



STUDY OF THE IMPACT OF SOCIAL COHESION ON THE CREATION OF A FAVOURABLE ENVIRONMENT FOR ECONOMIC DEVELOPMENT AND ATTRACTING INVESTMENTS IN MUNICIPALITIES AND CITIES

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Summary

Social cohesion is the level to which people are willing to cooperate, within their group and between groups, without coercion or merely motivated by own interests. A society is cohesive if it works for the benefit of all its members, if it fights against their social exclusion, if it creates and fosters feelings of belonging to the society, encourages confidence and offers its members the opportunity for upward social mobility.

Through our study, we have researched how social cohesion impacts the economic development and attracting of investments in Bosnia and Herzegovina and explained the manifestation of this impact. We conducted research on the state level, and on the level of four case studies i.e. four municipalities.

During the research process, we used a combination of qualitative and quantitative methods for triangulation of data from multiple sources. For the research purposes, **quantitative** indicators of economic success and social cohesion were determined and analysed (data from previous studies were used in order to examine the correlation between social cohesion and economic success in Bosnia and Herzegovina, applying statistical methods). **Qualitative methods** included semi-structured interviews with key stakeholders i.e. representatives of different organizations and institutions. Four municipalities in Bosnia and Herzegovina were selected and presented as case studies: Municipality of Zavidovići, Municipality of Bosanska Krupa, Municipality of Prijedor and Municipality of Tešanj.

This research resulted in five findings: three qualitative and two quantitative. The **qualitative** findings have shown that (1) social cohesion is an important precondition for economic development, and that activities aimed at increasing such cohesion may result in the creation of better conditions, thus improving chances for new investments. Results indicate that (2) the low level of social cohesion enables high-level politics to contribute to the slowdown of economic development in Bosnia and Herzegovina (BiH), which makes BiH a poor environment for investments, because it enables manipulation in communities with low social cohesion. The fact is that a country structured like Bosnia and Herzegovina faces objective difficulties of a systemic nature. If politics is based on the friend-enemy paradigm, where the enemy in our context is a different ethnic group, polarized and distorted relationships and undermined social cohesion are the only logical outcome. This eventually prevents solving important development issues in economic growth domains.

The study shows that (3) ethnic composition of a community does not pose an obstacle to foreign investors, or for cooperation between municipalities of different ethnic composition, if there is a need for, and common interest in such cooperation.

The **quantitative** findings indicate that (4) the majority of variation in economic successes is correlated with structural factors that are beyond the control of municipalities (current development level of municipalities, their size, capital city status, and the entity in which they are located). In addition, there are other, unknown factors that are not covered by this study, which also influence economic development.

Quantitative analysis confirms that (5) certain elements of social cohesion are also important for understanding economic results. The ethnic structure of a municipality (i.e. to what extent is the population ethnically fractionalized and polarized) is especially important, as is the level

of effectiveness of institutions in the particular local municipality. Strengthening institutions and increasing the level of public trust in them may eventually contribute to increasing the economic success of municipalities. Also, policies and programmes that evidently contribute to strengthening social cohesion indirectly mitigate the effects of economic underdevelopment.

Based on these findings, a development model was created for municipalities and cities, i.e. a “openness philosophy” that they should follow in order to secure economic development. This model is based on three types of obstacles that they face. These obstacles are the factors beyond control of the municipalities but which are important to take into account (as described in finding 4), factors that municipalities cannot presently change, but whose influence they can mitigate (as described in finding 2), and factors that municipalities can influence directly. Some of these factors that municipalities can influence include opening of the municipality and citizens towards investors, removing obstacles to investments, public confidence in the institutions, inter-ethnic relations within a municipality, and cooperation with other municipalities, irrespective of ethnic composition. The extent to which municipalities authentically follow this openness philosophy is what makes the distinction between municipalities.

1. Theoretical review

Review of countless efforts to contribute to collective wellbeing of a community reveals two seemingly opposite approaches or views of the same problem among practitioners and theoreticians: what strategy should be applied in order to secure the most favourable outcome for as many community members as possible through our activities?

What is the economic success of a community, and why social cohesion?

Economic approach seems to be more pragmatic, founded on material reality, it appears tangible and realistic, and on the other hand, like a reflection in a mirror, there is the opposite mode, the **social cohesion** approach, elusive and unstable, difficult to grasp and hard to handle.

Economic approach is colder and more rational, and the other one offers more warmth and ambiguity, but both are equally complex. These two approaches, non-complementary at first sight, constitute the source of disagreements and misunderstandings between people who essentially have the same goal – to understand the world around them, to detect and define problems in that world, and finally, based on such analyses and findings, to make it better, or at least to give instructions to others on how to do it.

Economic success of a community is a good example of the former approach from our broad introductory conceptual generalization. *Strengthening of economy of any country or community brings stability to various aspects of the society and creates preconditions for its prosperity.* One example is the increase of the number of employed persons (through support to finding of new jobs and trainings in adaptation to the constantly changeable labour market) as one of the European Union's strategies for increasing of the quality of life of individuals and of the society in general.¹ This implies that the number of employed persons could be an indicator of quality of a society. It similarly applies to salaries. There is a huge income gap in societies of many countries in the world, and it constitutes an obstacle to the general wellbeing of the society.² When we consider all factors influencing the number of employed persons and salary levels in a country, these two indicators of economic success alone already illustrate the complexity of such assessment of progress and quality of communities. In order to prevent this broadness from becoming an obstacle, and to get a valid picture of the economy of a community (and thereby, better predictors of the situation in its social tissue), using other researches as the role models³, we consider a large number of economic indicators in this study that are clearly shown in the methodology of the study.

Social cohesion stands against the economic success as an example of a different approach to the problem of society improvement, which is more advocated for in psychology, sociology and related sciences. Although this concept is very present among civil society organizations,⁴ and it is very popular among policy creators and academic researchers, still there is no clear consensus about its definition.⁵ Some authors define social cohesion is the level up to which

¹ Scarlat, Valentin. "Employment and Social Cohesion." (2009).

² Boarini, Romina, et al. *Reducing inequalities and strengthening social cohesion through Inclusive Growth: a roadmap for action*. No. 2018-7. Economics Discussion Papers, 2018.

³ Majeed, Muhammad Tariq. "Economic Growth and Social Cohesion: Evidence from the Organization of Islamic Conference Countries." *Social Indicators Research* 132.3 (2017): 1131-1144.

⁴ Hull, George, Kate Lefko-Everett, and Lindokuhle Njozela. *Defining Social Cohesion*. No. 216. Southern Africa Labour and Development Research Unit, University of Cape Town, 2018.

⁵ Ibid

people are willing to cooperate, within their group and between groups, without coercion or merely motivated by own interests.⁶ The study entitled “Global development perspectives 2012: Social cohesion in a changing world” offers a comprehensive definition which tries to overcome theoretical discussions and dilemmas. It is devoid of any ideological tone (which was the case with numerous previous attempts to define this concept) and includes numerous dimensions, but still manages to be parsimonious at the same time. Authors of this study note that a society is cohesive *“if it works for the benefit of all its members, if it fights against their social exclusion, if it creates and fosters feelings of belonging to the society, encourages confidence and offers its members the opportunity for upward social mobility.”*⁷ To understand social cohesion of a community, a large number of indicators of such cohesion had to be covered, which is clearly explained in the methodology of this study.

Contextualization of these concepts on the example of Bosnia and Herzegovina provides us with the opportunity to better understand how this dynamics looks like in reality. During the war back in the early nineties, which took many lives, a large number of people were displaced, and infrastructure and economy of the country were destroyed. The war was ended by the Dayton Peace Agreement which constitutes the foundation of the country’s constitution and divides the country based on ethnic principle which, as it turns out, is a pattern for permanent ethnic-political divisions in the society.⁸

On the macro level, we see the potential link between social cohesion and (lack of) economic success in the dynamics of the political arena in Bosnia and Herzegovina which relies on instrumentalization of ethno-national animosities for the purpose of winning over or legitimizing the authority. The rhetoric of pre-election campaigns i.e. the effect it produces is an excellent example – topicalizing of the story of war and ethno-mobilization of electorate⁹. Such instrumental intimidation is not specific for Bosnia and Herzegovina only, and the policy of fear has dominated public life in contemporary western societies for a long time.¹⁰ It is a tried formula of pre-election ethno-national intimidation which is repeated from year to year with excellent results, initiated by political options from all three constituent peoples that benefit from it. On the other hand, regardless of nationality, ethnic and religious background or political viewpoints, citizens are exposed to enormous pressure of constant reminders of the traumatic past and threatening future. At the same time, issues of social importance which would be worth considering with the aim of improving lives of citizens of Bosnia and Herzegovina are entirely left aside¹¹.

On the lower level, among municipalities and cities, we note that the problem of divisions is of a structural nature, too. The Dayton Agreement distorted general criteria on territorial and demographic size of municipalities.¹² Also, different setup and different levels of centralisation

⁶ Ibid

⁷ Šunderić, Žarko. “Uloga institucija u stvaranju socijalne kohezije” (Role of institutions in creation of social cohesion). (2015).

⁸ Turjačanin, Vladimir. *Socijalna psihologija etničkog identiteta* (Social psychology of ethnic identity). Banja Luka: Faculty of Philosophy, 2015.

⁹ Šačić, Nermina. Izvan politike. (Beyond Politics) Faculty of Political Sciences, 2007

¹⁰ Furedi, Frank. “Politika straha.” (*Policy of Fear*) *Antibarbarus*, Zagreb (2008).

¹¹ Marko, Davor. “Reporting on marginalized and vulnerable groups in Bosnia and Herzegovina: Analysis of media content.” Banja Luka: Helsinki Citizens' Assembly Banja Luka. 2013

¹² Mujakić, M. "Lokalna samouprava u Bosni i Hercegovini." (Local self-government in Bosnia and Herzegovina.) Sarajevo: *Dobra knjiga – Law Institute in Bosnia and Herzegovina* (2014).

in the Entities result in different functioning of municipalities.¹³ The Republika Srpska and the Federation of Bosnia and Herzegovina have different and non-aligned local self-government laws that have not been aligned with the European Charter on Local Self-Government either.¹⁴ Finally, the most obvious problem with the increased number of municipalities (from pre-war 109 to existing 143 municipalities, with Brčko District) is the expansion of the already cumbersome administration and its costs. All of this illustrates that giving of primacy to ethnic criterion over all other criteria resulted in lower functionality of municipalities and cities, and consequently of the state as a whole. It is logical to wonder what are the consequences of such situation for the economy and social cohesion?

The work of practitioners and theoreticians who want to make Bosnia and Herzegovina better place for living can be classified under the two above-described approaches. Approximation of these two paradigms represented by the economic success and social cohesion is necessary in order to find common language and common baseline for action, starting from different positions, but following the same direction. The first step is to shed light on mutual relationship of social cohesion and economic development, and finally to answer the following question: how is it possible that, despite all challenging circumstances and direct obstacles facing municipalities and cities, there are still some successful municipalities in Bosnia and Herzegovina?

