



# STABILITY PACT FOR SOUTH EASTERN EUROPE

Conference “Developing Secondary Mortgage Markets in SEE”

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Presentation by Kilian Kleinschmidt

Migration, Asylum, Refugee Regional Initiative

MARRI

Ladies and Gentlemen,

In mid 2001 the Regional Return Initiative of the Stability Pact for South Eastern Europe commissioned a Housing Programme Development Study to provide an overview on the situation in Croatia, Bosnia-Herzegovina (BiH) and the Federal Republic of Yugoslavia (FRY). The study characterized the housing situation in regard to the refugee problem in these three countries in the following way:

- During the wars in the 1990s about a million dwelling units were destroyed or badly damaged and several million homeless refugees, IDPs and returnees were in need of reconstructed and additional housing.
- In all three countries housing production levels plummeted during the war years and have reached not more than about one-third of those production levels at present, especially since the public sector delivery mechanism through state enterprises is hardly existing. Besides that, little attention has been paid to maintenance, particularly of the public housing stock, which, however, has now been largely privatized.
- There has been a steady decline in household sizes and continuing urbanization during 1991-2001 (both accelerated as a result of the wars).
- The combination of the wars and the demise of the socialist mode of 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 some 25-30% of the population.

We can safely state that the restructuring of the economy and consequently the geographical changes of employment opportunities is also changing population and settlement patterns exacerbated by the displacement problem.

Due to the reasons mentioned above there is a substantial shortage of housing and related infrastructure in all three countries and most obviously in FRY where more than six hundred thousand refugees and DPs remain. Numerical estimates of this shortage are difficult to make due to limited reliable up-to-date statistical information but are in the hundred thousands. We use the figure of 600000 in our briefings. However, clearly housing market demand in and around the major urban centers are highest, while in certain rural areas there is an oversupply of housing units due to the changed socio-economic conditions (closing of former state factories and lack of alternative employment).

In each of these three countries, besides obvious requirements in the other countries in transition in SEE, there is therefore a clear rationale for a significant programme of development of new housing, rehabilitation of existing units and measures enhancing the functioning of the housing market. There is

**RUE WIERTZ 50 – 1050 BRUSSELS – BELGIUM**

**TELEPHONE: +32-2-401 87 14/61 58 FAX: +32-2-401 87 12**

**[kilian.kleinschmidt@stabilitypact.org](mailto:kilian.kleinschmidt@stabilitypact.org) / [daria.nashat@stabilitypact.org](mailto:daria.nashat@stabilitypact.org)**

**[www.stabilitypact.org](http://www.stabilitypact.org)**

a clear need for the development of a long-term national housing and spatial development policy and strategy, including the mechanisms for the provision of housing related land development and infrastructure.

However, this must be developed in a socio-economic environment with relatively limited options for economic growth, limited capacity to borrow, limited financial sector development, high unemployment levels and on-going privatization process. On the other hand, housing production will 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. Relying on humanitarian funds is not an answer in view of the ever-changing geo-political focus.

Ladies and gentlemen, considering the dimension and scope of this problem, previously not addressed at all by any institution in SEE in a regional perspective nor with the necessary sense of urgency, the Stability Pact has prioritized the development of the sector in its activities under the various working tables. We have lobbied and promoted the issue, pointing out that the lack of housing, particularly to the poor sections of society, is one of the greatest dangers and challenges to stability in the region. If not addressed immediately - and you know better than me how long it takes to set in place functioning instruments and a coherent policy- the lack of access to housing, of course closely linked to unemployment and the absence of social infrastructure - will be- and is already - one of the major push factors for onward migration – intra-regionally or towards the EU. The newly formed MARRI, in which the Regional Return Initiative is now part of, we are convinced that this is an issue reaching far beyond the immediate concern for the displaced and we will work very hard to further convince others.

It is difficult to respond to this situation in general terms, but we believe that there should be good legal provisions to strengthen the role of municipalities in housing through decentralization laws and operational regulations. The introduction of mortgage-based housing loans will in most cases require changes in the legal framework governing cadastral registration and the operation of the financial sector. Housing co-operatives will need to be re-vitalized, the legal framework governing their operations will have to be reviewed with the objective of strengthening institutional audit provisions and accountability. There is also a need for a set of condominium-type regulations governing the management of common space (and its financing) in privately owned (privatised) housing complexes (particularly apartment buildings).

