

Socio-Economic Differences in the Development of Rural Areas in Federation of Bosnia and Herzegovina – Case Study

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Abstract

In Bosnia and Herzegovina some rural municipalities with similar population density are very different regarding key demographic and economic indicators like migration, unemployment and average wages. According to the existing studies in Europe the answer for differential economic performance is firstly in the potential of local community to recognize, strengthen and utilize less mobile assets in the form of economic, social, cultural and natural capital. Secondly, researchers point to the synergy between those assets and external networking and using information and communications technology in reaching new markets and resources. Understanding the reasons for differential economic performance and more or less competitiveness in rural areas of Bosnia and Herzegovina could thus be a key element in devising practical strategies and programs for sustainable rural development. This could also contribute to the programming of Instrument for Pre-Accession Assistance for Rural Development of Bosnia and Herzegovina in the future. The aim of the study is by comparing the most and least developed rural municipalities to investigate the reasons for the differences in economic performance, in particular, to investigate the role of capitals or tangible and less tangible factors influencing development outcomes. In order to achieve that, the authors have chosen high and low performing municipalities according to the criteria of population density, rurality and proximity to large city. In order to have more clear picture, community profiling is conducted and data was collected by surveying community stakeholders.

The analysis showed that in high performing municipality all capitals are accessible and properly utilized with space for improvement while low performing municipality has many problems and higher need for change and

new strategy of development.

Keywords: Rural development, community capitals, municipality

Introduction

For many years rural was associated with population decline, degradation of the countryside, population aging, gender inequality, increased unemployment and poverty. However, literature gives some evidence that the mentioned image of rural Europe needs re-shaping (OECD, 1996; Bollman and Bryden, 1997; European Commission (EC), 1997; Terluin and Post, 2000).

According to Dower (2013), when writing about European Union, there is a strong need for efficient measurements and policies in development of rural areas mainly for two reasons. First is that rural areas “contribute to Europe’s prosperity”. For decades, rural areas have provided most of the natural resources upon which an increasingly urbanised Europe depends (Ministry of Regional Development, 2011; Dower, 2013, Wakeford, 2013). They have provided also the necessary skills for exploitation, processing and transportation of these resources. Since there is a growing need for natural resources, and their usage in modern and sustainable way, the role of rural areas is very important. Other important fact is gross social and economic disparities between rural regions compared to urban and other rural areas.

However, there are studies that show different results. According to The Organization for Economic Cooperation and Development (OECD (1996, 2006, 2012) there are peripheral areas that perform good or even better than urban areas which leads to the concept of “differential performance” between rural areas which exist in relatively similar conditions related to geography, location, available natural resources, policies, etc. It is obvious that traditional theories (core-periphery or neo-classical) or “new economic geography” related to rural-urban development processes, cannot explain those performance differences of rural areas with similar characteristics (Krugman, 1993, 1999; Kilkenny, 1993, 1998, 1999).

Authors Bryden and Munro (2000) emphasize that the answer is firstly in the potential of local community to recognize, strengthen and utilize less mobile assets in the form of economic, social, cultural and natural capital. Secondly, researchers point to the synergy between those assets and external networking and using information and communications technology in reaching new markets and resources.

The identification of barriers and opportunities is important for planning and creating adequate policies that will address these problems and challenges. Examining the available capitals in the two types of communities, successful and less successful, would provide information about possibilities

on one side and limitations on the other. Concentrating on what rural areas have rather on what they need is acknowledged approach in assessing potentials for local/regional development.

Bosnia and Herzegovina (BH) is one of the most rural countries in Europe. More than 60 percent of its population lives in rural areas. There are few studies about the socio-economic indicators of regions in BH¹. Some of the results indicate that the rural municipalities with similar population density are very different regarding key demographic and economic indicators like migration, unemployment and average wages. Data about unemployment do not show any kind of pattern that could explain those differences. According to the estimation of United Nations (UN, 2010), there are significant regional disparities in BH. Out of 142 municipalities, 89 are undeveloped or extremely undeveloped. The same study identified five best ranked regions: Sarajevo, Hercegovacko-neretvanski canton, East Sarajevo, Banja Luka and Zenica-Doboj canton. Five least ranked regions are Kanton 10, Una-sana canton, Bosnia-Podrinje canton, Posavski canton and Bijeljina.

