

“Follow Up on the Functional Review of the Return Sector in Bosnia and Herzegovina”

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Need of social housing in Bosnia-Herzegovina

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1 Executive Summary

The **transition process was halted** in BiH due to the war conflict of 1992-95, which allowed for a delayed converging to the track that of other transition countries. Devastation, large-scale displacement and emigration characterized the initial period of recovery after the war.

There is **no real demographic pressure on the BiH housing market** due to the recent heavy decrease of the population, whereas there is considerable pressure on major urban centers and especially the capital city of Sarajevo. As a result of the give-away privatization, **local governments were practically left without public housing units**. It has to be remarked that the former-Yugoslav model of “socially owned housing” cannot be considered as social housing targeting at vulnerable persons.

Housing reconstruction has become one of the most important strategic aims in post-war politics resulting in an enormous housing investment in the country. So far, around 317,000 housing units have been reconstructed, what makes for a reconstruction rate of 68%, for which between 2003 and 2007, the donor agencies’ contribution was around 28% of the total housing reconstruction investment.

Besides **international aid, remittances** play an important role in the BiH macro-economy (5% and 20% of the GDP respectively around 2006). **Unemployment**, although slightly decreasing, still reaches high levels (around 40%). The current BiH **social benefit system** reaches app. 30 thousand persons, whereas, the targeting of the benefit system, having still a strong war-related merit basis, is assumed to be biased.

Housing transactions are mostly cash-based, and there is a very low mortgage loan to GDP ratio (1.1%), whereas in the last app. 5 years there was an increase to the housing loan portfolio. The house price per income ratio is around 5.6, which is close to other transition countries’ level, whereas the housing affordability index is less favourable (37%).

One of the most crucial issues of the housing sector is **illegal construction**. Currently, there is an intensive regularization work undergoing in both Entities and Brcko District. Illegal construction causes large social costs and inefficient use of resources.

There has been a serious **increase in public utility service prices** between 2004 and 2006, which has resulted in a 25% share of the housing related expenses among all household expenditure, similarly to the trend of other transition countries. A households with an average household income of 600-700 KM can pay 200 KM for operation costs and additional 300 KM for private rent with great difficulty.

The return programs, which aimed at reconstruction of houses of IDPs and refugees so as to allow them to return, **could not address the housing needs of vulnerable groups who did not qualify as IDPs or refugees**. There is a general consensus that the housing elements of the return programs should be complemented and – in the longer run – turned into housing policy for vulnerable groups, building upon the capacity achieved in the **return programs’ transferrable housing policy tools** (rent subsidies, housing allowance schemes, rental housing models, home-ownership programs of access, maintenance and reconstruction). The **target groups** for a social housing policy should include besides DPs with unsettled and burning housing issues (around 7000 people in

collective types of accommodation some further 16000 persons who might lose their DP status due to not returning to places of origin), Roma, elderly, low-income households, and young couples, among them first-time buyers.

2 Introduction

The transition from a centrally planned economy to a market system involves a major restructuring of the economy, rationalization of the industry, migration of many thousands of workers, and conversion of socialist forms of property-holding in the wake of such changes. The transition process faltered in BiH due to the war. This made the international organizations, donor agencies and the society to shift the focus to the restructuring and return process, basically in order to find back to the track that was taken prior to the war. Now, after more than 15 years of this process, and the country is gradually converging on the track that other transition countries have taken.

The needs assessment study is based on interviews¹ carried out with BiH, entity and Brčko District level, and municipal and non-governmental stakeholders in spring 2008. Findings also draw on field visits and available documents related to the housing sector in Bosnia-Herzegovina. The aim of the study is to highlight the burning housing issues in the country that justify the development of a Housing Strategy to Enhance Access to Housing for Vulnerable Social Groups.

Although there is an abundance of information related to the return process and reconstruction, there is actually no data related to the housing situation in the country that would provide a solid basis for a profound assessment of the present housing situation.

3 Social and macroeconomic background

3.1 Radical Demographic Changes in Last Decade

Conflict from 1992 to 1995 resulted in huge direct and indirect demographic losses and changes in BiH. Thousands of persons were killed, while around 15,000 are officially recorded as missing. As a consequence of the war the mortality rate was increased on one hand, and natural population growth decreased on the other hand. In addition, 2.2 million persons were forced to move which makes more than a half of pre-war domicile population. Out of this number, around 1.2 million sought refugee protection all over the world, while at the same time around million persons were displaced within Bosnia and Herzegovina.

Return process started immediately after the war and according to official statistics, more than a million of returns have been registered in BiH, of whom around 450 thousands of refugees and 580 thousands of displaced persons.. However, the (voluntary) emigration process continued after the Dayton agreement was signed.

¹ This is to acknowledge the valuable contribution and thorough comments of Nermina Džepar-Ganibegovic, Head of Department at MHRR, and the BiH OSCE, UNDP and UNHCR office colleagues' remarks that facilitated the compilation of the needs assessment report undertaken by Dina Karahasanovic (local expert), József Hegedüs (social housing expert) and Nóra Teller (social housing expert) in the framework of the EU Return Project in June-July 2008.

It is hard to estimate how many refugees and displaced persons have found durable solutions through the return option, since in addition to possible significant discrepancy between those statistic indicators and the actual implemented return, apparently many individuals who repossessed their pre-war property (which is recorded as return in official statistics) - left their former residences again, either temporarily or permanently.

It can be assumed that despite the strong political support to return to the place of origin and "minority returns", there is a trend of "ethnic concentration" in some parts of BiH relating to the great demographic changes, when the households have integrated in areas where their ethnic group is in majority.

Also, around one quarter of refugees and displaced persons have evidently integrated in their host countries and displacement places in BiH or have found other durable solutions.

Despite substantial achievements in the implementation of Annex VII, almost half of 2.2 millions of refugees and displaced persons have not returned to their homes. Nevertheless, 13 years after the war, the return process should be close to an end, although there remains a significant number of displaced persons, refugees and other conflict-affected persons of concern who are in need of durable solutions, among them, 125,000 displaced persons whose status was confirmed in the 2005 re-registration. Many of these people are extremely vulnerable and traumatized, living in inhumane conditions in displacement. Unfortunately, around 2,700 families continue to live in collective centres in BiH.

Also, many persons are unable to return because their pre-war property is destroyed and is on the list including 45,000 housing units of returnees awaiting reconstruction or because landmines have not been cleared from their pre-war villages.

3.2 Decreasing demographic pressure, but varying trends

Despite radical demographic changes in last decade, no official census has been carried out since 1991, when the population was 4.4 million.. Therefore, the indicators showing the current number of residents in Bosnia and Herzegovina rely solely on estimates.

Deviations from the official assessment of 3,853,000² residents in BiH move within the range of more than a million of residents, depending on the source.

Thus, while according to the most recent assessments there are 4.590.310³ residents in BiH, the BiH Ministry of Human Rights and Refugees assessed in the end of 2005 that there were around 3.5 millions⁴.

When the number of residents younger than 18 (estimated on the basis of participation of minors in the age structure of population in BiH) is added to the relevant number of 2.980.211⁵ registered active voters on the forthcoming local elections to be carried out on 05/10/2008, deviations from the previous assessment made by the Ministry could be regarded as negligible.

(²) *BiH Statistics Agency, Thematic Bulletin "Demography", December 2007*

(³) *Central Intelligence Agency, The World Factbook (est. July 2008)*

(⁴) *Comparative Analysis on Access to Rights of Refugees and Displaced Persons, December 2005*

(⁵) *BiH Central Election Committee, Suad Arnautović, Chairman, at the press-conference held on 13 June 2008*

Likewise, the OHR estimated that there are currently 1.3 million BiH citizens, who live and work outside the country (UNDP, 2007), more than a third of the present population.

In any case, obviously the population of BiH has significantly dropped in last decade, with estimated decrease of some 15%.

