-owned and reconstructed housing units are not biased against returnees, displaced persons or ethnic minorities;
  - Over the next few years, regulations and incentive-based mechanisms should be gradually introduced to improve allocation of available housing space (for example by limiting the free occupation or low rents to the most vulnerable and getting others to pay for the housing units they live in or occupy).
51. Promoting private sector involvement in adjusting housing supply to the demand.

Obstacles should be removed and incentives provided for private companies and financial entities to become gradually involved in the housing sector.

In the short-term, support should be provided for resolving regulatory issues which could impede the start of the EC-funded Kreditanstalt für Wiederaufbau (KfW) project, aimed at developing a financial institution for providing housing loans;

In the medium-term, socially-owned housing should be gradually privatized; during the privatization process

care should be taken to: respect the rights of pre-war tenants, design mechanisms for avoiding the concentration of housing space in the hands of a few (which could result in clientelism), and ensure that appropriate systems are in place for reliable maintenance of common areas.

## D. INVESTMENT REQUIREMENTS

50. Adjusting allocation mechanisms for available housing space and mobilizing private savings for reconstruction would probably make it possible to rapidly resolve a large part of the housing issue. Donor assistance should therefore be directed to: (i) providing “seed money” for a better policy environment; and (ii) addressing needs that cannot be met through market mechanisms only. Donor assistance should be strictly conditional on the respect of property rights. Lessons learned over the last two years should also be taken into consideration (see Box 12).

### BOX 12: \* LESSONS LEARNED

- Identification of beneficiaries is critical. Many restored housing units have remained empty. Assistance should be more closely linked to population movements.
- Technical standards and quality of the works must be closely monitored. In several instances, “reconstructed” housing units are barely inhabitable – and are clearly not attractive for potential returnees. Systematic application of standards developed by the International Management Group (IMG) is recommended.
- Reconstruction projects should include pre-agreed allocation mechanisms. To ensure that reconstruction projects benefit returnees and displaced persons, agreements should be reached with local authorities (prior to the works) on allocation plans for restored units.
- Donor coordination is essential to ensure consistency and coherence in program design and implementation; donors should work closely with the Housing Task Force.
- Contracting for labor and materials has been more effective in getting damage repaired quickly than distributing materials to people so that they can do the work themselves. But “self-help” projects have made it possible to more effectively involve beneficiaries.
- Housing repairs should be integrated with infrastructure rehabilitation.

51. Financial assistance should be provided for a four-pillar program:

- i. **Promoting private sector involvement in adjusting housing supply to demand (US\$30 million).**

Mobilizing private resources is essential for three reasons: to amplify the impact of donor financing;



to best match resource allocation to areas with highest demand; and to eventually replace international assistance. To date, the main obstacle for such an involvement is the absence of housing financing schemes.

Efforts should be aimed at developing credit schemes. In this context, the EC-funded project implemented by the KfW and aimed at developing credit facilities for constructing and repairing houses is an important step in the right direction. Support should also be provided for the establishment of the Annex 7 Property Fund, under the auspices of the CRPC (with an initial pilot project of about US\$1 to 2 million).

In the medium-term, similar schemes should be developed throughout the country. Efforts could also be made to provide incentives for people in Bosnia and Herzegovina to mobilize their savings for housing (re)construction.

ii. **Repairing/reconstructing accommodation for the most vulnerable persons (US\$85 million).**

Because of insufficient creditworthiness or high political risk associated to their return, a relatively large number of people will not be in a position to access the private housing market or credit schemes in the coming years. Such people will need concessional or grant assistance. Donor support should focus on:

- **Public housing.** Restoring public housing is critical for returns to cities (both for pre-war owners to return into their dwellings, and as alternative solution for “temporary occupants” who are unwilling to return to rural areas). In the Federation, such works could be implemented through the Housing Project Implementation Unit established within the Ministry for Spatial Planning and Environment. In Republika Srpska, a similar Project Coordination Unit has been established in Banja Luka.
- **Community returns.** Assistance should be provided to returning communities, especially in the case of minority returns. Support should, however, be granted only once movements are actually initiated (and not only on the basis of formal commitments). Experience shows that two approaches can be used successfully to implement such works: self-help projects (where materials are provided and their use is carefully monitored) or use of contractors (with incentives to employ some of the returnees).
- **Elderly, disabled, male-absent households and other vulnerable persons.** Assistance to these people, whether returning or relocating, is indispensable. A particular effort should be made to assist those who are still accommodated in collective centers. Works should be carried out by contractors.

