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TITLE:

**INSTITUTION FOR LOCAL AND REGIONAL DEVELOPMENT IN
BOSNIA AND HERZEGOVINA**

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INSTITUTION FOR LOCAL AND REGIONAL DEVELOPMENT IN BOSNIA AND HERZEGOVINA

ABSTRACT

The aim of this paper is to present the basic concepts and key issues relating to the formation, development and operation of institutions for local and regional development in Bosnia and Herzegovina. To create strong economic regional development need for strong dynamic institutions to plan, coordinate, promote and take action within the regional development. In this paper we study local and regional institution, background and context, legal and political framework, territorial aspects, relation with EU cohesion, relation with EU network, activities, organisation structure, regional and local partners, capacity building, funding and sustainability. The paper is a reserach position and impact the local and regional institutions in the regional economic development of Bosnia and Herzegovina.

1. Introduction

Governments and institutions played an important role in a successful local and regional development in the European Union countries. In other parts of the world, including some transitioning countries, it seems that the government served more as the obstacle, rather than the

contributor to growth and development. In this chapter we will review the relations between the state and the market in the process of local and regional economic development.

Nobel Laureate Amartya Sen points out that some discussions harm even those involved, but that is not the reason to have a negative attitude towards discussions in general. Governments and institutions can in the same way do as much harm, but that is not the reason for a generic attitude against the role of institutions and governments in local and regional development. Their role can add to the fulfilment of a human desire for equal, harmonised and balanced development in a territory of local, regional and national communities, based on universal values of equality and equal opportunities for all, regardless of their place of birth or residence.

The problem is how to define a strategy, policy and an institution for local and regional development. In the second half of the past century¹ the notion of state as the benevolent contributor to development, at least implicitly, was the most favourable one. However, the history of corruption, mismanagement and states that are confined in various interests in many developing countries during the last decades, made this view untenable as a “positive” one or as an empirically accurate description of the government. Recently there is a negative attitude towards the government, however that is also based more on theory than on practice, and it does not explain the important and constructive role of the state, taken into consideration the successful experiences in development, especially in East Asia. Finally, there is the moderate view, one that admits both strong and weak characteristics of the public and private role and gives the empirical analysis of all errors made in development management, with the conditions that can contribute to correcting these errors (Todaro-Smith, p.516-517).

¹ Since the Great Depression and John Maynard Keynes's work „General Theory of Employment, Interest and Money“, where he points out that states not only should, but have the capacity to play a major role in development

This paper will raise the issue of roles and limitations of policy making for planning local and regional development, as it is implemented in developing countries, underline the problems of local and regional development in context of economic transitions towards the competitive market economy, and ask the basic questions regarding the adequate role of the state and means by which the public and private sector can be mutually supportive in the development process. We will begin with a short overview of the nature, and a summary of general issues of development planning. After discussing the main arguments for and against the role of planning in developing societies, and a brief outline of different models of project planning and assessment, we will point out the conditions for economic transition towards market economy and review the arguments for and against the state's role in local and regional development in transitioning and developing countries, with the focus on Bosnia and Herzegovina.

The "Washington Consensus" on development policy with its limitations, and the New Consensus that has been initiated on a summit in Santiago in 1998 should have special attention in the context of local and regional development. It would also be useful to give an outline of some of the new theories on creating development policies in general, and on the regional and local levels, including the research on the impact of political processes on the quality of political decisions. Furthermore, we should have in mind the three major trends in management and reform of local and regional development: the problem of corruption, decentralisation and stimulated involvement in development on participatory basis. Finally, we should review the nature of the third sector, or civil society / civil sector, which encompasses the non-governmental organisations and their rising role in local and regional economic development. The focus in all of these issues, of course, will be Bosnia and Herzegovina.

2. The mystery of planning of local and regional development

In the first decades after World War II, the struggle to achieve economic development resulted in almost universal acceptance of development planning as the safest and most direct road towards economic progress. Until the 1980s, very few people in the developed world disputed the expediency and desirability of defining and implementing the country's development plan. Planning was a way of life in ministries and governments, and roughly every five years the latest development plan would be presented to the public with fanfare.

Since 1957, all development plans contained institutions and policies for regional development, i.e. development of the underdeveloped areas. The 1957-1961, and the 1961-1965 development plans contained the criteria, measurements, indicators, instruments, means and institutions for achieving the regional development policy designed as the policy for quicker development in the underdeveloped areas. By mid 1966, Bosnia and Herzegovina, as a republic within the former Yugoslav federation, took over full responsibility and care for solving the problem of unbalanced regional development within its territory. Mid-term five-year plans were adopted for periods 1966-1970 and 1971-1975, followed by the Resolution on the basics of regional development and the development of the underdeveloped areas, and two laws regulating the Fund for financing quicker development of the underdeveloped areas (1968 and 1972).

