OHR RRTF Report April 1997

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Report

“Reconstruction and Return Task Force”

April 1997

4. Economic Context

4.1. Economic absorptive capacity

As of end of Quarter 1 1997, approximately US$ 1 billion of external assistance has been expended in the reconstruction effort in Bosnia Herzegovina, mainly in the Federation. A further US$ 500 million, approximately, is under implementation. The economic impact of this activity is clearly visible in the Federation. However, even in the Federation this is still only the beginning of the long and sustained effort which will be required to recover from the devastation of war while simultaneously restructuring from a command to a market economy.

The delay of the parties in agreeing on the measures required for an IMF stand-by arrangement has certainly delayed and diminished the external assistance which is critical to sustain the absorptive capacity required to accommodate the return. Consequently, it must be emphasised that the return movement is taking place in the following context:

- Industrial output in the Federation stands at less than one fifth, approximately 18.5%, of 1991 pre-war levels. In the Republika Srpska the corresponding figure for industrial output is marginally less, 16.5%, and the

economic outlook is considerably more bleak.

- Unemployment is 52-54% in the Federation and almost 60% in the Republika Srpska. The returning refugees will, in all probability, increase the number of unemployed in both entities in the short term. Available data indicate that less than 10% of returnees to date, have secured gainful employment.
- The monthly average wage rate of the employed in the Federation stands at about 280-290 DM and in Bosniac Cantons it is lower, 225 DM. In the Republika Srpska the corresponding figure is 64-67 DM per month
- January data indicate that inflationary pressure is evident in both entities.
- All available housing is occupied in both entities.
- At least 50,000 of the displaced will be re-displaced by the anticipated 200.000 returning refugees.

Furthermore, in addition to the economic constraints, the implementation capacity on the ground to facilitate an orderly flow, reception and re-integration of returning refugees is limited in the extreme Consequently, the instability inherent in the return process will be difficult to manage, particularly in the context of an overwhelming insufficiency of resources to sustain absorptive capacity in the critical area of housing reconstruction.

4.2. Housing Reconstruction

The principal RRTF conclusion from the study of existing commitments is that there is a major funding gap in 1997. Based on the projected 200,000 repatriates and over 50,000 who will be further uprooted or re-displaced in the process (see annex 3). There is an estimated need for approximately 50 to 60,000 new or repaired dwellings. These interactions are highlighted in annex 4. The higher figure is more realistic if the requirements to support the Brcko Arbitration Decision are taken into account. A further 30,000 people are also projected

to be on the move through various minority return projects.

Funds identified to date are anticipated to be sufficient for a maximum of 18,000 dwellings based on existing estimates from IMG and the World Bank of commitments specifically for housing from UNHCR, European Commission and other donors. These are as follows:

UNHCR (shelter appeal)	US$ 50 million
European Commission	[25 MECU] US$ 33 million
Other bilateral donors	US$ 30 million
Estimated Carry Over from 1996 (not disbursed)	US$ 50 million
Estimated Total Available for 1997	US$ 163 million

The UNHCR figure is an indicative figure, based on an appeal for $60 million in 1997, about half of which is secured at time of writing. It must be also be pointed out that neither USAID nor the World Bank are in a position to be substantially engaged in the housing sector. The US Congress prohibits use of USAID assistance in this sector. However, there may be further funding available from the European Commission through the European Community Humanitarian Office (ECHO).

The World Bank is providing US$ 5.7 million for public housing repair in the Republika Srpska. A further US$ 9.5 million is being sought from other donors to fully finance identified investments for the World Bank Reconstruction Assistance Project for the Republika Srpska. However, as in the Federation in 1996, this will include repair of occupied apartment blocks and the anticipated additional space created to facilitate refugee return is not substantial. Nevertheless, the direct contribution of such a programme to employment and local procurement is of considerable significance in the context of the Republika Srpska economy.

The estimated cost of repair per dwelling, in the 40-60% damage category, is US$ 10,000 per unit. This calculation implies that there will be a deficit of approximately 32-42,000 dwellings. This indicates the financing deficit will be approximately US$ 320-420 million. The RRTF has endeavoured to address this massive problem and has determined that three simultaneous approaches are required to mitigate the impact of this financing deficit:

- incentive schemes, so returnees can build or repair their own dwellings
- loan financing, for both rehabilitation and new housing
- prioritised cluster areas, where the limited reconstruction resources specifically related to refugee return should be focused in order to maximise impact in an integrated approach to reconstruction and return at regional level.

