

## **Strengthening the role of local government in the conduct of economic policy in Bosnia and Herzegovina**

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### **Summary**

This paper discusses the possibility of major powers in the field of economic development of the municipality as the local communities. Improvement of process for greater transfer of certain powers from the cantonal and entity levels to municipalities in Bosnia and Herzegovina.

Although many disciplines use the term "transfer of authority", in the context of economic development it refers to a multidimensional process of consultation on whose effects municipalities with resources that enable them to accelerated economic development, have direct benefits. The paper is based on the assumption that there is a political, legal and administrative constraints for accelerated development in most municipalities in country.

Although these limitations may vary among individual municipalities, due to their different degrees of development. Therefore, this paper raises the question of how to realize the possibility of greater independence of local government in decision-making on all issues of its economic development as an element of sustainable development, taking greater autonomy of local government as a starting point. In developing this theory, it will be essential to investigate the theoretical background of idea of greater independence in policy of economic development and its relationship with the concept of sustainable development. It will also be investigated if socio-political system of B&H allows the possibility of a transfer of powers from a higher level, where the powers currently lies, to the local government and does it support the sustainable development on a level that is not just theoretical. Another aspect of this research is focused on local communities and on their ability to initiate and implement the process of accelerated economic development.

**Key words:** economic policy, the transfer of powers, social capital, resources, sustainable development

### **Introduction**

The transfer of authority for the conduct of economic policy, from higher levels to local communities in Bosnia and Herzegovina would led to greater autonomy of municipalities, which would have great importance for the economic development of the country. Development and potential of individuals, families and communities are improved with the raising of capability of the local community, so it can be viewed as a process or as an outcome (Rappaport, J., 1984) .

In the context of accelerated economic development, it is suggested that conduction of economic policy of higher levels (entities and cantons in FBiH) should be transferred to the municipal level. This transfer could be seen as a multidimensional process characterized by these elements: external expertise, possibility of learning and selection, decision-making ability, the capacity to implement these decisions, bearing the responsibility for those decisions, actions and their consequences, the results of which municipalities and its members benefit directly or diverted and used in other communities and / or their members

(Sofield, TH B 2003) . In order to achieve independence of municipalities oriented towards economic development, social and institutional changes are usually necessary as a prerequisite for the redistribution of power that will enable changes. These changes have to take place simultaneously on two levels, in Federation of Bosnia and Herzegovina and Republic of Srpska: macro level (from the entities to the municipality), meso-level (from the cantonal to the municipal level in the Federation of B&H). Correlation of activities at different levels causes problems for capability raising at the local level.

Economic development based on the municipal level in the country with the burden of the communist heritage, the destruction of war and transition problems, would be a possibility of local governments to rectify the shortcomings of previous methods of economic policy.

Hence, the aim of this paper is to critically address the issue of capability raising of local government, in order to achieve sustainable economic development, in the case of Bosnia and Herzegovina. To achieve this goal, paper raises a number of issues of broader importance and related to:

- The nature and type of capability raising of local government in conductiong

conomic policy in order to promote economic development;

- Correlation of training with the concept of social capital;
- The role of economic development at the national, entity and regional levels;
- Structural and institutional (macro-level) limitations of the empowerment of local

governments in the sustainable development of the economy of Bosnia and

Herzegovina

Accordingly, it is necessary to verify the following hypothesis: social capital, as a series of formal and informal rules and norms of the conduct in Bosnia and Herzegovina relatively small at the macro as well as meso-level and micro-level, which makes it the main obstacle for training and applying the principles of sustainability in local self-governments that are oriented towards independent economic development.

### The role of the state in economic development

Consideration of the problems of economic development of Bosnia and Herzegovina, requires a review of the role of the state, entity and cantonal levels, and their relation to many aspects of the economic system. Role of the state of Bosnia and Herzegovina in the country's economic development is minor, and it is largely transferred to the entity level. The power of the entities realizes through different institutions at different levels. In Republic of Srpska, all power is concentrated at the entity level, while in the Federation of B&H jurisdiction is divided between entity and cantons. All of these levels of government in Bosnia and Herzegovina can exercise power in different ways, and most of them will be more or less involved in the formulation of economic policy. Their policies directly or indirectly affects the economic development and the environment that are within the state boundaries.(Sofield, T. H. B2003) .Despite the great social importance of economic development, some governments (entity or canton) do not consider the possibility of independence of local government in economic policy as an important tool for economic development. It is not only the case in Bosnia and Herzegovina but also in some developed countries. Most of them, nevertheless, accept the possibility of reducing the impact on economic development as a real fact. C. M. Hall states that "in an attempt to connect power and sustainable development, we come to the point where the government still has an important role as it can

intervene and direct its development toward achieving their political goals" .