Although there are no exact figures, we can conclude that ***there is no demographic pressure on the housing market.***

Nevertheless, housing shortage can be present in various urban areas, and the abovementioned demographic trends may considerably vary according to administrative and territorial units in BiH, as well.

The percentage of the population living in rural areas in 1991 was 56%, and in urban areas 44%. After the war, the pace of urbanization seems to have slightly increased, but exact figures are not available. It could be estimated that 46% inhabitants are currently residing in urban areas, while an average population growth of urban population in last 13 years rates at 0.3% which is a significantly lower compared to the pre-war figures. According to World Bank projections the urbanization rate will increase to 51% by 2015, and 57% by 2025.

The population pressure on urban centers has grown especially in case of the capital city, Sarajevo, which will have to face a larger demand on its housing market. Similar trends could be projected for some other major urban centres such as Banja Luka, Zenica, Tuzla, Mostar, Prijedor, Bijeljina and Brcko.

3.3 Housing damages of the war and reconstruction

Of around 1.1 million housing units in Bosnia and Herzegovina that were registered in the 1991 census, around 453.000 housing units or 42% of pre-war housing stock were destroyed or damaged during the 1992-1995 conflict. Of this number, around 100,000 housing units suffered only a small degree of damage (up to 20%), most housing units, around 270,000 of them, suffered medium damage (between 20% and 70%), while 800,000 suffered the highest degree of damage of up to total destruction (above 70%). In addition, destruction of housing stock continued even after signing the peace agreement, when almost 14,000 additional housing units were destroyed after 1995, most of which (over 80%) were at the territory of the present BiH Federation.

This was exacerbated by the collateral damage from weather, lack of maintenance, and the deterioration of connections to network and communal infrastructure. These facts underpin the conclusion that ***housing reconstruction has become one of the most important strategic aims in post-war politics.***

The return process generated an ***enormous housing investment in the country***; the aid revenue reached 20% of the GDP in 1997, and decreased continually being now around 5% of the GDP.

For an example, from the beginning of 2003 until the end of 2007, around KM 342 millions were invested in the sector of reconstruction of around 31,500 housing units, with 72% funding participation of domestic institutions, and of foreign donors 28%.

80% of the investments have been directed towards demolished rural areas, but the secondary effect of the aid influenced the urban housing market as well. The number of

housing market transactions increased, because many of the returnees decided to sell their houses after the reconstruction and move elsewhere. Some others kept their reconstructed housing as, for instance, holiday homes. As a result, the demand for urban housing units increased, and the gap between the rural and urban property prices widened.

3.4 Urban housing market and public services

A fast and massive housing privatization took place, and through different financial instruments the publicly owned stock has been sold, with exception of destroyed housing units. This fact contributed to the increase of the transactions as well. ***The local governments have been left without public housing units.*** After 1990, the restructuring of the economy started and speeded up after the war. Meanwhile, municipalities responsible for public services had to started to ***restructure their urban public services,*** which will have a huge effect on housing policy. The improvement of the urban housing services (water, sewage, roads, garbage collection, etc.) requires huge resources, which cannot be financed without increasing the user charges (consumption fees). The increase of the prices of housing related services will raise the need to provide support for the low-income vulnerable groups.

3.5 Macroeconomic trends: international aid, remittances, unemployment and informal economy

Bosnia and Herzegovina has many natural resources (timber, ore deposits and hydro-electric industrial potential) and until 1992 it also had a developed industrial sector with an average ***annual growth*** of 1.5%. The national product per capita in 1991 was around USD \$2,500, which meant that Bosnia and Herzegovina was considered a “medium developed” country. The Human Development Index estimates for 2007 are USD 2,546 and 7,032 PPP USD GDP per capita.

International aid played an important role in the economic recovery. Between 1996 and 2004 a total of 6.8 billion USD were dispersed in the country, which reached 20% of the GNI (1997). There was a rapid decline in aid inflows in later years, reaching only 6% of GNI in 2003. (Nedic, 2006; Lierl, 2007).

Remittances, which have reached 20% of the GDP, affect the housing sector as well. It is estimated that around 400,000 persons still live outside Bosnia and Herzegovina, out of 1.2 million of our citizens who left BiH 1992-1995 and who have been registered as refugees from BiH. (MHRR, 2008) According to average IMF figures from 1999-2003, Bosnians were the sixth largest recipients of remittances as a percentage of GDP worldwide. The World Bank database records formal remittance inflows at 1.1-1.2 billion USD per year between 2000 and 2003, but it is believed that between 30 to 50 percent of total remittances enter the country through informal channels, for example, via travellers and international bus couriers. (Lindh et al 2006) According to research findings, households spend this revenue on consumption and housing.

The level of ***unemployment*** is huge even if compared to those in other transition economies.

According to the assessment in the Overview of the Labour Market Situation in Bosnia and Herzegovina⁶, the current unemployment situation is the cause and consequence of the general socio-economic situation. The number of unemployed persons has reached dramatic proportions and the unemployment problem is considered to be one of the gravest problems of society as a whole. The labour market problem is even more explicit compared to other transition countries for the reason of disunited and fragmented market, which is the consequence of the constitutional order of the state, and lack of legislation in the field of labour and employment at the state level.

Activity and employment rates according to the LFS in 2007⁷ were 43.9% and 31.2% while in 2006 they were 43.1% and 29.7%.

In addition, Bosnia has a large informal sector that could also be as much as 50% of official GDP.

3.6 Increasing social inequalities: need for an efficient welfare system

Before the war, Yugoslavia, similarly to other socialist countries in the region, was a relatively egalitarian society. Income inequalities have increased fast after 1991 as a consequence of the shrinkage of the public sector, and the extension of the formal and informal market sectors. The poverty rate is high: it is estimated that in 2007 25% of the population lived below the poverty line. Significant resources are provided in government budget for the alleviation of poverty through social programs (about 669 million KM in 2004, about 5% of GDP), but the targeting of these resources is fairly ineffective, as only a small percentage of the poor population receive some form of targeted social assistance. The inappropriateness of targeting is also present with large proportion of beneficiaries who apparently are not poor. (World Bank, 2003)

The war divided and disrupted the social protection systems, including social assistance, pensions and veteran benefits. At the same time, the war dramatically increased the need for these systems, since many Bosnians were pushed into unemployment, poverty and vulnerability.

According to estimates based on case studies in 2002, some 30,000 persons (and their families) in RS and FBiH are receiving benefits from the municipal level social protection services. Benefits paid are approximately 30 to 56 KM (13 to 25 USD) per month. The relevant policy makers are in agreement that although this is by no means the full extent of poverty and need in these communities, the real dimensions of the potential target population cannot be systematically established. (Ninkovic and Papic, 2007)

⁽⁶⁾ *Bulletin No. 3, page 7, December 2006, issued by the Labour and Employment Agency of BiH, www.agenrbh.gov.ba*

⁽⁷⁾ *Labour Force Survey, Sarajevo, 18 September 2007, No. 2, page 2, issued by the Agency for Statistics of BiH, www.bhas.ba*

4 Reconstruction and privatization: need for a new framework for social housing

4.1 Reconstruction process

It was estimated that at the end of the war, 50% of the total housing stock in Bosnia and Herzegovina was either damaged or destroyed.

The FBiH territory was more affected by the devastation than RS, and also more resources for reconstruction have been directed to FBiH than to other parts of BiH.

So far, around 317,000 housing units have been reconstructed, what makes for reconstruction rate of 68%. Of this number, around 232,000 housing units were reconstructed in FBiH and around 72,000 in RS, while additional 12,000 were reconstructed in the Brčko District.