This raises the question why some municipalities have such low indicators and how their problems can be solved. Especially, this can be answered by looking at the communities that are creating jobs, raising incomes, attracting migrants... What is the secret of their success and how can it be replicated to the rest of the country?

According to the above mentioned, case study analysis of some of the best and worst ranked municipalities in the country, according to the development index, would provide useful information for future rural development of Bosnia and Herzegovina.

The main contribution of this research is that it is making the distinction between indicators that “measure performance” and the ones that help “explain” relatively good or bad performance of rural areas. This research is focusing on the later ones which can help local, regional and national policy creators to account for those differences. Understanding the reasons for differential economic performance and more or less competitiveness in rural areas could thus be a key element in devising practical strategies and programs for sustainable rural development.

The aim of the study is by comparing the most and least developed rural municipalities to investigate the reasons for the differences in economic performance, in particular, to investigate the role of capitals or tangible and less tangible factors influencing development outcomes.

¹ Socioekonomski pokazatelji po općinama u Federaciji Bosne i Hercegovine (2009, 2010, 2011, 2012, 2013, 2014), (Socioeconomic Indicators for Municipalities in Federation of Bosnia and Herzegovina), Federal Development Planning Institution

The main research question could be stated as: Why do rural areas in apparently similar economic, social and environmental conditions have markedly different performance over relatively longer time periods?

Literature Review

The communities should build on the things that they have rather than concentrate on what they lack. Every community has a set of unique attributes that could form the basis of community and economic security (Braithwaite, 2009).

In the past, activities to define the opportunities for and constraints on development tended to concentrate on deficiencies in physical infrastructure and buildings, including mainly “hard” features of capital creation. Gradually, it came to be recognised that the “soft” aspects of development are equally important and that issues like skills and capacities of the local workforce, its entrepreneurial culture, the effectiveness of business networks and innovativeness, the quality of local institutions and regional governance are crucial components of local territorial assets. This shift in perspective is also visible in the thematic focus of international research, including that of the OECD. The New Rural Paradigm (OECD, 2006) provides a framework that includes substantial perspectives for rural policy.

A conceptual model was created for this study which assumes that the different economic performance of rural areas is the result, in part at least, of five locally available capitals: (1) environmental capital (natural and built); (2) human capital; (3) social capital (4) cultural capital; and (5) economic capital.

Natural capital

Natural capital represents the basis of the community’s assets. Although, it can be easily noticed, it is not always easy to measure natural capital or determine its impact in relation to community development (Russo, 2003; Fey, Bregendahl, and Flora, 2006).

Prugh et al. (1999) stated that the limiting factor of development wouldn’t be manufactured capital but natural capital. Few years before Goodland and Daly (1996) stated the same fact. The natural capital shouldn’t be considered a free good, “but should be calculated as a limiting factor in development”.

It is important to have in mind that the term natural capital includes wider consideration than simply natural resources. An area to be endowed with natural resources is not sufficient asset that can affect rural development. This was elaborated in the study by Ida Terluin (2003) which included 18 case studies in leading and lagging rural regions in the EU. It appeared that there is no significant relationship between being a leading region and endowed with natural resources. However, related to rural amenities (which included some

natural assets of high nature value and protected areas like regional or national parks) the relationship seemed to exist. However, the existence of amenities was not the determining factor, but the degree of effective valorisation of those assets. The research showed that some of the rural regions classified as leading have properly exploited their potentials and have developed effective integrated strategies for promoting and marketing those assets.

Development, which conserves and protects natural capital, requires rural communities to develop planning decisions that focus on renewable and non-renewable resources, waste capacity, and the maintenance of biodiversity.

Built capital

Along with other forms of capital, many studies have highlighted built capital as one of the major contributors to economic development. Built capital, often referred as infrastructure or physical capital, can be defined as physical infrastructure used to support community activities (Crowe, 2006).

Whitener and Parker (2007) imply that the building and expansion of infrastructure holds the most promise for the well-being of rural communities. Crowe (2009) states that communities with well-managed, high quality built capital have better chance for economic development. Flora et al. (2004) agrees that when infrastructure is available, individuals and businesses are more likely to be productive. Copus et al. (2006) emphasize that infrastructure and access to basic services is of great importance especially in areas with negative population movements or structural economic change.

Investment in rural infrastructure not only benefits the rural community and its residents, it also facilitates the creation of new business and survival and growth of existing ones. Built capital is easy to measure since it is physically present and appraised.

