OHR Reconstruction and Return

RRTF: Report December 1997

Outlook for 1998

“Resources, repatriation and minority return”

December 1997

4. Economic Context

4.1. Economic Absorptive Capacity

As of end of November 1997, approximately USD 1.5 billion of external assistance has been expended in the reconstruction effort in Bosnia Herzegovina, mostly in the Federation. A further USD 2 billion approximately is under implementation. The economic impact of this activity is clearly visible throughout the Federation, in the Republika Srpska, the impact is visible only in a few selected areas. However, even in the Federation there has been little concrete progress in restructuring from a command to a market economy essential to sustain economic recovery and growth in 1998/9. As of August 1997 the status of the three major RRTF members financing reconstruction was:

In US Dollars	Total Commitments	Under Implementation	Disbursed	Funds Expended
United States	469.30	398.47	365.20	236.98
Eur Commission	649.86	432.37	272.29	257.69
World Bank	517.60	334.76	269.78	228.55
Total	**1,636.76**	**1,165.60**	**907.27**	**722.92**

These figures represent the total contribution of the US, EC

and WB to the entire reconstruction effort, a considerable achievement by all who made it possible.

However, the irresponsible behaviour of the leaders within the common institutions in failing to fulfil the measures required for an IMF agreement and obfuscation and delay in implementation of the QSP (Quick Start Package) laws, continue to delay and diminish the inflow of potential resources in both the public and private sectors. The parties have shown little consideration for their own people in terms of ensuring an enabling climate for their return. This disregard is manifest at the highest levels and mitigated the scale of repatriation and return in 1997 and, if unchecked, portends to have a similar dampening impact in 1998.

The available statistics indicated below, do not present an accurate account of the economy. However, even allowing for substantial margins of error, particularly with regard to the informal sector, the outlook is still fundamentally unsatisfactory.

4.1.1. The Federation of Bosnia and Herzegovina

Most indicators which have a strong bearing on facilitating repatriation and return have seen sharp improvement from 1995 to 1996, slower improvement throughout 1996 and, a slowdown in the first half of 1997 with considerable fluctuations in output in the formal or official economy:

- GDP grew by 68% in 1995-1996 and in 1997 is expected have grown by a further 40%. However, it is still less than half the 1990 level and this recovery cannot be sustained without quicker progress to a market economy. GDP per capita is only half the 1990 level, approximately USD 1,200.
- Substantial fluctuations in industrial output in the second and third quarters of this year support this view and strongly suggest that the strong recovery in

the official sector has, for the moment, stalled.

- Similarly, the number of officially registered employed has remained constant at around 330-340,000 since January which is about one third of pre-war levels. Even if agriculture and the informal sectors employ a further 100-200,000, as is sometimes argued, the official sector figures indicate a 150-170 registered unemployed for every open position. This is not an encouraging beacon for repatriation and return.
- Wage rates vary by sector and by canton between USD 140 – 200 per month in the formal sector. Estimates of the informal sector are not available however with the exception of agriculture wage rates are most probably higher.

4.1.2. The Republika Srpska

The economy of the Republika Srpska is critical for repatriation and return. The majority of the refugees in Western Europe originate in Republika Srpska territory. The isolation of the Republika Srpska and the self-imposed apartheid in 1996 has resulted in the economy of the entity having characteristics more consistent with the developing world than with the northern Balkans or central Europe. These are the economic consequences of non-compliance and irresponsible leadership:

- GDP is less than a quarter that of the Federation (at USD 0.75 billion), less than a quarter of the pre-war level or equivalent to that of a small city in the European Union. Recovery growth rates are modest compared to the Federation.
- Both the industrial and agricultural sectors have experienced large declines since 1994. In the first quarter of 1997, some industries listed in official statistics have started to recover. However, the

informal sector is also much smaller than in the Federation.

- With regard to employment the official statistics are grim. There are less than 200,000 employed, about 40,000 in the private sector and about 160,000 employed by the public sector. There are 141,000 officially unemployed and about a third of these are in the Banja Luka area.
- By mid 1997 average wage rates had increased to a very modest USD 48 per month. However, there are severe delays in wage payments.
- Nearly half of all households rely on emigrants remittances from EU countries equivalent to USD 200 per capita per year. Nearly half of all households produce food for self-consumption. Without these income sources most of the population would be below the absolute poverty line of USD 500 per capita per year needed to cover basic needs.

