



**Restoring Households and Businesses (REHAB) from Floods in Bosnia**

**Final Report: June, 2014- January, 2015**

## **Executive Summary**

In Bosnia and Herzegovina (BiH), Mercy Corps implemented the Restoring Households and Businesses (REHAB) from Floods program in Bosnia with local organizations CRP (Centar za razvoj i podršku – Center for Development and Support) and Partner Microcredit Foundation (Partner). REHAB was designed to assess the needs of flood affected businesses and rapidly disburse funds to the most affected areas in targeted municipalities. The program provided small, cash grants to beneficiaries who are micro-entrepreneurs and small-holder farmers who were severely affected by the floods of May 2014. The impact of the floods ranged from minor losses to total losses of crops, animals and animal fodder, places of business, inventories, equipment and machinery. The distribution of emergency cash grants helped entrepreneurs and farmers re-start their livelihood activities and revitalize the local economies. By employing a design that used the expertise and knowledge of reputable, local partners, this program minimized operating costs and start-up time and maximized community relationship-building and quick livelihood restoration as well as the recovery of local economies. The REHAB program was intended to cover **660** micro businesses in nine municipalities in BiH: Orašje, Odžak, Šamac, Domaljevac, Bijeljina, Doboj, Tuzla, Žepče and Maglaj. The final number of business covered was **824**, benefiting **3,286** direct beneficiaries and estimated **4,944** indirect beneficiaries.

## **Program Overview**

**Objective: Restart local economies and restore business assets by providing equity to micro businesses and small holder farmers**

All the activities on REHAB were done in close cooperation with the targeted municipalities. With various other organizations and institutions operating in the flood affected areas, a high level of coordination was required to reach all those who were most affected by the floods. Since the number of businesses affected was much higher than the available funding, the plan developed with municipal services was to target only the worst affected areas where businesses were more concentrated, such as shopping centers, malls, streets with a high number of businesses, and villages most focused on agriculture. Depending on the municipality, these plans were developed with the civil protection department, social services, economic development departments, agriculture departments and other relevant services. These identified micro-locations were the primary recipients of support under REHAB. Once locations were defined, field teams consisting of CRP staff and municipal representatives were dispatched to disseminate information about the program and application process. Depending on the area, information was disseminated house by house or business to business or by organizing an information session on a central location, usually a village shop or a local community office. In these locations potential applicants could find application forms, all relevant information regarding the application process, and locked boxes for submitting their applications. All the applicants had sufficient time to complete a fairly simple application form and drop it in a locked box before the deadline. Depending on the specific location and the number of potential applicants, the period for submitting applications was between 7 and 10 days. Once the application period was completed, locked boxes were collected by Partner who opened the box and would proceed with field visits to all the applicants who met the minimum eligibility requirements<sup>1</sup>. During the field visits, Partner staff verified the information in the application, took photo documentation, and also checked with other community members and representatives the reputation of the business and its standing prior to the floods. This process was likely the most time consuming step in the process, as a maximum of 10 applications could be processed during one day by one field officer. Nonetheless, it was an essential step to obtaining sufficient and accurate information required for the evaluation of applicants by the Grant Committees. However, with

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<sup>1</sup> Although applicants who did not meet eligibility requirements were not visited, all applicants were presented to the Grant Committee for review. The Grant Committee had the right to request a verification visit if they felt it necessary in order to make a final decision.

