OHR RRTF Report July 1997

RRTF: Report July 1997

Update

“Reconstruction and Return Task Force”

July 1997

4. Economic Context

4.1. Economic absorptive capacity

In spite of the improvement of the economic situation during the first semester of 1997, particularly in the Federation where annual economic growth rates reached 50 percent, self-sustained economic revitalisation is not yet secured in Bosnia and Herzegovina. The situation is particularly dire in the Republika Srpska where the economy is operating at a very low level, in part because of the lack of external assistance required to help boost economic recovery. Economic growth will be enhanced by the recent passage of the economic framework laws by the Bosnia and Herzegovina Assembly (the so-called “Quick Start Package”). However, these laws will take time to affect the reality on the ground.

Lack of job opportunities and low wage levels remain major factors discouraging refugees from returning to Bosnia and Herzegovina. Although unemployment rates continued to fall during the first semester of 1997 in the Federation and are now estimated at 48 percent, the creation of long-term employment opportunities is not happening at a pace fast enough to absorb a large-scale influx of refugees. Available data suggests that only 10 percent of returnees have secured gainful employment. In the Republika Srpska, unemployment

levels remain high at around 65 percent. The main source of employment generation is the donor-financed reconstruction program, but the bulk of these jobs are short-term reconstruction-related activities. More sustainable job opportunities will largely come from the private sector. Before the war, the bulk of trade and employment derived from the large-scale industrial conglomerates. Their future is under study and discussion, but it is unlikely that they will ever reemploy anywhere near the levels of their pre-war workforce. Increasingly jobs are likely to come from micro, small and medium-sized businesses. Such businesses are already starting or restarting activities particularly in the Federation, some with the assistance of donor-financed lines of credit. These provide good job opportunities, including for returnees. However, further progress on privatisation, reestablishment of market linkages and competitiveness, and investment in private sector development is required to ensure continued growth in this labour market.

For those able to find employment, wages remain low compared to the pre-war situation. For many refugees, particularly those who managed to find employment in western European countries, these wage levels represent a major disincentive to return. In the Federation, wages have increased relatively dramatically since the end of the war, although from an extremely low base. As of May, 1997, average monthly wages were estimated at about 350 DM, up from 200 DM per month six months previously. In the Republika Srpska, the labour market remains extremely stagnant and wages remain significantly lower than in the Federation at around 75 DM per month.

Overall, returning refugees and displaced persons continue to face difficult economic circumstances upon their homecoming. Furthermore, at present, large-scale return to some areas, within the Una-Sana Canton, for example, without adequate housing and employment conditions, is causing concern for regional socio-economic and political stability.

The lack of co-ordination, effort and funding for de-mining activities in areas of return remains another major cause of concern. A report on the "Land-mine crisis in Bosnia-Herzegovina", recently published by the International Crisis Group (ICG) on 18 July, provides insight into the complexity of the problem (note: the RRTF recommends the reading of this awareness-building report, without taking position on the report's comments and opinions). The monthly rate of mine incidents still amounts to 50 to 80, with a large part of them lethal. Returnees to mine-affected areas of the country, lacking the local knowledge due to their war-time absence, run a special risk.

4.2. Sector-specific resource allocation in the first semester 1997

Sectoral data on funding in the RRTF-assigned cluster areas is attached to this update report (Annexes 5 – 5b). Out of 310 million DM in housing funds anticipated for disbursement in the whole of Bosnia and Herzegovina, 231 million DM have so far been committed and projects amounting to 115 million DM were ongoing per 15 July 1997. Out of these amounts, 173 million DM have been proposed for the cluster areas, of which 130 million have been committed. Additional proposed housing funds of 83 million DM are not yet targeted to specific areas (58,3 million DM are committed). Further funds are dedicated to social infrastructure investments in cluster areas, namely 68.5 million DM for water, waste water and solid waste, 28.4 million DM for roads and 43 million DM for bridges (road and bridge figures are incidental to the cluster areas rather than specifically targeted to them).

4.3. Incentive schemes

The April RRTF report recommended that host countries extend repatriation incentive schemes (recommendation no. 2).

Some schemes have been amended since the first report. Many host countries offer different incentive packages which may include any of the following components: travel expenses and travel pocket money, a repatriation grant, luggage allowance and assistance to receiving communities.

A summary of different incentive packages is provided in an attached text (Annex 6) and schematic display (Annex 6a). Such incentive packages are particularly valuable where they are combined with equivalent assistance to the receiving communities, as is the practice of some Western European host countries.

4.4. Loan schemes

The April RRTF report recommended that Member States of the Social Development Fund of the Council of Europe consider the urgent provision of guarantees in order to secure loans from the Fund together with other financing institutions. The RRTF also recommended to encourage private sector developers to invest in housing, targeted towards returnees who have the desire and ability to pay (recommendation no. 3).

So far, Member States of the Fund have not been forthcoming in providing the recommended guarantees. However, some regional and municipal authorities in host countries have decided to guarantee for or otherwise support private sector housing development in order to satisfy the housing needs of repatriated refugees.