The concept of conducting economic policy by the local government, is focused on the content rather than the form of development, and it's main components, according to Nerfin (cited in Sofield, 2003) are:

- It is oriented towards the needs (directed towards satisfying tangible and intangible needs)
- It is endogenous (derived from the essence of every society, which is defined by the sovereignty of their values and the vision of their future)
- It is self-reliable (every society is primarily relied on their own resources, the energy of its members and its natural and cultural weapons)
- It is environmentally acceptable (rational usage of biosphere's resources with full awareness of the local ecosystem's potential, as well as global and local constraints imposed on present and future generations)
- It is based on self-management and participation in decision-making all of those affected, from rural and urban communities to the world as a whole, which is prerequisite for achieving listed objectives.

The willingness to assign economic policy to local government is much more evident in developed countries in comparison with developing countries. It is clear that achieving these goals requires the states, which used to be the most responsible entities of development, to give up shares of its powers or at least to share it with municipalities. The fundamental importance of institutions is reflected in their specific role in the incentive structure of particular economy (Halebić 2010) . In most developed countries, consulting agreements with local governments are normative part of development, and in developing countries such concept is being opposed by elites running the country, but reluctant to share the power (Tosun, C. 2000) .

Accordingly, in addition to seeking answers to the question whether the higher levels of government willing to enable local governments to participate in decision-making process and conduct of economic policy, equally important question is whether they are able to decide and govern its economic future. Empowerment of local governments to manage their own economic policies

The tendency of local governments in Bosnia and Herzegovina to influence its economic development is dating back to the first multiparty elections in the country. That activity has been intensified recently, because the aftereffects in the field of economic development in the country have not produced the expected results. According to Simmons and Parsons training is a process that allows people to master their environment and achieve self-

determination (as cited in Sofield, 2003) on the basis of political changes or changes in social structures that affect the behavior of public authorities. Where development and planning are not in accordance with the wishes of local communities and their resource capabilities, resistance and hostility can destroy the total potential of natural and man-made resources, existing within the local government.

Table no. 1: The result of the conducting economic policy on the municipality level

Category	Indicators of qualifying
Economy	Independent conduct of economic policy brings long-term financial benefits for municipality. The money is spread in the local community, there is an improvement in the field of infrastructure and services sector.
Psychological	Confidence for external recognition of simplicity and value of natural resources and traditional knowledge is rising. Growing confidence in the municipality leadership to seek opportunities for accelerated economic development. Access to work and money improves the social status of the population with low status, such as women and youth.
Social	Economic development maintains the balance of the local government or contributes to its establishment. The coherence in the community is raising, as commercial entities work together to develop a successful business. Some funding are being used for development initiatives in the community, such as those related to education and the construction of infrastructure facilities.
Political	The political structure of the municipal is assembly of the local community, where people can raise questions and discuss problems related to economic development. Existing and newly established companies seek the opinions of stakeholders and members of the community, and they are provided with the opportunity to participate in decision-making bodies.

Source: Scheyvens 1999, (according to Timothy, 2003) .

Economic capability raising of municipality is important, because it enables population of the local community to increase employment and all other economic effects that arise as a result of accelerated economic growth. Psychological capability raising stimulates the development of self-confidence and pride in the results achieved. Socially capability raising maintains social balance in the community and leads to cooperation and networking. Political capability raising includes parliamentary democracy within which citizens can express their opinions and ask questions regarding the development initiatives (Timothy 2002).

The question of how much capability raising of local government and responsible persons within is necessary for successful conduct, ie. how much capability raising will need to undergo, depends on the level of natural and man-made assets in the country and the community. In "Types of capital" R. Kreckel (quoted by Pierre Bourdieu 1983) , defines social capital as a set of actual or potential resources which are linked to possession of durable network of more or less institutionalized relationships based on shared mutual acquaintance and recognition. Social capital as a set of formal rules and institutions and informal norms of behavior creates an environment in which the process of training is implemented.