These figures indicate that a wider opening of the border between the Western Republika Srpska and Croatia accompanied by an increase in international assistance will be required to rapidly transform the economy and absorptive capacity of this region throughout 1998. Otherwise, increasing economic disparity in the region will have a dampening influence on repatriation and minority return movements. The increasing economic divergence of Croatia and the Federal Republic of Yugoslavia may be reflected in a growing economic divergence between the Entities, particularly if this were ever to be reinforced by parallel agreements which link the Federation to Central Europe and the Eastern Republika Srpska to a South Balkan poverty belt from Bijeljina to the Black Sea.

4.2. Review of Resources Allocated in Cluster

Areas in 1997

Criteria for prioritising Cluster Areas: The cluster areas were chosen on the basis of (i) Absorption capacity based on pre-war and present demographic figures and available housing space (ii) “Openness” of the local government authorities in terms of GFAP compliance (iii) Potential for economic development (iv) Political importance related to the inter-ethnic reconciliation.

During 1997 the total of funds spent in the RRTF Cluster Areas on return-related reconstruction projects is approximately USD 179 million (DM 316 million). This figure includes exclusively reconstruction works on housing, health facilities, schools, water and electricity. A complete breakdown per cluster and per sector can be found in the tables in Annex 2.

4.3. 1998 Cluster Areas

During 1997 the political, socio-economic, and demographic situation has in some cases changed considerably. This affects both the overall return-strategy and the reconstruction and rehabilitation process. Therefore, based upon the same criteria for prioritisation as outlined above, the Cluster Areas are redefined for 1998 as indicated in the map overleaf.

i. Una Sana Canton is extended to constitute “Cluster North-West”in 1998 to include Banja Luka, Prijedor, Bosanski Novi, Bosanska Dubica, Laktasi, and Bosanska Gradiska in the Republika Srpska and, Drvar and Bosansko Grahovo in the Federation. This area has the highest potential for return of refugees and displaced persons and is of paramount political importance. Already identified opportunities for minority return must be rapidly followed-up by RRTF-guided projects. The area’s economic potential is based on agriculture and historical trade links with Central Europe. Many Serbs

in Banja Luka are from Drvar and Bosanko Grahovo, their return would free space for the return of original inhabitants. Similarly, approximately 40,000 Croatian Serb refugees in the Western Republika Srpska must be allowed to return.

ii. The Sarajevo/Gorazde Region remains unchanged, it has high return and economic potential and, is politically important as the capital and centre of the decision-making.

iii. Anvil Area ceases to be a priority area, it has low return and economic potential. The return of Serbs from Banja Luka has, for a great part, been established.

iv. Doboj Hub remains, it has high return and economic potential and, signs of gradual openness to minority return along the IEBL. Modrica, Odzak and Bosanski Brod are included in this Cluster Area.

v. Posavina Corridor is reduced to Brcko which is significant for return and has strategic and political importance. Orasje is no longer included.

vi. Central Bosnia Canton is a new cluster. A new regional RRTF will be established. This breakthrough was led by the late Gerd Wagner. It has high return and economic potential and is politically crucial for the Federation and for adjacent areas in the Republika Srpska. Over 40,000 refugees in the EU are from this area.

4.3.1 Objectives for Return in 1998 Cluster Areas

Based on available data the Working Group on Cluster Areas estimated that as many as 590,000 people left these cluster areas during and immediately after the war and that approximately 260,000 of them are now in host countries both inside and outside the region. While these crude estimates should be treated with caution and will be reviewed in early 1998, it is not unrealistic to set a provisional RRTF target of one third or 200,000 returns for

the 1998 cluster areas, 50% being repatriated refugees.

Where people will chose to return, cannot be accurately predicted or planned. However, it is an essential pre-condition for substantial repatriation of refugees that minority DP return be planned, brokered and supported through a well co-ordinated integrated approach in the coming make or break year. This has been the focus of the RRTFs work, preparation and revitalisation in the last quarter of 1997.

Cluster	Refugees	DPs	Total
“North-West”	35,000	35,000	70,000
Sarajevo	25,000	25,000	50,000
Middle Bosnia Canton	25,000	25,000	50,000
Doboj Hub	10,000	10,000	20,000
Brcko	5,000	5,000	10,000
Total	**100,000**	**100,000**	**200,000**

These figures will be updated in early 1998, in light of the planned return conference.
This provisional return target is only achievable under the following conditions:

a. the willingness of national Governments to stick to the GFAP;
b. the strong political leadership of the RRTF and solid commitment of RRTF members to the efficacy of the task force in making return happen on a substantial scale in 1998;
c. strengthened brokering, planning and co-ordination capacity of the RRTF at national and regional level;
d. the provision of sufficient funding to realistically pursue an integrated approach and sufficient flexible funding to secure breakthroughs on the ground;
e. economic development leading to employment opportunities in return areas.