According to the literature, there are four major aspects of built capital that need to be considered when evaluating differences in economic performance of rural areas: transport infrastructure, business-oriented infrastructure, consumer-oriented infrastructure (or basic services), and tourism-related infrastructure.

Social Capital

Putnam's (1995) definition of social capital is one of the most quoted in modern literature. He defines social capital as: "features of social organisation, such as networks, norms and social trust that facilitate coordination and cooperation for mutual benefit."

Frequently used method in analyzing and discussing social capital is its division into components: bonding, bridging and occasionally linking (Putnam, 2000).

Social capital research encompasses a wide spectrum of topics within the very broad field of social and economic inequality (Brough, 2007). Social capital is measured as an individual, group or organisation and a collective (community-level) attribute (Acquaah et al., 2014).

The measures of social capital and the economic growth are varying across the studies (Westlund and Adam, 2009).

Acquaah et al. (2014) analyzed 314 articles published in the period 1990-2013 in academic and practitioner journals as well as other sources, such as reports from the World Bank. They made a systematic review of definitions, measurements, and values that social capital provides to individuals, businesses and communities. According to their analysis research suggests that the measurement of social capital is multidimensional, and the various components could be summarised into four groups: social networks, trust and reciprocity, norms and civic engagement.

Westlund and Adam (2009) in their evaluation of 65 studies related to social capital come to the conclusion that it is still hard to determine what is the exact level and way of social capital impact on economic development. In their conclusion they state that social capital induces co-operation, serves as intermediary in interaction with other capitals and creates the basis for dynamic and creative environment.

Human Capital

Human capital represents the skills and abilities of people in the community. Contemporary understanding of human capital can be attributed to Becker (1964) who refer to it as “the value added to a laborer when the laborer acquires knowledge, skills and other assets useful to the employer or firm in the production and exchange processes”. More recent definitions of human capital indicate that it is related to the stock of skills, qualifications and knowledge that individuals possess.

Many researchers state that human capital represents one of the key assets that influences rural economic development (Agarwal et al., 2009; Bryden, 2003; Porter 1990; Reimer 2005, Tweten, 2008).

During the years, different authors have emphasised a number of factors that comprise human capital and that are influencing economic performance of regions and among them rural areas. Identified are: education and skills, leadership, entrepreneurship, demography, migration, access to services, housing, quality of life, rural-urban interactions (Terluin, 2003). Each of these identified factors has number of aspects and all of them can be considered firstly as an input into the production process. The relationship between them is different as well as the influence on the performance level of an area (Agarwal et al., 2009).

Cultural Capital

Cultural capital has a range of definitions, many of which contrast each other. Matarasso (1999) states that it represents one aspect of human capital that can be obtained through education, training and cultural activities. Agarwal et al. (2009) cites Gould who “considers it to be a form of social capital that is generated when the sharing of culture through celebrations, rites and intercultural dialogue for example, enhances relationships, partnerships and networks within a community”. Geertz (1993) describes cultural capital as identity of people and communities they live in, which includes history, traditions, customs, language, art, music and stories associated with the place. Many authors agree that cultural capital consists of community symbols, traditions, language patterns, festivals, celebrations, and other events (Flora et al., 2004; Fritz, Boren, Trudeau, & Wheeler, 2007).

In Development of Rural Areas project (DORA) (Bryden and Hart, 2001) ‘culture’ includes local traditions, identity, values and beliefs, attitudes, religion, history and leadership as well as political beliefs and allegiances. All these aspects are expected to indirectly influence economic performance of rural areas.

According to Dower (2013) typical culture of an area can: develop strong sense of identity and pride and create important component for the community members to take initiative in local development; enrich the life of residents; strengthen the local economy by attracting in-migrants and tourists.

The importance of cultural capital in economic development of rural areas is increasing. Cultural activities are usually related to tourism, heritage and historical and local identity. Possibilities for creating economic benefits range from importance of cultural activities and creative industries in attracting innovators, talents, companies and tourists to the role of creativity as resource of local and regional production. However, Copus et al. (2006) indicated that we are lacking information on the significance of cultural activities in rural areas to development, more specific, employment. The existing statistical tools, for example in EU, are not appropriate to capture this sector properly and to enable comparability.