Correlation between economic success and social cohesion can be clearly recognized in our brief overview of these two paradigms. On the one hand, it is not enough to speak through a strictly quantitative prism and to equalize e.g. rise in the number of employed persons or an increase of average wage with social wellbeing, whereas it is equally one-dimensional to identify the well-being with democracy level and inclusiveness of a community. Therefore, these two concepts are often linked and complemented in different ways in theory and practice. This link is clearly shown in a study conducted by Majeed, where he demonstrated correlation between social cohesion and economic success using data from 46 countries in the time period from 1986 to 2010.¹⁵ Researchers of these concepts also linked trust, as one of the important elements of social cohesion, with economic growth.¹⁶ In view of these findings, Horváth used data from 50 countries in his study and demonstrated that trust has a positive effect on long-term economic growth.¹⁷ Trust can be a special problem in societies that are more fragmented because it may result in decreased cooperation, and research shows that in such societies institutions are of a lesser quality, which eventually undermines overall functioning of the community. Also, another study shows that accessibility of public goods (such as public education and healthcare) is lower in ethnically fragmented societies, i.e. in societies facing a deficit of social cohesion due to ethnic divisions.¹⁸ Similarly, high unemployment rate points to the absence of social cohesion.¹⁹ Social cohesion research puts a strong emphasis on

¹³ Ibid

¹⁴ Ibid

¹⁵ Same as 3

¹⁶ Knack, Stephen. "Trust, associational life, and economic performance." (2001): 172-202. ; Knack, Stephen. "Groups, growth and trust: cross-country evidence on the Olson and Putnam hypotheses." *Public Choice* 117.3-4 (2003): 341-355.

¹⁷ Horváth, Roman. "Does trust promote growth?." *Journal of Comparative economics* 41.3 (2013): 777-788.

¹⁸ Alesina, Alberto, and Eliana La Ferrara. "Ethnic diversity and economic performance." *Journal of economic literature* 43.3 (2005): 762-800.

¹⁹ Same as 7

functional and good-quality institutions. “*Strong institutions constitute a precondition for the development of social cohesion in the society, and they should make sure that citizens are included in social processes, that social agreements and legislation are implemented, and that they create framework for economic progress, and a sense of wellbeing and justice in the society.*”²⁰

²⁰ Same as 7

1.1. Present study

The main objective of this study is to research whether social cohesion influences economic success in Bosnia and Herzegovina, and ways in which this influence, if any, is manifested.

This survey will examine whether social cohesion is a significant factor for economic development on the level of Bosnia and Herzegovina, and whether there is any evidence in that regard in four selected municipalities. Also, if there is such influence, we want to examine the way in which it is manifested.

We will also examine whether high-level politics contributes to slowdown of economic development and investments in Bosnia and Herzegovina, and whether this is the case in the four selected municipalities as well. Furthermore, we are interested to see how this influence, if any, is manifested.

Our study also examines the role of ethnicity in investments and movement of capital in Bosnia and Herzegovina. Finally, we want to examine the correlation between structural factors that are beyond control of municipalities in Bosnia and Herzegovina (such as development level, size, status of capital city and Entity where it is located), and their economic success.

In our approach, we decided to combine quantitative and qualitative methods. The reason lies in the fact that, in this way, we can obtain a full picture, and thereby deepen our cognition and understanding.²¹ Using qualitative methods, we conducted semi-structured interviews with representatives of four municipalities and seven relevant organisations. With regard to quantitative methods, data from previous studies were used in order to examine correlation between social cohesion and economic success in Bosnia and Herzegovina, applying statistical procedures.

²¹ Olsen, Wendy. "Triangulation in social research: qualitative and quantitative methods can really be mixed." *Developments in sociology* 20 (2004): 103-118.

2. Methodology

The survey process uses a combination of qualitative or quantitative methods for triangulation of data from multiple sources.²² Data collection methods provided below were selected to enable the data analysis which would clearly explain the appearance of social cohesion influence with the economic development and attracting of investments, based on scientific knowledge. These methods will enable not only the description of phenomena and common features in selected municipalities, but also their comparison, valuation and interpretation. Methodological approach was agreed-upon in cooperation with the PRO-Budućnost project team.

2.1. Participants

Within the survey, the total of 13 semi-structured interviews were conducted with representatives of different organisations, institutions and the real sector. Of this number, 9 interviews were conducted in person, 2 interviews via email, and 2 interviews via Skype²³. All interviews were conducted in July 2018.

2.2. Materials and procedure

The survey process can be divided to four phases.

2.2.1. Phase one: Selection of interviewees

Two interviewee groups were selected for the survey. The first group includes respondents who can provide insight in functioning of our variables on the state and Entity levels and explain the broader picture. These are representatives of the following organisations: Association of municipalities and cities of the Federation of Bosnia and Herzegovina, Association of municipalities and cities of the Republika Srpska, Chamber of Commerce of the Federation of Bosnia and Herzegovina, Chamber of Commerce of the Republika Srpska, Association of Employers of the Federation of Bosnia and Herzegovina, Union of employers' associations of the Republika Srpska, and Foreign Investors Council. Apart from representatives of these institutions, one real sector representative was also interviewed.

The second group includes representatives of four municipalities and cities from Bosnia and Herzegovina that were selected to participate in the survey. These are Municipality of Zavidovići, Municipality of Bosanska Krupa, Municipality of Prijedor and Municipality of Tešanj. Five representatives from these four municipalities were interviewed.

After the selection of interviewees, development of an interview guide commenced.

2.2.2. Phase two: Determination of indicators

For the purposes of our survey, economic success indicators were determined, as shown in Table 1. Additionally, municipalities were categorised by the level of development, applying the terminology of the RS Statistics Institute which uses the following categories: extremely undeveloped, underdeveloped, medium developed, and developed communities. The FBiH Statistics Institute does not use the medium developed and developed categories, but categories that were created on the basis of the rank list from the “Socio-economic Indicators by Municipalities in FBiH in 2016” report.

²² Ibid

²³ List of interviewees is provided in annex to the study

Table 1 Success indicators²⁴

	Indicator	Availability FBiH	Availability RS
1. Employment	<ul style="list-style-type: none"> Change in number of employed persons in percentages (because the unemployment rate depends on the number of registered persons) Change in number of employed persons 	2005-2017 (FBiH Statistics Institute - FSI)	2000-2016 (RS Statistics Institute - RSSI)
2. Prosperity increase and living standards	Change of average wage	2012-2017 (FBiH Statistics Institute - FSI)	2012-2016 (RS Statistics Institute - RSSI)
3. Creation of new companies	Change in number of companies	2012-2015 (FBiH Statistics Institute - FSI)	2012-2016 (RS Statistics Institute - RSSI)
4. Tax revenues	Percentage change of tax revenues	2011-2016 (CIN)	2011-2016 (CIN)

Social cohesion indicators were determined based on pairing of findings from other studies with the same concept²⁵, and on the basis of data from the “National Survey of Citizens’ Perceptions in Bosnia and Herzegovina”, which was conducted by MEASURE-BiH. These indicators are shown in Table 2.

Table 2 Social cohesion indicators

NSCP		
Civil integration	Trust in institutions	
	Trust in parliament	To what extent do you feel that your interests are represented in the following institutions/bodies: State-level parliament (P1J) please evaluate the work of judges/courts (P18A)
	Trust in the legal system	How satisfied are you with each of the following services IN THE PAST 12 MONTHS? Protection against crimes and prevention of crime (P2aa)
	Trust in the police	To what extent do you feel that your interests are represented in the following institutions/bodies: Political parties (P1J)
	Trust in political parties	How satisfied are you with each of the following services IN THE PAST 12 MONTHS?
	Perceived quality of public services	Please evaluate the work and services provided by each level of government in BiH? Municipal/city level (p4d)
	Level of satisfaction with the municipality	To what extent do you trust the following ethnic groups? Bosniaks (P71a), Croats (P71b), Serbs (P71c)
Interethnic trust		

²⁴ For economic indicators, the survey will analyse changes from year to year.

²⁵ Goubin, Silke. "Is Inequality a Latent Construct? An Assessment of Economic Inequality Indicators and Their Relation with Social Cohesion in Europe." *Social Indicators Research* 136.1 (2018): 21-40.

2.2.3. Phase three: Selection of municipalities

Following the data collection for economic indicators, preliminary analyses were conducted, and then we proceeded to the selection of municipalities that would participate in the survey. During the selection, we applied eight criteria, five of which were disqualifying, and three additional criteria for consideration. Municipalities were selected in consultations with the PRO-Budućnost project team.

Disqualifying criteria

1. **Overview of all municipalities:** We first prepared an overview of all 143 municipalities in Bosnia and Herzegovina by selected indicators in order to review the global situation.
2. **Project municipalities:** The second step was to eliminate municipalities not participating in the PRO-Budućnost project.
3. **Size (small municipalities):** We decided to exclude municipalities that are too small (in political theory, they are also called micro municipalities or dwarf municipalities) because of difficulties in data comparison to other municipalities.
4. **Size (large municipalities):** When it comes to large municipalities, they should be treated with special caution, because they are disproportionate to the overall sample of municipalities. This means that, if a large municipality was selected, it would have been necessary to pair it with another large municipality. Our survey did not include any large municipalities.
5. **2014 floods:** We also ruled out municipalities that were largely affected (based on the number of affected facilities) by floods in 2014. This natural disaster is a strong relevance factor which undermines credibility of monitoring and analysis of the multiannual trend in economic indicators.

Additional criteria for consideration

6. **MEASURE-BiH data:** We give preference to the municipalities covered by the “National Survey of Citizens' Perceptions in Bosnia and Herzegovina”, which was conducted by MEASURE-BiH. Due to the complexity and number of other indicators, we decided that this criterion would not be disqualifying, but that it would be the first one to consider during the selection.
7. **Entities:** We will try to satisfy the criterion of affiliation with the Entities, that is to say, in our selection we will try to include both the municipalities from the Federation of BiH and those from the Republika Srpska.
8. **Special cases:** There are municipalities that can be treated as special cases for various reasons. Srebrenica and Mostar are examples of such municipalities. Although this criterion is not disqualifying, the municipalities that are not considered special cases will be given preference during the selection.

2.2.4. Phase four: Final data collection and processing

Finally, after the selection of interviewees, collection and preliminary analysis of quantitative data, and selection of municipalities, all of the planned semi-structured interviews were conducted.

The semi-structured interviews were audio recorded, and then transcribed. The textual material was then coded and three main findings were defined, as well as the additional findings mostly relating to examples that corroborate or additionally elaborate them.

In four municipalities from our survey, we found good practices that may contribute to the increase of social cohesion and economic development, and we used them as examples that can be of use to other municipalities.

3. Results

3.1. Qualitative results

Results arranged from the broader picture towards specific examples are presented below as case studies of four municipalities, and finally, the synthesis thereof.

3.1.1. The context of Bosnia and Herzegovina

The following findings were obtained in interviews with 7 respondents with whom we discussed the broader context of Bosnia and Herzegovina.

Finding 1: Social cohesion is an important precondition for economic development, and its increase can improve chances for new investments

Under this finding, we conclude that, beyond doubt, there is a correlation between social cohesion and economic prosperity, and that it is manifested through different segments of these two concepts. Also, talking about the direction of this correlation, we identify social cohesion as an important precondition for economic development and inflow of new investments.

Representatives of the **Association of Municipalities and Cities of FBIH** believe that in municipalities everything goes down to the willingness and desire of people there to “*make a positive story*”, and to demonstrate that it can be done in our circumstances, irrespective whether the legislation is favourable or not. In the opinion of the representatives of the Association of municipalities and cities, Tešanj and Goražde are good examples of municipalities that managed to achieve it. “*It all goes down to people who are capable and hard-working, and who really want to contribute.*”

Their counterparts from the **Association of Municipalities and Cities of the RS** share the same viewpoint. Commenting on the development level of Prijedor municipality, a representative of the RS Association of municipalities and cities also puts an emphasis on people’s proactiveness. By this, they mean the administration, management, and the city mayor. They give significant credits to the Prijedor development agency PREDA. They conclude that social cohesion within a community, cooperation, and companionship in pursuit of the same objectives are reasons behind the success of some municipalities.