Based on the data gathered in the field from responsible municipal services, around 150,000 housing units have remained non-rehabilitated in BiH or around 32% of total damaged and destroyed housing stock. Most of those housing units have suffered high degree of damage up to the level of total devastation. In the Federation of BiH, around 80,000 remaining units are still waiting for reconstruction, which makes the rate of 26% of destroyed and damaged housing stock in FBiH; around 66,000 or 48% in RS; and 3,000 or 20% of non-reconstructed units are located in the BiH Brčko District. (MHRR, 2008)

Experts agree that the reconstruction/return process is to be phased out in the near future. In 2008, there is still a considerable number of around 45,000 housing units “waiting” for reconstruction. Besides the fact that, “some of claims are not “active”, as a local civil servant put it, meaning that the claimants do not have burning housing problems, their legal rights to access their pre-war ownership/tenancy continue to exist. The reconstruction, in a technical sense, has been a successful program, which was supported both by the financial and technical assistance programs of international and regional organizations, and several donor agencies. New institutional capacity to manage and monitor the program was built up, which in the long run can play a useful role in other areas of public policy.

4.2 Privatization

BiH followed the path of several other countries in the region. Both entities applied a “give away” (right to buy) privatization which is ongoing and leading to a total lack of available housing stock for social cases.

In 1991 26% of the housing stock was in social ownership, and 74% was privately owned. Socially owned property was typically housing units in multi-unit residential buildings, where the occupancy right holders had almost the same rights as private owners. Although the law stipulated that the entire apartment could not be leased, the occupancy holder could not leave the apartment for more than six months without a “good cause”, no one could have more than one occupancy right, etc., these constraints were not rigorously enforced. (Philpott, 2006) The occupancy right could be inherited and swapped for another occupancy right or for private ownership. Consequently, a social rental sector as such did not exist in the ex-Yugoslavia; it was more of a kind of controlled private ownership. (It was not exceptional in the Eastern and Central European

housing systems; for instance, the home-ownership sector in Bulgaria, the cooperatives in Czechoslovakia, etc. functioned very similarly.)

The process of privatization comprised socially owned housing units throughout BiH. However, the Entities applied different privatization models. Privatization on the basis of certificates in BiH Federation corresponded to advantageous method for final beneficiaries, but the revenue from privatization was nil to zero, while on the other hand, using the voucher system and by relying on cash payments, RS achieved much better arrangements with regard to the financial effects of the housing privatization that contributed to the strengthening of housing budgets. (MHRR, 2006) However, both methods can be evaluated as versions of a “give away” privatization, because even in RS the actual payment was around 10-15% of the actual market value.

As a result of privatization, social ownership has practically disappeared by now. However, in evaluating this situation, we should not forget that socially owned housing can not be considered as social rental housing (in its Western European sense), not even before the war (transition). Consequently, a new social housing policy should not aimed at the restituting the “social ownership model of Ex-Yugoslavia, but at developing new instruments for social housing.

4.3 Return of property and repossession

The process of return of property was substantially completed in late 2006.

According to the latest statistics that were published by PLIP agencies⁸, the total of 211,791 claims for repossession of housing property and tenancy rights were submitted. 197,815 positive decisions were made and 12,642 negative decisions. The number of closed cases is 197,688 which make more than 99% implementation rate of positively decided cases. In outstanding cases due to a disputable factual and legal status administrative procedures, disputes or lawsuits are still ongoing before competent courts.

For the results that were realized regarding the repossession of property and tenancy rights, Bosnia and Herzegovina is perceived as a good example in the region.

The property law regime was favorable towards restitution of rights that existed prior to forcible migrations, which meant that it set the rights of returnees above any other occupancy rights that might have accrued later. The local authorities did not have the right to deny the tenancy right of the socially-owned apartments even of those who were considered to have no intention to return or of those assumed to have abandoned their flats for reasons other than the war.

In addition to the right to free return and property repossession, Annex VII of the Dayton Peace Agreement guarantees the right of all refugees and displaced persons to compensation for their property that cannot be returned to them. At the same time the mechanism has been foreseen through which refugees and displaced persons could exercise their right to compensation "instead of repossession".

⁽⁸⁾ In 2000, international community in BiH established the so-called PLIP Cell for monitoring and application of relevant regulations (Property Law Implementation Plan) that consisted of 4 leading international community organizations in BiH: OHR, OSCE, UNHCR and CRPC. PLIP representatives started publishing monthly statistical indicators from municipality level to BiH level, analyzing and comparing the indicators.

However, the very implementation of the Annex VII provisions was very much in favor of “restitution in integrum”.

Compensation was not used partly because there were no funds available, and partly because donors were unwilling to be seen to underwrite ethnic cleansing. (Philpott, 2006)

Without compensation, as a practical possibility, the only choice for displaced persons and refugees is to apply for repossession and reconstruction of their pre-war homes. Interestingly enough, this practice limited and still limits the development of local social housing policies.

5 Housing sector analysis

Practically there is no information on the housing situation (number of households in relation to number of housing units, density, quality of housing units, etc.), the analysis of which should be a starting point in a social housing strategy building process. Relying on secondary analyses and field interviews we will attempt to define the main features of the housing sector in BiH.

5.1 Housing market: transactions and housing finance

There is no information on the real estate market transactions. In 2004, a USAID commissioned study indicated the annual transaction around 1% of total housing stock, which is quite low. Real estate agents are involved in 20% of transactions according to the estimates. (Merrill, et al, 2004), However, taking into consideration of the huge reallocation of people (ethnic concentration), the number of transactions may have been much higher. According to Ibreljic et al, (2006) in urban areas 75% of the repossessed and reconstructed homes and apartments are for sale, while in rural areas the number of transactions is much lower. The reconstructed homes in rural areas are vacant or used for second homes. In spite of the fact that return programs put a lot of energy into the restitution of the pre-war situation, through the market processes a marked ethnic concentration took place.

In the secondary residential property market the transactions are typically cash based, no housing loans were included.

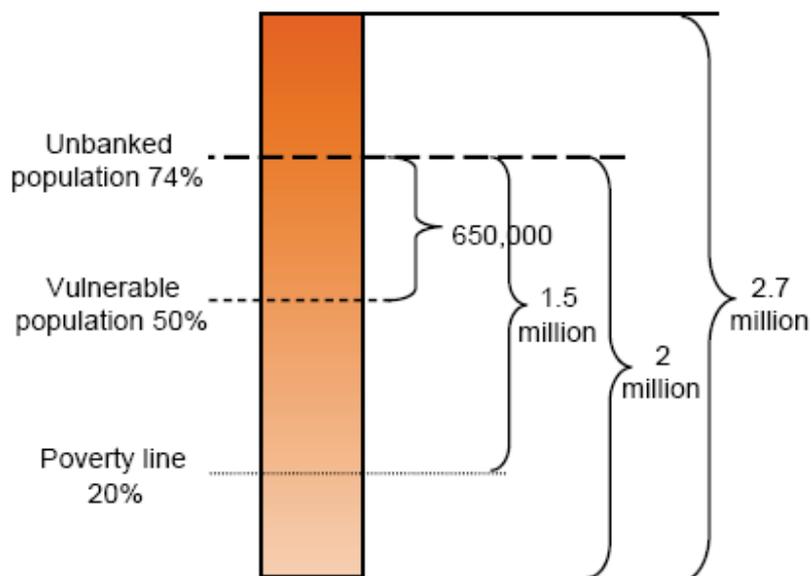
After the war, donor agencies allocated a lot of resources to technical assistance programs, which can contribute to the development of a market based housing finance system. There were several projects related to mortgage loans. The IFC has channeled housing and SME credit lines through private banks and assisted Bank Austria to take over the Central Profit Bank (it still holds a stake in the merged bank). The EBRD helped establish Micro Enterprise Bank Sarajevo (together with the IFC), invested in UPI Banka and has extended a number of SME credit lines to private banks. USAID and the EU set up a Fund (the European Fund for Bosnia and Herzegovina) in 1998 to help fund post-war housing reconstruction. The Fund has grown to become a €57 million refinancing operation offering three types of loans – for housing, for SMEs, and rural credits for agriculture. The fund lends to local banks and microcredit institutions, which then lends to local citizens. The local institutions repay the funds with interest, which will allow the Fund to continue its operations until 2012.

