

**FACING THE ENVIRONMENTAL CHALLENGE**

## RECENT HOUSING RESETTLEMENT AND RECONSTRUCTION IN SOUTHEASTERN EUROPE

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### Introduction

The Stability Pact for Southeastern Europe (SP) has undertaken several initiatives in which housing figures prominently. One of these is the Social Cohesion Initiative, where housing in the region is looked at from the viewpoint of structural socio-economic development and urban regeneration in the aftermath of the political and military conflicts in the former Yugoslavia during the 1990s.

Housing development is also one of the priority issues identified in the Agenda for Regional Action (AREA) program initiated by the SP's Regional Return Initiative in June 2001. This initiative focuses on policies, programs, and measures to rectify and overcome the consequences of displacement which occurred in the series of armed conflicts in the former Yugoslavia during 1991-99.

Refugee-related housing issues form a major element in the AREA program, because over 1.2 million refugees and internally displaced persons still required durable solutions, including housing, at mid-2001. AREA was conceived at a time when normalcy in the republics of the former Yugoslavia was slowly returning, and humanitarian aid related to the crises began to dry up. To some extent this aid has been replaced by development assistance.

A key consideration in the AREA program therefore is that (re-) settlement of refugees and internally displaced persons both in the countries of origin and in recipient countries must be integrated with the development of "regular" housing programs in the three countries most affected by this displacement, i.e. Bosnia and Herzegovina, Croatia, and the former Federal Republic of Yugoslavia (now renamed as Serbia and Montenegro).

### Pre-war housing situation

Pre-war housing shortages existed in varying intensity in these countries. Overall pre-war (1991 censuses) housing stock data and household data suggest that at that time there was a reasonable supply-demand balance in Bosnia and Herzegovina, and in Croatia (less so in Serbia and Montenegro), even though this probably hides regional differences, and particularly differences between urban and rural areas in all of these countries. There is selective evidence that the steady rate of urbanization in combination with declining household sizes had already led to housing market tensions in urban areas prior to the Yugoslav regional wars.

### Impacts of the wars and their aftermath

The wars and their aftermath changed this picture radically: about a million dwelling units were destroyed or badly damaged and several millions of homeless refugees, internally displaced persons, and returnees were in need of reconstructed and/or of additional housing.

In each country, housing production levels plummeted during the war years and have reached not more than about one-third of those production levels at present. A major contributing factor to this decline is that the former public sector housing delivery mechanism through state enterprises

(which contributed about one-third of the annual housing production before the wars) hardly exists anymore. Besides that, little attention has been paid to housing maintenance, particularly of the publicly owned housing stock, which, however, has now been largely privatized.

Further demand-side factors have been the steady decline in average household size and continuing urbanization during 1991-2001 (both accelerated as a result of the wars). These factors have exercised considerable pressure on the housing stock, perhaps most strongly in Serbia and Montenegro, where the aggregate demand-supply imbalances appear largest at present.

An additional problem is impoverishment. Although no hard data are available to estimate magnitudes, it is clear that the combination of the wars and the demise of socialist housing production has created a situation in which even a well-functioning housing market would only be able to cater to part of the needs, as purely market-based solutions are bound to be unaffordable to between 25 and 30% of the population.

Some of this excess demand is being temporarily absorbed by multiple households occupying existing housing, and by the emergence of informal settlements at the fringes of major urban areas, again most significantly in Serbia and Montenegro.

The above picture is further complicated by the largely completed, arbitrary manner of privatization of the public housing stock. This was handled primarily through sales at nominal value to the de-facto occupants, who, however, in a significant number of cases were not the legal tenants, as these had fled during the war.

### **Refugee-related housing issues**

Refugee-related housing issues have caused additional shelter problems in quite different ways in each of the three countries.

In Bosnia and Herzegovina the predominant need has been the reconstruction of destroyed or damaged housing for returning refugees and internally displaced persons, along with the repossession by the rightful internally displaced person or refugee tenant of housing that was illegally occupied (mainly by other internally displaced persons) during the war years.

In Croatia, this last issue is complicated by the fact that the government had explicitly provided for unlawful housing occupants in the Law on Temporary Take-over and Administration of Certain Property (LTTP), which was legislated during the recent wars. The amended Law on Areas of Special State Concern (which regulates the property repossession regime) specifies that properties allocated in the framework of the LTTP may remain occupied by the temporary users as long as alternative accommodation is not provided to them. This effectively prevents the rightful owners (mostly refugees or internally displaced persons) from repossessing their property until alternative housing is found for the temporary tenants. In addition, many refugees currently still living outside Croatia are former tenants of public housing that was legally sold to the formerly illegal temporary occupants.