In selecting beneficiaries for grant assistance, emphasis should be placed on: avoiding creating disincentives for private sector involvement; focusing on regions with the greatest housing shortages; and targeting those most in need. For the sake of transparency and fairness, a list of commonly agreed eligibility criteria should be prepared by the IMG-chaired Housing Task Force.

iii. **Supporting CRPC, for effective restoration of property rights (US\$7.5 million).**

Established under Annex 7 of the Dayton Peace Agreement, the Commission for Real Property Claims of Refugees and Displaced Persons (CRPC) plays an essential role in clarifying and settling property issues. More than 70,000 claims had been received by the end of December 1997, even though CRPC’s geographical coverage is still limited. However, limited resources made it impossible to process more than 6,000 claims by the same date, since CRPC’s work is by nature complex and labor intensive. Donor support is critical (the CRPC made an appeal for about US\$7.5 million for 1998) to:

- Cover investment needs and operating costs,

- Maintain and build up the existing database of cadastral information (which is an essential basis for providing reliable property records, increasing the amount of evidence available for use in verifying claims, and for contributing to the redevelopment of property law in Bosnia and Herzegovina), and
- continue expanding its office network to areas and countries with large numbers of refugees and displaced persons (which should make it possible to increase the rate of claim registration and determination over the coming year).

iv. **Providing technical assistance (US\$2.5 million).**

For satisfactory implementation of the assistance program, technical assistance is necessary, in particular for:

- Project preparation and supervision. These costs should be kept to a minimum by involving local authorities in the design and implementation of assistance programs whenever possible.
- Assistance to authorities in Bosnia and Herzegovina in designing appropriate regulations, including measures for ensuring adequate maintenance of common areas after privatization of public housing. Such assistance could be placed directly within Government structures (the Entity and Cantonal Ministries responsible for housing matters), or seconded through relevant international organizations.
- Monitoring of adhesion to anti-discrimination procedures, possibly through local human rights organizations, to report on irregularities, mediate whenever possible and provide legal assistance to individuals, as required.

## **C.4. Local Infrastructure**

### **A. BACKGROUND**

52. Significant resources for restoring infrastructure networks were made available during the first two years of reconstruction. The results of these efforts are visible throughout the country. The essential components of most of the networks have been rehabilitated countrywide, including roads and bridges, electric power plants, transmission lines, etc. At the local level, the most acute shortages have been remedied (although there remains areas with high needs) and social infrastructure (in particular education and health facilities) are being restored.

<b>BOX 13: FOUR REASONS FOR INFRASTRUCTURE SHORTAGES</b>
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- **Pre-war shortages.** Geographic coverage of infrastructure networks was often limited (e.g., for telecommunications) and many rural communities had limited access to modern utilities. Even in cities, sufficient infrastructure was not always available. Shortages existed prior to the conflict, and were often amplified by inadequate maintenance.
- **War destruction.** Both infrastructure networks and social infrastructure suffered extensive damage, both from military activities and war-related lack of maintenance.
- **Large population movements.** With the inflow of large numbers of people to some areas, infrastructure networks became overloaded. New needs appeared which resulted in shortages even in areas where pre-war service delivery was adequate and war damage limited.
- **Utilities management.** Practices inherited from the pre-war system still prevail in many sectors. Infrastructure management is often far from optimal, generating unnecessary waste, and therefore reducing efficiency.