Grootaert and Bastealer (quoted in Vehovec, 2002, p.36) refer to the three dimensions of social capital, micro, meso and macro level. Micro-level refers to network of individuals and households that generate positive externalities for community. Meso-level occurs with vertical merging. Macro-level refers to the social and political environment that shapes social structure and enables the development of behavioral norms (laws and regulations).

At the micro-level, a network of individuals and households are being created. It is the social capital in its most basic form, so it forms the center of community life. In addition to informal cooperation among individuals and households, formal cooperation at this level is usually achieved through the small and medium enterprises. They are created to deal with production activities or the provision of services to the population, helping with the development and enabling sustainable development. According to Hall and Richards (as cited in Hall, 2000, p. 446) , capability raising, which is necessary to realize, is based on the creative (the production need for organizing) and not on the distributive power. Namely, the main structures of powers are distributive, since they assume the scarcity of resources for which individuals must compete. On the other hand, production view at the power assumes that everyone has the power or skills and abilities. In this regard, it should create an atmosphere within the domestic population, that

the quality characteristics of local products are at the same level as in imported products, or perhaps at a higher level. Patriotism should be awakened, which can manifest itself in different ways and purchasing and consumption of local products is one of these ways (Kurtović, 2011).

Networks made up of business owners and various private and public organizations, aimed at cooperation in field of production, marketing, purchasing or product development are created at meso-level. They can be soft or informal networks and formal or solid networks (Francic and Bartlett, 2000). Informal networking is simple, especially in small municipalities or local communities, such as the more developed local community, since the various forms of cooperation and partnership have always been rooted in its traditions and culture. On the other hand, the creation of formal or solid networks is slightly more difficult because they largely depend on the institutional assumptions.

The third level of social capital, the so-called macro-level refers to the social, economic and political environment, and it influences the entire life of local government. Macro-level creates a framework around and within which it operates and within decisions concerning development are being made. In other words, this level strongly influences the other two levels of natural and man-made capital, so it is crucial in process of enabling individuals and communities to manage their environment and their future. Only if this level is in compliance with the other two levels, there can be individual, interpersonal and interactive changes at the local level.

#### **Justifiability of transfer of economic policy from higher levels of government to municipality level**

The development of the economy of Bosnia and Herzegovina began in the 1950s, at a time when the level of competitiveness of the country was defined by its comparative advantages which were reflected in the vast mineral resources, iron ore and coal, as well as significant hydro potential. Exclusive reliance on natural resources, led to the rapid economic development, which is reflected in the construction of steel (Zenica, Vareš, Ljubija, Ilijaš etc.), the chemical industry in Tuzla basin etc. As a result, a proportional increase in exports and GDP took place making Bosnia and Hercegovina the only republic within Yugoslavia, which had a positive foreign trade balance. Such attitudes towards companies with poor financial health had a domino effect on the strong companies, which led to the collapse of socialism and the abandonment of the so-called "socialist paradigm" (D. Cvijanovic and others, 2008). Today, however, there isn't any industry at the level of at least 50% of the operating results it had before 1990s.

Concentration of powers for economic policy at the entity and cantonal level, has led to a situation where county depends on imports to a large extent, but at the same time,

we are importing great number of various products that can be produced in our country. The most obvious example of this are mineral and still water for drinking. According to some studies, the most quality drinking water in this part of Europe can be found in Bosnia and Herzegovina. Also, the mineral resources of our country are generous to the point that we can meet the needs of South Eastern Europe. However, due to import lobbies, which our country has more than countries from the region, we are even importing products which we could export.

These examples speak loudly in favor of our insistence on strengthening the role of local government in conducting economic policy. In such conditions, each local government would aim at maximum utilization of natural resources, of course, with their rational use. In present situation unsettled state is evident, so that the natural resources are being used by individuals who got concessions in a suspicious way, not taking into account that future generations should be left with at least as many natural resources as we have inherited from our ancestors.