appropriate planning and simultaneous operations in all nine targeted municipalities, the process did not suffer any delays. Once the field officers processed 20-30 cases, these would be presented in front of a selection committee consisting of Mercy Corps representative as Chairperson, two CRP staff as committee members and a community representative as observer. The community representative was often critical as they provided information about the applicants that was not acquired through other means. Due to such a short implementation period, some information could not be completely verified, such as total business income. In many cases, applicants exaggerated incomes or damage in hope they will receive higher reimbursement, or they decided to hide high incomes from other sources or additional businesses. In several cases, the community representatives pointed out the reputation of applicants. In each case, when the community representative would provide additional information, Grant Officers would be sent out for additional field checks to verify the validity of such claims. Once an application was approved for funding, field officers would go back to beneficiaries and sign grant agreements. Once the agreement was signed it was sent back to the CRP office where it was processed and approved funds were transferred to the beneficiary's bank account. In practice, the period between the approval of an application at a grant committee and disbursement of funds to beneficiaries account was between 2-5 working days. In a very few cases the transfers were returned from the bank due to mistakes with the information on the bank account of beneficiary, so the period was in these cases longer by several working days. Partner Grant Officers conducted the first visit monitoring visit one week after disbursement was confirmed to verify that funds were used in line with the agreement for restarting the business. Depending on the situation, each business was visited again after two weeks and/or one month. A specified sample of businesses was monitored by CRP and by Mercy Corps representatives to verify validity of information provided by field officers.

Through this approach, Mercy Corps, in partnership with CRP and Partner MFI, visited and processed a total of **1,038** applications/businesses, and approved for funding **824** micro businesses and agricultural households with financial grants ranging between BAM 700 and BAM 1,400 (estimated \$460 to \$930 USD). Please see **Table I. REHAB Grant Portfolio** below for an overview of grants. The initial target number of grants for REHAB was **660**, but this was exceeded for **164** projects partially due to lower average grant and partially due to lower administrative costs which enabled partners to channel more funds into granting.

Based on monitoring information provided through field visits by Partner MFI, CRP, and Mercy Corps staff, as well as phone verifications, over 90% of the grantees used all the funds within one week and an additional 10% within one month. All 824 businesses reported restarting business activities within one month from receiving grant. It is important to mention here that many of these businesses had already restarted their business on their own, mostly by borrowing money, but the grants helped them speed up recovery.

#### **Indicator 1: Number of people assisted through livelihood restoration activities by sex**

Initially, REHAB was to cover **660** grants to micro businesses and agricultural households affected in May 2014 floods. By September 2014, **652** grants were disbursed and due to savings on the administrative side and a lower overall average of grants, sufficient savings were available for an additional **172** grants. Mercy Corps and the partners decided to extend the process and add several more micro-locations in cooperation with municipal services. With concerted effort, Mercy Corps and its local partners managed to identify, process and approve an additional **172** projects by the end of November 2014.

Through **824** financed businesses, **3,826** people directly benefited, these being household members of supported business owners. Of these **824** businesses, **154** or **18%** are owned and run by women and **344** or **42%** are owned or run by IDPs or returnees (with **1,427** direct beneficiaries from this vulnerable

group). It is estimated that some 4,944 people indirectly benefit through support to these businesses, as employees and family members of employees of supported businesses.

Average household supported has 4 family members, and largest has 10. This is however extreme example, and the household size largely depends on the area and region. Rural households in Bosnian Croat villages in Posavina tend to have very small families, often two member or single households with many unmarried people with average of close to 4. Predominantly Bosnian Serb populated urban areas of Bijeljina, Šamac and Doboj have an average household over 4 members. In mainly Bosniak rural areas such as Željezno Polje in Maglaj for example, the number of family members tends to be higher with an average closer to 6 members.

## **Indicator 2: Percent of beneficiaries reporting their livelihood restored within three to six months after receiving support**

The monitoring process, as mentioned previously, started one week after disbursement of funds to the beneficiary. This first visit was to verify whether the funds had been used as was foreseen by the agreement. Based on experiences from other emergency programs around the world, Mercy Corps has determined that an initial monitoring visit after seven days reduces the risk of the funds not being spent rapidly or not being used as intended since the purpose of this project is to provide emergency assistance to the business and rapidly infuse cash into the local economy. If a business was unable to restart their business activities immediately, they were not approved for funding. The initial visit was followed by another monitoring visit within two to four weeks after the initial one. This visit was to verify the level of recovery and changes since the previous visit. In some cases, where deemed necessary, another field visit was done, a couple of weeks after the second. These additional visits were done only to businesses where progress/recovery was very low in the initial period or where funds were not immediately used. Based on monitoring data, nearly 50% of grantees utilized 100% of the funds within one week of disbursement. For businesses in the 50% that did not use all of the funds immediately, many had legitimate reasons, such as delivery times for ordered goods and materials (in which case the funds had been obligated in the form of a purchase order but not physically spent) or availability of workers that were to complete the repairs (again agreements made with workers obligating the funds, but work not yet completed and so the funds not yet considered spent). Only in few cases (less than ten) where grantees waited for additional funds from other sources was this period of implementation longer than three to four weeks from the moment of disbursement.

