

Evaluation Abstract

Housing for returning refugees and displaced persons in Croatia

This evaluation covers two projects financed through loans granted by the Council of Europe Development Bank (CEB) to the Republic of Croatia, aimed at promoting the “return of refugees and internally displaced persons (IDPs)”. These two projects allowed CEB to contribute to resolving the plight that was affecting Europe at the end of the 1990s and early 2000s, namely the destruction of housing assets and the displacement of hundreds of thousands of individuals caused by the wars in the former Yugoslavia. CEB’s contribution came in support of the effort made by the national government to promote return of refugees to war-affected areas and the rebuilding of local multi-ethnic communities in line with the resolution of the 1995 Dayton Agreement and 1999 Stability Pact for South Eastern Europe.

The first CEB loan was approved in September 2000 and amounted to €30.4 million. Its main components were: (i) reconstruction of 1 153 damaged houses to enable the return of IDPs and refugees to their original homes; and (ii) provision of 1 112 dwellings to be used as alternative accommodation. This was the solution adopted by the Government of Croatia to resolve the problem of dwellings abandoned by their owners (mostly the Serb population living as refugees in neighbouring countries)

and temporarily occupied by settlers, refugees from other war-affected countries, or IDPs under the provision of the 1995 Law on Temporary Takeover. Alternative accommodation was expected to enable Serb refugees who applied for repossession of their occupied property to return to their homes, while those occupying said properties could move to the alternative accommodation. The CEB loan also included a marginal share of resources for reconstruction of infrastructure facilities damaged during the war. The loan was fully disbursed in three tranches (last tranche in July 2003).

The second CEB loan was approved in February 2003 (while the first CEB loan was still ongoing) and amounted to €38.6 million. This second loan focused almost exclusively on accelerating the process of repossession of occupied property by the rightful owners through the provision of alternative accommodation for eligible temporary users. More specifically, the loan was expected to be used to purchase 1 960 housing units and to provide construction materials for the building of 2 008 housing units that would serve as alternative accommodation.

All activities financed under both CEB loans were implemented by the Ministry for Public

Works, Reconstruction and Construction and its supporting structure. Management arrangements were already in place when the first CEB loan was approved. At the early stages of implementation of the project financed by the first CEB loan, local housing commissions were responsible for collecting requests for repossession, issuing certificates and managing the departure of the occupants of dwellings on which claims for repossessions were approved. The local housing commissions were dissolved, however, in September 2002. Afterwards, the decision-making process for repossession of occupied properties, departure (or eviction) of temporary occupants and allocation of alternative accommodation was centralised. For alternative accommodation, the Agency for Legal Transactions and Mediation in Real Estate was responsible for purchasing, on the government's behalf, properties in war-affected areas for subsequent sale or rental to be used as alternative accommodation.

The two CEB projects were implemented in a rapidly evolving national legal and policy framework. The basic principles and procedures guaranteeing the right of return were established in the Government of Croatia's Programme for the Return and Housing Care of Expelled Persons, Refugees and Displaced Persons (also called the Programme for Return or the governmental programme) that started in 1998. The initial laws governing the provision of reconstruction grants and the organisations involved in management of housing assistance in Areas of Special State Concern – areas that were under the control of Serb forces during the war – were subsequently revised and improved in the course of implementation. In 2001, an Action Plan was approved with the declared objective of resolving the problem of occupied properties. In terms of economic and sectoral context, the CEB projects were undertaken during a period of sustained economic growth (average annual growth rate of 5%) and rapidly increasing housing prices.

The CEB projects were **relevant** and in line with the priorities of the international community. Completion of the process of refugee return, including all cases of property repossession and reconstruction, was a criterion for accession of Croatia to the European Union. The CEB projects responded to the extensive need for housing reconstruction consequent to the widespread destruction of houses and apartment buildings during the war. Concerning alternative accommodation, the occupation of dwellings was one of the key barriers to the return of minority refugees. Establishing the right of temporary occupants to receive an alternative dwelling was the only way in which occupied houses could be reposessed within a reasonable timeframe and in a socially-accepted manner.