The banking sector – one of the most developed sectors of the economy -- was privatized, and the share of foreign banks has reached 75%. A study in 2004 made an overview of real estate finance in BiH (Merrill, et al, 2004), and concluded that though considerable progress has been made in registration, real estate lending and in the brokerage market, there were major constraints on the mortgage lending.

Box 1 Bank sector in BiH

In recent years, the BiH's banking sector has been thoroughly restructured, privatized and recapitalized. It is now one of the most developed sectors of the economy. The rate of financial intermediation has increased from 44 percent of GDP in 2000 to 75 percent in 2005. As in the rest of the region, however, capital markets remain underdeveloped. Following mergers and the liquidation of insolvent banks, the number of licensed banks was reduced by half from 76 in 1997 to 33 in 2005. The top five account for 60 percent of all banking assets. The privatization process in the Federation has been completed but a number of smaller banks in RS remain government-owned. A large share of all FDI-inflows into the country went into banking. The entry of foreign banks in conjunction with a more stable political environment and the introduction of the euro (which brought former cash-holdings into the banking system) led to an expansion of financial intermediation. Private sector deposits have grown from 16 percent of GDP in 2000 to 35 percent in 2004. In the same period, loans to the private sector increased from 31 to 45 percent. *The entire increase, however, went to households, as consumer credit grew rapidly from a low base.* The overriding reform priority should be the establishment of fully integrated financial markets between the two entities, with a common regulatory framework, joint regulatory agencies and a single stock exchange. Foreign financial institutions, such as Hypo Alpe-Adria Bank, have already started to establish country-wide operations that span both entities, but seamless integration will require a removal of regulatory barriers. Other short to medium term priorities include the completion of bank privatization in RS, the establishment of a fully-fledged credit registry, measures that facilitate corporate lending, regulations to reduce the currency exposure of deposits, the establishment of a functioning secondary market for government securities and tangible progress in the fight against money laundering. Other reforms that would contribute to financial sector development include pension reform and privatization. (Source: EU-World Bank, 2007)

An efficient housing finance system is a precondition of an implementable social housing policy. To illustrate this, we use a country level saving analysis, which classified the citizens according to their bankability: first group, who has a bank account (700 thousand), second group, who wish to have a bank account and has an income above the medium (650 thousand), third group, who are "vulnerable" with lower income than the medium, but more than the poverty level (850 thousand), and fourth group, which is under the poverty line (500 thousand). The housing strategy should move 1. from top to down to increase the number of households who can have access to housing and pay the housing cost without any (or with shallow) subsidy and 2. to move from the bottom up to increase the housing services (rental homes or "low-cost housing") for the households belonging to the vulnerable group (under median income or under the poverty line).



Sources: World Bank, Mareco, authors' calculations.

A measure of the efficiency of the housing finance system is the indicator, which measures the share of the outstanding mortgage loan to the GDP: In BiH this indicator is estimated to be 1.1% of the GDP, which is among the lowest in transition countries. The mortgage loans have been increasing fast in the last few years. Between 2003 and 2005 the housing loan portfolio increased by 18%.

There are two housing finance affordability indexes which measure the hardship to access housing.

House price/income ratio (HP/I): The house price/income ratio is the most frequently applied indicator comparing the price (average or median) of a given flat with the annual income of a given household (average or median).

Housing affordability index (HAI): The affordable house price/average house price ratio indicates what percentage of the value of an average home is the value of the home affordable by way of a loan for which one with average income is eligible. The index compares the average household's income to an "ideal income level", which is high enough to purchase an average home. Typical loan criteria include 20% cash, 30% debt service/income ratio 25-year term.

The Federal Office of Statistics in BiH estimated monthly wages at €305 in 2006, however “this is a wage estimate and does not include other possible sources of household income, or multiple wage earners. On the basis of the GDP per capita and assuming an average household size of five persons the average monthly household income in BiH can be estimated at between €700 and €750 per month.”(Dauskardt and Windt, 2007, p.6),

The average house price (based on the average construction cost with a 60 m² apartment/house) is equal to 40,000 KM (Central Statistical Office), the average house price/income ratio is 5.6, which is very close to the transitional country data. However the HAI index (according to our estimates) is less favorable (37%)⁹, which is equal to the level Hungary had in 1998. In a developed housing system the house price ratio is around 3, and the HOI is above 100%, though tight market can produce much worse indexes as well.

There is now considerable competition among housing banks. The banks are drawing expertise and financing especially from their foreign owners to enable them to rapidly enter and compete in the housing lending sector. There are indications also of housing product diversification and the housing loan sector is still characterized by general rapid growth.

5.2 Housing construction: self-building and illegal construction

Housing investment had a high priority in donor supported investment and by the different government agencies as a part of the return/restitution process. The construction industry has become one of the leading sectors of the economy (See Box).

Box 2 Construction industry and urban planning

The rapid redevelopment of the construction industry was launched immediately after the war conflict. Besides residential reconstruction, large-scale infrastructure projects were implemented. FIPA estimates that around 2002 app. 3,000 firms engaged 100,000 workers in construction related activities. Until now, mostly all large companies have been privatized or are in the process of privatization. Many companies have only recently reached their previous capacity level and are in need of further investment for modernization of machinery and equipment in order to cope with future challenges, especially if major road, rail and energy production developments related to the EU’s Trans European Network project will be implemented. Most building materials are readily available in BiH, some of them are potential export products. (FIPA 2002)

The basic problem in the construction sector is seen in the setup of building and planning regulations, which manifest in costly (in 2004 5,500-7,500 KM) and lengthy (174-304 days) permission processes. (Merrill et al, 2004) Some international projects have been targeting reforming the procedures and speeding up and harmonizing the regulation in urban planning (e.g. SPIRA Project by USAID). Since construction land is controlled by the municipal governments, it is necessary that municipal authorities update and adopt urban plans and allocate the available construction land e.g. for housing according to the plans, and in parallel, proceed with the regularization of previous and current large-scale illegal construction and develop tools for enforcement of the rule of law.

⁹ We calculated with 303 EUR/month household income, 15-year loan, 80% loan to value ratio, and 30,000 EUR house price.

New housing construction, however, is at a very low level according to the statistical data. The number of the completed buildings is extremely low, which can not be explained only by the dominance of the reconstruction activity. The simple answer to this puzzle is that unauthorized construction is widely accepted practice in the country.

1. table Number of completed dwelling

Type of investor	2002	2003	2004	2005	2006
Legal person	996	1113	517	1308	1020
Natural person	458	118	57	75	44
Total	1454	1229	574	1383	1064

Source: Statistical Yearbook, 2007

Based on anecdotal evidence, the typical way of constructing a one-family house is the following: getting (buying) the construction plot, then paying for the hook-up fee (connection charge). This is based on the floor space of the future construction (the permission process of the given structure is a 9-step-process from the cadastre request to the final request for a “registration folio”), and should be paid as a one-time contribution, summing up to even 20% of the investment. Then the construction starts and since there are only few affordable loan products (if any), the household would finish the construction virtually in 15-20 years. That is why proper construction plans, construction in accordance with previously submitted plans, and finished houses are rare both in urban and rural areas. The walls and the upper floors that would serve for housing the younger/older generations in the family are typically not completed.

The construction quality is questionable because of the huge share of self-help (or self-build) construction. However, the return process must have contributed to an increasing professionalism in the construction industry, having restored a large number of housing units in all areas of BiH (but often not finishing most of the reconstructions due to budget constraints).