Through discussion and collected data, it was determined that the support provided through REHAB in many cases did not provide a sufficient level of funding for full restoration of the business to pre-flood levels. In the case of smaller businesses, such as hairdressers, grocery shops, small car mechanics or other repair services, the funding enabled them to repair or purchase the most critical items for basic services enabling them restart their business- which was the objective of this project. Nearly 35% of grantees reported complete recovery of activities and turnover, while the remaining reported achieving some 60% of pre-flood levels of turnover. The majority declared that they will need roughly 16 months to recover their operations to pre-flood levels, and that is only if the business environment is favorable. Through conversations with beneficiaries, it was determined that businesses in Republika Srpska will likely have shorter recovery period as the authorities in many municipalities decided to relieve businesses of taxation and other duties, while in some municipalities in Federacija BiH, such as Maglaj for example, businesses had no break on levies whatsoever. According to many beneficiaries, the assistance they received through REHAB was the only assistance they received for recovery of their businesses. Very often the beneficiaries would praise REHAB for showing greater understanding for affected people than their own authorities. Another very common observation and remark of many beneficiaries was that even though the assistance was not high enough to help them significantly, they feel extremely grateful that someone

remembered them in these harsh times. This psychological effect is something that was not considered during the program design, but proved to be very important for many of the affected communities.

In addition to information received through monitoring visits and phone calls, Mercy Corps informally verified information through other sources. One of the most interesting and fairly reliable sources was the business recovery information received from the business accounting services supported through REHAB. Accounting agencies supported in Maglaj and Doboj reported that their clients' recovery levels are very close to the data collected through REHAB monitoring in these two municipalities. Further, according to them, roughly only 10-15% of businesses were able to recover to a level close to before floods, 30-40% of the businesses recovered to significant level, 30-40% barely and 5-10% didn't restart at all. Considering that the economy in the affected areas was not flourishing before the floods and there was very little investment by the Government of any level (entity, federal or municipal) after the floods, it is remarkable that people showed such a level of resilience as they did and recovered to this extent before the winter. That said, every beneficiary we spoke with had borrowed significant amounts of money both through informal and formal channels in order to recover their businesses, generating a high debt load for these businesses.

Another event relevant to the recovery of businesses supported in REHAB was the recurrence of floods. The floods in May had long term effects in many areas, saturating the soil to an extent that any subsequent rainfall created additional floods or landslides throughout the summer and autumn 2014. In a small number of cases, businesses supported through REHAB were affected by another round of floods in August 2014, such as agribusinesses in the returnee community Ševarlije in Doboj, some locations in Željezno Polje in Žepče, or a few houses in Domaljevac in Posavina. Agriculture was generally most affected by these recurring floods, as it damaged newly planted fields and completely destroyed any effort to have a harvest in 2014.

### **Indicator 3: Total USD amount channeled into the program area through sub-sector activities**

Initially REHAB BiH budgeted a total of \$528,000 for 660 grants at an average of \$800 per grant. The grants were divided into three levels, BAM 700 (\$460 USD), BAM 1,050 (\$690 USD) and BAM 1,400 (\$920). The level of grants was determined based on various criteria, including the scoring, number of direct and indirect beneficiaries, level of damage to business and housing as well as type of business. In line with that, for example, an average hairdresser received BAM 700 as this value would be sufficient to purchase equipment and tools to restart operations. On the other hand, a larger family whose single source of income was from the affected business or for businesses that provide additional value for the communities or contribute to flood recovery efforts, such as a construction company or animal fodder producer, or the only car mechanic in the village, would get BAM 1,400. With such distribution of grants, the average size was \$671 instead of \$800, so sufficient funds were available to increase the number of awarded grants. By the end of the program, REHAB BiH disbursed a total of 824 grants with a total value of \$553,300 USD. Of that, 152 grantees or 18% received BAM 700, 601 or 73% received BAM 1,050 and 71 or 9% received maximum BAM 1,400. The Table I. REHAB Grant Portfolio shows distribution of grants per municipality and shows distribution per different criteria.