The two CEB projects aimed at *“the return of the pre-war population to the war-affected areas and the rebuilding of local, multi-ethnic communities”*. The CEB projects had a strong housing focus in line with the fact that, as discussed above, solving property rights issues and investing in reconstruction were key priorities for promoting the return of refugees. The evaluation showed, however, that sustainable return of the minority population depended on many other factors, the most important being the attractiveness and economic development of the return areas. This was acknowledged by CEB (as demonstrated by the inclusion of a small infrastructure development component in its first project) but not adequately captured in the evaluated projects. It is difficult, however, to envisage how and whether CEB could have influenced the structure and content of these projects, for various reasons. First, the CEB loans were general measures of budgetary support to a large governmental programme that was already ongoing at the time when the first CEB loan was approved. Second, CEB's contribution to the overall budget of the Programme for Return was marginal. Third, the key priority of the international community at that time was to

show financial and political support to the Programme for Return, and the CEB loans were in line with this spirit. Finally, large initiatives for economic recovery and development of the war-affected areas were being financed by other donors.

The operating principles of the governmental programme were broadly in line with the objectives of the CEB projects. In the case of alternative accommodation, operating principles guaranteed flexibility in terms of tenure, degree of involvement of the beneficiaries in construction, choice between purchase and reconstruction of dwellings. However, in the first CEB project, provision of alternative accommodation was not accompanied by the application of quality standards, neither in purchased properties nor in new constructions. The second CEB project included, by contrast, a component explicitly aimed at ensuring connection of alternative accommodation to public utilities and access to other infrastructure.

With regard to **effectiveness**, outputs from both CEB projects were stated in terms of number of houses purchased, reconstructed and/or constructed as well as total number of beneficiaries. The two CEB projects achieved the quantitative targets established at loan approval. Most of the houses reconstructed under the first CEB project were in the Vukovar region. Even though no definitive data was ever provided, it may be surmised that CEB reconstruction assistance largely benefited people of Croat origin (thus IDPs), for the simple reason that Serb-owned houses in the Vukovar area had been less affected by war damage. It should be noted that at the time of the first CEB loan (early 2000s), the governmental programme was extensively criticised by the international community and independent observers, particularly regarding factors that affected refugees' access to reconstruction assistance and thus the possibility of their return.

In terms of outcomes, the evaluation examined various issues, including the extent to which the system of alternative accommodation actually facilitated the repossession of occupied properties. The analysis of available data showed that, compared to the first CEB project, the second one benefited from quicker and more effective procedures of property repossession thanks to improvements in the legal and management framework of the governmental programme. In the early years, in fact, provision of alternative accommodation was heavily affected by the uneven performance of local housing commissions. The physical condition of reposessed properties was also a frequent impediment to property repossession and often caused distress to the already complicated process of return. There were cases where reposessed properties were affected by looting and devastation after departure of the occupants. In its early years, the Programme of Return's regulations had not foreseen this risk. The necessary solutions were, however, progressively identified and implemented.

The system of alternative accommodation rested on the assumption that, for every alternative dwelling provided by the project, two households would benefit: the temporary occupying household that would move into alternative accommodation and the returning family of the owner, i.e. the Serb refugee. While all planned alternative accommodation was indeed provided, the CEB monitoring file did not record a commensurate number of returning families. This was because many of those who applied for repossession of their houses decided to sell their property to the State, which in turn used the same dwelling as alternative accommodation to house the sitting occupant. This practice affected 39% of the dwellings financed by the second CEB loan. In other words, the system of alternative accommodation was effective in enabling the repossession of properties; this did not

automatically imply, however, the return of the legitimate owners.

The provision of alternative accommodation was challenging and required a significant amount of human and financial resources. Unfortunately, very limited information was collected on the characteristics and legal status (whether they were refugees from other countries or IDPs) of beneficiary households and on the quality of the alternative accommodation provided. This lack of data can largely be explained by the fact that alternative accommodation was regarded as the instrument that would enable refugee return; the priority was thus on ensuring repossession of occupied homes rather than on setting up a management system for alternative accommodation. The allocation of alternative accommodation could have been improved if adequate checks on “multiple occupancy” (i.e. temporary occupants owning vacated and inhabitable properties outside Croatia) had been undertaken, especially during the early stages of programme implementation. The evaluation also noted that by prioritising allocation of alternative accommodation to families without means or having higher social needs, a more equitable allocation of programme resources would have been achieved. Last but not least, until 2006, the tenants of alternative accommodation did not pay any rent and, in some cases, rent exemption continued after 2006. This practice put beneficiaries of alternative accommodation on a more advantageous footing compared to other social housing tenants in Croatia.