Economic capital

Economic capital refers to “capital resources that are invested and mobilised in pursuit of profit” (Lin 2001, p.3); It includes investment in production that needs recruiting and organising labour, facilities, equipment and so on, entrepreneurship and innovation. Along with that, it has a social notion. Thus, economic linkages, which include supply chains and local food networks, formal and informal networks are also important for the rural development.

In order to determine the important aspects of economic capital in rural areas it is important to acknowledge two main drivers related to the production and consumption. Firstly, the changes which include moving production away from agriculture towards services or small scale manufacturing activities or from conventional towards modern, technologically advanced agriculture. Second driver are the changes occurring in consumption as a result of income rise, which leads to more spending on non-conventional agricultural and food products, tourism, recreational and cultural activities and concern about the quality of life. These drivers combined with adaptation and implementations of ICT, along with the increased investment in human capital create entrepreneurial opportunities and induce entrepreneurship in rural areas (Copus et al, 2011).

In many countries of EU, rural self-employment becomes vital for economic development of many less-favoured or lagging rural areas (Skuras & Stathopoulou 2000, Copus et al, 2011). Social and economic composition of rural areas can be a driver or a barrier for self-employment. However, sufficient support and focus are necessary for creating new job opportunities. It is important to note that the goals of rural entrepreneurs may be little bit different of those in urban areas. The first goal could be sense of independence, providing jobs for family members, doing something for the community and not mainly profit maximization.

Some of the drivers mentioned in European Development Opportunities for Rural Areas project (EDORA, 2011) are: the need to diversify supply; progress in food manufacturing, ICTs, packaging and logistics, growing cooperation with R&D institutions; and business cluster creation. Clusters of businesses greatly contribute to the regional economy. It can be defined as geographically close group of companies and relevant institutions from the same field including producers, service providers, suppliers, research institutions, universities which are complementarily interconnected. Rosenfeld calls rural clusters and networks the “Yin and Yang of Rural Development” (cited in Copus et al, 2011).

Methodology

The first step was to identify the most and least developed rural areas in BH using development index, percentage of people living in rural municipalities, population density and proximity to the large urban center. Because of availability of data the considered municipalities were from the Federation of Bosnia and Herzegovina.

In Federation of Bosnia and Hercegovina there are 79 municipalities. Each year Federal Development Planning Institution is evaluating socioeconomic development of each municipality using statistical data and averages which are provided by municipalities and performed by groups of

experts so high accuracy and reliability would be achieved. The indicators that are being used are:

- Estimated Gross Domestic Product per capita for each municipality;
- Employment rate
- Unemployment rate
- Number of students of primary and secondary education per 1000 inhabitants
- Absent population compared to the 1991 Census data

Employment rate is established according to the municipality's data about number of employed compared to the estimated number of inhabitants.

Unemployment rate is established according to the municipality's data about the number of unemployed people compared to the active population.

Absent population is established according to the present population compared to the 1991 Census data in municipalities which are a part of Federation of Bosnia and Herzegovina according to the Dayton Agreement².

Selection of case studies (municipalities) eligible for research was conducted in four steps, according to the following criteria:

Municipality development index. For each municipality, five indexes were assigned compared to the average data of the Federation. Summing individual indexes led to the formation of total index of development for each municipality. Appendix 1 presents best and worst ranked municipalities in year 2014 in Federation of Bosnia and Herzegovina.

Level of rurality. The data for determining rurality were taken from the official web site with preliminary statistical data on 2013 Census (see appendix). The eleventh column in appendix presents the percentage of people living in urban areas.

Population density. The OECD definition of rural areas distinguishes two hierarchical levels of territorial unit, local and regional. At local community level (administrative or statistical units- equivalent to LAU³), the OECD identifies rural areas as communities with a population density below 150 inhabitants per square kilometer. At regional level (aggregated sub-national regions- equivalent to NUTS⁴), the OECD distinguishes larger functional or administrative units by their degree of rurality, depending on which share of the region's population lives in rural communities. This

² The General Framework Agreement for Peace in Bosnia and Herzegovina, also known as the Dayton Agreement, Dayton Accords, Paris Protocol or Dayton-Paris Agreement, is the peace agreement reached at Wright-Patterson Air Force Base near Dayton, Ohio, United States, in November 1995, and formally signed in Paris on 14 December 1995. These accords put an end to the 3 1/2-year-long civil war in Bosnia and Herzegovina.

³ The lower LAU level (LAU level 2, formerly NUTS level 5)

⁴ NUTS 3: small regions for specific diagnoses

typology only reflects the degree of rurality of the whole region (OECD, 1996).