The type of the businesses supported significantly varied from municipality to municipality. As expected, most of the businesses in flatlands of Posavina, in Šamac, Odžak, Orašje and Domaljevac as well as in Bijeljina, which are mainly agricultural areas, grants went for recovery of livestock or animal feed that was destroyed in the floods. The program staff decided that support to this type of activities brings faster turnaround and is less risky for beneficiaries than other types of agricultural production. In some cases, especially in Bijeljina, grants were awarded for repair of greenhouse production, as these activities can bring income even in the winter periods with spinach and lettuce production. In total the program

supported 519 agriculture related projects or 64%, including dairy, poultry, cattle, pig production, as well as greenhouses.

In urban areas of Bijeljina, Šamac, Doboj and Maglaj, most of the businesses supported were clustered either into business centers like shopping malls or along predominantly business streets. Most of the businesses in urban areas are sales of various goods (74 or 9% of total), ranging from fruits and vegetables, groceries, car parts, electric, water and sewage components, clothes, etc. One interesting fact is that there were 34 hairdressers (or over 4% of the total number) among the beneficiaries in urban areas. According to municipal economic departments, the main reason for such a relatively high number of this type of businesses is the very simple registration process and no need for high skilled labor. There also appeared to be high demand for these services despite all the damage and suffering inflicted. Additionally, these businesses especially flourish during holidays when a high number of Diaspora from European countries returns and injects high amounts of money into local economies. Twenty-seven, or slightly more than 3%, were businesses related to construction and rehabilitation, such as plumbers, electricians, masons, construction companies and such. Other businesses include carpenters, upholsters, beekeeping, various repair shops and workshops, tailors and leather shops among others. One of the most interesting businesses encountered was a traditional activity in decline in many Posavina villages, an old trade of wickerwork.

A total of 1,038 applications were received during the application phase, all of which were screened and visited by field officers, some even several times when additional information was required. Of these, 214 were rejected at the selection committees. The main reasons for rejection of applications were high level of incomes per household member and size of businesses. 62 of the applicants had larger businesses than foreseen under the criteria of the program and 33 applicants had household incomes over BAM 480 (some \$260 USD) per household member, both of which were disqualifying criteria. Some of the other disqualifications were based on poor credit history of grantees, poor reputation, type of business (sale and production of fireworks, alcohol, tobacco were excluded immediately, while goldsmiths and luxury goods were deemed inappropriate for funding under this program), nonexistent business, or there was no or very little damage to the business.

**Table I. REHAB Grant Portfolio**

	Approved applications	Rejected applications	Nr of beneficiaries	Female businesses	Displaced / returnee grants	Displaced/ returnee beneficiaries	Grant size in BAM			Total USD
							700	1,050	1,400	
<b>Orašje</b>	148	21	619	29	102	436	13	110	25	\$105,523
<b>Odžak</b>	110	17	368	5	70	278	8	96	6	\$75,902
<b>Šamac</b>	94	22	378	22	42	184	14	64	16	\$65,720
<b>Domaljevac</b>	128	35	514	9	36	144	9	114	5	\$87,936
<b>Bijeljina</b>	116	53	495	9	2	7	5	104	7	\$80,993
<b>Doboj</b>	154	27	593	62	78	317	82	67	5	\$89,093
<b>Tuzla</b>	6	3	24	1	1	5	5	1	0	\$3,008
<b>Žepče</b>	31	6	150	1	2	6	3	27	1	\$21,058
<b>Maglaj</b>	37	30	145	16	11	50	13	18	6	\$24,067
<b>TOTAL</b>	<b>824</b>	<b>214</b>	<b>3,286</b>	<b>154</b>	<b>344</b>	<b>1,427</b>	<b>152</b>	<b>601</b>	<b>71</b>	<b>\$553,300</b>