Overall, at the time of completion of the second CEB project, in 2006, the cumulative number, per UNHCR statistics, of registered returnees to Croatia from Serbia and Bosnia and Herzegovina stood at 110 833; over the period 1995-2015, more than 116 000 returnees were registered (87% from Serbia and Montenegro). At regional level, the Programme of Return financed by CEB funds

surely contributed to decreasing the number of refugees, even though other factors came into play, including the efforts made by the host country for local integration. With regard to IDPs, the efforts made by the Government of Croatia to respond to the displacement situation caused by the war were remarkable and resulted in a sharp decrease of IDPs (from 344 000 in 1998 to 3 975 in 2006) over the period of implementation of the two CEB projects being evaluated.

In terms of **efficiency**, both CEB projects were affected by time overruns, mostly due to the challenging issues around implementation of the alternative accommodation component. The evaluation highlighted the fact that the options available for a more efficient implementation were not fully exploited. For example, according to the initial provision of the Programme for Return, temporary occupants were not obliged to accept the offers of alternative accommodation. After 2001, temporary occupants were obliged to accept offers of alternative accommodation but, as offers were often made orally, there was no tracking of the refusals that could potentially compromise their continued eligibility. Had there been proper recording of offers, the refusal rate might have been lower and repossession rate faster.

The cost per unit of output for reconstruction assistance increased quite significantly compared to initial estimates and should have been the object of better monitoring and analysis. Cost increases were also recorded for purchased alternative accommodation: on average, the increase in unit costs exceeded market trends. Partial recovery of the costs incurred during implementation could have been achieved through collection of rents and/or the sale of state-owned dwellings. However, no rent whatsoever was paid by beneficiaries-tenants of alternative accommodation at least until 2006, when rental contracts started to be

established. With regard to the sale of state-owned dwellings, the 10-year ban on the purchase of state-owned alternative accommodation was abolished in 2005. In 2011, the government decided to transfer state-owned alternative accommodation located in rural parts of the Areas of Special State Concern to the sitting tenants, free-of-charge. This decision reinforced expectations that, sooner or later, all state-owned alternative accommodation (including those located in urban areas) would be given for free.

Regarding long-term results and **impact**, according to Census data, the number of Serbs living in Croatia has fallen to 32% of pre-war levels. There was thus no evidence of a successful reverse of the declining trend that started with the war and led to rapid decline in Croatia of the population self-declared as Serb. In terms of social integration, relations among ethnic groups are, in general, positive. While no social concerns exist today in terms of quality of and access to housing, the case of reconstructed but empty houses (due to family dynamics, migration, etc.) might create some resentment and concern. From a policy point of view, the CEB projects ensured enforcement of human rights to access and benefit of own property as well as compliance with legal requirements and international law on post-war property restitution. Compliance with said norms was stated in the Dayton Peace Agreement and was a European Union accession requirement for Croatia.

According to a recent research commissioned by UNHCR, only 33.2% of the registered returnees (approximately 36 000 individuals) are still living in Croatia today, but these figures need to be interpreted prudently. The process of return is not a simple binary process, but should rather be conceived as an “open process”: decisions made at one point in time under certain conditions may be reversed later if and when

said conditions change. For the years covered by the CEB projects, the rate of sustainable return was 27.7%, a rather low rate that can be largely linked to the general economic development of the areas of return, including access to utilities and infrastructure. The evaluation pointed out that while a significant amount of funds were actually invested for economic and infrastructure development in the war-affected areas of Croatia, some of these areas (especially the rural areas located at the border with Serbia and Bosnia and Herzegovina) remained substantially poorer than the rest of the country.

Role of CEB

The loan documents of the two projects were characterised by a high degree of optimism and confidence on the original management arrangements adopted by the governmental programme and surprisingly silent on the complexity of the proposed projects and on the obstacles to return. For the first CEB project, this was in line with the prevailing attitude of the international community at that time: while fully aware of the difficulties faced and the complexity of return processes, there was a clear and explicit willingness to demonstrate financial and political support, reinforced by the outcome of the national election in year 2000. CEB thus preferred not to document any form of hesitation with respect to the proposed operation. The main assurance was the presence of international organisations such as UNHCR and OSCE in monitoring and supervision of the return process. In the case of the second CEB project, building on the experience of the previous project, the Framework Loan Agreement (FLA) included a number of stipulations regarding implementation. These clauses were aimed primarily at increasing transparency of processes for the offer of alternative accommodation and repossession of occupied properties, and promoting participation of local municipalities and representatives of the

beneficiaries. However, these clauses were never fully implemented.