To facilitate the analysis, regions are clustered into three types:

1. Predominantly Rural Regions: over 50% of the population living in rural communities;
2. Significantly Rural Regions: 15 to 50% of the population living in rural communities;
3. Predominantly Urban Regions: less than 15% of the population living in rural communities.

According to above mentioned tenth column in appendix was created so the intermediate and predominantly urban regions would be excluded from this research.

Proximity to the large city. One more factor according to which case studies are chosen is proximity to the large city. Large cities in BH are considered the ones that have approximately 100,000 inhabitants or even more. In that group are Sarajevo, Banja Luka, Tuzla, Zenica, Mostar and Bijeljina.

Remote rural regions face a different set of problems than rural regions close to a city, where a wider range of services and opportunities can be found (Dijkstra and Ruiz, 2010). According to that, predominantly rural regions close to the city (less than 40 minutes ride) are excluded from the study. To study socio-economic disparities in chosen rural municipalities, community profiling was conducted by using semi-structured interviews with representatives of NGOs and entrepreneurs in both municipalities, consulting the news articles in the local newspapers, researching the official statistical data, scanning the web sites of chosen communities, local businesses, and observations made at community events and activities.

Results

According to the data presented in appendix two predominantly rural municipalities with the highest and lowest development index, which are satisfying abovementioned criteria are Zepce (high development index) and Bosansko Grahovo (lowest development index). Both case studies are marked at the following figure.

Figure 1. Map of BH with marked case studies



Municipality Zepce

Zepce is located in central part of BH and Zenica-Doboj Canton with the area of 282 km². It has 46 settlements with the total population of 31.067. Compared to Bosansko Grahovo it is smaller in territory but much larger in number of inhabitants (table 1).

Table 1 Main indicators for selected case studies

Indicators	Municipality Zepce Zenica Doboj Canton	Municipality Bosansko Grahovo Canton 10 Livno
Area	282 km ²	780 km ²
Number of settlements	41	35
Natural resources	63% under forests, 27 km of river Bosna, mineral waters	36,42% under forests, peat, gravel, sand; some under mines
Population	31.067 (4.800 in urban area)	1.996
Working age population 15-64 years of age (%)	70	53,1
Population density	110 per km ²	2,6 per km ²
Natural population increase	38	-28
Unemployment rate	52,2%	46,9
Women in unemployment rate	46,5%	N/A
Employment rate	14,7%	17,4%
Average salary (KM)	559	986
GDP per capita (KM)	2.210	8.597

Number of people per doctor	1.553	Health care staff is transferred to neighboring municipality Drvar
Number of firms per 1000 inhabitants	39,1	114,7
Regional roads (km)	31	111
Local asphalted roads (km)	113,35	204
Local unpaved roads (km)	88,75	130
Railways (km)	19 (low utilization)	2,5
Price of water/m3 not including VAT (in KM)	0,85 for households 2,40 for business	Average price 2,00
Waste management	5.500 t of waste per year produced (only 20% effectively removed on legal dumping site)	500 t of waste per year, not removed with regular channels
Illegal waste dumping sites	11 macro > 100 micro	2 macro
Suppliers of electricity	2	1
Industrial zones	6	No
Business incubator	1+1 (agro incubator)	No
Kindergarten	1	No
Primary schools	5	1
Secondary schools	3	No
Restaurants	9 (3 with accommodation)	No accommodation capacity
Banks	6 + 2 microcredit organizations	No
Public media	2 local radio stations, 6 web portals with local info	1 official municipality web portal
Clubs	10 cultural societies and 17 sport clubs/societies	3 cultural societies, 1 sport club

Sources: United Nations Trust Fund for Human Security 2015, Nactr strategije razvoja opstine Bosansko Grahovo (Strategy of Development of Municipality Bosansko Grahovo 2016-2020 - Draft Version); Strategija razvoja općine Zepce 2011-2018, Razvojna Agencija Zepce, 2011; Socio-ekonomski pokazatelji po općinama u Federaciji Bosne i Hercegovine u 2014. godini, Federal Development Planning Institution, 2015

Related to natural resources municipality has significant number of springs with mineral and drinking water. The territory under forest is governed by three public companies from the Canton, neighboring municipality Zavidovici and Zepce municipality.