### Monitoring and Evaluation

The monitoring of disbursed grantees was performed in several stages as mentioned above. The first monitoring visit was done by the Partner MFI field staff one week from the day of disbursement of funds to determine whether the grant had been utilized as foreseen. The second visit to all grantees was one month after the disbursement of the grants. After that period, the monitoring by Partner MFI was performed only in cases where low or no progress had been recorded in the previous period. CRP conducted spot checks of grantees within one month of disbursements to a random sample in all micro-locations to verify the data provided by Partners MFI. In addition to CRP spot checks, Mercy Corps also provided field monitoring of a random sample and phone calls to recipients of funds. This provided control mechanisms to strengthen the validity of provided information and a higher level of confidence. Based on the information provided by Partner MFI, to date **824** first visits were performed, and 802 follow up monitoring visits. Through these visits, **309 (38%)** grantees reported complete or near complete restoration<sup>1</sup> (90-100%) of their business, **494 (60%)** reported partial restoration (30-90%) and only **21 (2%)** reported very low level or no restoration to date.

In addition to monitoring of grantees and utilization of funds, Mercy Corps and its partners also performed an internal evaluation of the process and challenges during the implementation of REHAB. This exercise involved Mercy Corps staff and partners from both Serbia and BiH, namely CRP, Partner MFI, Bread of Life and Agroinvest. Some of the main conclusions of the meeting are that criteria need to contain certain flexibility, or rather that interpretation of the criteria needs to contain a level of flexibility to allow adjustments for specific cases and/or environments without impacting the integrity of the criteria, i.e. that the criteria become subjective. In line with that, the criterion related to land owned, i.e. disqualification of businesses that own over 5 ha of land proved to be very harsh for areas in Posavina, where most families did own over 5 ha, but could not utilize all of this land or had incomes much lower than other more developed regions. In such cases, certain flexibility was allowed, with modification of criterion to “less than 5 ha of arable land in ownership”. In addition, all parties and stakeholders agreed that cash was the most appropriate form of response. It allowed beneficiaries flexibility to meet highly individual needs, use the funds more efficiently than an INGO could, and kept the cash in the local economies. One interesting case during monitoring was found in Maglaj, where a grocery shop owner restarted her business, but had to close down soon after. According to the beneficiary, the population of her neighborhood had sufficient supplies of food and hygiene items received through several emergency response programs for at least four more months, so they had no need to buy anything from her shop. She plans to reopen once the donations have been depleted. Mercy Corps and our partners also agreed that the unique combination of skills and experience represented by an INGO, local NGO, and MFI were critical to efficient and effective delivery of assistance, and trust by local communities in the partners and process.

### **Coordination**

To avoid overlapping of activities and duplication of grants, Mercy Corps initiated coordination meetings in Tuzla for local and international organizations active in flood response efforts. These coordination meetings were later passed onto OSCE who retained a coordination role for north east BiH. Partners included Swiss Red Cross, Swiss Caritas, USAID FARMA program, International Orthodox Christian Charities (IOCC), Polish Humanitarian Action, Fondacija Tuzlanske Zajednice, OXFAM, UNDP, SOS Children's Villages BiH, IOM, Catholic Relief Services (CRS), Habitat for Humanity BiH, International Youth Center Tuzla, EUFOR, World Vision and CARE International and OSCE staff from different northeastern BiH municipalities. In addition to discussions with other organizations, Mercy Corps had strong cooperation with local authorities in all nine targeted municipalities. By exchanging information and coordinating activities with local authorities, Mercy Corps avoided double funding, had better targeting and wider distribution of financial support. During the OFDA funded REHAB implementation, Mercy Corps was also implementing an ECHO funded program with same goals and objectives in the

same nine municipalities. This required careful distribution and balance of workload to prevent overlap of ECHO and OFDA funding and as wide as possible distribution of grants.