A representative of the **FBiH Chamber of Commerce** also links social cohesion and economic development, explaining that “it is all up to people.” They offered the example of the owner of Mann Hummel who invested in the production in Tešanj. “*When they ask him: “How come that you have had such a great success in Tešanj?”, his main answer is always the same: “It is all up to people.”* Tešanj also proves that other factors such as location are not necessarily relevant for development, and the same applies to Goražde. “*It is up to the people who are enthusiasts, who know that “if we don’t do it, nobody else will.” And if we keep finding excuses in the railway, roads and other things, it will never happen. This is the change of perception. Only what we make is ours, and not what we have under the ground, in the forest, or in waters.*” Representative of the Chamber of Commerce says that cohesion, synergy of the local community, the mayor and administration is important. “*Local community is very important... It should be ready for an investor.*” He concludes that the society in a local community is connected to the economy. “*This is an unbreakable bond, and only people’s personal engagement leads to success.*”

"It is very important to have this harmony, in the business part and in the social relations part," the representative of the **FBIH Association of Employers** says. He also believes that, to some extent, the economic success can be attributed to greater social cohesion. *"These things are mutually permeable, and this social component may be very stimulating for the economic part."* He also mentions that people's mindset was decisive in Tešanj. Development and success of a municipality will come *"when awareness is raised among people in a local community"* *"We will not wait for somebody to hire us, we will not ask for charity; no, we will do something else, we will take our destiny in our own hands."*

"If our community is segmented in this way, it is unsustainable" - this is a statement used by the representative of the **RS Union of Employers' Association** in order to demonstrate that he sees a clear connection between the economic success and social cohesion. He further explains: *"I think one cannot go without the other. If you don't work on cultural, spiritual and social advancement of a society, it will not achieve economic results either; on the other hand, if you don't create strong economic potentials, you cannot get into a position to improve the rights of people who function in that area, and you cannot bring them in a position where one would feel socially useful."* He even comments on possible direction of this connection, giving priority to economic development, but this is also closely related to human resources. *"Nevertheless, I would first emphasize that it is necessary to economically strengthen our community first, primarily the private sector; the key is in proper use of human and natural resources. At the moment, we as a community do not even have a nearly good enough approach to the use of human or natural resources."*

Representatives of the **Foreign Investors Council** share a similar approach, attributing the biggest responsibility to the institutions and local authorities. *"When an investor decides to invest in a country, he then chooses a micro location where he can realise his investments and business ideas, and this part is then closely linked with local authorities and quality of service they can offer to investors and their citizens. If the local community is ready to respond to the investor's requirements and needs and creates investor-friendly environment, the investor feels protected and safe to start his investment."*

The real sector representative, a foreign investor in BiH says that social cohesion has been very important for development of his business. If a community is better organised and more open for mutual cooperation, this is a significant advantage for work. Also, it is important that the local community extends trust to the investor – i.e. a harmonious and two-way relationship is necessary, which will be mutually beneficial. There are places that have no problems with resources, labour force or opportunities, but people are simply not willing to cooperate. He concludes that greater social cohesion facilitates investments and generally decreases operating costs of labour.

Our interlocutors agree that the development of local communities and social cohesion are linked, and they often repeat the syntagma "it is up to the people." Considering that strong institutions of the local community are a good predictor of social cohesion, it is also important that our interviewees refer to these very institutions and their employees as the great responsibility holders.

Also, they recognise the specificities of individual municipalities, their differences (for example, by the amount of damage suffered during the war), however, they claim that each local self-government unit can be a success story if people are willing and wish to achieve it.

Thus, our interviewees believe that social cohesion among people living in the community is important.

Finding 2: Low level of social cohesion enables high-level politics to contribute to the slowdown of economic development and investments in Bosnia and Herzegovina

Representatives of the **Association of Municipalities and Cities of FBiH** explain that they represent all of their members regardless of which option they belong to and, as they say, they have the policy of non-interference in internal, political things, and they focus on interests and representation of municipalities and cities towards higher government levels. *“Actually, the biggest problem lies in the communication and adoption of legislation that may not favour municipalities and cities, and in the failure of higher government levels to recognise interests of municipalities and cities in any field. Non-implementation of the European Charter on Local Self-Government, non-implementation of law. These are actually the biggest obstacles to the development of municipalities and cities.”*

However, when it comes to higher government levels, the problem is not merely procedural. Our interviewees explained that this problem was manifested through politicisation of spheres that should be merely formal. The representative of the **RS Association of Municipalities and Cities** says that there is some political risk in that respect. *“We had a situation in a local community that a land-use plan was not adopted for a year. Investors in housing construction were largely affected by this, because they waited for the adoption of the plan. This adoption was purely formal, but due to political bickering, and because certain decisions were not adopted, it resulted in discontinuation of some activities directly affecting different spheres, including economy.”*

The representative of the **FBIH Chamber of Commerce** additionally explained this phenomenon. He says that media stories about political crisis and instability scare the investors. *“We had a case in Vitez where they wanted to open a mine of non-ferrous metals, above Vitez, in the area of Vrućica. The local community could choose the location, and an agreement on friendly cooperation was already prepared, and they planned to invest in school, roads, drinking fountain etc. However, we faced resistance from the municipal council of Vitez and it never reached the voting stage and public debate. And then people simply stop doing it and stopped inquiring about this case. And I am afraid that politics interfered in this case.”* This example gives us insight into the stated high-level politics-media-investors dynamics. However, our interlocutor emphasizes that, generally, there are far more positive examples relating to investments in Bosnia and Herzegovina.

Representative of the **FBIH Association of employers** says that everything is politicised in Bosnia and Herzegovina, and feels that political actors are responsible for the development slowdown. He uses example of the Association itself and its work to explain this connection: *“Then, you know, the Parliament of BiH... It is not a problem for us to agree with employers from the RS about how to define things. However, when it gets to the political level, Entity-operated and various other kitchens start working there.”*

“Politicians are very good manipulators, very good manipulators... They know very well how to get votes in the elections,” representatives of the Employers’ Association say. They further explain that investors do not want to go to insecure areas, or those that seem insecure at least.

"If people would consider statements of our politicians, not a single mark would be invested ever. But when you analyse objectively the consequences of the views that politicians have expressed for years, factually there is no big crisis."

Their counterparts from the **RS Association of Employers** share their opinion. *"The problem lies in the populist practices of political elites and in the absolute absence of any accountability for the implementation of declared policies. Basically, our policies are conceptualised on the basis of national sustainability within BiH, whereas the issues from the economic policy sphere come second. What significantly threatens the environment is constant mentioning of potential conflicts. I think this is something that is used globally, and that our political elites only copied it here, intimidating the population, in a way, with fears that are perfectly natural and normal in areas that were continuously affected by wars in the past one hundred years."*

The following statement of representatives of the **Foreign Investors Council** explains to us ways in which a negative influence of high-level politics can manifest itself in terms of investments. *"For foreign and domestic investors, the biggest obstacle primarily lies in administration, which is huge and complex and therefore inefficient, but also in the political and legal instability. Constant political turmoil, different and sometimes even contradictory and differently interpreted legislation on various levels, and long waiting periods for obtaining of licences and work permissions constitute the main reasons for the majority of investors to bypass BiH."* No matter whether it concerns spheres of the system in need for a reform, or the political instability and turmoil, the responsibility always goes back to the political climate.

A real sector representative explains how politics constitutes a problem depending on the nature of investor's business activity. *"When a business has grown enough and it needs to expand, politics may become a problem."* Based on his experience, if a business operates in a municipality where a particular political party dominates, it is hard to expand to other municipalities ruled by a competing political party, because the parties are unwilling to mutually cooperate. *"If I needed to expand my business to another part of the country, I would be marked as a traitor or an ally."* He also believes that the problem lies not only in such horizontal movement of business, but also in different government levels where obstacles may appear if one tries to expand business.

The reason behind such finding lies in the fact that big responsibility for the poor investment climate is found in politics and in the political environment which enables manipulation in communities where low social cohesion is present. Objective difficulties of systemic nature exist beyond doubt, but the constantly present rhetoric in the media (manipulative and unfounded) has a very negative impact on the economy and development countrywide. If politics is based on the friend-enemy paradigm, where the enemy in our context is a different ethnic group, polarized and distorted relationship and undermined social cohesion constitute the only logical outcome, which eventually prevents solving of important development issues in the areas of economic growth.

This problem goes down to the level of local communities, which is clearly seen in the section with individual municipalities, where it follows completely the same dynamics.

Finding 3: Denial of the (negative) role of ethnicity in investments and movement of capital in Bosnia and Herzegovina

Interviewees from the **FBIH Association of Municipalities and Cities** say that there are municipalities and cities situated along the inter-Entity line which cooperate mutually very well. This is especially the case when they cooperate on issues of common interest, such as water resource passing through the territory of several municipalities. “*Municipalities really cooperate with each other, regardless of existing obstacles, because it is better for them if they function together.*”

Ethnicity is not emphasized as a special issue in the work of the **RS Association of Municipalities and Cities**. As explained in the previous finding, for a local self-government unit to be successful, the cooperation with other municipalities is important, primarily focusing on common interest, and not on ethnic principle. Such examples of cooperation between municipalities do exist. Our interviewee believes that cooperation with other municipalities is the reason of better economic results in that local community. “*If one is willing to cooperate in order to work for general interests, it is logical that they should be more successful than those avoiding issues that seek resolution.*”

The representative of the **FBIH Chamber of Commerce** says that investments have nothing to do with the ethnic principle, and the **FBIH Association of Employers** share the same view. For instance, they do not think that it is easier to invest in one-national municipalities. “*In a multi-ethnic municipality, a Bosniak will not react differently from a Croat, and the Croat will not react differently from a Serb.*” But this phenomenon is somewhat more layered and we can see that our interviewee has a different opinion about the investor-ethnicity relationship and mutual attitudes of ethnic groups.

“*There are one-national environments where capital from a different ethnic group is not welcome, you know, they simply want to maintain the one-national character on all grounds. The simplest way to do it is by not allowing goods of other manufacturers to enter your market, and then by preventing the capital from coming in.*” Also, the representative of the Employers Association still believes that “capital finds its way, sooner or later”, providing example of an acquaintance who initially had problems with opening of a branch in Mostar, but he eventually succeeded. “*I am not saying that there are no small preferences, but when it comes to somebody losing money over national interests, it will not happen.*”

The **Foreign Investors Council** also believes that relationships between ethnic groups in Bosnia and Herzegovina do not pose an obstacle for investments. “*We at FIC never had any complaints or comments about this kind of obstacle facing business activities of our members.*” I am not aware of a single case involving such an obstacle to an investor. The representative of the **RS Union of Employers’ Associations** shares this view, and he does not give primacy to ethnicity over the other challenges that may pose an obstacle to investments and the development of economy.

Ethnic structure of a municipality is not a problem for the investor himself, **the real sector representative** explains. Ethnic structure of the population would not affect his investment. As explained above from the experience of foreign investors, political animosities preventing business expansion posed a more serious obstacle. In his opinion, the criterion for selection of a municipality for an investment is finding of the right combination of a location, business plan, labour force and resources convenient for a business the investor wants to develop.

Against this background, we can conclude that the ethnic composition of a community (be it mono-ethnic or heterogenous) does not pose an obstacle to foreign investors, or for cooperation between municipalities of different ethnic composition, if there is a need for, and common interest in such cooperation.

3.1.2. Case studies for four municipalities

Four case studies are analysed below. They refer to four municipalities selected for our survey, where we will observe how these three problems (formulated through the three main findings) reflect in local communities. The aim is to examine whether views, knowledge and information of experts from seven organisations whom we interviewed can really be applied in the analysis of individual municipalities. Also, whether people who are closer to the local community and its problems due to their jobs and positions also perceive:

- That social cohesion is a significant factor for economic development (and how do they view correlation between these two variables),
- the responsibility of high-level politics for the slowdown of economic development and investments in Bosnia and Herzegovina,
- and absence of the (negative) role of ethnicity in investments and movement of capital in Bosnia and Herzegovina.