Illegal construction had a tradition even in the pre-war period in ex-Yugoslavia, as the UNDP (2005) study (written by Veljko Mikelic) stated:

“The monopoly of socially owned enterprises in the construction sector during the 1960s and 1970s and the long procedure - between one to three years - to obtain a building permit made illegal construction a rather widespread practice during the socialist era. This phenomenon mainly affected the suburbs of the major Serbian cities, which attracted economic immigrants with employment opportunities. Since the former socialist regime also supported a rapid urbanisation during the course of the country’s industrialisation, the monopolistic socially owned enterprises were not able to provide sufficient housing to the new arrivals. The illegal construction was further supported by urban plans which did not allocate sufficient affordable plots for individual construction.” (UNDP, 2005, 125)

We can add that the high fee to be paid at the time of applying for the building permission provides a high incentive to take the risk of unauthorized building, and the especially low level of enforcement makes this practice widespread. The war made the

illegal construction activity more general, not only here in BiH, but all over the war affected regions. We do not have good data for the country, but the information related to Serbia will help to have an impression of the possible scale of illegal construction¹⁰.

Box 3 Illegal construction in Serbia

Though the phenomenon of illegal construction in Serbia was recorded in all major cities before the war, the most illegal buildings were constructed during 1990's, because of the flow of refugees from Croatia, Bosnia and Herzegovina and Kosovo. The reasons for illegal construction is the inflexible system of urban planning, unmet housing needs of refugees during the war, political toleration of illegal construction as an informal means of social policy, high prices, very limited supply of building land and infrastructure, and time-consuming and expensive procedures of obtaining building permits. In Serbia over 370,000 illegal buildings were reported (estimated number considerably higher), which is around 10-15% of the housing stock. In the two settlements surveyed 20% of the population lives in homes illegally built. According to the UNDP study, the arrival of returnees and IDPs produced a huge and immediate need for housing, which rather often was satisfied through illegal construction. Although there is no precise data on illegal construction for Serbia, this number in Belgrade alone is estimated to be approximately 45,000 residential units. Other studies on this issue estimate that almost 700,000 residential units were constructed without permission. (SCTM, 2005 and UNDP,2005)

The interviewees have all confirmed the widely held view that illegal construction is an important issue in BiH. In the framework of the regularization process, some 4,539 claims have been registered in Brcko, 28,000 in Mostar-Neretva Canton (out of which 6,900 in Mostar), in 26,000 in Tuzla Canton, and approximately 30,000 in Sarajevo Canton. In FBiH the scale of illegal construction is said to be around 80,000.

Local stakeholders do not realize the social cost that unauthorized construction has been causing to the society. There are very different types of illegal construction, but the typical one has very few common elements with illegal construction in the developing countries (though the Roma settlements tend to be similar). These buildings are very far from the African and South-American squatters' homes, they are relatively large, two-three stories and well equipped, though their connection to the service providers are not necessarily solved. However, we were told that a legal building permit is not a requirement for being connected to the service network (electricity, water, etc.).

The donor institutions supported the program in order to legalize unauthorized settlements and stop the continuation of illegal construction, but it seems from the field interviews that the incentive structure is not in place. ***Local politicians and decision makers consider the political price of stopping illegal building much higher than the benefit of stopping it, though in principle everybody agrees that illegal construction***

¹⁰ There are other examples in the countries of the former Yugoslavia. For example, the spatial plan of 1986 planned for Podgorica to reach a number of 130,000 citizens by 2000. The 2003 census showed that there are 168,812 persons living in the capital and that the number of illegally built structures amounts to 17,640. (UNDP, 2005)

should cease. The real cost of illegal construction has not been estimated correctly, because it is not only the lack of the infrastructure that is important, but the shortage of public space (for roads, parks, public institutions), which makes the huge private investments less valuable. These losses are rarely calculated.

In the field interviews, the leaders of the municipalities were optimistic that new urban plans will provide the unified city with the legal basis to take action on future illegal constructions, particularly if the issuing of urban permits and enforcement procedures are to be strengthened.

5.3 Housing cost – need for housing allowances

In transitional countries, one of the most burning housing issues is that the poor households are not able to pay their housing cost (maintenance, water, electricity, etc.), because the central and local governments under fiscal pressure had to cut the subsidies which had earlier been given to the public service providers. The restructuring processes of the urban service sector have taken place in various forms: privatization, contracting out, reorganizing the public service companies, etc., which typically resulted in increased cost and prices.

Both the households have to adjust to the changing environment of the housing services (that is, they have to pay the price of their consumption), and the service providers have to move to a cost recovery pricing and make their operation efficient in order to render their services affordable. Below cost prices make the services unsustainable and result in low maintenance, lower level of services (both quality and quantity), deterioration of assets, etc. However, the cost prices may not be affordable for low-income households, who have to adjust their consumption, which can create social problems (low level of services could lead to health problems, etc.).

The price index data show an unequal increase in housing related prices, the energy price increases are a lot higher than the average price increase. According to data of the Central Statistic Office of BiH, the cost of electricity, water, gas and other fuels, increased between 2004 and 2006 from 15% of total household expenses up to 25% of total monthly household expenses, which again followed the trends of other transitional countries.

2. table Price increase of basic housing services

	2000/1999	2001/2000	2002/2001	2003/2002	2004/2003	2005/2004	2006/2005
<i>TOTAL INDEX</i>	101,4	102,1	101,0	100,6	100,0	102,9	106,0
<i>Housing and household operations</i>	100,6	103,4	98,8	99,1	100,0	100,6	106,9
<i>Rent</i>	104,1	98,9	99,0	97,1	100,8	100,2	104,5
<i>Fuel and light</i>	104,0	111,9	98,4	99,1	99,7	102,6	117,8
<i>Household furnishings</i>	96,6	99,8	98,9	100,1	99,9	99,3	99,4

Source: Central Statistical Office, BiH

Nevertheless, the data for FBiH show that most households have access to electricity in urban and semi-urban areas. The data for water are different: over 93% in urban and semi-urban areas, and app. 73% have access to water in rural areas (data are available for 2006, Source: Housing Statistics for FBiH). The access data to public sewage show a great under serving: only 22% of rural, 58% of semi-urban and 86% of urban households are connected to the sewage network.

Based on information received throughout the interviews, we can conclude that there must be serious problems for many in urban areas to come up with the maintenance and utility costs, which is reflected in the scale of non-payments.

According to the Eurostat survey 2006, BiH is the cheapest country in the region with house and utilities 28% of EU average, and food 70% of EU average. According to our data mining, the basic housing expenses are the following: The average monthly expenditure for electricity, gas, water and other fuels (for a couple with 2 children) is app. 177 KM (min. 135 KM). The average rent is 250 KM (the minimum is 100 KM), in major cities 300 – 500 KM (well-equipped flats in central area for foreigners excluded), in smaller cities: 100 – 300 KM. The maintenance in FBiH (Sarajevo): the monthly cost is 0.25 KM/m² up to 0.38 KM/m² (for buildings with elevator). In RS (Banja Luka) the monthly cost is minimum 0.20 KM/m² (depending on contract). In Brčko District the monthly cost is minimum 0.20 KM/m² (depending on contract).

These data show that households with an average household income of 600-700 KM can pay 200 KM for operation costs and additional 300 KM for private rent with great difficulty.