4.3. Incentive schemes

The RRTF has determined that incentive schemes are the most critical and cost effective instruments in the limited arsenal of measures mustered to overcome the housing and economic absorption constraints to return. Of the incentive schemes studied (annex 5), the Norwegian and Swiss schemes are viewed as models because of their relative magnitude and the component for assistance to the receiving municipalities.

The Swiss scheme consists of 4,800 DM per adult, 2,400 DM per child, plus 1,160 DM per family, plus luggage allowance, plus social infrastructure assistance to the recipient communities. Payment is made 60% immediately and 40% after 6 months. Over 2,500 refugees from Switzerland have already opted for return since June 1996 and up to 8,000 more are planned to be repatriated in 1997. To the government, the incentive scheme is cost-effective, being equivalent to maintaining the refugee in Switzerland for 245 days.

Similar incentives to individual repatriates have recently been adopted by the European Union Member States Austria, Denmark and Sweden. In line with this approach, the European Commission is prepared to focus a major share of its reconstruction resources for social and other infrastructure rehabilitation. This assistance could be considered as equal to the assistance given to the receiving community under the Norwegian and Swiss schemes, thus reducing the cost to European Union Member States of operating similar incentive schemes.

Cash incentives are cost-effective also in minimising the need for buffer accommodation. This in turn does away with the need for collective centres, which have a tendency to become more than temporary, and allows people to rent temporary accommodation. In this manner, repair is more demand driven and extra cash is injected into local areas.

4.4. Loan financing

The only realistic response to the overwhelming housing needs is to open access to low-interest, long repayment period housing loans for individuals and families. European countries have an interest in promoting repatriation. They also have an interest in creating sustainable living and economic conditions that will stabilise the population that might otherwise be tempted to engage in irregular migration movements.

Along these lines, such an injection of cash into the economy will also contribute to the revival of economic activity. In addition, the private nature of the loan will increase the individual’s sense of responsibility and dignity in an environment where war-time free handouts have contributed to dependency.

The RRTF held discussions with the Social Development Fund of the Council of Europe, which has a long and distinguished

record in this field and has expended over ECU 1.6 billion (US$ 1.8 billion) in the past, for projects in aid of refugees and migrants.

Based in Paris, the Fund is a multi-lateral development bank administered under the authority of 25 States members of the Council of Europe. The Fund's main sources of financing are public and private loans issued in different capital markets. The Fund's priority areas for the years 1996-2001 include low income housing and other community services for over 2 billion ECU for housing projects of all sizes, from small co-operatives to major country-wide programmes. In exceptional cases preferential interest rates can be granted for urgent projects under the Fund's priority objectives in low income areas of underprivileged countries. Projects for funding should be submitted by a Member State, and the loans can be disbursed to a legal entity approved by a Member State or directly to a Member State.

The Fund is very willing to lend to Bosnia Herzegovina for either rehabilitation construction or new housing projects under the following conditions:

- The projects must respect Council of Europe conventions and the environment.
- Loans must be secured by a Council of Europe member state or by a leading financial institution in a member state.
- An international call-for-tenders must be made if the project's total cost exceeds ECU 10 million.
- The Fund finances investments not operating costs.
- The Fund may finance projects already underway, if no more than 25% of the work has been completed as of the date of application.

Such loans could even be made on very concessional terms. However, to date the Fund had found it impossible to secure the guarantees from any Social Development Fund member state as required by their regulations and procedures. The Fund

indicated that accelerated procedures could be used so that loans could be made available by June 1997, if projects were ready for consideration by middle to end of April. Both the Kreditanstalt f¸r Wiederaufbau (KfW) in Germany and the World Bank have indicated that they would be willing to participate as managing financial intermediaries.
The RRTF and Social Development fund briefed all host country representatives on this facility at the UNHCR's Consultative Meeting on Planning and Repatriation in Geneva on 20-21 March.

4.5. Prioritised cluster areas

The RRTF used the UNHCR target areas as a basis for determining five prioritised regional clusters of target areas where there is an economic rationale for investment in reconstruction and a potential political receptivity towards return from all groups.