The political and macroeconomic circumstances arising as a result of the war in the country are major reason to blame for this situation. This, however, does not provide for a satisfactory explanation. In recent years, we have often witnessed merely attempted cosmetic correction of direction of development, concerning comparative advantages of which Bosnia and Herzegovina in the last century based its economic development, others are only rhetorical attempts to return to normal, but, sadly there was no actual implementation. As a result, all presently independent countries that emerged from the dissolution of FR Yugoslavia overstripped Bosnia and Herzegovina in terms of economic development.

Our competitive position is at a low level, resulting in the coverage of import by export in merely 52.11% in year 2010. If we look at the context of our competitive ability, which is, according to Porter (1998, b), a multidimensional phenomenon, which can be achieved not only at the company level but also at the level of individuals, sectors and the state as a whole. Problems of the economy of our country are resulting mainly from the lack of understanding of the real importance of the manufacturing sector at the macro level and its impact and relevance to the overall economy.

With transformation of economic policy (Kurtovic 2011), the process of identifying the different needs of the country began, which is achieved by the use of respective research techniques. Economic policy objectives maintain these requirements, but even they are limited by the existing external and internal constraints. Previously identified needs are being met and goals are achieved by applying a range of programs or strategies and instruments arising from general economic policies, which influence the development of certain industries, as well as the way to realize the plans of their development, the availability of investment funds and capital, labor forces etc.

In order to examine the overall effects that the current economic policies conducted on state and entity levels produces on the economy, the overview of the external trade of Bosnia and Herzegovina with foreign countries in the period 2005 - 2010 years will be provided. Based on

presented data it is possible to examine the outflow of foreign exchange from the country, as a result of the large deficits that our country has achieved in foreign trade with foreign countries.

Tabel no 2: Total commodity exchange for Bosnia and Herzegovina in period  
of 2005 – 2010 in million KM

YEAR	EXPORT		IMPORT		TOTAL		DEFICIT	COVERAGE
	Value	Growth/ decline %	Value	Growth/ decline %	Value	Growth/ decline %		
2005	3.783,20	-	11.180,80	-	14.964,00	-	-7.397,60	33,84%
2006	5.164,30	36,51%	11.388,78	1,86%	16.553,08	10,62%	-6.224,49	45,30%
2007	5.936,58	14,95%	13.898,24	22 %	19.834,83	19,83%	-7.961,66	42,71%
2008	6.711,69	13,06%	16.292,52	17 %	23.004,21	15,98%	-9.580,83	41,19%
2009	5.531,20	-17,59%	13.355,18	24 %	17.886,38	-22,25%	-6.823,98	44,77%
2010	7.095,50	28,28%	13.616,20	10 %	20.711,71	15,80%	-6.520,70	52,11%

Source: Agency for statistics of Bosnia and Herzegovina

The total volume of foreign trade of Bosnia and Herzegovina with the world in year 2010 amounted to 20.71 billion KM. That is 15.80% higher than in the previous year, when the total trade amounted to 17.89 billion KM. In year 2009 the volume of foreign trade amounted to 17.89 billion KM, which is 22.25% less than the volume of foreign trade in the year 2008.

The value of total export was 7.10 billion KM. Exports in year 2010 grew by 28.28% over the previous year. Total exports in the year 2009 was 5.53 billion KM and it was recorded decreased exports by 17.59% compared to year 2008. Bosnia and Herzegovina imported goods worth 13.62 billion KM in year 2010. That is 10.21% higher than in the previous year. The year 2009 the value of imports amounted to 12.36 billion KM. This is 24.17% less than the previous year.

The following table provides a comparative overview of the last three years, its analysis allows us to determine: growth or decline in imports, exports, scope, deficit and percentage of its coverage in a given period.

The balance of trade, meaning trade deficit in year 2010 amounted to 6.52 billion KM, which is 4.44% less than the previous year. The trade deficit in the year 2009 amounted to 6.82 billion KM, which is 28.77% less than the deficit in year 2008.

The coverage of imports by exports in year 2010 amounted to 52.11%, which is 7.34% higher than the coverage in the previous year, when it stood at 44.77%. The coverage of imports by exports in the year 2009 amounted to 44.77%, which is 3.58% higher than the coverage compared to year 2008, when it stood at 41.19%.