6 Housing needs – redefining target groups

Defining the target groups for a housing strategy is one of the crucial elements in the policy drafting process. Our starting point is that besides the target groups of the return process, there are some more groups that are in need of housing and housing assistance. We identified five target groups that should be included in a social housing strategy:

- Residents in collective forms of accommodation (CA);
- Roma people;
- Young households, first-time buyers;
- Elderly people; and
- Low-income households among them some groups of returnees

6.1.1 Closing down of collective forms of accommodation (CA)

The demand for housing after the war was huge, and diminished only slowly: in the RS app. 50,000 families were rightfully claiming assistance through alternative accommodation options. They were actually eligible for rental rights, but there were no resources to cope with all the eligible claims. Thus, those households that had an apartment were instructed to return to those apartments. For those living in private rentals, as they were not able to return to their own apartments, rent allowance was covered. As a result, in 2005 7,500-7,700 households, at the end of 2006 6,400, and at the end of 2007 only 5,500 households remained in temporary accommodation. Since there are also other projects running (local, donor, etc.), by April, 2008 there are going to be only 5,000 households remaining in temporary accommodation in RS.

The CAs are slowly closing down, which results in an emerging housing need for the residents still living in such forms of accommodation. Those currently staying in CAs are the most vulnerable groups. It is typically they whose housing situation has remained unresolved, because their health, or mental conditions, or advanced age would not allow them to return to their place of origin, even if the physical construction of their home were to be arranged. This group includes around 7,000 persons.

6.1.2 Roma housing issues

There are no exact data on the size of the Roma minority in BiH. It is, on the one hand, due to the fact that there are only very vague data on the state's total population, and, on the other hand, there is a phenomenon said to be widespread among Roma families of their not registering birth, moving to another settlement, etc. In its report on informal settlements in BiH, OSCE estimates the number of Roma living in BiH between 30,000 and 60,000. A survey carried out in 2002 by the same organization found app. 100 informal settlements with a total population of 22,000 persons. (OSCE, n.d.)

The housing issues prevalent among the Roma are connected with informal and illegal housing solutions, which means a low-quality and underserved spatial arrangement in and outside cities and other places. Their vulnerability deriving from insecure tenure is exacerbated by their marginal social and economic position. The 2002 survey results report that app. 64% of the settlements were illegally built on publicly owned land, and the others have also unclear ownership rights. This means that clearing up the tenancy rights needs regularization and a transfer of ownership. Nevertheless, there are several constraints to regularization, as publicly owned land can only be "sold" in the due process of public procurement and competition. Furthermore, the lack of urban plans or the current urban plans might not correspond with the land usage in practice. Regularization of land is only one of the issues related to informal settlements; a further, also important concern is the quality and adequacy of housing in such settlements. It is reported that informal settlements often lack public utility services (such as water, electricity, etc.), and these shelters do not represent adequate housing, sufficient space and healthy environment for living.

A further problem that is indirectly connected to the issues deriving from the setup of informal settlements in BiH is related to the war damages. There are no data on what destruction was caused to Roma settlements during the war conflict of 1992-1995, nevertheless, there have been cases reported when such houses or even entire settlements were destroyed or made inhabitable. The possibility for affected families to return to their original homes was thus minimal, which is also connected to the fact that their tenancy right was typically unclear, and therefore, they were not eligible for return related reconstruction aid. Some Roma communities with stronger representation of interest could effectively launch negotiations to secure land for putting up a settlement (e.g. in Mostar, where negotiations are going on), but normally, the affected families remain in unresolved housing conditions. Indeed, the housing problems of the Roma represent only a piece of a complex set of social problems that typically affect this vulnerable population group. Segregation and discrimination are manifest also in other areas, such as lack of access to education, health, social services and employment, which have to be taken into account when drafting any housing programs for this target group.

6.1.3 Housing needs of the young first-time buyers

It has been reported that there has been a large-scale age-specific emigration since the Dayton Peace Agreement. Already in 2003, there have been over 175,00 requests for change of citizenship, reportedly "mostly done by the young people. Based on IOM research from May 2005, the main reason for emigration of the people of Bosnia and Herzegovina is jobs opportunities (36%), then studying (19%) etc." (Ibreljic et al, 2006) A survey commissioned by

the UNDP found that “close to two thirds (62.6%) of the people below the age of 30 say they wish to emigrate” (UNDP, 2007)

These data suggest that young families and first-time buyers form a special group of demand. The importance and urgency of the issue should not be underestimated, because the ratio of returnees of this age group is said to be very small. The generation that grew up here and did not leave could easily migrate to other countries to find better living and employment conditions there. There have been some attempts reported to enhance access to housing for young couples, which are currently under elaboration at local level, e.g. in Sarajevo Canton.

The housing needs of the young first-time buyers have to be addressed in a BiH social housing policy. They represent skilled and educated households who would be contributing to population growth and a balanced age structure and are vital to enhancing local development through their skills, e.g. as key-workers especially in urban centers. A further reason to deal with this group is their lack of tools to access housing, being at their early stage of life career, and often without family support, thus having little chance to access housing through own capital. Therefore they are a very important target group for developing housing finance tools.

6.1.4 Housing needs of elderly people

Elderly people are a special group in terms of social housing needs. Among those who have been displaced (app. 14% of all displaced, over 26,000 people in BiH as of end of 2005), there are many who will not be able to return to their place of origin if there is a lack of health and social services (and the lack of social ties) to look after them. There are no exact data on the current needs of this age group and their intention to return e.g. to especially rural areas with very little service provision. Anecdotal resources state that there have been efforts, e.g. in Brcko District, to counteract mass moving to areas where there is a severe lack of infrastructure to prevent isolation and marginalization (and also unsustainable infrastructure investment). Some attempts have been undertaken to develop models for social housing that would specifically address the needs of aged groups – housing combined with day-care and other services are being developed e.g. throughout Republika Srpska, and some local solutions have been implemented at Canton and municipal level in FBiH, too.

6.1.5 Other vulnerable groups in hardship

Current social policies in both entities and the District heavily focus on the so-called social cases. There are some data on the number and social composition of potential beneficiaries of social transfers, who are – besides some war veterans and their relatives – are thought to be the most marginalized groups.

Among the nine groups¹¹ defined as socially vulnerable groups in FBiH legislation, those groups, in our view, that would be suited foremost as target groups for a social housing policy are the

¹¹ The following groups are defined as socially vulnerable groups e.g. in the FBiH Law on Principles of Social Protection, Protection of Civil Victims of War, and Protection of Families with Children (the list can be extended by lower levels, i.e. canton legislation): 1) children without parental care; 2) educationally neglected children (child who transgresses acceptable norms of behavior and commits minor offenses of criminal acts); 3) educationally uncared children; 4) children with problems in development, caused by the family situation (child whose parents are not in position to ensure him required preconditions for normal education, physical and mental development due to disorderly family relations, material or other conditions); 5) disabled persons and persons with arrested physical or psychological development; 6) materially unsecured, and persons unfit for work; 7) elderly persons without family care (man older than 65 years of age, or women older than 60 years of age, without family, or relatives who are legally obliged to provide for his sustenance, or if he/she has them but they are incapable of caring for him/her); 8) persons with socially unacceptable behavior (person who engages in loitering, wandering, begging, prostitution, alcoholism, drug taking, and other forms of socially unacceptable behavior); 9) persons and families in need of social protection, who, due to extraordinary circumstances, require appropriate form of social protection (due to suffered forced migration, repatriation, natural catastrophe, death of one or more family members, return from medical treatment, release from prison or correction facility.)

following: low-income households, homeless, migrants, returnees, and IDPs with unresolved housing. They would be suited foremost as target groups for a social housing policy. That is why the redefinition of the vulnerable social target groups for a social housing policy should be taken into consideration.

Low-income households most probably have serious affordability problems in terms of housing costs (water, electricity, sewage, etc.). The “homeless” groups’ housing issues, being disclosed from the return process, remains to be resolved with the local governments (which have very limited resources). The return process has generated tremendous movements inside and outside the country. Also the returnees’ housing needs are manifold: access to housing in their new place of residence, access to housing in their original place of residence, reconstruction needs, demand for construction plots, assistance for legalization and regularization, and rent or housing allowance schemes.