Human capital represents a potential for the municipality. However, the trends and forecasts accordingly imply that certain demographic measures need to be implemented in order to keep positive numbers related to age structure and natural population increase rate.

High unemployment rate (52,2%, table 1) can be explained by deficit in some occupations (bricklayers, carpenters, bar benders, operators of construction machinery, gas welders, ferrymen, language and mathematics professors, doctors) and deficit in some others, low level of qualifications and low number of opportunities for prequalification. Likewise, around 41 per cent of unemployed are older than 40 and this group is characterized as long-term unemployed with “threatened existence and injured pride”, since there is no demand for their occupations or skills anymore.

When it comes to education, relevant institutions (kindergarten, primary and secondary schools) exist, however there is a need for major reconstruction and new facilities like sport halls. In order to improve the quality of education human capital engaged in schools needs improvement. It is very important to plan the education program according to the problems and needs of the region. The nearest universities are located in Doboj and Zenica.

Road infrastructure needs improvements because it is overloaded. On the other hand, railway potential for the local and Canton transport is not utilized. However, during interviews, it was clear that people consider road connections with major cities in BH as one of the opportunities of this municipality. Water supply is well managed in the urban part of the municipality and the price of this service (table 1) is among the lowest in Canton. However, the water network is very old (more than 70 years) and is not covering the rural parts of the municipality (33 settlements). Rural settlements have their own private solutions for the water supply. There is no adequate organized control of the consumption of water and no statistical data related to different categories of consumers. The sewerage network is characterized by low coverage and lack of statistical data. The waste removal is poorly managed especially in rural areas, with low coverage and lack of adequate infrastructure. There are two phone operators and three mobile operators with good infrastructure and service. However, the residents consider the prices too high.

The local government has no direct influence on the economy, however it can improve and promote the development of favorable business environment by attracting capital, encouraging entrepreneurship.

“Political lobby, inertness of higher levels of government for the needs of our municipality, lack of lobbies on the level of municipality and lack of leaders with visions.”

Representative of NGOs, age 40-49, Žepče

As a result, the municipality established supporting institutions like business zones, local development agencies and business incubators. There are 6 industrial zones on the territory of 30 ha out of which some are still in the phase of construction.

“The opportunity for our municipality is to expand industrial zone in the fields of Žepče”

Entrepreneur, age 30-39, Žepče

Municipality Bosansko Grahovo

Bosansko Grahovo is the municipality located at the border of BH with Croatia. In the period before the Civil War (1991-1995) the municipality counted 8.311 people, out of which working age population was employed with the 100 per cent rate. The active and successful firms were: Wood industry, Treset, shoe factory Borac, ball bearing production at Unis, highly equipped tilery, etc. There were not enough workers to cover the needs of institutions, factories and industry. People from other municipalities were finding employment in Bosansko Grahovo. However, during the war, 98 per cent of infrastructure was destroyed and not renewed after. Still, people see potential for their municipality in renewal of once successful companies.

Today, the number of inhabitants is 75 per cent lower compared to the 1991 Census. The municipality has the lowest population density in whole BH (table 1). It is predominantly rural with very unfavorable age structure. Around 40 per cent of population are older than 65 years of age and only 5 per cent are younger than 18. Natural population increase is negative as well as migration balance which implies future negative trends in population structure. It is of great essence to develop the programs which would keep young population, offer them employment, better quality of life, social and cultural activities.

The municipality is abundant with natural resources which represent potential for the development of tourism like mountain Sator, three beautiful natural lakes, cave Ledenica etc.

“The main potentials of our municipality are preserved nature, natural resources, forest, water, peat and clay “

Representative of NGO, age 40-49, Bosansko Grahovo

The first problem related to natural resources is related to their management and utilization. There is uncontrolled and illegal cutting of forest trees which also has a negative effect on water springs. This is caused because the jurisdiction upon natural resources is not on the level of municipality but on the level of Canton. It is necessary to develop a strategy based on natural resources, with special accent on the development of forestry, agriculture, especially animal husbandry. Natural landscape should not be neglected regarding the potential for tourism development. The tourism is not developed because there is no tourism-oriented infrastructure and adequate human capital. The potential lies in the development of mountain and hunting tourism and further on development of cycle tourism by cooperating with other

municipalities. The tourism product should be branded as rural with different gastro offer and traditional products of households.