53. The return of refugees and displaced persons represents a new challenge (see Box 13) in the infrastructure sectors. With increased numbers of users, large portions of the infrastructure networks will be undersized, and further works will be required to bring supply in line with needs. Ensuring that appropriate infrastructure is available (including social infrastructure) is key for effective return to take place: experience shows that many displaced persons are not returning to their place of origin because of the lack of basic utilities, adequate health care, and education services. Building on their past success, donors should assist in addressing such shortages.
54. Local infrastructure systems are often managed by local or municipal companies. The impact of rehabilitating works in these sectors may therefore have substantial impact not only on standards of living, but also in the political arena:
- Local authorities can be substantially strengthened by well-designed projects. If they are adequately involved in design and implementation and closely associated with the decision-making process, they are likely not only to improve their professionalism but also to increase their autonomy vis-à-vis central authorities (especially Entity Governments).
  - Infrastructure works can produce rapid and highly visible results, which may help municipal authorities to strengthen their position vis-à-vis their constituencies. The political benefit of such works is significant at the local level. Infrastructure projects can therefore be best used to support and encourage municipal authorities who are complying with all provisions of the Dayton Peace Agreement. They should be avoided in areas where the reinforcement of municipal authorities would constitute a setback in the peace process.

## B. OBJECTIVES AND FINANCING REQUIREMENTS

55. Within the framework of the overall reconstruction program presented in December 1995 by the EC and the World Bank, specific actions should be undertaken in the local infrastructure sectors to facilitate the reintegration of refugees and displaced persons. Assistance in the sector should aim to transform a potentially negative factor (insufficient infrastructure) into an incentive (for municipal authorities to accept return). The assistance program should be two-fold:
- Remedying existing shortages which may create impediments to refugee return; and
  - Encouraging municipal authorities to accept returns (and in particular minority returns) by using “positive linkages”.
56. Since the start of the reconstruction program, the donor community has already committed more than US\$750 million for local infrastructure projects, with very significant impact on the ground. In 1998, an additional US\$180 million will be needed for reintegration-oriented activities in the local infrastructure sector (see Table 7). Additional assistance will be, however, required for the rehabilitation of countrywide infrastructure networks.

**Table 7:**  
**Reintegration-related Local Infrastructure Program**

External Financing Needs  
(US\$ million)  
1998 Requirements

Rehabilitation works in areas of return

Rehabilitation works in urban centers

Infrastructure in support of housing projects

Development works in Open Cities and other priority areas

Municipal governance

Technical assistance

Total

Note: Local infrastructure includes: water and waste management, electric power distribution, rural roads, urban transport, local

## C. POLICY REQUIREMENTS

57. To ensure the optimal use of scarce external resources, donors should encourage Entity Governments and municipal authorities to accompany and complement their assistance with the adoption and implementation of a number of policy measures, including:

**i. Sectoral policy conditionality**

In all infrastructure sectors, a number of key reforms are required for improving service delivery and optimizing the use of existing facilities. The necessary measures for each sector are described in various reports. Although arrangements vary from one sector to the other, the main objectives are similar: developing cost-recovery mechanisms, both to increase utilities' revenues and ensure their financial sustainability, and to regulate the demand; improving cost-effectiveness and management, by restructuring and eventually privatizing public companies; restoring inter-Entity linkages, for rectifying disruptions and inefficiencies, etc. Detailed sectoral policy requirements have been set by some of the Economic Task Force members and should be implemented as soon as possible.

**ii. Linkages**

To maximize the political impact of donor resources, beneficiary municipalities should be encouraged to demonstrate their commitment to comply with all Dayton Peace Agreement provisions and in

particular with Annex 7. Under the overall guidance of the OHR, adequate linkages should be used appropriately. Efforts should also be made to provide privileged support to municipalities which have demonstrated their openness to minority return (e.g., UNHCR-identified “Open Cities”).

### iii. **Transparency and accountability**

Allegations of corruption have cast a shadow on some parts of the reconstruction program. Both Entity Governments should be encouraged to increase transparency in public funds management. To this effect, an independent body should be rapidly established in each Entity, with responsibility for conducting audits on reconstruction projects managed by local authorities, in order to prevent or remedy inadequate practices and reinforce donors’ confidence. The Federation Government has already set a Procurement Monitoring and Auditing Unit (PMAU), with local staff supported by foreign consultants, to ensure transparency in contracts let under World Bank-financed projects. A similar organization is to be set up shortly in Republika Srpska. Based on PMAU’s successful achievements to date, these organizations should be institutionalized and the scope of their mandate gradually extended.