The basis for a stronger role and responsibility of Bosnia and Herzegovina in its own development, and with that the local and regional development, was introduced in the Constitution adopted in 1974 (Bošnjović, 1984). In the planning period 1976-1980, the resources were used from the federal and republic fund for quicker development of the underdeveloped areas, along with other measures like the creation of conditions for investments in the underdeveloped areas (building public utilities, urban and development infrastructure,

economic motivation for the shift of funds and human resources into these areas, assistance in training specialist from the areas, assistance in ensuring general and common consumption etc.).²

However, why is there a mystic aura surrounding the development planning and where does all this faith in its usefulness come from? Basically, because of the general notion that planning provides the essential and perhaps the only institutional and organisational mechanisms for overcoming major obstacles of development, and for maintaining the high economic development rate. In order to overtake the developed countries, the less developed ones were convinced they needed an overall state plan. Unfortunately, the planning did not reach the expected results, and the illusions about planning as a mystery were broken. However, the overall development policy can play an important role in picking up the pace of development and poverty reduction.

In the 1981-1985 development plan, a more harmonised and balanced development was underlined as a special interest and objective. In this context, the state intervenes directly by investing into the economy, or indirectly by investing in public utilities and social infrastructure, which makes the area more attractive to other investors. Criteria for using the resources from the Fund for financing quicker development of the underdeveloped areas are defined in consultations with business associations. The criteria list, among others, included the impact of a certain project on export, import substitution, attracting foreign capital, investment efficiency, duration of construction, project profitability, manufacturing industries, only exceptional support to core industry, employment, effects on eliminating structural unbalances (Osmanković, 1999. P.160-161).

² SR BiH Social Plan for 1976-1980, SRBiH Official Gazette, 24/76, p.966-966)

A more harmonised and balanced territorial development based on a more complete and rational use of comparative advantages of underdeveloped areas (natural, human and manufactured resources) is one of the main goals in a long-term 1986-2000 plan. The engagement of the state in local and regional development in the 1947-1990 period, including the 1986-2000 plan, concentrates on defining development policy, creation of instruments and institutions, establishing a fund for financing, usage of comparative advantages of the underdeveloped areas, completing the infrastructure, improved education, public health, cultural and other facilities, information access, rural development, development of "small economy", or in the current terminology, small and medium-size firms and development of tourism.

The involvement of the state in local and regional development until 1956 focused on identifying and developing the regional centres, and their empowerment so that they could be the development generators for themselves and their area of gravity. After 1956 the attention shifts to the underdeveloped areas, the periphery.

Regional development planning in this period could be described as the government's intention to co-ordinate economic decision-making in the long-term and mid-term development, as well as the annual programmes, and to directly influence, and in some cases even control the growth rate of the country's major variables (income, expenditures, employment, investment, savings, export, import etc.), in order to achieve the predetermined objectives, with an adequate strategy for their achievement.

The basis for such state involvement lies in the notion that market economy is not compatible with the main operative tasks of less developed countries: mobilising limited resources in a way that could lead to structural changes necessary for stimulating sustainable and harmonised growth of the overall economy. The planning is, therefore, accepted as the basic tool of

management and speeding up the economic growth in almost all developing countries (Todaro-Smith, p518).

Reasons for planning local and regional development after 1990, especially in the post-war period, can be found in the market failures. It is said that in the absence of government's influence the market leads to poor distribution of current and future resources, or at least distribution that may not be in the society's best long-term interest. This argument is perhaps the most frequently quoted reason for greater influence of the state in less developed countries (Todaro-Smith, p520). Unfortunately, we can not make an immediate conclusion that the market failure, if according to the theory of economics it could be corrected by policies, could also be corrected in practice! The government can fail in many cases when the politicians and bureaucrats put their personal interests above the public benefit. Analysis of stimulus for government's failures assists the reform process, like the constitution and regulations regarding civil service. In less developed countries there is a trend of both market and government failures (Todaro-Smith, p520).

Developing and transitioning economies can not afford to waste their very limited financial and human resources on less productive investments. Investment projects must be selected not only on a basis of partial analysis of productivity, which is dictated by certain relations between resources and industrial results, but on basis of overall development programme that takes into consideration the outside economies, indirect repercussions and long-term objectives. It is often assumed that detailed definition of state economic and social objectives in the form of a specific regional development plan could have a significant personal or psychological influence on a diverse and often fragmented population. It can successfully bring people closer to the government in a campaign for eliminating poverty, better education or combating disease. It is understood that by mobilising public support from every class, caste, race, religion and tribal

fraction with an appeal to all citizens to work together in the building of a country, an inspired central government, through its economic agenda, can provide the best stimulus for overcoming the inhibiting forces of sectarianism or traditionalism in a joint search for general social development (Todaro-Smith, p521).