Related to built capital the main problem is lack of main services like the pharmacy, health center, kindergarten, bank, high school, bakery, bus station and accommodation for guests. If in a need of a doctor the residents need to travel 30 km to the nearest town Drvar or even 110 km to the Cantonal hospital if they need a specialist. With the new governance the health services were cancelled and transferred to Drvar municipality. The municipality is missing a Social Service Centre, and there are around 160 households without any kind of income or less than 200KM per household. One third of them receives social aid of 50KM a month.

The second problem related to built capital is the water supply. The people in this municipality don't have drinking water, and nobody concerns how they live under those conditions, how they transport water and what kind of access do elder people have when it comes to drinking water. The water seems to be luxury good in this municipality especially during dry seasons which start at May and end in November. This also can become even bigger problem if we consider the fact that there is no waste management and that the waste is removed every second or third month.

When it comes to social capital people consider themselves very passive, adapted to this unfavorable situation.

“... lack of people, young people, devastation of the municipality, not enough will and strength for changes”

Member of NGO, age 40-49, Bosansko Grahovo

Informal meetings and lack of joint action is limiting the change. The people are blaming local and cantonal government but are not doing anything to change it. There is lack of trust in the local government but also lack of power to influence it.

According to the official statistics in 2013 there were 70 registered business entities. However, the reality is completely different. Out of this number the active one are one small and one micro company. Others are bankrupt or without any information about them. The people that are employed are mainly working in public institutions like public administration, post, educational institution, police or small private stores. The average salary in the municipality is 986KM which is above the Canton (840KM) and Federation average (833KM). This could imply that the economic situation is not so bad, however this is the result of people being employed in public institutions where the salaries are above average. There are no business or industry zones and incubators.

Conclusion

By deep analysis of the area, which is only partially presented in this paper, we can state that both areas are facing similar problems related to all capitals (assets) we evaluated. However, the degree of development is evidently different, and that is what is limiting, or making it harder to have integral and sustained progress recently in the future.

Both case studies are abundant with natural resources, especially forests, however jurisdiction, which is not on the local level is limiting effective management and utilization that would be beneficial for the municipalities first.

The main difference is visible related to built and institutional capital. The low performing municipality is lacking many of the public services which are creating unfavorable conditions for normal life. That can be one of the reasons for negative demographic trends. Likewise, absence of cultural capital and low social capital are only contributing to the poor conditions in the area that has unused potential. The causes could be found in inefficient local government, that is not working for the wellbeing of the community and that has limited power and skills to plan, implement and promote development.

The problems of both regions are not only the level of development of each capital, but very low level of capital accessibility and utilization to create or increase competitiveness of the municipalities and create opportunities for residents to improve their skills, knowledge, find employment, take joint actions and induce changes.

The opportunities for both regions and for their sustainable development are related to their geo-strategical position. The emphasis is on the proximity of main waterways, roads (east-west, European Union (EU)-Asia) and on future programs of the country, for example port Brčko, highway in BH, natural gas route etc. The opportunity lies in EU integration process and commitment to ensure harmonized development of all areas. That includes improvements in educational capacity, research and development and innovation infrastructure. Change of market trends and customer needs goes in favor of areas that are “green”, waste free, abundant with renewable energy sources. The concepts of “environmentally friendly businesses”, “turning waste into resources”, “energy and natural resources efficiency”, “rural tourism” could represent an opportunity for these areas. However, this has to be followed by adequate measures and support of the local government and necessary funding or development projects.

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Appendix:

List of 30 most and least developed municipalities in Federation of Bosnia and Herzegovina according to the development index

