

## HOW SMALL INITIATIVES CHANGE BOSNIA AND HERZEGOVINA

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### Abstract

*The recent study of World Economic Forum (2008) assessing economic competitiveness of EU and other countries in Europe, define Bosnia and Herzegovina as the least competitive country in Europe. The country was heavily destroyed during the wars in Balkan from 1992-1995 with over 100.000 dead and 2.000.000 refugees. It had 4.363.000 inhabitants in 1991 (last census) and it is estimated that there are 3,9 million people living in the country today. It is still facing extreme political instability and uncertain future. However, such a political and business environment did not prevent 'small' leaders to take decisive and innovative decisions and change Bosnia and Herzegovina with their initiatives.*

*Tuzla Municipality (around 170.000 inhabitants) was the area of heavy industry, and met the end of the war with 18.800 or about 40% of unemployed, closed industry and image of a 'dirty' city. Thanks to brave visions and innovative potentials of local leaders, the city is facing extraordinary changes. Instead of soil sinking caused by industrial salt exploitation, the local leaders invested in construction of salt lakes and waterfalls in the heart of the city, offering around 40.000 square meters of beach to visitors. The city is becoming a leader in ICT and SME development with over 160.000 m<sup>2</sup> under technological and development parks.*

*The innovative approach of local agricultural organization BOSPER (Bosnian Prosperity) resulted in complete change of 'agricultural' thinking and production in local villages. Once traditional producers of non marketable agricultural products, local villages are becoming regional leaders in strawberry and cucumbers production.*

*Every second citizen of the country had to leave his home during the war 92-95. The biggest problem that they face after return is sustainable jobs. Independent Office for Development (NBR) created favorable business environment for refugees who started businesses in their place of refugee and moved them to their places of origin, once they returned. NBR is managing over 20.000 m<sup>2</sup> of business space, incubating over 20 SMEs with over 300 employees.*

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## 1. Introduction

Success of functioning of local authorities in terms of its entrepreneurial and competitive position is depending onto ability to adapt to challenges of dynamic market economy on local, national and international level. These challenges are greater then before, due to global competition and free flows of all resources. Processes of local economic development could be more successful with development of entrepreneurial approach and competitiveness of local authorities, while they have leadership role in managing processes for improving environment for economic development onto local level (spatial planning, local infrastructure, improving living conditions, support to entrepreneurship etc.)

The subsidiary principle requires that issues of citizens has to be maintained at the level on which they occurred, and thus it leads to conclusion that importance of proactive role of local authority and all stakeholders of local development is crucial for success of functioning of life on local level. A numerous small initiatives on local level, which has been started by different actors of local development in Tuzla and in the North-East Bosnia and Herzegovina, with managing and coordination role of the local authority, could achieve appropriate positive changes and create developmental momentum.

Local economic development (LED) is paradigm of the future success of local authority in the context of its supporting role in economic development and in entrepreneurship. At the other side, LED concept is important for local authority due to the presence of several authority levels in B&H (state, entity, cantonal level and municipalities), and municipalities lacks enough mechanisms to improve its own environment for economic and entrepreneurship development. That is the reason for greater importance of leadership role of local authorities and its entrepreneurial role.

Previous researches related to relations of municipalities towards LED show that municipalities does not give adequate and required intention to this and therefore results are very weak.

Nevertheless, even few successful examples of good practice in local communities, such as Tuzla, gives valuable example to other local authorities in B&H about mechanisms and procedures for innovation and creation of competitive advantages at local level.

## **2. Preconditions for Entrepreneurship Development in Bosnia and Herzegovina**

Robust growth of the BH economy from 2007 (6.8%) continued into 2008, yet macroeconomic stability could now be negatively affected by the global financial crisis. The country had 4.363.000 inhabitants in 1991. (last census). It was heavily destroyed during the wars in Balkan from 1992-1995 (over 100.000 dead and 2.000.000 refugees). It is estimated that there are 3,9 million people living in the country today and there are Bosnian communities all over the world (Diaspora). Diaspora is spending and investing euros 2,5 billion annually into the country. GDP in 2007 was euros 10,7 billions.

BiH has borders with Serbia, Montenegro, Croatia and 24 kilometers coastline on the Adriatic Sea. Its landscape varies from high altitude central mountains to arable land in the north and Mediterranean vineyards in the south. There is a plenty of unused natural resources, which are a basis for an economic revitalization of the country (wood-processing, forestry, hydro power energy, coal, metal and non-metal industry, chemical industry, tourism, agriculture).