7 Social housing elements of reconstruction and return related programs – what can be transferred?

This section discusses some recent social housing or reconstruction related programs that were implemented either by ministries (entities or cantons), municipalities and/or NGOs. One remark has to be added here: most of the selected programs have been launched in the framework of the return process. Being so, they target foremost DPs and returnees (funding is available for such projects). At the same time, the selected programs have some elements that point already beyond the return process, as they seem to have been designed based on the lessons and effects of previously implemented return-related (reconstruction) projects. The methods applied embrace numerous techniques: e.g. construction of social rentals, enhancing access to owner occupation through land allocation or loans, and implementing some sort of housing allowance schemes.

The aim of this section is to evaluate the selected programs based on (a) the identification and selection of the target population; (b) the program’s responsiveness to the current needs of the target population; (c) the extent to which the program design adjusts to the present housing market conditions; and (d) the sustainability of the program.

7.1.1 Rent subsidies (vouchers)

The scheme was developed to cover the costs of rent for returnees whose dwellings were destroyed or occupied. No further groups have been involved in the scheme. The scheme takes into account the current needs of the population, because it offers (co-) financing the rent based on the current household size. This is a great difference from the return related reconstruction projects where the basic logic is to restore housing with the same “eligible” floor space as the returnee used to have prior to the war.

Box 4 Rent allowance scheme for alternative accommodation in RS

The rent allowance is paid for a one-year period in 3 installments. The amount paid has varied throughout time: based on negotiations with OHR, in 2001 it was 300 KM/month in all towns for all households, then they differentiated in 2002: 250KM/month in large towns and 200 KM/month in smaller ones, and from 2006, even the number of the household members has been taken into account. The exact amount of the rent allowance is defined by the minister each year. The current practice is: 200 KM/month for a 3-person household around Banja Luka, which decreases by 20% for 2-, and by 50% for a 1-person household. The total budget for rent allowance was 8 million KM, today it is app. 4 million KM.

(Source: Field interviews)

We have to note that in the course of some 13 years, the household size and composition of many returnees changed, which is not taken into account in the reconstruction measures. The rationale

of not taking into account the changes is that it would cause unequal treatment (not all claimants have grown in family size etc.) and additional costs. The “surplus” aid should be at least allocated based on means testing, which is not a feasible option for the moment.

A further advantage of the rent allowance program is that it contributes to paying the market rent, and thus, takes into account the current rental market situation. The sustainability of the program depends on many issues: financial resources made available (currently the entity level funds it); eligibility (it currently does not target the poorest because it does not differentiate among low- or higher-income returnees), strength of political support (the current aim is to reduce the program and enable people to move into their ownership/alternative forms of accommodation so that there is no constant burden on the budget). A reported weakness is the lack of a regulatory framework that would increase the security of tenants (and landlords) in the private rental market.

All this means that some elements of the current scheme could be included in a future rent allowance model, whereas other elements should be further developed and elaborated (i.e. target group selection, co-financing scheme).

7.1.2 Housing allowance schemes

Box 5 Housing allowance schemes in Brcko, RS and Zenica

Brcko

In Brcko, one of the problems is the non-payment of utility bills, foremost by IDPs and refugees. Many households receive income supplements but there is informal encouragement from politics that these households are not obliged to pay their bills. Until January 31, 2008, the Brcko budget covered arrears related to utility services, since these services were included in the budget of the district. This had the result that non-payment was not very much handled by the service providers themselves.

RS

As for housing allowance, the total expenditure is 6 million KM in RS per year, which is spent on electricity, since this provider is state-owned. Other utility services – if any – are subsidized at local level (e.g. Banja Luka operates a housing allowance for other services, too).

Zenica

One of the most important tools applied in the newly constructed social rentals is that the tenants do not have to pay for the rent, *and* there is a differentiated system for utility payment. Those who do not have any income may use 200 KW/month of electricity for free, get free heating, etc (even food and day-care). Those who have income (under the official rent-level) receive 150 KW/month for free, have to pay for only 30% of the heating etc. Those with the highest income have to come up for the total of the utility costs.

(Source: Field interviews)

The above examples deal with housing cost affordability issues in very different ways: the Brcko and the RS models are based on subsidizing the provider, whereas the Zenica example assumes that specific low-income households cannot pay the bills. The Brcko model struggles to find the way how to put an end to non-payment among the DPs, which is said to be a legacy from the (after)war time. (It might occur that the given household is able to pay the bills, but is reluctant to do so due to its “status”.) Since the utility costs have risen with the recent marketization of the services, introduction of any housing allowance schemes (even on the supplier side) can reach many needy households. Nevertheless, no housing allowance scheme can be sustainable if there is no targeting, and there is a lack of tools to enforce payments (and metering consumption).

7.1.3 Rental housing models

Most of the examples that contained elements of social housing models above meeting the housing needs of returnees were related to housing (re-)constructions and return of home-ownership. The special elements of these projects is that they select specific target groups, special cases, not necessarily exclusively returnees, or some who should return to some other places, and non-transfer to ownership is also applied in the models. We have to remark, that such programs have a larger chance to be implemented if the local pressure for fulfilling return-related housing needs is coped with.

The management and ownership of the stock varies to a great extent among the projects (co-ownership, canton-level ownership, NGO etc.). Unfortunately, the projects deal very little with the “future” of the stock – questions of financing management and maintenance are rarely raised. Mostly the rent is for “free”. There are no set rules for future allocation procedures or plans for the cases of non-payment (the first wave of tenants have just moved in), and thus, in most of the cases, the sustainability of the projects is questionable. Even the CRS case’s long-term perspectives, where the selection of the locations has been carefully undertaken to ensure future income generating activities, can be seen as problematic (e.g. because of the huge project costs, and the lack of transferability of the beneficiary selection).

In some other projects, it is the unclaimed dwellings (from the return process) that are used as rented dwellings (on a temporary basis, usually for free) for socially vulnerable groups. The management of the stock is carried out on local level.

Box 6 Rental housing models in Brcko, Ilijas, Mostar and Zenica

Brcko – unclaimed dwellings for rent

There are app. 100 homes that have not been claimed by returnees. These dwellings are run by Brcko District. Brcko passed a law, which says that those households are eligible to claim these dwellings whose homes were destroyed in the war. This way, app. 60% of such claims could be solved.

Austria Hilfswerk – Ilijas

The project includes returnees and the local population (all nationalities). In the course of a pilot project facilities were built for altogether 17 families, 8 women victims of war and 11 internally displaced families. Municipality Ilijaš has provided a location for the construction and funds were donated by the Cantonal Ministry for Housing and Cantonal Ministry of Labor, Social Affairs and Refugees. A smaller share of the money was contributed by UNHCR and Hilfswerk. Families will be allocated flats for the permanent use (but not as their property). They will not have to pay rent but they will have to come up for all utilities and maintenance of the building.

Mostar – Turning the CA into a social housing model

There are app. 100 families living in collective forms of accommodation (CAs). The CA is located on a so-called “buffer-settlement”, where IDPs were lodged. The number of IDPs is decreasing, thus a considerable part of this settlement will be soon used for social housing.

The planning of the allocation of these flats has already started: altogether 150 families entered the tender/application procedure, which had very strict eligibility rules, and 50 of them will move in the buffer-settlement. There is one precondition for this: vacating the flats (currently utilized as CA). The flats will be allocated as social rentals, but the rent will be 0 KM. The social care center will follow how the families get along. The renters will be allowed to stay in the dwellings for a maximum of 2 years, and if their situation has improved, they will have to move out. If not, they can again enter the tender procedure. All this is still in a planning stage, and now the reallocating of the residents from the buffer-settlement is taking place. As for today’s situation, among those

150 who are actually still living there, there has been a data collection on their income, family size, disabilities, etc. to explore their options.