## **D. INVESTMENT REQUIREMENTS**

58. Large amounts of donor resources are required for the infrastructure sectors. For effective project preparation, attention should be paid to the lessons learned during the first two years of the reconstruction program. Several parameters which are critical for success have been identified, including:

- Priority should be given to municipalities with the largest numbers of people to be reintegrated; criteria may vary to take into account minority returns, majority returns and relocations in different manners, but priority should be given to areas where voluntary population movements are taking place (rather than to areas which have judged it politically opportune to announce their readiness but have not transformed their intents into concrete action);
- A degree of flexibility should be kept; most of the population movements which will take place in 1998 cannot be foreseen; resource allocation mechanisms should be flexible enough for assistance to be re-directed over the course of the year to areas where large unexpected movements take place;
- Allocation mechanisms should be demand-driven and possibly competitive. The experience of the World Bank-sponsored Public Works and Employment Project is particularly interesting in this respect (see Box 14): when competing for the same resources, municipal authorities demonstrate higher levels of professionalism, keep costs low and select their priorities more carefully.

<b>BOX 14: THE PUBLIC WORKS AND EMPLOYMENT PROJECT'S MAIN FEATURES</b>
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- A fund for local infrastructure works managed by the Employment and Training Foundation of each Entity (ETFs).
- All municipalities eligible to submit requests (prepared by their services) to the ETFs in accordance with application guidelines. There is no pre-allocation ("demand-driven" process).
- Projects are appraised in the field and cost estimates checked by ETF engineers.
- Projects are ranked by the ETFs as per a multi-criteria system, and only the best-ranked projects are financed ("competitive" process). Priority is given to high-labor content projects in areas where returns are happening.
- 30% of projects have cofinancing from the municipality or other agencies (most commonly in the form of materials) demonstrating strong local ownership and commitment.

- Projects should be subject to some economic analysis. To optimize use of donor resources and avoid financing unsustainable projects, effort should be made to conduct costs/benefit analyses (e.g., by calculating expected rates of return), and to verify the effective capacity of responsible authorities to cover operating and maintenance costs of repaired facilities over the medium-term.
- Local authorities, communities and beneficiaries should be involved. The commitment of municipal authorities is often seen as key for success for local infrastructure projects. In addition, medium-term sustainability of reconstruction activities is conditional on the full empowerment of authorities and their adequately management of their infrastructure. The involvement of authorities should not be limited to formal approvals. They should be closely involved, ideally in a decision-making capacity, in all phases of project design and implementation. It may also be important, particularly in the case of projects which aim to support minority returns, to involve beneficiaries in project definition, including representatives of returnees and displaced persons (e.g., through representatives or local referendums, as were used before the war).
- Bosnian labor and material should be used to the extent possible for expanding the impact of assistance on invigorating the local economy. Wherever possible, supply of materials from the other Entity should be encouraged (as already successfully undertaken for the UNHCR-financed housing projects).

#### **BOX 15: A SOLUTION FOR QUICK DISBURSEMENT: THE PROJECT IMPLEMENTATION UNITS**

A number of Project Implementation Units (PIUs) have been established over the past two years by both Entity Governments, with the support of the World Bank, and are now fully operational. Donors may consider channeling their resources through these PIUs – to ensure adequate prioritization, quick and effective impact, and transparency. In the infrastructure sectors, such PIUs are active (in both Entities) in the following sectors: water, electric power, transport, housing, district heating, landmine clearing.

- Implementation mechanisms should be such that rapid impact is obtained. Since large population movements are likely to take place already within the next months, donors should ensure that their commitments can be quickly and effectively translated into

visible activities on the ground (see Box 15).

- Efforts should be made to ensure adequate coordination. This coordination should be both geographic (e.g., to ensure that all utilities are available in a specific area of potential return) and sectoral (e.g., to ensure consistency of all projects undertaken in a specific sector). The IMG-chaired sectoral Task Forces are playing a critical role in this area.

60. Within this framework, donor support could be directed to six main activities:

i. **Assisting “receiving” communities: Rehabilitation works in areas of return (US\$35 million).**

Reintegration of returnees and displaced persons takes place at a local level. Regardless of national policies, the bulk of the effort rests on local communities and on municipalities, which provide many of the collective and social services needed by the new populations. Support should therefore be provided to avoid that returns result in significant deterioration of residents’ living conditions.