In Serbia and Montenegro, on the other hand, there is no significant housing reconstruction issue. The majority of refugees surveyed in Serbia have indicated their preference for local integration, rather than for returning to their place of origin, and this pattern is believed to be the same in Montenegro. Thus, the refugee-related housing issue in Serbia and Montenegro is generally seen as an issue of local settlement.

## **Housing sector gaps**

Due to the reasons mentioned above, there is a substantial shortage of housing and related infrastructure in all of the countries, especially in Serbia and Montenegro. Numerical estimates of this shortage are difficult to make due to limited reliable up-to-date statistical information. Clearly, housing market demand in and around the major urban centers is the highest, while in certain rural areas there is an oversupply of housing due to the changed socio-economic conditions (closing of former state factories, and lack of alternative employment), exacerbating the negative impacts of the wars.

## **Housing program requirements**

In each of the countries there is therefore a clear rationale for a significant program of new housing development, renovation of existing housing, and measures to enhance the functioning of housing markets. In all three countries there is a need to establish long-term national housing and spatial development policies and strategies, including designing mechanisms for the provision of housing-related land development and infrastructure.

However, these policies must be developed in a socio-economic environment with relatively limited options for economic growth, limited capacity to borrow from capital markets, limited financial sector development, high unemployment levels, and an on-going privatization process. On the other hand, housing production has the potential to function as an economic engine, given the relatively high multiplier impact of investment in housing on income and employment generation, particularly through its backward linkages to the construction materials industry.

## **Housing policy and program development**

Government and private sector responses to the above issues differ significantly between the countries. Recently, good progress in housing policy and program development has been made in Croatia with the enactment of the Law on Socially Subsidized Housing Construction, the allocation of budgetary resources, as well as mobilizing local and international capital market resources to address refugee-related housing issues.

In Bosnia and Herzegovina and in Croatia, the financial sector has demonstrated serious interest in developing mortgage-backed housing finance markets, and this has led to several thousands of such housing loans being approved in each country.

However, the limited government response capacity in all of the above countries at a time of economic crisis (particularly in Bosnia and Herzegovina and in Serbia and Montenegro) is a matter of serious concern, as it impedes the realization of the economic potential of a viable and vibrant housing delivery system. As the post-war situation in these countries is gradually returning to normalcy, and as the market-based socio-economic organization of society takes hold, it is important that concerted efforts are made by the national governments to develop comprehensive housing policies appropriate for each country's circumstances and the financial capacities of its civil society and government.

As such, emerging efforts towards new housing policies in these countries are good steps in the right direction. However, they must be reinforced and nurtured in a participatory policy development process, bringing together all major stakeholders (including concerned central government agencies, local government, financial sector representatives, housing associations, developers, etc). This process will, of necessity, have a strong element of learning by doing.

Within the framework of such housing policy discussions, and in the process of policy and strategy development, a variety of programs and projects will be required. The basic precept is that any government intervention will be intended to leverage private investment, and to assist the weaker and more vulnerable groups in society.

Given housing requirements in each of the countries, as well as prevailing financial and operational implementation constraints, there is a rationale for a program of some 15,000 housing units each in Bosnia and Herzegovina, Croatia, and Serbia and Montenegro for implementation over a five-year time frame, which should include the following features:

- (a) **legalizing and developing existing illegal “wild” housing areas**, which have come to house a significant segment of the (peri-) urban population, including local low- to middle-income groups, as well as refugees and internally displaced persons;
- (b) more generally, **upgrading, converting, and extending existing housing** should be considered seriously for similar reasons of cost-effectiveness, particularly where it involves abandoned, disputed, or partially completed buildings of intrinsically good quality (some collective refugee centers have such potential);
- (c) **new government subsidized private housing could be developed** in municipalities with high demand levels and significant proportions of refugees and internally displaced persons; the municipality concerned should take a lead role in identifying housing demand and appropriate development sites, as well as providing serviced land. The technical scope of projects will vary significantly from place to place, and could include a range of housing opportunities from self-help construction to finished dwellings;
- (d) in tenure terms such **schemes could have a range of options, including freehold ownership, lease-purchase, cooperative ownership, and rental housing**; given the privatization of the former social housing stock, and the high proportion of refugees and internally displaced people who depend on rental accommodations, it is particularly important to ensure a good proportion of new rental housing;
- (e) for any program of apartment development and other forms of rental housing, considerable **attention should be paid to the issue of housing management**, in terms of operation and maintenance (particularly of the common areas), rent collection, and tenant relationships;
- (f) such physical development programs must go together with **development of housing finance mechanisms** through the private financial sector, supported by an enabling framework provided by government;
- (g) **government grant funding support** will need to be increasingly **provided through demand-side subsidies to households based on low incomes, vulnerability, and refugee/displaced person entitlement** criteria, rather than subsidizing physical structures. This will help enhance the cost-effectiveness of public intervention.