The European Commission has decided to make 15 million ECU available as seed money for a revolving fund for housing loans. Once this money is made available, it will provide sufficient means for the creation of 1,500 repaired or new housing units. Given the repayment of the loans, this investment will be available on a revolving basis to establish a long-term housing construction loan scheme. This housing loan scheme will be set up via a foreign development bank.

Given the often poor equity of new private banks in Bosnia and Herzegovina and the need to improve banking skills in the state-run sector, local commercial banking partners will be sought to intermediate the loans. Efforts to reform and improve the local banking sector will have to proceed in parallel. The loans are meant to provide capital to the target group of repatriating refugees and internal returnees. In contrast to grants, however, such commercial loans will put responsibility for the use of funds into the hands of the bank clients, themselves. The actual impact of long-term housing loans on the absorption of returnees and on individual relocation moves within Bosnia and Herzegovina as well as the possibilities of applying conditionality within this scheme will become assessable only after an initial implementation period.

It is clear, however, that vulnerable groups of displaced persons and repatriating refugees who cannot provide sufficient collateral or merit an adequate rating of their ability to reimburse the loans, will remain dependent on grant aid in the housing sector.

4.4. Incentives for minority return ("Open Cities" initiative and return procedures)

The RRTF report recommended that resources should be allocated in response to initiatives such as "Open Cities" (recommendation No. 5).
The UNHCR Open Cities Initiative aims at encouraging cities or municipalities where reconciliation between ethnic communities is possible, to declare publicly their willingness to allow minority groups to return to their homes and participate as full members of the community. It is essential that such willingness be immediately supported by the international community.

Once a community volunteers itself as open, UNHCR and interested international partners will meet with local

authorities to ensure that their commitment is genuine and that the community meets the basic criteria for being considered an Open City. Recognition of an Open City and the provision of support is an ongoing process (see Annex 7).

The Federation Ministry of Social Affairs, Displaced Persons and Refugees provided UNHCR with a list of some 25 municipalities ready to accept the return of minorities. So far, the Federation authorities have submitted such proposals only for Bosniak-administered areas. The Croat member of the Bosnia-Herzegovina Presidency proposed a further municipality.

Since its launch by the UN High Commissioner for Refugees in March 1997, this initiative has been welcomed by the international community, particularly the United States Government that, on 18 April 1997, dedicated US$ 5 million to Open Cities Support Projects which benefit some ten municipalities via an implementing partner. In July 1997, the US Embassy to Bosnia-Herzegovina signed Letters of Intent with the municipalities of Konjic, Vogosca and Bugovaca. UNHCR and other members of the international community are currently assessing additional municipalities including Bosanski Petrovac, Glamoc, the Gorazde Canton, Lukavac, Kakanj, Klujc/Ribnik, the Sarajevo Canton, Sipovo, Travnik and Vares. (For further details see the attached document "UNHCR's Open Cities Initiative – Current Status report 15 July 1997", Annex 7a.)

The RRTF endorses this initiative that has succeeded in raising the interest of donors and municipalities alike in improving conditions for so-called minority return and the effective application of conditionality to reconstruction aid on the ground. The RRTF urges donors to support this initiative on a wider scale, to create funding lines that allow for sufficiently flexible responses to municipal projects for which UNHCR acts as a catalyst.

On 24 April 1997, the Deputy High Representative for Brcko and

Supervisor under the provisions of the Brcko arbitration award, established Procedures for Return to Brcko. By 15 July, the Brcko Return Commission had approved the return of 185 families (~800 people) to villages in the southern perimeter of Brcko town. By the same date, 166 families (673 people) had returned to the area on the basis of approvals (totalling 566) by the International Housing Commission (IHC) under the Procedure for Return and Reconstruction in the Zone of Separation (ZOS) that previously applied.

Funding for the reconstruction of war-damaged houses for returning pre-war residents of Brcko is essential for the recreation of a multi-ethnic community in Brcko. In a first phase, housing reconstruction efforts will be concentrated on six priority villages within ZOS. The total cost including the rehabilitation of the necessary infrastructure amounts to US$ 35.8 million (for details, see OHR North Memorandum for the mid-1997 Donors' Conference). In addition, funding for the revitalisation of the local economy and in particular for the creation of employment is being sought.

In order to support the return of original inhabitants to places in the ZOS, RRTF member organisations established reconstruction projects for villages and towns in this area. Some are ongoing and should allow for return before the end of this construction season. Whereas the Procedure for Return to the ZOS, established on 15 October 1996, is not exclusively an instrument for minority return but also designed as a means offered to the local authorities to reduce the contentious nature of returns to this sensitive area, wide-spread refusal by many RS municipal authorities to heed to the approximately 3,500 return approvals of the IHC, so far, remains a troublesome issue.

Lastly, international organisations are undertaking concerted efforts to open opportunities for minority returns to various places, for example Drvar and Vares.

Office of the High Representative Reconstruction and Return Task Force