Zavidovići

Table 3 Zavidovići Municipality Profile

<i>Position of the Municipality in Bosnia and Herzegovina</i>	Municipality population		Economic indicators	
 <p>The Municipality of Zavidovići is situated in the Entity of the Federation of Bosnia and Herzegovina, it has 47 settlements and borders with municipalities of Zenica, Žepče, Maglaj, Lukavac, Banovići, Olovo, Vareš, and Kakanj.</p>	Bosniaks	32.735 (90,96%)	Annual change in number of employed persons	-233 (- 4,5%)
	Serbs	573 1,59%	Annual change of average wage	+ 4 KM
	Croats	1.204 (3,35%)	Annual change in number of companies	-21
	Others and unknown	1476 (4,10%)	Annual change of tax revenues	+ 3.1%
	Total	35.988	Social cohesion (NCSP)	
			Zavidovići	0.139

Finding 1: Social cohesion is an important precondition for economic development in Zavidovići Municipality, and its increase can improve chances for new investments

When discussing whether the undermined social cohesion constitutes an obstacle to the economic development of a community and investments, a representative of the Municipality of Zavidovići says: *"I certainly think that it is an obstacle, because if problems exist in that domain, no investor will invest their money, a significant amount of money in this case or, more precisely, millions, and they will not take risk with things like that."* This statement clearly depicts the existence of this correlation, and further conversation points to the direction which such correlation follows. *"Without investors i.e. without the businesspeople that we have, we*

will have no cities, no municipalities, no local self-government. They are the driving engine, they are the main element in every local self-government unit, and this must be acknowledged.”

However, a case of an investor in Zavidovići clearly illustrates why we cannot talk about a one-way correlation between the economic development and social cohesion. Namely, Municipality of Zavidovići disposes its communal waste at the Mošćanica regional waste dump, which costs them around one million marks per year. Rehabilitation of the City Dump “Ekonomija” is required in order to reduce these costs. As the Municipality representative explains, an Italian investor was interested in this project, and negotiations with them were initiated.²⁷ The plan was to thermally process the waste, which would not only solve the problem of communal waste, but also the issue of district heating. However, somebody published false information on social networks that the whole project would involve bringing of radioactive waste from Italy. The Municipality representative further explains why this is wrong and that it is impossible to import any communal waste to Bosnia and Herzegovina without the approval of competent institutions, the FBiH Ministry in this case. However, the investment stopped, and the project is on a standby. *“The people (investors from Italy) in this case realised that this was not safe, that there could be problems with locals and the public, and for now, they put the project on a standby.”*

Before the investment, every investor seriously analyses the situation in a community. If they find that the situation is inadequate and that it could result in financial loss for them, the investment is suspended. We can see from the case of Zavidovići that there are examples where social cohesion is the factor that determines the development course of a municipality. The community did not recognise the potentially great benefit of this investment for the municipality (apart from resolving the issue of the waste dump and city heating, it would create jobs) and they trusted unverified information more than the intentions of the local institution. The project of rehabilitation of the City Damp “Ekonomija” was not launched until the time of finalisation of this report.

Finding 2: Low level of social cohesion enables high-level politics to contribute to the slowdown of economic development and investments in Zavidovići Municipality

Good practices²⁶

1: Open-Door Day

At the beginning of his mandate, mayor of Zavidovići Municipality introduced the “Open Door Day” practice. At first, this meant that citizens of the municipality could pay an announced visit to the mayor every Thursday during the working hours, without filing of a request, and present their issues and problems to him. Due to high turnout, this practice was extended to all business days. *“I think that we became severely estranged from our citizens anyway. Let us be close to them in the pre-election campaign, and when the campaign ends, when they get elected or when we get elected, we go back to who we really are, we estrange ourselves from the people, we shut the door behind us, and deny them access.”* This is how the representative of Zavidovići municipality explains the motives behind the open-door practice. An additional step was made in getting closer to citizens by breaking the contract with a security agency that secured the Municipality building. *“Who are they defending or protecting me from, the citizens who elected me or who?”*

²⁶ *This is the first one out of four good practices that may contribute to the increase of social cohesion and economic development that we used as examples that can be of use to other municipalities*

²⁷ <https://faktor.ba/vijest/sanacija-gradske-deponije-italijanski-investitori-ulazu-u-zavidovice-252783>

“High-level politics generally causes problems.” The representative of Zavidovići Municipality sees the responsibility of high-level politics for the slowdown of economic development and investments in Bosnia and Herzegovina. More precisely, he talks about investors who do not want to invest in the area which is perceived unstable. *“Well, through conversation with them (the investors), we want to hear their impressions, considering that most of them come to Bosnia and Herzegovina for the first time, and they only heard about it through media, through the high-level politics which keeps poisoning lives of people in Bosnia and Herzegovina, and I think that these high politicians work against Bosnia and Herzegovina, regardless of who they are.”* He believes that high-level politicians send stories through the media *“about potential conflict, secession, and who knows what else”* that eventually cause damage. *“They simply offer no alternative which would be decisive for Bosnia and Herzegovina.”*

Finding 3: Denial of the (negative) role of ethnicity in investments and movement of capital in Zavidovići Municipality

The representative of Zavidovići Municipality says that they have no problems related to ethnic tensions. They have excellent cooperation with religious communities, as they say, which is confirmed by four visits of metropolitan Vasilije in the past year. *“Another thing that we are proud of is that our fellow citizen of Zavidovići made a carved chair for the Pope during his visit to Bosnia and Herzegovina.²⁸ Simply, this speaks about us. The chair was made by a Bosniak, you know, and it is an honour and pride for him, for us in Zavidovići. Simply, this is who we are.”*

Such a viewpoint is supported by cooperation between the municipality and other local communities with different ethnic composition. However, they say that higher government levels pose an obstacle there, as well. *“You see, I try to establish cooperation, and I cooperate with neighbouring municipalities. So, we have the cooperation, but it is not a business cooperation, considering that we have no shared projects, but we do have some shared needs. However, those needs, such as disposal of communal waste or use of energy potentials relating to Olovno Municipality, or relating to Žepče and Maglaj municipalities... So, when it comes to construction of a joint waste dump with all accompanying facilities, again a binding element is missing there, and something from higher level is missing. I am primarily referring to the FBiH level.* This is not the only example of cooperation. Zavidovići Municipality held a meeting with Šamac Municipality, organised by the OSCE mission, where they discussed ways of ensuring sustainable return and future cooperation directions.²⁹ With respect to the topic of returnees, people from the municipality also mention significant resources that were invested by different international organisations (e.g. SIDA, CRS, UNHCR, Hilswerk, ASB) in large infrastructural projects (*“roads, water supply systems, construction of housing facilities, repairs of housing facilities, repairs of outpatient units, schools”*) that were evenly implemented in returnee areas.

²⁸ <https://www.klix.ba/vijesti/bih/projekt-zivota-porodica-hajderovac-iz-zavidovica-pravi-stolicu-za-papu-franju/150327140>

<https://faktor.ba/vijest/sarajevo-stolica-i-oltar-za-papu-franju-stigla-na-stadion-kosevo-foto-190731#1>

²⁹ <https://visoko.co.ba/opcina-zavidovici-domacin-opcini-samac-i-misiji-osce-a/>

Bosanska Krupa

Table 4. Bosanska Krupa Municipality Profile

<i>Position of the Municipality in Bosnia and Herzegovina</i>	Municipality population		Economic indicators	
 <p>The Municipality of Bosanska Krupa is situated in the Entity of the Federation of Bosnia and Herzegovina, it has 48 settlements and borders with municipalities of: Bihać, Cazin, Bužim, Bosanski Petrovac, Sanski Most, Bosanski Novi, and Dvor in the Republic of Croatia.</p>	Bosniaks	23 578 (92,30%)	Annual change in number of employed persons	+ 61 (2,2%)
	Serbs	1 260 (4,932%)	Annual change of average wage	+ 10 KM
	Others and unknown	641 (2,509%)	Annual change in number of companies	+ 839
	Croats	66 (0,258%)	Annual change of tax revenues	+ 1,4%
	Total	25 545 (100,0%)	Social cohesion (NCSP)	
			Bosanska Krupa	-0.002

Finding 1: Social cohesion is an important precondition for economic development in Bosanska Krupa Municipality, and its increase can improve chances for new investments

A representative of Bosanska Krupa Municipality notices this correlation and suggests that the direction of this correlation still starts from economic variables, i.e. that they are the ones that influence social cohesion, and not vice versa. *“Of course, people are happier and more satisfied, and they mind their own business when they have money. When they are employed, receive regular salary and life from their work, they are happy and satisfied, and I think that they don’t have the time or desire or will to deal with trivial, unnecessary things. And conditions must be provided for people to work. In order to create conditions, investors must be attracted, and new companies started. One thing leads to another, and of course, economy is the key factor of happiness and satisfaction of people living in a local community.”*

However, another example from the same interview illustrates that this is a two-way correlation. Potential economic interventions (or absence thereof) can influence social cohesion, but a decrease or increase of social cohesion can also influence the economy. *“Our problems are not different from problems in other local communities in BiH. One of the first problems is youth migration to European countries. Of course, activities can be carried out on local level in order to prevent youth brain drain, but I am afraid that not much can be achieved.”* The current problem of Bosnia and Herzegovina illustrates in the absolute form how undermining of social cohesion caused by emigration prevents the development of an area. The Municipality announced three calls on the cantonal level for participation in a programme of training and employment of welders. Only somewhat more than 40 people applied, although funds were provided for 80 participants. *“There are no official data, and this is what scares us*

the most. When they ask us how many young people left, how many people emigrated, we do not know. We have no way of finding that out. There are no records" Our interviewee explains that the municipality does everything in its power to face this problem through "creation of business climate, attracting of investors and job creation,

and we also put other efforts in helping young people and supporting them." Also, they mention co-financing of transportation costs for students, providing scholarships for youth ideas and projects, financing of start-up businesses and many other initiatives tackling the problem of emigration.

Finding 2: Low level of social cohesion enables high-level politics to contribute to the slowdown of economic development and investments in Bosanska Krupa Municipality

The representative of Bosanska Krupa Municipality notes that the Municipality does not receive sufficient support from highest government levels in the country. Seven interviewees with whom we discussed the broader picture, but also those in Zavidovići municipality share this viewpoint.

Moreover, like other interviewees, the representative from Bosanska Krupa pointed to the direct influence of high-level politics on investments and economy. "*This negative climate, the negative policy coming from higher government levels definitely influences investors and arrival of new and big investors.*" When asked how can the influence of such rhetoric be reduced or stopped, they reiterate the responsibility of high officials. "*These are issues that should be sent to the higher government levels and to all the people we elected to be our leaders, because they can influence them directly. The local community does not have a lot of power over this issue. What we can do is work, try, provide conditions.*" It is important to note that they do not prioritise this problem over the other problems hampering the development of local community, such as emigration, which we already mentioned. Also, commenting on the role of ethnic tensions, the municipality representative notes that this is an issue delegated from the higher level. The situation in the municipality itself is different, which brings us to the third finding.

Finding 3: Denial of the (negative) role of ethnicity in investments and movement of capital in Bosanska Krupa Municipality

Good practices³⁰

2: Support to youth ideas

Municipality of Bosanska Krupa supports start-up business ideas of young people. "*For the past few years, we have announced public calls and allocated funding in the budget for financing of youth businesses. In the first year, we actually started this story with the Youth Development Institute KULT, they supported us in the first year. We went through the whole process with them, and in the following few years we did it on our own, following that pattern.*" On of the ideas which was financed through this programme is "Djetinjstvo" kindergarten.³¹ It is a private-owned kindergarten which has not existed so far in Bosanska Krupa. Also, manufacturing of didactic toys, coffee roasting facility and other ideas were financed. Everything that was launched through this form of financing still operates.