Table 3: Structure of the trade deficit in 2010. Mr. (Agricultural industrial products) in million KM

Head CT	DESCRIPTION	IMPORT	EXPORT	DEFICIT	
				Value	%
1-24	Agricultural products	2.502,40	553,08	-1.949,32	29,89%
27	Mineral fuels, oils, waxes	2.627,37	1.103,20	-1.524,17	23,37%
87	Vehicles, parts and accessories	721,64	147,83	-573,81	8,80%
84	Nuclear reactors, boilers, machinery, mechanical appliances	1.014,24	473,82	-540,43	8,29%
85	Electrical machinery equipment	750,11	222,51	-527,59	8,09%
39	Plastics, and plastic products	578,53	124,39	-454,14	6,96%
30	Pharmaceuticals	424,50	69,56	-354,94	5,44%
90	Optical, photographic, cinematographic, measuring instruments	230,27	14,29	-215,98	3,31%
33	Electrical oils, beauty products or toilet products	185,84	18,13	-167,71	2,57%
41	Raw skin with hair or without hair	234,24	89,14	-145,10	2,23%
<b>TOTAL</b>		<b>9.269,13</b>	<b>2.815,95</b>	<b>-6.453,17</b>	<b>98,96%</b>
Other		4.347,08	4.279,55	-67,52	1,04%
<b>TOTAL</b>		<b>13,616,20</b>	<b>7.095,50</b>	<b>-6.520,70</b>	<b>100%.</b>

Source: Agency for statistics of Bosnia and Herzegovina

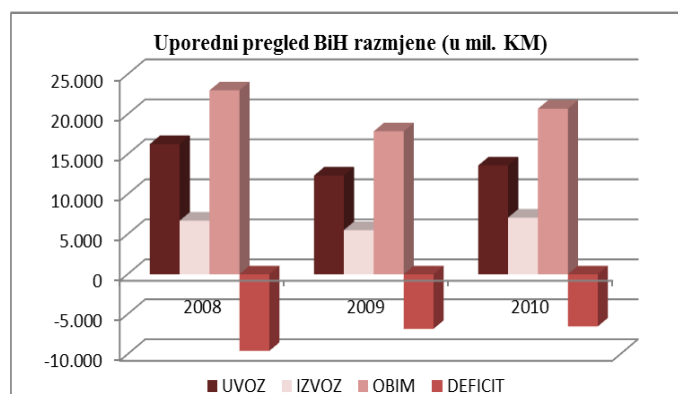
Justification for the transfer of authority for independent conduct of economic policy from the higher authorities to the municipality, can best be seen from the data provided in the table above. The table shows a review of the goods with the highest share in the deficit of the year 2010, where agricultural products are presented collectively. In the total deficit of B&H concerning these enlisted groups of products, agricultural products (head CTBiH1-24) participate with 29.89%.

If we bear in mind that about 45% of the land of Bosnia and Herzegovina is arable, it is clear that if we organize agricultural production, we can produce enough food for our population. At the same time, elasticity of demand is determined by present factors, which will have a positive or negative impact on the purchasing power of the population. Thus, "..... goods for daily consumption will have a

different elasticity of demand, where the demand for daily necessities is effectively inelastic ( $E_t < 1$ ) unlike other products that represent luxury (Kurtović and Hodžić, 2007). As we have noted, when the supply of daily goods is in question or food which is largely the result of agricultural production, then there is a constant demand as a result of ever-present need for the same. In an effort to act preventively to the possible crisis and similar phenomena, measures of economic policy which are given to mitigate the consequences of such phenomena are being determined (Kurtovic 2011).

Therefore, leaving local governments to organize agricultural production, each in their agricultural areas, would be the only way to import goods for less than 2.5 billion KM, how much we paid for imports of agricultural products.

Graph Icon 1: Comparative overview of the exchange in B&H (in bil. KM)



Reduction in the value of exports of goods and services has led to a general decline in production and employment in the real economy and caused a decline in disposable income of households and public revenues. This has caused the decrease of final consumption, particularly investments, which resulted in a sharp decline in domestic demand. Decline in cash inflows from abroad on the basis of remittances and income, further eroded the disposable income, which reduction has led to the nominal real decline in personal consumption.

An overview of the economic growth and projections for the period of 2008 – 2012 is provided in the table no. 4. It is evident that the average weighted growth of the Western Balkan countries (0.3%) is significantly lower than the average growth of all countries in the region of Central and Eastern Europe (1.9%).