Designing detailed development plans on regional and local level is often the main condition for receiving bilateral and multilateral foreign aid. With a list of possible projects the governments are much better prepared for getting foreign aid and convincing the donors that their money will be used as the crucial component of the well-conceived and consistent action plan.

2.1. Process

Initially, most local and regional development plans were traditionally based on more or less developed macroeconomic model. Such models can be divided into two basic categories: total growth models, which include the macroeconomic evaluations of planned or necessary changes in major economic variables, and multiple-sector input-output and computable general equilibrium (CGE) model, which (among others) determines the implications of a given group of demand objectives in relation to production, resources, employment and foreign trade within the internally consistent framework of the flow of industrial products. Finally, perhaps the most important component in developing a plan is the detailed selection of specific investment projects within each sector through project assessment and analysis of costs and gains.

The process of formulating the overall, detailed regional and local development plan is clearly a more complicated process than most people believe. It includes constant dialogue and feedback mechanisms between countries' leaders, regions and local communities, those who determine the priorities and those who develop plans, gather statistical information, researchers and government officials and the population, all the beneficiaries of specific area and interests within that area. Internal rivalry and conflicted goals (not to mention political pressure from the powerful interest groups) are the factors that must be taken into consideration.

The gap between the economic benefits of planning in theory, and the practical results in most developing countries, including Bosnia and Herzegovina, is very large. Gap between the public rhetoric and economic reality is even larger. While most planning policies in less developed countries are supposedly working on eliminating poverty, inequality and unemployment, in reality they are unintentionally just supporting them. Some of the explanations lie in the failure of the very planning process; this failure comes from certain concrete problems which can be identified in cases of regional development strategic plans developed by foreign experts.

Insufficient and unreliable information, indicators and measures are among the major defects in these documents. Economic value of the development plan largely depends on the quality and reliability of the statistical data. When this data is incorrect, unreliable or simply non-existent, the accuracy and internal consistency of the quantitative plans for local and regional communities is greatly reduced. When this unreliable data is collected by an inadequate team of qualified economists, statisticians and other persons who work in planning (which is also common in most less developed countries), the attempt to design and implement an overall detailed development plan will most likely meet obstacles in all levels.

Unpredicted economic disturbances, internal or external. Because most less developed countries have open economies that depend on international trade, financial aid and private foreign investments, it is extremely hard for them to indulge even in short-term prognosis, not to mention long-term planning. In current plan for BH regions, the economic situation in the region, the Balkans or in the European Union and the international market is not even mentioned.

Todaro and Smith point out that the poor implementation of a plan, and a large gap between formulating and implementing a plan can also be attributed to lack of commitment and political will among many leaders and high-level decision-makers in developing countries. In order to create the political will, there needs to be much more than high goals and noble rhetoric. We need the unusual skills and great political courage to dispute the powerful elite and interest groups, and to convince them that such development represents a long-term interest of *all* people, although some might have short-term setbacks. In lack of their support, either voluntary or forced, the will for development will probably meet a strong resistance, frustration and internal conflict among the politicians (Todaro-Smith, p531).

2.2. Institutions

In the post-war period, many foreign experts, institutions, organisations and local communities expressed an interest in local and regional development. As a result of this interest a network of institutions was formed, that provides services in local and regional development, along with roughly ten regional development agencies as part of the EU QIF I and II projects, five regional development agencies as part of the EU RED I, as well as certain institutional structures in bilateral co-operation with specific countries or foundations (German foundations are especially active in this area), appointed services, sectors and reports in civil service on several levels

(from local to regional and entity to state level), local community associations which are also members of the European associations etc. These BH institutions, as well as the local and regional development institutions in other developing or transitioning countries have the similar problems and ensure certain benefits to their employees and their beneficiaries.

The current network of institutions that deals with various aspects of local and regional development is characterised by their large number, segmentation, different legal status, founders, motives, structure, number of employees and network of beneficiaries, frequent changes in organisation, systematisation, legal documents, inadequate information flow, lack of co-ordination etc. As a result we have an irrational usage and engagement of human and all other resources, involvement in the same projects etc.