³⁰ *This is the second one out of four good practices that may contribute to the increase of social cohesion and economic development that we used as examples that can be of use to other municipalities*

³¹ [https://www.cazin.net/vijesti/bosanska-krupa-otvoren-vrtic-djetinjstvo-s-radom-zvanicno-pocinje-u-ponedjeljak#sthash.DYYWe5sw.dpbs](https://www.cazin.net/vijesti/bosanska-krupa-otvoren-vrtic-djetinjstvo-s-radom-zvanicno-pocinje-uponedjeljak#sthash.DYYWe5sw.dpbs)

“I think that income and money are priorities of businesspeople and that they do not care whether their partner is from Krupa, and if he is, whether he is a Serb, Croat or Bosniak. Or whether the partner is from Prijedor, Banja Luka, Novi Grad etc. I think this is not a problem for them and that it does not create any problems in their mind.” This is how the municipality representative views the general relationship between the economy and ethnicity, which corresponds to the opinion of other interviewees.

With due respect for the severe consequences of war in Bosanska Krupa, both in infrastructural and social i.e. demographic terms, the municipality representative says that relationships between different ethnic groups have been normalised. *“Although ours was the third most demolished municipality*

in BiH, people of all religious and ethnic backgrounds started returning here and rebuilding their homes soon after the war. Maybe there was some intolerance at the beginning, I do not want to idealise things, but there were never any incidents. People live a normal life today, and share both good and bad things.”

This is why the answer to the question whether their local government organises special activities/events in order to encourage cooperation and reconciliation between representatives of different ethnic groups was expected. *“Today, this is viewed as the thing from the past. There are no special activities, because there is no reasonable need for them. The only activity with such purpose in which we participate is the PRO-Budućnost project. However, this is not focused on reconciliation in literal sense, but on deepening and strengthening of ties with the neighbouring local community from the RS.”* Against this background, we can conclude that the municipality has a fairly clear position regarding the role of ethnicity in the economy and investments – it does not pose an obstacle.

The municipality cooperates with other local communities of different ethnic composition or from the other Entity. This supports their claim that the ethnic composition of a municipality is not a barrier to cooperation, if there is common interest. *“There is cooperation with several local communities, including Cazin, Bužim, Bihać, Novi Grad. We also have friends in Sarajevo municipalities such as Stari Grad. We work on projects together, especially with neighbouring communities, both on infrastructural projects such as road construction, waste dump construction, and on social projects such as PRO-Budućnost.”*

Good practices³²

3: Business zones

There is another example of good practice in Bosanska Krupa, which can be applied in other municipalities. It is the example of business zones. At the Municipality's initiative, businesspeople from the territory of Bosanska Krupa municipality, Una-Sana Canton and from other countries were brought together proposed to buy a company undergoing bankruptcy procedure together. Ruinous buildings and land were cleaned up, thus creating required conditions for investors. Nowadays, 15 business entities operate in the “Pilana” business zone³³ and employ hundreds of workers. Considering that the capacities of this zone are full, a new business zone, “Vatreni mlin” is under preparation.³⁴

³² This is the third one out of four good practices that may contribute to the increase of social cohesion and economic development that we used as examples that can be of use to other municipalities

³³ <http://opcinabosanskakrupa.ba/poslovna-zona-pilana-od-stecaja-do-zone-sa-13-privrednih-subjekata-i-269-zaposlenih/>

³⁴ <https://www.akta.ba/investicije/u-bosanskoj-krupi-pocinje-uredenje-poslovne-zone-vatreni-mlin-/89114>

Prijedor

Table 5. Prijedor Municipality Profile

Position of the Municipality in Bosnia and Herzegovina	Municipality population		Economic indicators	
	Population by ethnicity	Employment and tax revenues	Annual change in number of employed persons	Annual change of average wage
 <p>Prijedor is situated in the entity of the Republika Srpska, it has 71 settlements, and borders with Banja Luka, Oštra Luka, Novi Grad, Kozarska Dubica and Gradiška.</p>	<u>Serbs</u>	55 895 (62,52%)	Annual change in number of employed persons	- 356 (- 2.4%)
	<u>Bosniaks</u>	29 034 (32,48%)	Annual change of average wage	+ 4 KM
	<u>Others</u>	2 706 (3,027%)	Annual change in number of companies	+ 40
	<u>Croats</u>	1 762 (1,971%)	Annual change of tax revenues	+ 2.6%
	<u>Total</u>	89 397 (100,0%)	Social cohesion (NCSP)	
			Prijedor	-0.077

Finding 1: Social cohesion is an important precondition for economic development in Prijedor Municipality, and its increase can improve chances for new investments

Relating to the correlation between these two variables, representatives of Prijedor Municipality used phrases similar to those we heard from interviewees with whom we discussed the broader picture in Bosnia and Herzegovina. They attribute the economic development and success of Prijedor municipality to the human factor. “*It’s up to the people*”, they say. “*People who deal with this in general, regardless of how you categorise them now. At one point, we faced this problem and realised that something had to happen, some change. We could just wait passively, or do something. So, small steps in order to reach a functional system.*”

Considering that they elaborate on obstacles facing Prijedor Municipality focusing on people again, we can conclude that, when it comes to these two variables, our interviewees believe that social cohesion is a precondition for economic development. “*The development itself is conceptualised based on some changes, and changes constitute the main obstacle, and resistance to changes is one of the main obstacles to development in every local environment. Generally, when you look at every individual person, you see that there is this resistance to changes.*”

They say that these changes imply influence on the way of thinking and work methods. Education is one of the ways in which they try to work in this direction. They acknowledge the importance of work with young people as bearers of the community’s future. “*For example, the professional trainings we conducted with schools, and other ongoing efforts, it is very important that we try to introduce a change in the education system through the back-door. You know how much businesspeople insist on practical classes, practical trainings. Actually,*

we are trying to incorporate these trainings in the overall education process, and in parallel we also work with regular education system, where we try to enable secondary school students attending full-time education to get as much practical classes as they can. But we also have the component relating to adult education where we are trying to provide opportunities for people registered at the unemployment bureau, to provide them with the second chance to get trained and retrained easily, and to acquire knowledge and skills required for employment more easily.”

Such proactive attitude towards the society and long-term thinking constitute an important and visible component of this municipality's work. As they say, they apply the best practices from the EU Member States in their work. “*On the basis of what we saw in the EU, these are mostly societies, countries, communities, regions, cities that are extremely focused on their citizens and making their lives easier and improving the living conditions for them. We try to apply this principle in our work, and all these activities that we implement are focused in this direction.*” Education activities that we mentioned also serve to provide greater opportunities to citizens of Prijedor. They acknowledge that this is a long-term process, but they think they are on the right path.

Finding 2: Low level of social cohesion enables high-level politics to contribute to the slowdown of economic development and investments in Prijedor Municipality

When asked how the situation in the country influences or may influence investments, they say that these are “*some trends beyond the local government's domain, we cannot do much there, this is an issue of the state, and of the current environment.*” The same comment applies to the local level. They are not able to recall a single case of a failed investment which could be related to the responsibility of high-level politics. “*I have never had such situations, something in that regard... I would like the city mayor to confirm it, too.*”

Finding 3: Denial of the (negative) role of ethnicity in investments and movement of capital in Prijedor Municipality

“*There are a few small municipalities around the city of Prijedor. These are Novi Grad, Kostajnica, Dubica, Krupa, the municipalities whose mayors often meet city mayors if, let's say, a regional problem arises. Of course, due to its proximity, we also have a very good cooperation with Banja Luka and with all other municipalities through different projects.*” In addition to them, there are also municipalities from other countries, such as Russia, Turkey, Macedonia, Serbia, Slovenia and Norway. Therefore, Prijedor Municipality cooperates with numerous municipalities, and such cooperation is intensive with municipalities of different ethnic composition that are situated in the different Entity. The most prominent ones are Tešanj and Zenica. Therefore, we can conclude that ethnicity is not a barrier for their work.

The PREDA agency from Prijedor partners with the Zenica development agency ZEDA on many projects. They participated with the International Financial Corporation (IFC) in the development of a strategy through which they gained access to tools for support to entrepreneurship development. They say that this may be the reason for success of Prijedor Municipality, considering that other municipalities may not have had access to the same tools like they did.

“*We have a close cooperation with Tešanj. PREDA agency implements projects that connect our school in Prijedor and the Combined Secondary Technical School from Tešanj. The project*

is financed by the US Embassy, and this is an example of cooperation which connected two schools from two different environments.” Cooperation was established with Tešanj development agency. “We are members of the World Bank’s “after care” service, together with the RS Government i.e. the Ministry of Economic Affairs and the FBiH counterpart ministry. Prijedor and Tešanj are members of this body, and there is cooperation through this platform, too.”

They say that they have been frequently asked by municipalities to share their experiences. Again, they mentioned Tešanj, Teslić, and Žepče. They participated in a project focusing on transfer of their experiences and knowledge.

Tešanj

Table 6. Tešanj Municipality Profile

Position of the Municipality in Bosnia and Herzegovina	Municipality population	Economic indicators	
 <p>The Municipality of Tešanj is situated in the Entity of the Federation of Bosnia and Herzegovina, it has 41 settlements and borders with municipalities of Teslić, Doboj, Doboj-Jug Usora and Maglaj.</p>	Bosniaks	40.461 (93,96%)	Annual change in number of employed persons + 398 (+ 4,2%)
	Croats	1.462 (3,40%)	Annual change of average wage + 3 KM
	Serbs	226 (0,52%)	Annual change in number of companies + 20
	Others and unknown	914 (2,12%)	Annual change of tax revenues + 2,2%
	Total	43.063	Social cohesion (NCSP)
			Tešanj 0.295

Finding 1: Social cohesion is an important precondition for economic development in Tešanj Municipality, and its increase can improve chances for new investments

Out interviewee from Tešanj Municipality clearly sees a correlation between the economic development and social cohesion. His perception is multi-layered and reflects well the complexity of these two concepts which we presented in the theoretical introduction of our study. He does not give preference to local administration over the other development factors, but emphasises the need for harmony between all actors. *“In the economic development, local administration is only one of the development factors. There are the council and the mayor on the local self-government level, and there must be political will for such approach. Apart from the political will, there must be fertile ground for such approach, an environment must be created, and people must be able to take such approach. This ability is also reflected through other institutions, not only through the municipality and local self-government.”* Our interviewee includes not only the institutions, but also inhabitants of the municipality in the approach to the development of a local self-government. *“So, these are people who are*

independent and ready to start own business, either because they need to, or because they realise that they cannot wait for the state." He explains that all other local level institutions should be necessarily oriented to development, where he includes public sector, institutions and companies (Tešanj Municipality founded 11 of them), the non-governmental sector and religious communities. All these actors together create an environment which is necessary for the development of a community.

There is no statement about clear direction of this correlation either, and there is a perception that it involves a two-way influence. On the one hand, the influence of economy (be it positive or negative) on social cohesion is explained, whereas on the other hand social cohesion elements are highlighted as potential barriers to development, and as preconditions for development, too, as we have seen. Our interviewee also talks about ways for intervention, giving preference to economic interventions.

“Generally, I think that the economic development influences other social development indicators which I mentioned to you, the migration, population growth, decision to stay in these areas, some requirements set by the society, but I think I would give preference to quick interventions for economic development over the mere story about reconciliation and sitting around unemployed.”

With regard to the social cohesion in Tešanj Municipality, our interviewee says that this community is already on a level where it faces new challenges. Tešanj went through stages of privatisation, high unemployment rate and post-war reconstruction, and each stage presented specific challenges. *“We are now in a phase where we face certain social cohesion challenges that other municipalities may not be facing yet. We are already in a stage where people talk about living standard and average salary. This is a consequence of poor legislative solutions in the Federation, but let’s say that this is a pressing issue for us. Also, the issue of social inequality is gradually getting stronger. So, a group of very rich people and a group of people who live off their salaries have already been formed.”*

Finding 2: Low level of social cohesion enables high-level politics to contribute to the slowdown of economic development and investments in Tešanj Municipality

“Political stability is an inevitable part of overall economic stability. These things are linked and one cannot go without the other,” the municipality representative says. The representative of the Tešanj development agency (TRA) agrees with him when he says that media rhetoric, which implies instability, tensions and conflicts, harms the economy in Bosnia and Herzegovina. *“The political instability, which largely manoeuvres economic instability, creates an absolutely uninviting and unattractive economic space.”* He adds that such situation causes decline of foreign investments.