Table no. 4: Overview of the economic growth of some countries of the Western Balkans

	Real change of GDP in %				
	2008	2009	2010	2011	2012
EU (weighted average)	0,5	-4,2	2,0	1,6	0,0
Euro zone (weighted average)	0,4	-4,3	1,9	1,4	-0,3
Central and Eastern Europe (weighted average)	3,2	-3,6	4,6	5,3	1,0
Twelve new EU Member States (weighted average)	4,3	-3,7	2,3	3,1	1,4
Albania 7	7,5	3,3	3,5	2,0	0,5
B&H	5,7	-2,9	0,7	1,7	0,0
Croatia	2,2	-6,0	-1,2	0,0	-0,5
Kosovo	6,9	2,9	3,9	5,0	3,8
FYR Makedonia	5,0	-0,9	1,8	3,0	2,0
Monte Negro	6,9	-5,7	2,5	2,5	0,2
Serbia	3,8	-3,5	1,0	1,8	0,5
Weighted average of Western Balkans countries	4,0	-3,5	0,5	1,3	0,3
Simple average of the countries of the Western Balkans	5,4	-1,8	1,7	2,3	0,9

The drop of direct foreign investement had significant impact on low economic growth of Bosnia and Herzegovina. This was largely result of the inefficiency of some state authorities (courts during registration and establishment of companies, etc.). The shortcomings which were noted and pointed out by the vast number of embassies of foreign states in our country, could be eliminated if all of these affairs were under the authority of local government. In that situation, these authorities could be ordered by the decision of the assemblies of local government to conduct tasks, such as the registration of companies, the approval for the construction of facilities for established companies, work permits, etc., in one week instead of the six months (on average), as it was case previously.

This means that the arrival of foreign investors in our country, depends largely on the organization of certain state institutions.

It is obvious that in Bosnia and Herzegovina, as well as many other developing countries, the state is looking at its production, as relatively simple, as a basic free market principle recommended by international donor agencies. States, due to the understanding that the organization of it's own production, especially agriculture, is economically unjustified in these conditions, so that state aid to subsidize remains very modest and is the result of pressure of Farmers Association of Bosnia and Herzegovina. In other words, planning the conduct of economic policy in Bosnia and Herzegovina, was relatively centralized in order to

achieve predetermined objectives of the state. Although the process of decentralization of state functions, including planning, has recently started, it has led to many misinterpretations and abuse at the local level. This has resulted in the fact that the local population is not empowered in the true sense, and their participation in decision-making process is limited to the social elite, so that their interests are taken into account and not the interests of the local community. It is not surprising that such a dichotomy of interests leads to many negative phenomena in the Bosnian economy.

Limited funding for subsidizing domestic production are an obstacle to sustainable economic development of local government

It is difficult to cover all the factors that could explain why there is no communication and synergy between the various stakeholders in the process of development of the B&H economy. For a complete understanding of the situation one should take into account these factors:

- The legacy of almost half a century of centralized state administration that gave local people little opportunity for participation in meaningful decision-making process at the local level;
- Often libelously equalization of any form of collective activities with the collective organization under communism;
- Recognized ambivalence of community as a concept that encompasses spatial continuity, social connections, interactions and reflection, along with often erroneous assumption of common aspirations and values (Hall, 2000). Besides the legacy of the communist regime, a number of other interrelated factors at the macro level limit the progressive community development and process of capability raising in contemporary Bosnia and Herzegovina:
- The consequences of war (physical destruction, massive displacement of the population, authoritative nationalism)
- Economic and social crisis of transition, which led to the expansion of the regional gap between the rich, mainly urban areas, and many of the war-affected areas, which are now designated areas of special state aid, are characterized by high failure, a small population, aging population and tension between migrants, returnees and the local population (Stubbs, 2006).
- An increasing number of municipalities (Prior to the war in Bosnia and Herzegovina until year 1992, there were 109 municipalities, 10 of which belonged to the then territory of city of Sarajevo. Nowadays the number of municipalities increased to 141, 79 of which are municipalities in the Federation of Bosnia and Herzegovina, 57 in the Republic of Serbian) has led to the emergence of new local self-

government units, which are not able to generate sufficient income at the local level in order to be sustainable, which means that the majority of their expenditure is financed from the budget of the entity.