FEDERATION OF BOSNIA AND HERZEGOVINA														
Municipality	Employ. rate (%)	Unemploy. rate (%)	No. of pupils (000)	GDP per capita	Omnibus index	Development index	Rank 2014	change in ranking from 2009	Rural Type	% of people in urban area	Canon **	Popul. density 2014	Proximity to big urban center	
Centar	59,1	16	165	33.309	-13,3	235,1	1	0	PU	96,1	SAK	1795,1		
Čitluk	33,8	31,9	176	7.582	5	157,5	2	3	PR	18,2	HNK	102,5	Čitluk - Mostar, 22,5 - about 29 mins	
N.Sarajevo	31,6	27	116	20.211	-18,9	150,8	3	(-)	PU	97,8	SAK	6949,7		
Žepče	14,7	52,2	140	2.210	35,2	147,9	4	0	PR	18,4	ZDK	112	Žepče - Zenica, 40,6 km - about 40 mins	
Neum	23,7	27,4	97	12.583	0,9	144,3	5	(-)	1	65,2	HNK	22		
Ilidža	28	39,9	131	7.130	2,6	136,4	6	6	PU	95,1	SAK	501,3		
Tuzla	23,8	39,7	128	9.386	0,1	134,3	7	(-)	1	66,9	HNK	409,7		
Stari Grad	23,5	39,6	123	17.263	-15,7	134,1	8	(-)	1	98,3	SAK	757		
Široki Brijeg	24,1	40	163	7.782	-2,6	132,4	9	(-)	PR	21,6	ZHK	76,9	Široki Brijeg - Mostar, 22,1 km - about 29 mins	
Tešanj	20,7	43,8	141	4.234	11,2	132,1	10	(-)	PR	12	ZDK	295,0		
Mostar	26,6	36,1	132	10.016	-1,1	129,2	11	0	1	57,7	HNK	96,3		
Posušje	19	41,6	204	5.339	-6,2	121,4	12	3	PR	30,9	ZHK	44,9	Posušje - Mostar, 50,9 km - about 56 mins	
Banovići	19,9	51,9	113	9.258	-2,4	119	13	(-)	PR	28,6	HNK	126,7	Banovići - Tuzla, 148 km - about 2 hours 42 mins	
Gračanica	16	53,4	124	3.588	11	118,2	14	0	PR	27,7	HNK	224,1		
Grude	19,7	37,2	145	5.532	-5,2	116,4	15	4	PR	24,7	ZHK	80,9	Grude - Mostar 42,38, less than 45 mins	
Trnopolje	10,9	59,4	117	2.346	-21,1	49,3	65	0	PR	35,8	HNK	262,3		
Maglaj	15,6	58,7	127	3.688	-41,2	47,9	66	2	PR	25,8	ZDK	86,1	Maglaj - Zenica, 55 km, about 51 mins.	
Vareš	13,4	49,9	85	12.161	-55,5	47	67	(-)	10	PR	32,6	ZDK	24,5	Vareš - Sarajevo, 49,4 km, about 1 hours 9 mins
Jajce	12,1	58	136	4.990	-4,4	45,8	68	3	PR	26,3	SBK	90,7	Jajce - Banja Luka, 71,5 km, about 1 hours 14 mins	
Ođak	14,4	51,3	114	4.548	-46,1	43,6	69	3	PR	43	HNK	134,4	Ođak - Tuzla, 83,8 km, about 1 hours 34 mins	
Donji vakuf	11,1	66	144	3.729	-43,4	40,1	70	(-)	1	70,8	SBK	46,1		
Drvar	8,7	58,2	99	3.242	-32,6	40	71	(-)	1	52,8	LVK	12,7		
Ključ	7,7	63,5	81	3.604	-36,5	36,1	72	(-)	PR	28,9	USK	52,3	Ključ - Banja Luka, 67,4 km, about 1 hours 10 mins	
Bosanski Petrovac	16,2	50,6	118	5.012	-55,1	36,1	73	(-)	PR	47,6	USK	11,3	Bosanski Petrovac - Banja Luka, 107 km, about 1 hours 42 mins	
Domaljevac Šamaš	9,5	52,6	56	3.841	-51,7	19,3	74	1	1	78,8	HNK	117,5		
Foča (FBiH)	12,7	62,3	75	10.147	-69,8	15,2	75	2	0	0	BPK	13,1	Ustikolina - Sarajevo, 87,7 km, about 1 hours 37 mins	
Pala	10	59,4	72	3.189	-54,5	14,3	76	(-)	2	0	BPK	12,1	Pala - Sarajevo, 41,8 km, about 42 mins	
Glasno	12,1	51,5	86	3.873	-64,8	10,3	77	(-)	1	48,8	LVK	3,9	Glasno - Banja Luka, 124 km, about 1 hours, 59 mins	
Bosansko Grahovo	17,4	46,9	41	8.597	-7,6	8,9	78	0	PR	28,3	LVK	4	Bosansko Grahovo - Banja Luka, 164 km, about 2 hours, 31 mins	
Dobretići	6,7	72,2	25	0	-86,9 (-)53,3		79	0	0	0	SBK	34,6	Dobretići - Zenica, 60,3 km, about 1 hours, 18 mins	