Bosnia and Herzegovina has 4 levels of administrative power (state, entities, cantons and municipalities) as well as 5 economic regions (not in line with the administrative structure) being promoted by EU. Different administrative powers have been trying to make coordinated SME policies and strategies for years, but progress is still weak. There are a number of single and uncoordinated policy instruments in force. Urban areas are much more developed than rural ones and the most developed part of the country is the Sarajevo area (the capital).

According to tax administration, statistical data and using the EU parameters, we can estimate that there were around 161.295 SMEs in Bosnia and Herzegovina in 2007. Most of the SMEs (93.6%) employ 1-9 people, 5,5% have 10-49 employees and there are only 0,9% employing more than 50 people. External barriers for the development of SMEs are related (among other things) to an inadequate legal and institutional framework such as the absence of a specific system for statistical data collection and the lack of a unique SME definition used by administrative regions within the country. It is therefore difficult to be precise about the development of entrepreneurial activity. In the 2009 World Bank Doing Business report Bosnia and Herzegovina was ranked 119 on the list.

However, there is evident positive progress in using local resources to create competitive advantages at the local level, successful e-business models, top class small business support (business incubators and range of business services), and stronger and more effective representation (effective SME networks and structured public/private consultations), as well as entrepreneurship education and training.

### 3. Current competitive position of local authorities in B&H

Nowadays a local development concept based on competitiveness is seen as one of the most important aspects of development philosophy for the future. The attention is focused onto local level as important element of economic development, especially due to local capacities, skilled workforce, communications, infrastructure, supporting institutions, and local government aware of its proactive role in managing local economic development processes (LED). According to data from General Accountability Project (GAP), only 40% of all municipalities in Bosnia and Herzegovina have established economic development strategy, and thereof less than 30% of these municipalities have real implementation of its local economic development strategies.<sup>4</sup> These facts show how insufficiently is developed conscience on local level, as well as material and human capacities, that has to have crucial and proactive role in managing local economic development. It is here spoken about strategically managed local economic development that is practicing as a way of strengthening local economic and entrepreneurial capacities in local community, in order to improve climate for investments and increase productivity and competitiveness of companies, entrepreneurs and employed workers.

In such way local governments will be „aware“ of its competitive position in regards to other local communities and will perform different measures and activities and select those instruments of LED that are appropriate to its competitive positions. Then it is important to objectively overview real competitive position of local community regarding to its environment. Its overestimation or underestimation could lead towards problems in creation and implementation of the LED concept. Thus it could be situation that local communities (municipalities) insufficiently ‘aware’ of its competitive advantages adopt „defensive“ LED approach. At the other side, local communities that have overestimated its competitive position could prefer „passive“ or even more often „arrogant“ relation towards its environment, potential investors and entrepreneurs. As consequence, both could select and use LED instruments that objectively could not bring appropriate results. And like before each „therapy“ is necessary to perform right diagnostics so as to get its efficiency in treatment, the same for creating the concept and LED strategy is essential to objectively overview and evaluate attained level of competitiveness of local community. We would need to emphasize that so far none of researches related to competitiveness of local communities in B&H were performed.

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<sup>4</sup> USAID, (2007), „Research on development of capacities of local authorities in B&H“, GAP Program in Bosnia and Herzegovina

#### **4. Examples of success of small initiatives on the local level in the North-East region of B&H**

As result of absence of systematic approach in acting of higher levels of authority in Bosnia and Herzegovina, it is necessary to start significant number of local initiatives that mutually could create developmental momentum. Initiatives could come from different spheres of life, but those related to the local economic development are the most valuable ones. In that sense, local authorities have very important role in improving environment for local economic development. In the context of functioning of local authority and its administrative functions, it is usual perception about them as ones that have bureaucratic and political structure. At the other side, in the context of Bosnia and Herzegovina, situation with local authorities is even more complex, due to existence of at least three levels of authority in Bosnia and Herzegovina, i.e. entities, cantons and municipalities, and that is why the last ones does not have sufficiently clear determination of their responsibilities, and with this regard lack of appropriate funds for managing developmental processes. According to European Charter for local self-government, which emphasizes subsidiary principle, issues and tasks of citizens are solving on the level where they occur, which generally means the local level.

Despite lack of more quality regulation of authorities in Bosnia and Herzegovina that stresses all local authorities, Municipality Tuzla have burdened with issues shared with other municipalities belonging to energetic and base industries of the North-East region of B&H. In fact, previous characteristics of development of Tuzla were based on strong energetic and chemical industries and exploitation of mineral resources (salt water, stone salt, coal and others). The end of the last century is characterized with start of transition, where Tuzla had only negative consequences, i.e. increase of unemployment and loss of working places in industries out of work, decrease of gross domestic product (GDP), and with devastation and sinking of the city due to uncontrolled exploitation of salt water, and with generally economic stagnation and depression. It is important to emphasize that local authority is directly responsible for the local infrastructure, spatial planning and regulation, in terms of current legal frameworks and authorities. Other fields of interest, such as education, sports, culture, and economic development are in competence of other levels of authority (canton, entity, state and level).