Zenica Canton – Social housing for the elderly

Zenica has had two unique projects: they constructed two houses with 30 and 37 apartments for socially vulnerable people, who had lived either in CAs or private rentals, but are ill and need care. They were typically those who could not return to their place of origin. Zenica Canton has launched these two projects in cooperation with two donors (Swiss Humanitarian Agency and German Pax Christi). The eligible households are those selected by the social care centers. The constructed dwellings are of high quality, the plots have been provided by the municipality of Zenica. The day-care is financed by the Ministry. These are dwellings maintained and run as social housing by the ministry, and in 15 years the Canton will assume the ownership (now it is 50-50% municipal-canton ownership). Very needy tenants receive housing allowance, too.

CRS – Social housing models for tradesmen (urban), farmers/fruit producers (rural) and the elderly (care facilities)

CRS has developed three social housing models for specific target groups of returnees: one for an urban area targeting at tradesmen (Potocari), a rural model for farmer returnees (Jezero) and a third one targeted at elderly people (Fojnica). In all three models, the selection of the locality is crucial: besides the strong cooperation capacities of the municipalities, ensuring access to adequate services (roads, schools, health care facilities) was vital, which can contribute to the livelihood of the projects. The municipalities (in the Fojnica case the psychiatric institution) contribute to the project cost by supplying for land and infrastructure. The project planners took care that the selected locations have (local) development strategies in which they see a guarantee for a long-term viability of the projects. Income generation and community building activities are supplemented to the projects. The municipalities will own the facilities. The allocation of dwellings will be coordinated by a group established by CRS, municipal and local NGOs. In the Fojnica case, the dwellings will be transferred to the health care institute after 15 years. The costs of the projects are huge, but being in a pilot phase, the options for a sustainable model will be explored and developed.

(Source: Field interviews)

7.1.4 Increasing access to owner occupation

The return process, as discussed further above, largely aimed at enabling access to pre-war home-ownership and tenancy right, thus, there are numerous examples for projects increasing chances to access home-ownership.

We have to select some examples very carefully that have already taken into account the constraints to giving home-ownership (even if the concept behind it is in compliance with human rights) or lessons learnt from the return process.

Box 7 Land allocation in RS and Mostar

RS

There is a program run by the Ministry of Labour for 4,000 widows/widowers of soldiers fallen during the war, who have received building plots from the municipalities (and the infrastructure) altogether in the value of 25 million KM, and an additional 50 million for construction was covered by RS. They are typically those who would never be able to pay back a loan.

Mostar – Roma settlement

A Mostar project, which is still in its infancy, concerns Roma people: a representative of the local Roma community has achieved including a Roma settlement in the city's urban plans. The new

settlement site is exactly the same where the Roma settlement used to be. There are plans to construct 14-18 two-dwelling houses.

(Source: Field interviews)

The program of land-allocation for those returning has a lot of “illogical” elements. There is lack of social, health etc. services in many of the areas where these plots have been allocated, in addition, most plots lack infrastructure (being mostly former agricultural land). There are also a lot of mines dispersed. Moreover, there is a lack of services in these mostly rural areas. On the other hand, one should keep in mind that the target groups in this program come from rural areas, who do not wish to be moved into urban areas. The sustainability of such programs is very questionable, due to a lack of access to income generating activities.

The Mostar case is even more complicated. The most serious question about this intervention is who the owner of the dwellings will be. There are numerous examples that if a very poor person gets access to the ownership of a home, his/her life strategy may lead to selling this flat and living up the “windfall gain” quickly. There is also a danger of ghettoization, which should be counteracted by including social work service, requiring serious financial resources.

Box 8 Low interest rate housing loans in RS

Revenues for housing issues in RS stem from privatization. RS has established a Housing Fund from all revenues from housing privatization, which summed up to 100 million KM. Dwellings were normally sold for 10-15% of their market value. With resources from this Fund, there were 4000 dwellings constructed, with a low-interest rate credit provided by the Fund. The owners, who constructed the houses invested own resources, took a loan and received some funds from this budget – they normally did not have to pay back this latter resource. This program targets actually first-time buyers, and those who can afford a loan.

(Source: Field interviews)

Households that can access housing loan products in today’s BiH, are not necessarily vulnerable groups, as the below RS model will show. On the other hand, reaching groups that are vital for economic development is crucial. Such a solution should be considered as a follow-up step to the return process, which makes use of the financial institutions already in place, targets broader groups, etc.. Nonetheless, targeting such programs has to be carefully designed to avoid developing a regressive and financially unsustainable model.

7.1.5 Maintenance and small scale reconstruction

On order to maintain a reasonable quality of the housing stock, owners should be able to invest enough funds into maintenance of housing. In housing systems with a minimal share of home-ownership, many owner-occupant low-income households will have difficulties to cover such necessary investments. This is especially true in housing systems where massive privatization (here also return) took place, giving access to low-quality home-ownership also to the poorest.

The return process has invested huge resources into reconstruction of housing, but the resources were insufficient to fully complete housing construction work in many cases. Therefore, there is still a lot of need for repair.

In addition, to avoid deferred maintenance, some municipalities have launched small- scale reconstruction programs, targeting at upgrading low-quality housing, and formerly socially owned but privatized housing. These ad-hoc programs can illustrate the outstanding needs for housing investments for large groups of the population who lack own financial tools or access to loans to invest into housing.

Box 9 Funding of maintenance in Breko and the Zenica small funds for reconstruction**Breko**

60% of the Housing Fund stemming from privatization is spent on reconstruction. The reconstructed homes are (continuously) privatized, which is filling up the Fund. The other 40% is kept for ad hoc maintenance of those flats/houses that are in multi-unit buildings, where more than 50% of the dwellings have been privatized already, in order to finance repairs, etc. The renovation and reconstruction of private homes has largely been finished by now.

Zenica – small funds for small reconstruction programs

The activities for those whose houses were damaged during the war, or for any other reason need assistance are the following: reconstruction (e.g. damaged roof), extension (e.g. by adding a bath), construction. After a considerable part of the return process had been over, the ministry extended its activities to targeting vulnerable people and assisting their housing needs. They have a budget of 200,000 KM for such projects. They cooperate with the municipalities.

(Source: Field interviews)

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8 Annex

List of interviews held in Spring 2008:

- 1 Amela Tandora – OCSE
- 2 Matt Davis - CRS
- 3 Renata Radeka - SUTRA Project
- 4 Drago Vuleta, Assistant Minister for Refugees of RS
- 5 Ljubo Lepir, Deputy Minister for Health and Social Affairs of RS
- 6 Milenko Trivic, Assistant Minister for Physical Planning of RS
- 7 Branka Djuric-Zilic, Head of Department for Refugees, IDPs and Housing Policy of Brcko District
- 8 Natasa Djurovic, Minister for Spatial Planning/Head of Department for Spatial Planning in Brcko District
- 9 Suzana Jezerovic - Hilfswerk Austria
- 10 Rusmir Ciscic, Minister of Civil Engineering and Physical Planning of Sarajevo Canton
- 11 Luka Fallatar, Minister for Social Affairs, Labour and Health and of the Mostar-Neretva Canton
- 12 Mustafa Delic, Head of the Housing Department of Mostar Municipality
- 13 Besim Mehmedovic, Sarajevo Canton level Construction Department
- 14 Josip Martic, Minister for Labour, Social affairs and Refugees, Zenica-Doboj Canton
- 15 Zenica Collective Centre - Director
- 16 Husein Smajlovic, Mayor of Zenica Municipality
- 17 Ivica Marinović, Assistant to the Federal Minister of Labor and Social Policy
- 18 Abid Jusic, Federal Minister of Physical Planning
- 19 Sanela Imamovic, CRS
- 20 Mladen Bozovic, Director of the Return Fund
- 21 Jasmic Buco, Assistant to Sarajevo Canton Minister of Urban Planning and Environmental Protection
- 22 Nisvet Hrnjic, Mayor of Jajce