### **Institutional development, capacity building, and training**

Clearly, the above policies and programs will require major institutional development, capacity building, and training, as much of the sketched directions form a departure from the socialist past. Major efforts will be required to strengthen the national government departments and agencies which take the lead in these efforts. In addition, further institutional development and capacity-building will be required to enhance capacities of existing local governments, housing

cooperatives, housing associations, and tenants' associations, as well as assisting in creating new entities. This will enable all current and future stakeholders to play more effective roles in the development process.

In recognition of these requirements, institutional structures should undertake significant changes. In particular, the staffing strength of each institution must be increased both quantitatively and qualitatively. While this is clear in general, it still needs to be specifically operationalized in each of the countries by producing institutional development action plans for the housing sector.

In addition, the above developmental requirements also generate new education and training needs, for instance in the areas of property valuation, property title and records management, housing loan administration, as well as more generally with regard to housing finance, property management, and urban land planning. This will require further capacity-building in educational and training institutions in each of the countries (as part of a housing sector institutional development action plan, or as part of more broad-based education and training reforms).

## **Regional cooperation**

Regional cooperation in the above issues has the potential to significantly enhance national and local housing development capacities. Specifically, two areas of focus for this may be singled out as follows:

### ***a) Regional Property Information Exchange Mechanism***

In view of the urgency to enhance and support the existing commitment and initial efforts by the concerned governments and the need to achieve effective data exchange within the shortest possible timeframe as a precondition to implementation of durable solutions for the remaining 1 million people displaced in the region, there must be put in place a safe and efficient regional mechanism for exchange of property-related data in support of existing government efforts.

### ***b) Enhancing regional capacity in housing development***

Clearly each of the countries in the region has much to learn from one another's efforts as they chart through significantly unexplored areas in developing their housing sectors and in dealing with sustainable solutions for refugees and internally displaced persons.

To some extent, regional information exchange is already taking place, but there is a strong case to be made for enhanced and more organized exchanges of good housing practice, through study visits, case-study documentation, and other forms of interaction and dissemination. This applies similarly to the development and exchange of training and education curricula that relates to new ideas and initiatives, while there may also be a case for regionally-based specialized training programs.

## **Role of international support**

There are several areas for which international support will be appropriate, as follows:

### ***a) Capacity-building technical assistance support***

The policy, project, and program development ideas suggested above, as well as the capacity-building measures proposed, will not come about automatically. The international community, particularly the bilateral donor agencies and UN agencies, will

have a major catalyzing role to play in supporting these new initiatives with capacity-building and technical-assistance support.

**b) Housing finance support**

The larger development support agencies, such as the international development banks and the European Commission are well-placed to support Bosnia and Herzegovina, Croatia, and Serbia and Montenegro in financing housing development programs. This is so not only because of the stream of concessionary loans and grants such agencies can provide to finance housing development and management, but more importantly because of their ability to support the creation and strengthening of housing finance systems and mechanisms to leverage domestic and international commercial investment in the private housing sector.

**c) Regional property information exchange**

Considering the above urgent regional need for resolution of refugees' and internally displaced persons' housing property claims, international support will be required for the development of a regional mechanism of property information exchange along the lines described above. The ultimate goal of international support for such an initiative will be to establish national data management capacity in all fields related to migration and displacement in line with international standards, consequently facilitating national, regional, and international exchange of information, through an Information Exchange Mechanism.

**d) Regional exchange of good housing practice**

As noted above, there is a clear need for increased exchanges of good housing practice, through study visits, seminars, case-study documentation, and other forms of dissemination. This includes the development and exchange of training and education curricula development as they relate to new subject areas, and for regionally-based specialized training programs. International support will be required to more closely identify the specific needs and to support the countries in the region to establish appropriate mechanisms, including the strengthening and equipping of specific training and capacity-building institutions for this purpose in each country.

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