Positive changes in Tuzla are being created from 2001., when Tuzla gradually got new perspective, and as result of proactive approach and innovative acting there has been opened opportunities for innovation and strengthening of modern industries in Tuzla, that are not linked only with factory funnels and uncontrolled exploitation of mineral resources, new investments and new job creation. The changes were visible in different spheres of local life. Namely, acting of the local authority was focused on local infrastructure, social environment and economic and entrepreneurship development.

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Tuzla has adopted in 2003. document “Local Development Strategy until 2015.”, as an integrative instrument for managing local development. This document does not remain out of use, but instead it was used for activating all local development potentials. Municipality Tuzla have realized majority of projects identified by this Strategy, that showed significant effects on improvements of ambient and lifestyle of citizens as well as for investments. Some of the most important results of this Strategy were: developed modern services for citizens, support to development of new industries, such as creative industry in Tuzla (support to young, educated and talented experts in arts, music, drama, theatre, movie and other forms of art) as well as support to development of entrepreneurial and business zones (established Entrepreneurship Development Centre Tuzla) and Centre of new technologies – BIT Center Tuzla, and enabled free wireless internet for citizens and visitors of Tuzla. In the field of agriculture it is developed successful model of support to business startups in the field of agriculture production.

New management in Tuzla have recognized human potential, natural and cultural and historical inheritance as one of the most significant factors of development, that has signed importance of Tuzla existence throughout centuries, and on these resource bases its future development. Current formula of Tuzla development is based on equation  $Tuzla = 3 T - Talent, Technology and Tolerance$ . The City management used the state of the art knowledge and experiences of developed countries, and those are being adopted in the local context (for example modern system for water refinement, development of ICT sector within BIT Centre Tuzla, applications within architecture and city arrangement etc.)

Partnerships and collaboration of the local authorities with other cities and regions have had important role in the City development. With some of the cities Tuzla established brotherhood relations, with whom Tuzla has excellent collaboration and many significant projects gave impact on current development of the City. Tuzla has established collaboration with almost all relevant institutions and individuals in local area that could contribute with their capacities to local development. It is established Forum for improvement of local economic development processes with the initiatives of the local authority, and the City has strong collaboration with the local public institutions (i.e. public companies, institutions etc.), as well as with international organizations that implements their programs in Tuzla.

Despite acting of local authority, important aspect of local development processes lays in nongovernmental organizations. One of the most important initiatives in supporting return of refugees in their prewar households is support to business incubation, managed by Independent Bureau for development in Modrica. With regards to this incubator, it is enabled business startup and job creation for returnees in prewar households. The Centre is equipped with about 20.000 m<sup>2</sup> of facilities incubating about 20 companies with around 300 employees. With this initiative it is created long-term mechanism for provision of business support and incubating new businesses that is of great importance for returnees that needs sustainable conditions after return.

### **5. Results of entrepreneurial approach in local authority**

Entrepreneurial acting of the local authority means contemporary creation of competitive advantages of local environment in which entrepreneurial activity will occur. This acting aims to initiate and support local business development, as well as attracting local and foreign investors. It is related to complex, responsible and long-term acting of the local authority. It is quoted above that local authority in conditions of expanded hierarchy of authorities could not expect significant support from top (from the state level), and thus developmental potential have to be started from bottom (local level)<sup>5</sup>.

Municipality Tuzla could serve as positive example as leading partner in developing concept of local economic development with all other actors of local development and it has proactive and entrepreneurial role in organizing and managing with these processes. Mainly this component of LED is crucial and success of LED processes on local level depends on it. Municipality Tuzla accomplishes competitiveness since it shows interest and put all efforts such as available human and material resources to create appropriate and friendly environment for renewal of existing investments and new investments and new job creation. Additional component for successful developmental model is professionalization of local authority for successful management of these processes in local community, with strengthening of external role, with implementation of appropriate partnership models, networking and collaboration of local development stakeholders.