Which type of mortgage instruments could we envisage in view of the huge number of refugees, displaced persons and increasing numbers of poor without real estate or only in the process of recovering their property, often destroyed and inhabitable? What seems to be clear to us is that not much can be done in this area unless such loans can be coursed through financial institutions in which the public has some confidence. At the moment this does not seem to apply to many of the Banks. Internationally supported micro-credit banks, which may be interested in lending for housing for low-income groups, both collateralized or uncollateralized may be one of the answers. The more general point we have stressed is that the financial sector restructuring must urgently be completed and that revitalised banks must be regulated such that due diligence audits by/on behalf of the Central Bank will be carried out regularly in order to restore public confidence. Governments can help through the following support mechanisms:

- a) a system of municipal guarantees for low-income mortgage-backed loans by the banks, pooled at national level by a national housing guarantee institution;
- b) alternatively, a mortgage loans refinancing facility (possibly in the central bank, or as a freestanding institution
- c) a savings for housing loans scheme, in which participants would receive a small capital subsidy matching the savings they put in (say 20% of savings up to a maximum of \$ 1,000 over three

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**kilian.kleinschmidt@stabilitypact.org / daria.nashat@stabilitypact.org**

**www.stabilitypact.org**

years– this would yield total savings of \$ 5,000 over that period, which could then form the downpayment covering 1/3 of the cost of a house of \$15,000, with the balance coming out of a mortgage backed loan, repayable over say 10 years.

Mortgage as an instrument for repayment of loans in one country on the property in the other country may not practically be possible, but the issue should be raised at least, since most international banks are operating regionally, but valuation of the property in country A may not be acceptable by a financial institution in country B. Additionally, execution of the mortgage in one country at the request of a bank in another one is difficult to realize – what may be easier is to ensure that refugees from say, BiH or Croatia have the (to be internationally negotiated) option to monetize their outstanding reconstruction/re-possession of property claim, transfer the proceeds to the host country and use it in part payment for a house. This option may be a solution, now that with the exception of tenancy right holders in Croatia, most others are recovering tenancy and property rights.

Let me finally refer to the concrete support we have been able to provide in the refugee impacted countries and which we now intend to expand to Albania and possibly the FYROM. As mentioned so often in this conference, policy development and technical capacity is crucial. We provide technical backstopping to the concerned ministries and taskforces, develop and promote technical assistance projects and attract potential donors, banks, organizations and investors. The Stability Pact is after all a broker and promoter! Most successfully this approach is demonstrated in Serbia, where we have been able with our national and international partners, to develop an inter ministerial taskforce, a housing secretariat, focussed on policy and programme development, all based on a sound national strategy. On this ground, having at last a clearly defined focal point, the Council of Europe Development Bank is planning to lend some 20 mio Euro, the Italian government provides some 15 mio Euro for social housing and we are in negotiations with major building companies to promote direct investment programmes, with far higher volumes. A major capacity building project for the whole sector is expected to be financed and supported by the Scandinavian governments.

We are proceeding with a similar set up in Bosnia with all its difficulties and delays due to the recent elections but expect to have structures in place very soon. UNDP and the EC are proceeding with central government and municipal capacity building programmes in this sector. A central housing, initially return fund is under discussion. In Montenegro we have assisted the municipality of Podgorica to devise a legalization project for illegal settlers with a large infrastructure development component and a construction and improvement of housing which will require a large extent of self assistance. This project and a first large Austrian financed commercial housing investment project in Sarajevo for example, are aimed to promote the approach of learning by doing and to demonstrate that new ways in the approach to housing financing are possible. A regional property data exchange system, now to be started by a Stability Pact project team, with the agreement of the concerned governments will allow easily to verify the property and pension situation of “our clients” in their country of origin and could easily become a useful tool also in the financial sector..

Lastly I would like to refer to the forthcoming high level conference on housing issues in South-Eastern Europe (23-24 April 2003, Paris organized by the CEB and the World Bank, in association with the Council of Europe, under the auspices of the Stability Pact. This conference will initiate a process of policy dialogue among countries and stakeholders on the potentials of the housing sector for economic growth, social development and poverty reduction. Other events are planned before and after the conference, which should be seen as part of a process rather than an objective as such.

Thank you

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