Different implementation arrangements have been designed to date by various donors. In principle, efforts should be made to decentralize decision-making, so that decisions concerning both priorities and implementation arrangements (selection of contractors, etc.) are made at the local level (rather than by Entity governmental authorities). Ideally, projects should be implemented directly by municipal authorities, under the supervision of an independent (possibly foreign) organization (private contractor, as for the USAID Municipal Infrastructure and Services Program; NGO, as preferred in the new EC-funded project; or PIU as used for World Bank-financed projects).

ii. **Facilitating reintegration in cities: Rehabilitation work in urban centers (US\$75 million).**

Most of the expected population movements are likely to be directed towards the largest urban centers (including both returns of pre-war inhabitants and resettlement of rural displaced persons). Additional flows of people to the cities will result in infrastructure shortages and generate new needs. Particular efforts are needed to ensure satisfactory living conditions in the cities. Appropriate living conditions are important not only because urbanization is a long-term trend, but also because successful reintegration in urban areas is critical:

- Cities were the “core” of multi-ethnicity in Bosnia and Herzegovina, and minority returns to urban areas will be both the least difficult to achieve and the most significant for tolerance and reconciliation to prevail over the medium-term;
- Newly-urbanized populations may play a destabilizing role in many areas in the years to come (particularly in view of traditional rural/urban tensions), and their rapid integration into urban life is critical. A number of projects, which could be replicated and extended, have already been implemented to support municipal development in large urban centers. Municipal authorities often have the technical capacity for preparing and supervising project execution, and may require external assistance only for overall guidance and monitoring.

iii. **Addressing the needs of returnees: Infrastructure works to support housing projects (US\$35 million).**

<b>BOX 16: EC-FUNDED INTEGRATED PROJECTS</b>
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Drawing on lessons from past experience, the EC has undertaken an important effort to carry out a number of “integrated projects” aimed at reviving local communities through a mix of housing repairs, infrastructure works, and employment generation projects. A large number of NGOs have been requested to submit proposals and significant works are expected to start in early April 1998.

In heavily damaged areas where returns are taking place, external support is needed for infrastructure rehabilitation – to render possible sustainable returns. Experience shows that housing repairs alone are of little use if they are not accompanied by infrastructure works. Indeed, while many reconstruction works can be carried out through private financing, common infrastructure rehabilitation often requires public involvement (mine clearance may also be critical in a number of areas).

NGOs have been requested to submit proposals to the EC, and a large number of works are expected to start in April 1998. Donor funded housing projects should, in general, be complemented by local infrastructure (including mine clearance) works. To ensure adequate coordination, both types of works should be part of single “integrated” projects, implemented under a single responsibility (see Box 16).

**iv. Encouraging municipal authorities: Development projects in Open Cities and priority areas (US\$25 million)**

In addition to remedying critical shortages, donors may consider providing additional assistance to those municipalities where authorities have shown positive approaches toward return. Infrastructure works can play an important role in this respect. Such politically-oriented projects should, however, meet a few criteria to ensure optimal effectiveness:

- Local authorities should be fully involved in designing and implementing projects – since the assistance is aimed at providing them with incentives;
- Financed works should address priority needs, and efforts should be made to include economic criteria in project selection; and
- Fund management should be effective and transparent. For effective implementation of this assistance, a special fund could be set up, and a specific institution could be established to administer it. Municipalities could submit projects for financing to the administering institution. Designs and cost estimates would be checked by the agency. All projects received would be ranked according to a multi-criteria system (possibly including types of works, number of returns, expected impact, etc.), and the highest-ranked projects only would be financed.

**v. Developing the capacity of municipal authorities (US\$5 million).**

To improve the delivery of municipal services local governance needs to be enhanced. Support is needed to provide both training and technical assistance. Assistance should be directed as a priority to municipalities which are complying with all provisions of the Dayton Peace Agreement, and where municipal personnel is reasonably stable. Such programs could be carried out through twinning arrangements, provided they are designed to ensure effective provision of required services.

**vi. Providing technical assistance (US\$5 million).**

Technical assistance should be kept minimal, but may be necessary to assist municipal authorities in preparing and implementing projects (since many small municipalities have very limited technical staff). Preliminary efforts should also be made to develop a medium-term local infrastructure



financing schemes.

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## **Office of the High Representative Reconstruction and Return Task Force**