A change of image of Tuzla from industrial city towards tourist center is accomplished with establishment and regulation of two Salt lakes and waterfalls in the central part of the City, as unique cultural landscape in the Western Balkans. Entire surface of both lakes is about 16.000 m<sup>2</sup>, and about 40.000 m<sup>2</sup> of surface for sun-bathing. Formerly derelict and dilapidated space in the central part of the City is transformed in attractive space for citizens and visitors of Tuzla, using natural resources, i.e. salt water. Altogether with this, it is built unique Archeological Park – Sojenicko naselje as replica of way of life of citizens on these areas from several thousand years ago. Ambience for living is improved, and it is increased optimism of citizens in terms of the possible positive changes. From its opening, these facilities visited more than one million of visitors, which shows as successful results and importance of building such facilities.

It is established modern Centre of new technologies – BIT Centre Tuzla, in collaboration of Municipality Tuzla with partners from Norway (scientist institutes Sintef and SIVA), and with University in Tuzla. BIT Centre enables young and well educated experts to develop own business in the field of modern information and communication technologies (ICT). The Centre provides opportunity for business incubation within the Incubator of new technologies, as well as for idea

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<sup>5</sup> Glas, 1998.

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development within modern ICT laboratories. A significant number of these projects made success on European and world markets and showed success of its existence. BIT Centre has developed service of free wireless internet in the City for citizens and visitors of Tuzla. With establishment of this entrepreneurial infrastructure, more than 100 youngsters established their own businesses in ICT sector, and even more young people after finishing faculties are consider opportunities for starting own business.

With reconstruction and arrangement of facilities in the central part of the City ownership, it is enabled young, educated and talented people to develop own creativity in art, music, theatre, movie and other forms of modern art. In that way is developing new creative industry, that create new value with production of creative intellectual ownership, such as design, media, fashion, music, movie, scene and visual arts, software and other. There is significant number of young artists that create new creations and participate on market with own products.

Unused and derelict space of former coal mine Lipnica in Tuzla is renovated and is converted into one of the most perspective entrepreneurial business zones in Bosnia and Herzegovina. Entrepreneurship Development Centre Tuzla possesses 29 facilities with entire surface of around 11.000 m<sup>2</sup>. The Center provides space and respective services under favorable conditions aiming to new business incubation and strengthening their capacities. In addition to space for business incubation, one part of facilities is renting to already established companies, targeting new job creation. The Centre hosts 35 companies with about 250 employees.

Acting of Association BOSPER in the field of agriculture development represents one of the greatest examples of support to business startup in the field of agriculture, providing entire services for startups. In regards to this form of support to agriculture producers, it is enabled that agriculture households to become market oriented and competitive and to create enough income to be self-sustainable.

Work of the local authority is significantly improved with establishment of a few centers who provides services to citizens and business sector, as well as with development of modern technical and information solutions. These services become more accessible, faster flexible to clients. Citizens of Tuzla have an opportunity of direct participation in making decisions by active participation in nominating initiatives and projects related to improving environment of life in their local communities (contemporary approach in planning capital investments). Using web site of Municipality Tuzla it is enabled approach to information about activities of local authority and life in Tuzla to citizens and visitors of Tuzla.

Established partnerships and collaboration of local authority with other cities and regions play very important role in the city development, and with some of them is in brotherhood relations, with whom Tuzla has developed very good collaboration and valuable projects that influenced current development of Tuzla. These cities and regions are Bologna, Pecs, Osijek, Saint Denis, Tuzla (Istanbul), provinces

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Ravenna and Pisa. This collaboration is in the field of culture, sport, science, education and economy, whereas so far more than 100 projects is implemented in these areas. The City gathers new knowledge, experience and good practices throughout these partnerships and collaboration and implements them into own development patterns.

### **6. Conclusion**

Development of local community represents important aspect of regional as well as of entire economic development. Focal point for these intentions is onto developing conscience of local authorities to recognize its leadership role and then onto development of its capabilities and capacities for organizing and managing local economic development. The need for objective evaluation of actual competitive position of local community (municipality) in regards to its environment is one of the basic preconditions for success of the local economic development concept. That will enable selection of appropriate LED instruments during creation and implementation of economic development strategies.

Results of our research, taking into account relations of local authority towards LED, shows frequent delusions that cheap workforce and available resources would be sufficient for attraction, starting business and its development. With this is evident that modeling of competitive advantages of municipalities represents more complex activity, and also requires expertise, systematic and long-term approach to improvement and development of local advantages for businesses. In this context the role of local authority in improvement of local environment for businesses become more complex, and even more responsible.

It is possible to create developmental impulse by starting local developmental forces and by creating synergic effect with starting several development initiatives, which is shown by demonstrated successful examples of good practice. The same, there is no the best and unique model for success of process, and it is important to use own resources and to create own successful models on local and regional level.

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