4.3.2 Financing of the 1998 Cluster Areas Objective

It must be emphasised that the international community has no possibility of delivering these targets in the context of continued non-compliant, corrupt and irresponsible leadership at the highest levels within the common institutions and in the entities. The ultimate responsibility for the success or failure of the return process lies with the authorities. The donor community can only act in support of and, not be a substitute for the required actions of the leaders themselves. The chief requirement among the latter are proper adoption and enforcement of compliant property legislation and housing allocation mechanisms and, transition to a market economy. Furthermore, the pledged available return-related resources for 1998, mainly from the European Commission including ECHO, can only finance a fraction of the target. Therefore, other institutions and stakeholders in the peace process, in particular the authorities themselves, will have to allocate increased resources to the cluster areas for return-related purposes. Thus, to realise a return of 200,000 refugees and displaced persons within the context of an integrated approach, would require substantial additional support from both the international and local communities. Ceteris Paribus at least 50,000 could be assumed to return with their own resources on their own initiative. However, 150.000 people would need support to be able to return to their places of origin, either with access to credits (mostly for refugees) to finance housing and employment generation and with grants (mostly for displaced persons) to finance housing, basic infrastructure and income generation..

Experience with European Commission return projects show that it takes USD 3,400 (ECU 3,000) per capita or USD 13,500 (ECU 12,000) per family in order to finance a integrated return “package”. Thus, the overall costs of financing the return of 150,000 people in 1998 would be in

the order of USD 508 million) which corresponds to around 45% of the overall expected International Community Assistance in 1998.

Therefore the RRTF recommends that a Conference on Return Related Reconstruction Financing be held as soon as is feasible to further define priorities for 1998 and to establish agreed mechanisms whereby the return process becomes less dependent on international assistance and more reliant on the local structures and the initiatives of the authorities of Bosnia Herzegovina.

4.4. Credit Schemes

Business Credit. Lines of credits for enterprises have been operational in Bosnia and Herzegovina since mid-1996. It is clear that such credit lines have provided a vital means of capital for businesses to restart production, so creating employment and economic growth, factors which are key to refugee return. In addition, certain credit lines have had a known impact on refugee return. For example, under the Local Initiatives Programme, financed by the World Bank and several bilateral donors, 71% of the borrowers have been displaced persons and 19% returning refugees who have used the loans to start-up their own small-scale businesses.

The performance of the existing credit lines and their estimated job creation impact is summarised in the table below. These are ordered in relation to the size of enterprises they finance, from large enterprises with loans up to USD 565,000 (USAID) to micro-enterprises with loans up to USD 5,650:

Programme Name	Total no. of loans (as of end Oct, 97)	Total amount of loans (DM mill)	Est. no. of jobs generated

USAID Business Development Programme	123	99	10,600
Federation TAC	134	48	5,000
World Bank ERP Credit Line	243	47	5,000
Swedish SIDA Start Bosnia Prog	4	n/a	50
EBRD/IFC Micro-enterprise Bank	*operational as of Nov, 1997*		
World Bank Local Initiatives Programme	2,367	8	4,410
Other NGO micro-credit programmes (est.)	1,200	n/a	n/a

1/ Industry Task Force and World Bank data

In 1998, several donors, including the Governments of Austria, Germany and Norway, are considering establishing credit lines targeted towards returnees. Implementation arrangements for such schemes are still under consideration. Though it is clearly important to ensure that returnees have equal access to credit and business support services if they are considering setting-up or restarting a business, targeted credit lines are difficult to implement and have not had a very successful repayment history elsewhere in the world.

Business training and technical assistance are also required to assist refugees and other aspiring entrepreneurs develop new businesses successfully. Several schemes have started within the last six months that will benefit displaced persons and returning refugees. However, further donor support is required for such programmes.

Information sharing is a key aspect of ensuring that returnees have equal access to credit and related business development services. Over the last few months increasing efforts have been made to disseminate information about business development schemes to refugee groups in asylum countries.

Housing loan schemes are an important means of increasing the availability and sustainability of financing available for housing repair and reconstruction. In November 1997, the European Commission approved USD 16,9 million (15 MECU) for a

housing credit scheme, USD 14,6 (13 MECU) of which will be invested in the revolving loan fund, managed by the Kreditanstalt f¸r Wiederaufbau (KfW). This credit scheme will be inter-mediated by local commercial banks, which are currently under selection. Loans for a maximum amount of USD 20,000 will be made available for up to 12 year loan terms, with an expected average loan size of around USD 6,800. This will, therefore, benefit about 2,000 households.

Back to Index | Continue

Office of the High Representative Reconstruction and Return Task Force