Mercy Corps also participated in monthly USAID flood response meetings and actively participated in two USAID field visits in Maglaj in August and Dobož in October. For maps with information on REHAB activities (note that Mercy Corps and its partners are not specifically listed as implementers of REHAB), please access:

<https://www.google.com/maps/d/u/0/viewer?mid=zi1tF9Y2PvE0.kT45cRVef82w>

### **Challenges/Conclusions**

Based on the results and the feedback received from all the stakeholders in the program, partners and beneficiaries, the approach used on the REHAB provided a good balance between speed and effectiveness/efficiency and level of control required for emergency programming. By involving local authorities, various services involved in the flood response, cooperating and exchanging with a wide array of international organizations, Mercy Corps established legitimacy and transparency. The main field work was done by the local partners CRP and Partner MFI who each have their specific speciality: CRP in work with communities and community representatives and Partner MFI working with loan and grant beneficiaries. This provided the program with a strong understanding of community needs and approaches needed to most efficiently support them, as well as methods and approaches in assessing businesses and potential beneficiaries. With strong management and guidance by Mercy Corps staff, all the partners and components of the program were geared successfully towards providing the best possible results for the program beneficiaries. The best indicator of success is exceeding set program targets by 164 grants without exceeding the overall program budget.

The disbursement of the grants through the bank account turned out to be the most effective approach in BiH, due to several reasons. Initially, Mercy Corps was considering preloaded gift card voucher, but decided against as there were not enough places where these are accepted by the types of vendors our target group would use and there was no possibility to withdraw cash from an ATM with the cards as in Serbia. The bank transfers via e-banking turned out to be efficient, but they somewhat increased workload of finance personnel of the partners who had to manually check and recheck every bank account. Therefore, it was decided that CRP would manage the direct transfer of the grants via electronic banking. This also significantly reduced any risk associated with the collection, transfer, and distribution of the gift cards. Consequently, Mercy Corps amended CRP's subaward to transfer the funds for the grants to their bank account so they could disburse the grants to the beneficiaries. Despite careful checking and control systems, some cases were identified where banks returned transfers due to mistyped bank account or other personal details. In some cases, business owners listed their name instead of business name as the account holder, so funds could not be immediately disbursed. Despite all these, the delay in transfer in no case exceeded 10 working days between grant approval and disbursement of funds.

In some areas, field staff faced mistrust of local population as there appeared to be many different organizations conducting assessments and there were very little if any concrete actions. The trust was rapidly established with first grants being disbursed to these localities.

Another challenge in implementation was the run-up to general elections in BiH in October 2014. There was reasonable fear that in some areas local official would try to abuse the REHAB assistance to gain publicity and votes for their political parties. This required careful monitoring and information collection in all of the areas by field officers and CRP and Mercy Corps staff, and information sharing with all the beneficiaries on who the donors and implementers of REHAB support are.

There were several other external factors that affected successful recovery of businesses supported through REHAB. Especially in Federation BiH, there was very little understanding for businesses that were required to pay all the levies and taxes despite the damage to their businesses. This was especially harmful for businesses registered as crafts that have a fixed amount tax/lump sum. This was registered mainly with small businesses in Maglaj that showed slightly slower recovery rate than other supported areas.

Due to high rainfalls and saturated soil since May floods, whenever there were heavier rains, new floods were recurring. This was mostly happening in already heavily affected Željezno Polje in Žepče municipality and in areas close to Bosna river, Doboj, Šamac, and villages of Posavina region. In many of these areas, farmers managed to raise loans or borrow money to replant damaged fields, only to be re-flooded in August floods. Such cases were avoided by REHAB as they could not in reasonable time provide return benefit to their communities, which was one of the program criteria.

Regardless of the challenges, the conclusion of the internal evaluation working group is that the final result of the REHAB activities was extremely positive and that the process was well designed to provide rapid assistance to most appropriate group of beneficiaries.

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<sup>i</sup> In this case, restoration refers to the resumption of business activities, as opposed to recovery, which refers to revenue and turnover. For example, many businesses had nearly or fully restored- replaced all tools, or inventory- but had far fewer customers than before the floods. Thus they were fully restored but not fully recovered.