The representative of Tešanj Municipality demonstrated a layered understanding of the phenomenon which implies differentiation between politics and all its proactive activities, and political speculation which is described as malicious. *“Question is what politics means, and it*

Good practices³⁵

4: CO-BEAR

The Business excellence area (CO-BEAR) is an example of good practice which also attracted media attention at one time. Launched at the initiative of the Tešanj development agency (TRA), this project connects municipalities of Teslić, Tešanj and Žepče. *“These three municipalities gathered in order to attract investments, stimulate exports and improve the labour market situation.”³⁶* For our survey it is interesting that these three municipalities are completely different by their ethnic composition, and that one of them is located in the Republika Srpska Entity. This clearly tells us that ethnicity is not an obstacle to development and cooperation, when it comes to Tešanj. When asked who was the initiator of this project, representative of the development agency and representative of the municipality say that it was Tešanj, however, the representative of Tešanj municipality further elaborated: *“In the large part, it was the municipality of Tešanj, but I wouldn’t overly stress it, given that a serious cooperation cannot happen unless it is honest on both sides, regardless of who was the first to say: “Let’s do that job.” So, unless all sides accept it as a good idea, a good activity, and if they don’t accept it without reserves, and not just formally, it will not come true.”*

³⁵ This is the fourth one out of four good practices that may contribute to the increase of social cohesion and economic development that we used as examples that can be of use to other municipalities

³⁶ <http://www.cobear.ba/>

can be approached in different ways. But politics is also when the local council allocates funds, politics is how it organises work of its offices, politics is how quickly it responds to requests of business people, this is politics, too. Genuine politics is when there are no problems, and political speculation is when the council or the majority in the municipal council says – we don't really like this investor, let's slow down his application, we will not discuss his applications."

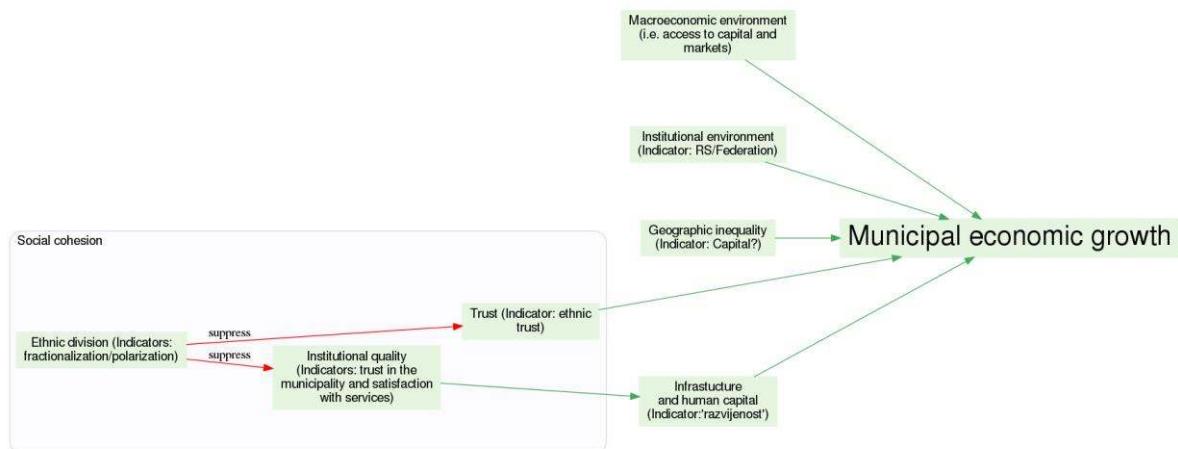
Finding 3: Denial of the (negative) role of ethnicity in investments and movement of capital in Tešanj Municipality

Municipality of Tešanj intensely cooperates with other municipalities with different ethnic structure. *"We work on an important infrastructural project of sewage system with the municipality of Usora, because the border between the municipalities is such that river basins enable joint solution for the sewage system. In this way, we will simplify and reduce costs of the entire investment, and both sides will be winners in the long term."* The pattern of experiences from previous municipalities that were covered by the survey is repeating – cooperation exists if common interest is present.

3.2. Quantitative results

We used quantitative analysis to verify the nature of correlation between economic indicators and social cohesion indicators at the level of Bosnia and Herzegovina. In this way, we additionally confirmed the previously elaborated qualitative findings. According to the theory which is summarised in graph 1, social cohesion may influence economic success in two ways. One way is through efficient work of the institutions creating preconditions for economic success, and the other way is through existence of interpersonal trust that may directly influence economic results.

Apart from social cohesion, there are other factors that may influence economic growth. This first one is the macroeconomic environment. Examples of this factor include availability of capital and status of BiH as a candidate for EU membership. We did not consider those factors in this study because they have equal influence in all municipalities countrywide. Institutional environment is the second factor. Examples of this factor include tax policies and procedures required for registration of new companies and job creation. Entity where a municipality is situated was used as an indicator for this factor. Geographical difference is the third factor, meaning whether some municipalities are privileged because of their position (e.g. because they are capitals or located close to economic centres). As the final special factor, we included municipal infrastructures and human capital, using existing research and development analyses.³⁷



Graph 1 Model of relationship between main variables

Economic indicators were turned into a standard form, which is between -2 and 2 in this case. In this way, we present variations in results **in relation to an average municipality**. For example, in the average municipality in BiH, average salary went up by BAM 7,10 annually in 2012-2016. Average monthly salary rose by BAM 10,37 annually in the same period in Bosanska Krupa. Considering that this is above average, we award this municipality +0.21 points. On the other hand, we award -0.26 points to Tešanj Municipality where average monthly salary also went up, but only by BAM 2,97 annually. **For a municipality to rank**

³⁷ For more details, see “2.2.2. Phase two: Determination of indicators”

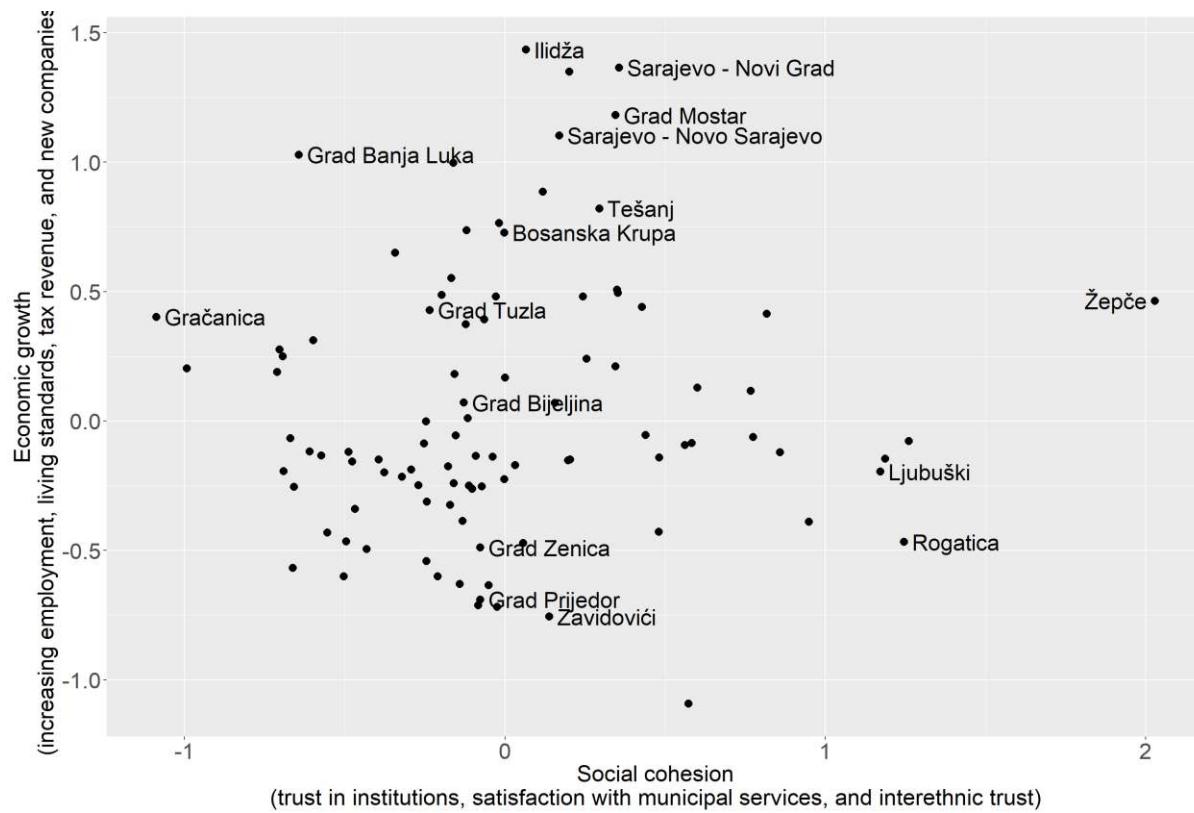
highly, it should follow a positive trend based on several indicators: number of employed persons, average salary, number of registered companies, tax revenues.

Table 7: Explanation of results in economic successes

Indicator	Average municipality	Standard deviation (= + 1 point)
1. Employment	<ul style="list-style-type: none"> Change in number of employed persons in percentages (because the unemployment rate depends on the number of registered persons) Change in number of employed persons 	+ 38 (0,31%) 156 (2,7%)
2. Prosperity increase and living standards	Change in average wage	+ 7.10 KM 15,7 KM
3. Creation of new companies	Change in number of companies	+ 17,0 99,1
4. Tax revenues	Percentage change in tax revenues	+ 2.5% 5,2 %

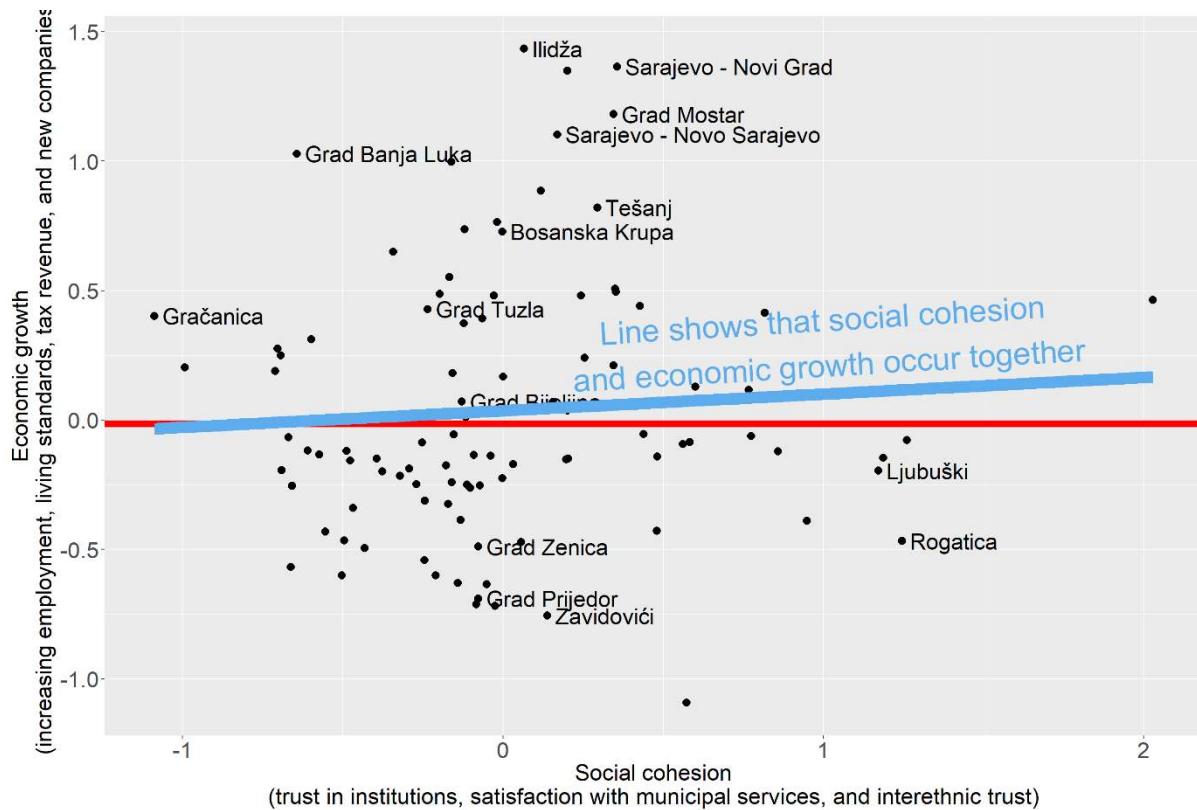
First, we verified correlation between all social cohesion indicators and economic success. In graph 2, each of 98 municipalities covered by citizens survey (from the National Survey of Citizens' Perceptions in Bosnia and Herzegovina, MEASURE-BiH) is presented with one dot.