Based on evaluation findings and analysis of the two CEB projects, the following **recommendations** are addressed to the CEB:

- **Accountability on stated objectives.** The objectives stated in the CEB loan documents formalise the shared commitment (by CEB and the Borrower) to pursue a given development goal. CEB should be aware that stated expected social effects are the reference by which the success of programmes and projects are evaluated. It is therefore recommended that objectives be both reasonable and measurable. Where applicable, it may be useful to differentiate between outputs (i.e. physical deliverables), outcomes (i.e. the social changes on which CEB-funded projects and programmes make a direct contribution) and impact (i.e. long-term objectives to which CEB-funded projects and programmes contribute, together with other factors and processes).
- **Results-based monitoring in cases of undifferentiated budget support.** In operations where CEB financing covers only a marginal share of a governmental programme, the terms 'projects' or 'programmes' might not be appropriate for a CEB contribution which is, *de facto*, an undifferentiated budget support. While financial monitoring of expenditures (and related outputs) is required to justify disbursement, CEB should engage in a dialogue with the Borrower and with any other partners (i.e. national statistics institutes, research centres, etc.), to identify ways and means of tracking and assessing both overall performance and the contribution of the CEB-funded projects to overall development results.

- **Management of situations of non-compliance with Framework Loan Agreement clauses.** In internationally-financed development operations, the risk that the borrower might not fully (or no longer) comply with clauses of the FLA can be considered unavoidable. While the country's authority over the financed operation should be respected, CEB should clearly define the consequences of non-compliance with what is agreed and formalised at time of loan approval. Implementation support may be required if compliance with FLA clauses is to be ensured. Documenting the reasons why agreed clauses are not adequately implemented should also be assured.

In addition, a few **lessons**, stemming from the evaluation of these two CEB projects, are laid out for consideration by sector experts, CEB staff and representatives of the international community dealing with the financing, management and support of housing programmes for returnees.

- **Define standards for success.** Programmes for refugee return need to carefully consider the extent to which actual return is feasible and to establish reasonable ranges of expected objectives. The time elapsed since displacement should be explicitly taken into account by acknowledging the fact that, as time passes, displacement may become more and more difficult to reverse.
- **High costs and complexity need to be counterbalanced by transparency, cost-recovery and implementation support.** The management of housing programmes for returnees is a costly and complex exercise. This needs to be explicitly acknowledged and should, ideally, be accompanied by transparency in reporting, not only on final results but also on financial and management

features. If socially feasible, options for cost-recovery need to be envisaged. Variation in unit costs should be constantly monitored and analysed. Given that pressure for immediate action and response may not allow adequate time for design, resources need to be factored in for technical support during implementation.

- **Acknowledge the importance of economic opportunities.** Programmes for return must include relevant measures for promoting sustainability. This requires, *inter alia*, successful reintegration of returnees in the economic system, as people who may contribute to development of the concerned territories. Economic trends and the real development potential of the concerned territories should be strategically assessed, and adequate emphasis should be placed on access to social services (health, education, etc.) in order to promote attractiveness of the return areas.
- **Ensure flexibility.** Return to their original homes may not be the solution to which all refugees aspire. Taking into account the heterogeneity of the refugee population, return programmes should include a flexible package of assistance that may include various forms of support and compensation.

Last but not least, as a contribution to the **dialogue on housing and evaluation issues with the Government of Croatia**, the following observations are shared:

- **Management of state-owned housing.** The Government of Croatia should explore options for better management of the remaining public-owned alternative accommodation in order to guarantee tenure security as well as ensure maintenance and equity among tenants. There is a variety of options for

reform, including transfer of existing housing stock to local self-governments, or receiving support from specialized companies to set up a thorough and reliable monitoring system that would enable the sound management of rental contracts, tracking of the status and conditions of real estate properties, and calculation of rent flows.

- **Linking housing investment with demographic and economic opportunities.** The Croatian housing system is characterised by a high number of dwellings-per-inhabitant and a relatively high number of vacant houses, especially in rural areas. Future social housing programmes should rely on a robust analysis of the economic opportunities, aspirations and needs of beneficiary populations. The main challenges for provision of adequate and affordable social housing are expected to be encountered in the capital city (Zagreb) and in other dynamic urban areas.
- **Focusing on quality standards and housing management.** While Croatia does not show any problems in terms of availability of dwellings, the housing system lacks good quality housing and a proper and sustainable system for management of public-owned dwellings. These areas may be regarded as possible venues where future housing programmes could contribute, not only by delivering dwellings that comply with relevant standards and are managed in a financially sustainable manner, but also by providing the necessary investment in institutional capacity building.