Important, perhaps the most important, limitation of the progressive development of local communities and their qualifying in Bosnia and Herzegovina, is not as a new social division of Bosnian society, but a deeper crisis of values and trust, which can be seen as a cause and a consequence of this redistribution

### **Empowerment of communities in the context of the European Union**

Step by step the framework of the European Union becomes the most important factor in structuring development policy in Bosnia and Herzegovina. After a long period of great influence of World Bank, IMF, USAID and many other bilateral donors all over, including international and non-governmental organizations such as the WWF (Staubbs, 2006) The European Commission in 2000 started the so-called Cards Program (Assistance to local governments for Reconstruction, Development and Stabilisation) for countries in the Western Balkans. As part of this program it is planned to allocate 4.6 billion euros for that region in period from 2000 to 2006 for the investment, the creation of institutions and other measures to achieve four main goals:

- Reconstruction, stabilization of democracy, reconciliation and the return of refugees
  - Development of legislation institutions, including compliance with standards and
- approaches of the European Union, in order to promote democracy and the rule of law,
- human rights, civil society and the media, and establishing free markets
- Sustainable economic and social development and structural reform

- Encourage networking and regional cooperation between the EU member states and

countries candidates for EU accession.

In Bosnia and Herzegovina, through Cards initiative and other funders, a number of different projects related to these goals were implemented. When we look at these measures, initiatives and projects, it could be said that they are not related to the empowerment of local communities for sustainable economic development. However, one should not forget that economic policy is not the sector, but a mixture of sectors and activities, and as such benefits from the activities and projects related to economic and non-economic activities. The European Union has



recognized that in Bosnia and Herzegovina there is no specific economic policy, and therefore no specific instruments and measures related to the economy. Most of the EU financial resources from which economy could benefit, comes in the form of different helpful instruments that are not tied to a particular sector, but which are used to achieve one or more of the major objectives of the Union such as employment, cohesion, inclusion, sustainability and so on. (European Commission, 2004) .

## Conclusion

In this article we discuss the problems of improvement of empowerment process for the local government in Bosnia and Herzegovina and their implications for economic policy. It is obvious that the present restrictions need not be limited to the conduct of economic policy, but can be viewed as the common problem of economic development in general. Therefore, the present problems can be overcome by modifications of constitutional principles governing authorities of municipalities as local communities. The transfer of powers for conducting economic policy, from higher levels to local government in Bosnia and Herzegovina would not give the desired results, unless a specific strategy at local, regional and national levels is adopted aiming to eliminate present limitations. In order to make recommendations for the implementation of economic policies by local governments, it is important to once again emphasize that there are no institutional or models from other countries practice that could be applied in Bosnia and Herzegovina, as a universal solution to the problem. Instead, it is necessary to create networks, forums and sites on the local, national and international level for exchange of experience and development of good practices, not to define the formula, but to grasp why some initiatives had positive effects, while others were less successful (Stubs, 2006). However, even recommendations which would have effect on policy improvement, empowerment and access to participatory

economic development of local self-government can be defined.

Firstly, the empowerment of local communities to independently conduct their own economic policies must be considered in the decision-making process and in the context of distribution of benefits derived from economic development.

Secondly, this process requires decentralization of the public administration system and the activities of determining economic policy measures. Therefore, local administrative communities should be reorganized in order to defend, protect and display the interests of local residents in their administrative area, and that implies additional financial resources, among others in the process of further education and capability raising (Tosun, 2000) .

Thirdly, education and capability raising programs should include the local population for its greater involvement in the process of conduct of economic policy, as well as entrepreneurs and workers, like those who have the right to live in a high quality environment. If the local government would take over the conduct of economic policy, there would be improvement of formal and informal networking of social capital at the micro-level.

Last but not least action on this list is the need for better implementation of various initiatives coming from the European Union, particularly those intended for capability raising of local government, and thus their greater participation in the realization of the GDP of Bosnia and Herzegovina.

Finally, it should be noted that with the improvement of the political, social, economic and psychological empowerment among residents and other stakeholders within the local government, it will be possible to meet local needs for development, obtaining many of the goals of sustainability, including achieving balance, economic and social integrity and equality and better protection of the living space.

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