Some of the main criteria for determining the prioritised clusters include (i) projected numbers of returns, (ii) present and pre-war population (iii) level of damage, (iv) political climate, (v) potential impact of investment upon return (vi) grouping of target areas into regional clusters and hubs. The first four of these criteria have been used by UNHCR in identifying target areas.

The UNHCR surveyed over 20,000 refugees in Germany and supported a census exercise in the Federal Republic of Yugoslavia. The 5 prioritised clusters reflect extrapolated forecasts for returns based thereon. Of the total anticipated 200,000 returning refugees for 1997, these areas will receive over 105,000, and over 60,000 of these will be from Germany. The anticipated return to the Republika Srpska from the Federal Republic of Yugoslavia will be small by comparison.

The identified regional clusters are: Sarajevo/Gorazde, Una Sana, Posavina, the Doboj and so-called Anvil areas (list of clustered areas and map in annex 6). These clusters are very

heterogeneous and include key areas in the Republika Srpska. The selection of the latter is intended to address the economic constraints to absorptive capacity and thereby reinforce the potential political receptivity to return of all groups. Only in this manner, can minority return and reintegration be made achievable. By the same token the prioritised clusters will be subject to review, based on local compliance with the Peace Agreement.

Not all areas of Bosnia and Herzegovina with economic potential are suited to absorb repatriating refugees as a priority. They are generally overcrowded and some have not suffered any evident war damage. In these areas, prime attention has to be paid to solutions for displaced persons and in some cases even for refugees from Croatia, to ease their housing problems ahead of concentrating reconstruction efforts to the benefit of repatriates (see annex 7).

4.6. Incentives for minority return

The return or repatriation of previous residents to areas where they will no longer be in a majority situation is one of the main aims of the Peace Agreement. Consequently, the allocation of resources for economic reconstruction projects to areas allowing minority returns is a priority for the RRTF. Minority return programmes, such as returns to the Zone of Separation and the UNHCR Open Cities initiative, will require the flexible allocation of resources and will be the subject of further RRTF attention. The latter initiative seeks to reward areas which declare themselves “Open Cities”. These areas should allow and welcome original residents from all ethnic groups to return and resume residence in their original homes.

Guidelines to allow the international community to respond in a speedy and flexible way by allocating resources to such “Open Cities” are currently under discussion, based on input

received from the field. These reconstruction efforts will benefit both returning minorities and receiving communities, thereby supporting reconciliation at the local level.

4.7. Employment

The RRTF considered this most important constraint to refugee return and fully endorses and encourages the following measures to sustain the return:

- extension of credits to returning refugees and displaced persons with business skills. Efforts are already being made to orient existing credit lines to benefit returnees. Additional donor support should be provided to ongoing successful credit line programmes and programmes that encourage private sector investment, such as the EBRD Horizonte Fund and the World Bank-supported Investment Guarantee Agency, which will help boost employment both for resident and returnee populations. A list of ongoing industry finance programmes and their financing gaps is attached (annex 8).
- local procurement and contracting by donors should be used to the maximum extent possible so as to boost local employment opportunities,
- job placement efforts for returnees should be strengthened, in collaboration with IOM and the local employment bureaus, so as to develop links between enterprises and returnees
- incentives for local communities should be designed to encourage employment of returnees through demand-driven employment generation programmes, such as public works and micro-enterprise development programmes. Public works schemes are a useful tool to provide temporary employment and income to returnees while they identify more permanent jobs. Donors are encouraged to support existing employment generation programmes which have

developed the capacity to finance such projects in a demand-driven fashion. A financing gap of US$30 million even for existing public works and micro-credit programmes remains to be closed.

4.8. Social infrastructure

The main infrastructure projects, both underway and planned, are essential to the reconstruction effort. However, in order for the return to be sustainable, social infrastructure must also be factored into the financing requirements of return-specific projects. Dwellings without water or electricity, or areas without clinics or schools will not retain or regain their inhabitants. Consequently, the identified financing gap in housing is only a part, albeit an important one, of the needs to be addressed. An integrated approach is unavoidable.

The Sector Task Forces have proven to be valuable fora for co-ordination and policy discussions, and should be used as such also in this context. In annex 9 there are preliminary estimates of the investment in the prioritised cluster areas, both underway and planned. Further work is being done by the RRTF with regard to this exercise.

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