Names of four municipalities and 15 additional municipalities were included as illustrative examples. The graph below shows that Ilijadža municipality has the highest economic success indicators, but only medium (average) social cohesion indicators. Žepče is another example, with the highest indicators of social cohesion, but only slightly above-average economic success indicators.



Graph 2: The relationship between social cohesion and economic success indicators for 98 BiH municipalities

What follows below is the same graph from which we draw the answer to the central survey question concerning the relationship between all social cohesion indicators and economic success indicators used in this study. Linear regression method was used for this purpose³⁸, and obtained results are shown in Graph 3. The line on Graph 3 illustrates correlation between two variables, social cohesion and economic success in this case. The line slope illustrates the degree of correlation between social cohesion and economic success, according to previously established indicators of both variables. If there was no correlation whatsoever, this line would have been horizontal. This hypothetical situation in Graph 3 is shown with horizontal red line. Based on data from this study, a mild slope of blue line is visible, which means that there is a certain connection³⁹ which points to the growth tendency of economic success influenced by the social cohesion growth.



Graph 3: Graphic overview of correlation between social cohesion and economic success

As clearly shown on graph 3, many municipalities are either above or below the blue line. This means that social cohesion level of one municipality does not illustrate the level of its economic success.

There are other factors determining the difference between more and less economically successful municipalities. In order to better understand the relevance of the relationship between social cohesion and economic success, we will fully re-examine our theoretical model from Graph 1 in the below findings.

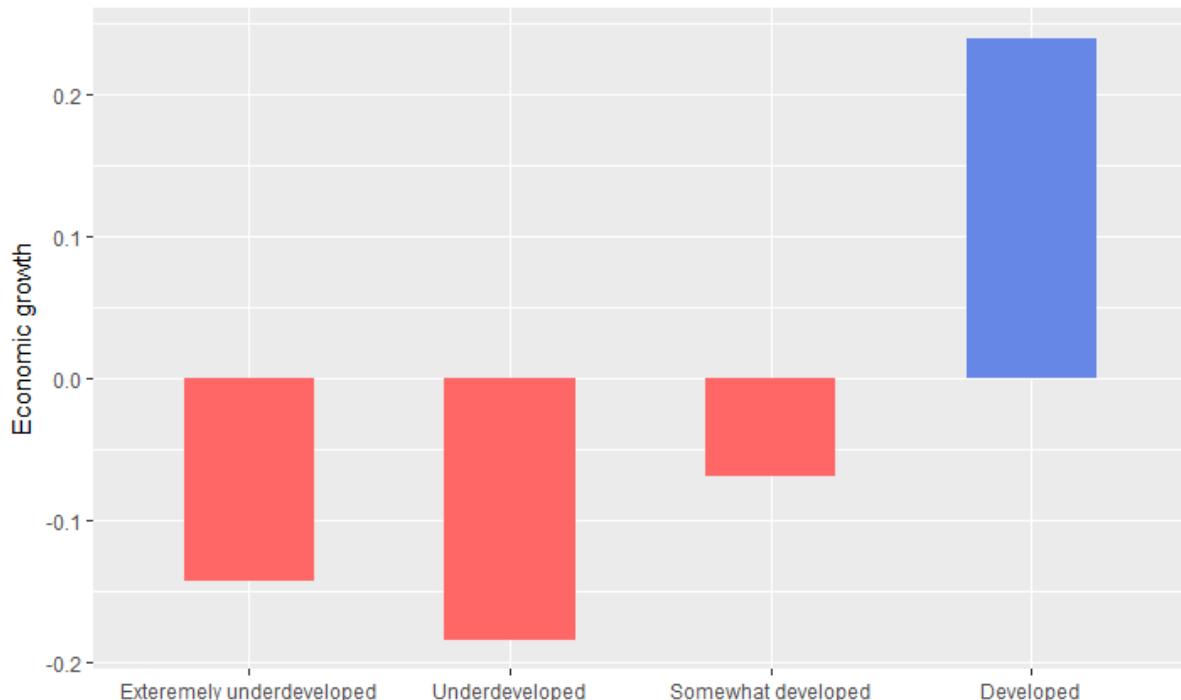
³⁸ It creates an ideal line, with minimum total space between each dot and line. If the linear regression is statistically significant, it would mean that based on a change of the value of one variable, we can predict change of value of the other variable.

³⁹ Although it is not big or statistically significant ($p = 0,52$, and maximum for statistical significance is je 0,10.)

Finding 4: Considering the entire model, we see that the majority of variations in economic successes are in correlation with structural factors that are beyond control of municipalities.

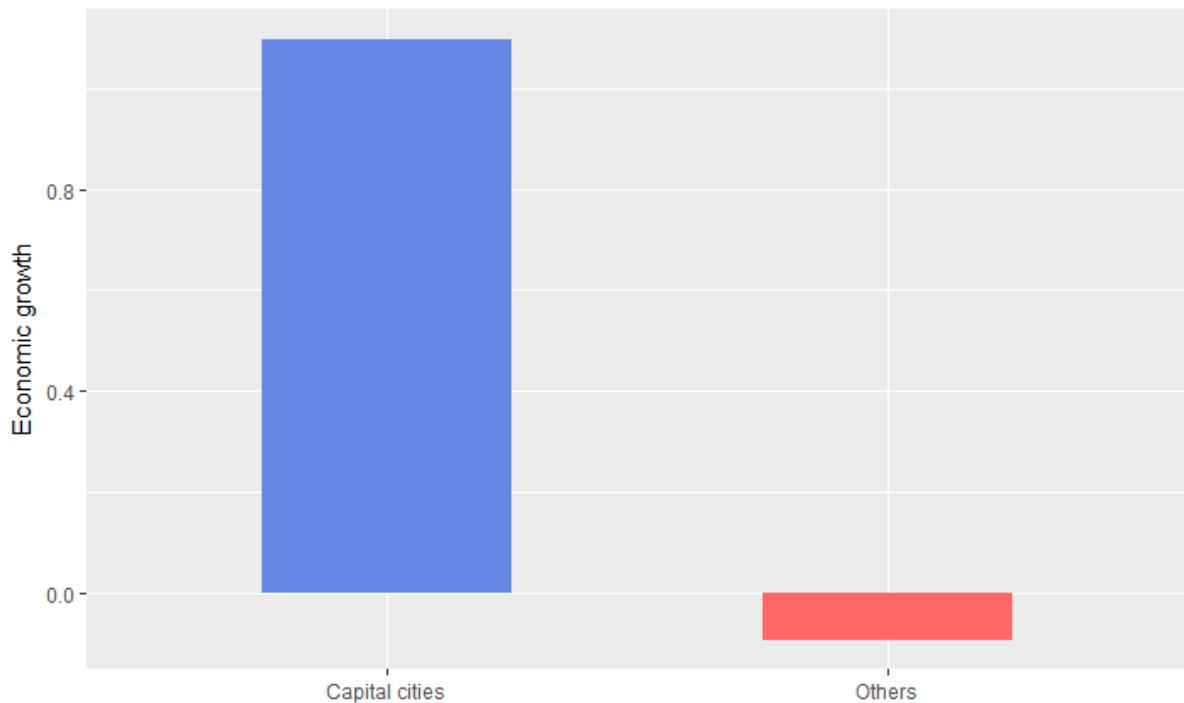
These factors are:

Development level: This factor explains 10% of variation. This variable includes human resources and infrastructure, i.e. slow changing characteristics of a municipality. Therefore, better developed municipalities are economically more successful.



Graph 4: Development level of municipalities and economic success

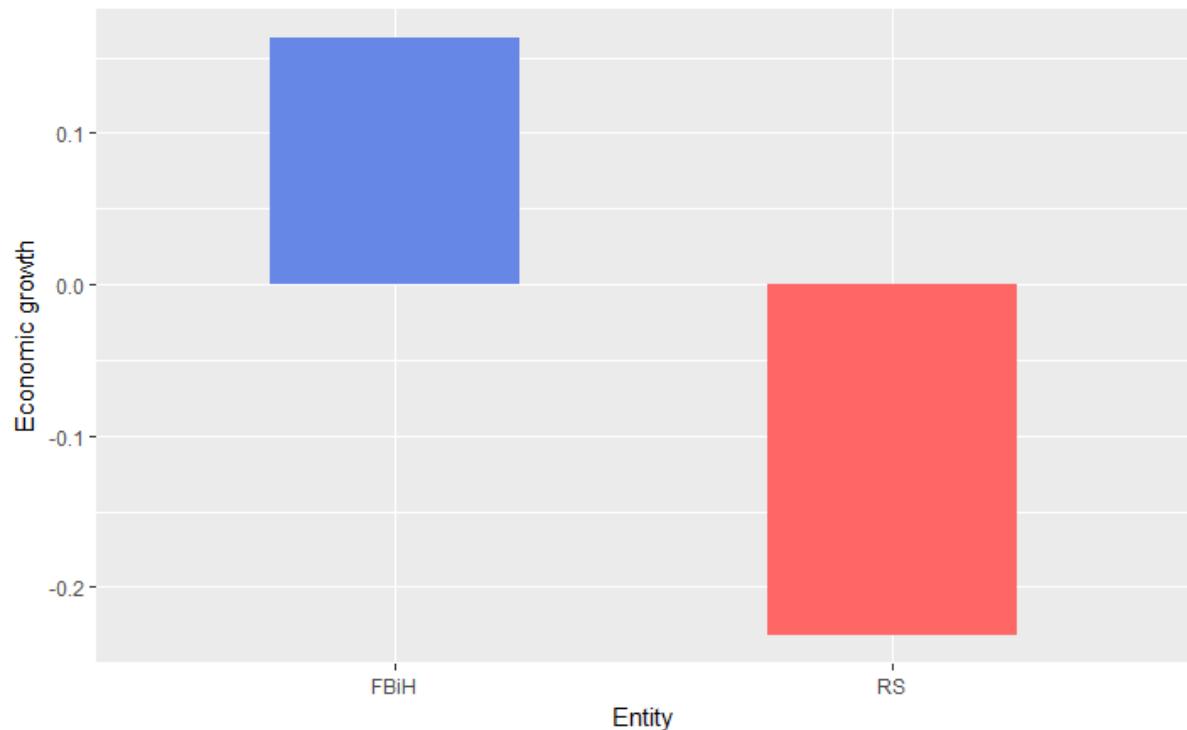
Capitals: For the part of the model relating to geographical inequalities in economic results, we used broader definition of capitals which includes 4 municipalities in the City of Sarajevo plus Iličići, Ilijaš, Banja Luka, and Mostar. This factor explains the 31,6% of variation, i.e. if a municipality is also a capital, it adds 1,2 points on average to the economic success. Therefore, capitals are economically more successful.