Institutional weakness of the planning process in most developing countries includes the separation of the planning agency from the government's decision-making machinery; inability of planners, administrators and political leaders to get involved with the continuous dialogue and internal communication regarding the objectives and strategies; international transfer of the institutional planning practice and organisational arrangements that can be inadequate for local conditions. Apart from that, incompetent and unqualified state officials; difficult bureaucracy; overly cautious approach and resistance to innovations and changes; personal and field rivalries between the ministries (e.g. financial ministry and the planning agency often are opposed to one another instead of co-operating); not taking responsibilities towards the objectives of a country, as opposed to regional, field or simply personal goals by the political leaders and government bureaucrats, which leads to political and bureaucratic corruption present in many governments (Todaro-Smith, p531). Many of these institutional weaknesses that Todaro and Smith point out as planning weaknesses can be recognised in Bosnia and Herzegovina.

3. Proces and institution for local and regional development in context transition from Washington to a new consensus

Understanding the Washington and Santiago Consensus, or more precisely the evolution of Washington towards the New Consensus, is necessary for understanding and balancing the involvement of the state in local and regional development. During the last few years there was a change in views on the Washington Consensus, both in Washington and the rest of the world. In the Americas these new views are sometimes called, as the President of the World Bank James Wolfensohn and others named it the New (Santiago) Consensus, which was, in a way, formed in April 1998 on the Americas Summit in Santiago, Chile (Toadro-Smith, p539).

Important dimension in the New Consensus is the emphasis on the government's responsibility in poverty reduction. Regional and local development has a special place in this process. This is partly going back to the focus from the 1970s; one of the reasons for this renewed focus is the notion that the free market policies of the 1980s and early 1990s are not adequately helping the impoverished population. It appears that the New Consensus reflects a growing feeling that it is finally possible to eliminate poverty, especially taking into consideration the recent development in health care and education. However, when it comes to the government's role in development, the New Consensus borrows some important lessons from the Washington Consensus. Specifically, the focus on market-based development and limitable role of government in directing production remains the attitude of the Consensus. New elements are not just revivals of the old image of the government as a benevolent supplier of social prosperity. A sober point of view remains, which highlights the building of state capacities and directing them towards the beneficiaries through the responses to government's failures, in forms of clever reforms and support to development of NGOs and civil society in general.

When it comes to creating strategies, policies and institutions of local and regional development, we must have in mind the basic elements of the Santiago Consensus.

1. Development must be market-based, but there are severe market failures that must not be ignored.
2. As a rule, the government should not be involved in direct production.
3. However, the government has a general, eclectic role in the following areas:
 - Securing the stability of the macro-area,
 - Infrastructure, through a smaller number of sectors than it was considered necessary before,
 - Public health,
 - Education and training,
 - Transfer of technologies (for advanced less developed countries, the start of an original research and development),
 - Ensuring environmentally sustainable development and environment protection,
 - Ensuring export stimulus,
 - Support to the private sector in overcoming co-ordination failures,
 - Ensuring "mutual growth" through poverty reduction, equality and better involvement of impoverished persons in benefits of economic development,
 - Continuous, although moderate, regulation and support to financial sectors,
 - Ensuring basic public welfare, i.e. legal structure, including protection of property rights (Todaro-Smith, p540).

The new point of view represents a partly restored recognition that markets do not succeed; sometimes these failures can not be solved without the important and constant role of the government; the failure of the market could be far worse than the failure of the government;

when the management is poor, it can usually be improved. Certainly, the key role of the government is to establish the foundation for economic development through meeting the conditions for an effective market economy. However, it does not consider the government reform to be simple and there are no strivings to support a state that controls the economy of a country, like in many cases until 1980s.

4. Conclusion

Governments in less developed and transitioning countries, including Bosnia and Herzegovina, have to take active responsibility for local and regional development and the future welfare of their countries. As their primary task of creating a fast economic development is being gradually replaced by dealing with problems such as external and internal debts and deficit, poverty, population, unemployment, environmental protection and inequality, governments and their institutions for local and regional development are taking a new role, one which will demand innovative approach and changes in local and regional level, that has rarely been seen so far. The most important part of this new role will be the institutional and structural reform in acquisition, ownership and distribution of property, education and health care, loans, working relations, price-fixing, organisation and orientation of technology transfer, research and experiments, as well as the functioning of the government itself and other institutions.

Bosnia and Herzegovina, after carefully reviewing the matrix and model of local and regional development institutions in the European Union, as well as the knowledge on specific situations, especially problems and objectives, experiences in pre-war and post-war local and regional development, frameworks for state's involvement as clarified in the Washington and Santiago Consensus, doctrines of the European regional economic development, should urgently reach an expert and political consensus on the optimal profile.

Successful local and regional economic development demands the advancement of public, private and civil sector. Each sector has an important and complementary role in achieving a just, common, self-sustainable, humane, complete and competitive development.

5. Resources

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