Graph 5: Entity and economic growth

The size of municipalities (population number) plays a less significant role when the Development level and Capital are included. These three factors are closely related – like capitals, developed municipalities have more inhabitants. Therefore, these municipalities are economically more successful. In the common model, each additional 1 000 inhabitants are in correlation with -0,001 points. This is a less important factor for municipalities in BiH.

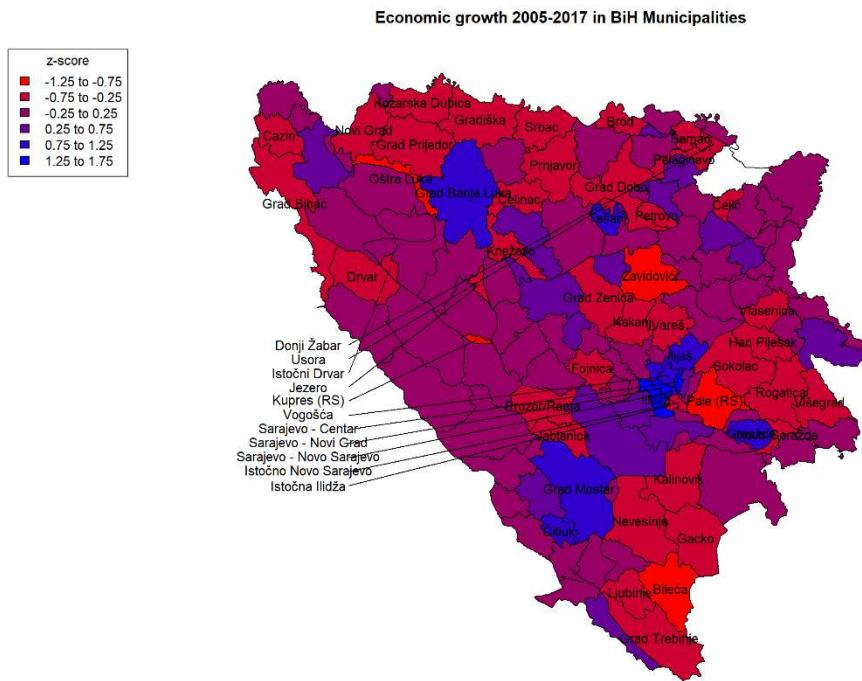
Entity where a municipality is situated. Municipalities located in FBiH have 0,16 points on average, whereas the average for the RS is -0,23 points. Due to sensitivity and potential wrong interpretation of this finding, we verified each indicator separately, in order to establish whether it involves a specificity of the methodology. Municipalities in FBiH have statistically significant more points by indicators of employment change (absolute and relative) and increase of tax revenues, whereas there is no significant difference in growth of average salary and number of companies (for both indicators, RS has a small, but insignificant advantage.) Reasons behind this result can lie in different laws and administrative structures and strategies, or in differences in investments. According to the unified model (which includes all factors), municipalities located in FBiH have 0,33 advantage points.



Graph 6: Entity and economic growth

These factors together explain the 47,2% variation in economic results. So, there are other, more significant factors. We checked a few more potential factors, but they proved **not** to have statistically significant correlation with the economy. First of all, we assumed that municipalities that were divided during the war may have worse economic results (because the economic unit is divided), but this conclusion could not be supported. We also checked whether municipalities bordering with Croatia, Serbia or Montenegro had a different degree of economic success, but it also proved to be incorrect. The last factor we checked is the *Business Friendly Certificate (BFC)*, assuming that certified municipalities would have better economic success. Although it seems that they do (average for 19 municipalities with BFC is 0,057 points, whereas 124 municipalities without BFC have the average of 0,025 points), this result is statistically insignificant, too. It is difficult to verify whether obtaining of BFC status brings economic success, or more successful municipalities invest in the process of obtaining BFC.

Graph 6 shows the map of BiH with highlighted economic results. For clarity purposes, only names of municipalities with the worst (less than -0,25 points) or the best (more than 0,75 points) results were included. Some of the aforementioned conclusions have been confirmed – for example, the light-blue “capitals” (as we defined them for the study).



Graph 7: Economic growth of municipalities

Finding 5: Social cohesion plays a significant role in understanding of economic results.

According to our model shown in graph 1, ethnic differences among the population, interpersonal trust and efficient work of an institution may have either negative (ethnic diversity) or positive (trust in the work of an institution) effects on economic success. Through the linear modelling method, we reached the following conclusions about these effects:

Greater ethnic diversity has slightly positive correlation with economic success, unless it is of a polarising nature (division between two groups of similar size). We first checked whether fractionalisation (measure of diversity among population) or polarisation have a separate correlation with economic success. The result is negative. However, when we check both factors together, the result is statistically significant ($p = 0,009$). Therefore, if we know the ethnic composition of the population, we can explain the 5,2% variation in economic results. Increase of fractionalisation by 10% also increases economic results by 0,171 points, whereas polarisation increase by 10% decreases results by 0,088 points.

It is important to note that economic success indicators only include differences between municipalities. Half of municipalities must have negative points, and positive points likewise, which results from the methodology. Furthermore, quantitative results only tell us about differences between municipalities in the macroeconomic and institutional environment of BiH. This does not negate the qualitative finding No. 2 in any way. It only means that all municipalities are equally subject to the negative influence of ethno-nationalist politics.

Table 7: Illustrative examples of fractionalisation, polarisation and economic results

Municipality	Category	Ethnic division	Fractionalisation	Polarisation	Combined correlation (points) ⁴⁰
Posušje	Low fractionalization, low polarization	Croats (99.7%)	.005	.01	+ 0,000
Vitez	Medium fractionalization, higher polarization	Croats (55.5%) Bosniaks (40.7%) Serbs (1.3%) Others (2.5%)	0.53	0.94	+ 0,079
City of Tuzla	Medium fractionalization, lower polarization	Bosniaks (72.8%) Croats (13.9%) Others (10.3%) Serbs (3%)	0.45	0.66	+ 0,189

Also, among indicators of effective work of the institutions, only citizens satisfaction with municipal services is useful for explaining of economic results. **Increased citizen satisfaction by 1 point on the scale from 1 to 7 means +0,089 points in terms of economic results.**

It is difficult to draw any conclusion on correlation between the increase of interpersonal trust and economic results. There are several potential explanations of this unexpected result, which is not in line with theories and important surveys. The first possible reason is that the sample for NSCP questionnaires is too small in each municipality to be able to measure differences among the population adequately. The second potential reason is that there are no sufficiently significant differences in the level of interpersonal trust on the municipal level. The level of trust is mostly measured on the state level because the overall environment of group relations and the role of ethnic structure in the constitutional setup have a very important influence on trust. The third potential reason is that the identity structure among population (point 1) is more significant than differences on individual level.

Using the factors of ethnic structure of the population, citizen satisfaction with municipal services, and interpersonal trust, we increased the model fit from 50,9% to 51,5%. Inclusion of these factors improves our theoretical model.

⁴⁰ Joint correlation with the economic growth (points) based on linear modelling

4. Conclusion

Social cohesion and economic success in Bosnia and Herzegovina are correlated, mutually dependent phenomena, both on the state and local levels. In order to better understand the current situation in the country, and in order to take action with the aim of improving such situation, it is necessary to acknowledge the complexity of the relationship between these two big concepts, and all of their elements.

Through a qualitative approach, we obtained findings that enable us to draw a conclusion that **social cohesion is important for economic success**, i.e. that an increase (or decrease) of social cohesion may influence the increase (or decrease) of economic results and investments in Bosnia and Herzegovina, which is also true for four municipalities covered by our survey. Moreover, the fact that low social cohesion enables high-level politics to create a **negative environment and political instability** in the country (be it indirectly through rhetoric, or directly through identical patterns on the level of local politics) constitutes a big obstacle to the economy and investments. Finally, ethnic component is not a barrier to investments, and its overcoming is perceived as a **precondition for success** of a community. However, we must be careful because it is possible to conclude that such view of ethnicity is preferable for development, but we cannot tell whether population of any municipality is actually free of ethnic intolerance.

Using quantitative approach, we obtained findings showing us that **a significant part of economic success of municipalities depends on factors beyond their influence** (such as current development level, size, status of a capital, and Entity where they are located). However, there are also other factors, which were not covered by this study, that have certain influence on the economic success of municipalities. Furthermore, quantitative analysis confirms that **certain elements of social cohesion are also important for understanding of economic results**. Ethnic structure of a municipality (i.e. to what extent is the population ethnically fractionalized and polarized) is especially important, as is the level of effectiveness of institutions in the given local self-government unit. Strengthening of institutions and increasing the level of public trust in them may eventually contribute to the rise of economic success of municipalities.

4.1. The openness philosophy of a municipality

On the basis of our research, we formulated a kind of a model for the development and success of municipalities and cities which we called "**The openness philosophy of a municipality**". Success of a municipality depends on whether it will recognise as many elements of this model as possible, and to what extent it will follow it.

Beyond doubt, there are many aggravating factors in the development of municipalities, but it is very important to know that there are three categories of those factors.

(1) There are factors beyond control of municipalities, but they can recognise and acknowledge them. For example, current development level, size, status of a capital, and Entity in which the municipality is situated.

(2) Also, there are factors that municipalities cannot change at this time, but they can reduce their influence by changing the attitude towards them, and contribute to change of those factors in the long term. Here, we can include negative environment and perceived political instability

caused by high-level politics. Although municipalities and cities cannot change high-level politics quickly, they can ensure that such politicisation patterns are not put down to the municipal level at the expense of development (which leads to environment change in the long term, and thereby to economic success).

(3) Finally, there are factors that municipalities can influence directly and change, such as better reaching out to investors and citizens. This implies promotion of a municipality and proactive participation in attracting of investors through improvement of the environment. This primarily means removal of obstacles to investments, for example, through digitalisation and acceleration of processes, shortening of the waiting time for permits, and general improvement of the work of institutions. Institutions should be strengthened in order to be more efficient in performance of their jobs, which is the main precondition for public trust in those institutions. Also, it is very important that population of the municipality is open for investors and innovations. This can be achieved by recognising and influencing the mindset which can be described as transitional – i.e. by changing of dependency on the state into a proactive attitude towards improvement of own competitiveness. Finally, two other important factors that municipalities can influence in order to better their chances for economic development are improvement of interethnic relations within the municipality, and cooperation with other municipalities, irrespective of their ethnic composition.

A successful municipality is specific for its ability to recognise and implement such model, but even successful municipalities are different by the extent to which they authentically follow the openness philosophy. Following this philosophy requires harmony among population, and between inhabitants and local self-government institutions (and within and between those institutions).

In an interview with the **business sector representative**, we tested whether the openness philosophy of a municipality depicts characteristics that would be attractive to a foreign investor. He confirmed all our presumptions for a successful municipality. According to his experience in the development of business, he faced problems with insufficient social cohesion, needless politicisation and slow and complicated administration. Furthermore, he explains that one should be careful when it comes to municipality's openness to investors. When he was starting his business, he talked to several mayors who were very open for investments, but this openness is simply reduced to unilateral benefit. This confirms our postulate that a municipality wishing to be successful must follow a large number of elements of openness philosophy. If a municipality enjoys high social cohesion, public trust in the institutions, a degree of innovativeness and flexibility in action, reciprocity of operations is a logical consequence of such harmony of relationships and trustful environment. Municipalities that accept guidelines of the openness philosophy for their development model can expect better chances for investments and economic development.