

BUSINESS AND ENTREPRENEURSHIP IN BOSNIA-HERZEGOVINA

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ABSTRACT

Among countries in transition, Bosnia-Herzegovina is unlike any other. Civil war interrupted the process of privatization, and shelling destroyed much of the industrial sector. A few entrepreneurs prospered during the war, and many new ventures were created; however, their post-war survival is uncertain. The Dayton Agreement created a federal Bosnia-Herzegovina, consisting of two political entities. One of these is the Bosnian Federation, which welcomed the post-war reconstruction boom, and is headed for a market economy. However, the other constituent of Bosnia-Herzegovina, namely Republika Srpska, has encountered a further struggle with post-war politics, and less entrepreneurship is visible there.

INTRODUCTION

Bosnia-Herzegovina is a unique country; although it is divided into two legal entities, it consists of three economic entities. The country is politically divided into two legal entities, namely the Bosnian Federation and Republika Srpska. In actuality, however, Bosnia-Herzegovina operates as three economies, each with its own regional currency. Coins are scarce, and so retailers give chewing gum and tram tickets in lieu of change.

The need for post-war reconstruction has been translated into new opportunities for entrepreneurs. Given the low wage structure in Bosnia-Herzegovina, there is also tremendous potential in light manufacturing, especially with the technical and financial assistance of foreign partners. Yet, many issues remain unresolved. The objective of this essay is to give an account of, and stimulate future research about, small business in Bosnia-Herzegovina.

METHODOLOGY

This article is the result of inductive, ethnographic research with an emic design. Research methods included participatory observation and open-ended interviews with entrepreneurs, government policy-makers, and United Nations personnel in Bosnia-Herzegovina. Also contacted were the British Overseas Development Agency; the Council of Bosniak Intellectuals; the Croat National Council; the *Muslimanska Bosnjacka Organizacija* (Muslim Bosniak Organization); *Srpsko Gradansko Vijece Sarajevo* (Serb Civil Council of Sarajevo) and *Tuzlanski Demokratski Krug* (Democratic Circle of Tuzla). The author intended to conduct some interviews in Potkasa, but this plan was canceled as the town's population was reduced to zero.

Interviews typically lasted between one and two hours. In total, eighteen interviews with officials (government, diplomatic, military, and NGO) were deemed usable, as were fifty-five interviews with entrepreneurs, journalists, and consumers. Special care was taken in order not to be misled by socially desirable responding, as discussed by Adair (1984), Arnold, Feldman and Purbhoo (1985), Crowne and Marlowe (1960), Lopez (1982), Rahim (1983), and Zerbe and Paulus (1987). Numerous studies (Arnold & Feldman, 1981; Golembiewski & Munzenrider, 1975; Rosenkrantz, Luthans & Hennessey, 1983; Stone, Ganser, Woodman, & Fusilier, 1979; Thomas & Kilmann, 1975) have raised concerns about the contamination of research findings by such socially desirable responding.

Several difficulties were encountered during the data collection stage of this research. Details about the Bosnian Federation and Republika Srpska are not available in any one place. Therefore, it was crucial to travel across ethnic boundaries within Bosnia-Herzegovina. According to the Dayton Agreement, this should not be a problem. However, data collection was interrupted when military police, in Serb-held areas of Bosnia-Herzegovina, repeatedly stopped and interrogated the author. In addition, countless roadblocks (some caused by military forces and others by stray cows) contributed to frequent delays. One must also be cautious, as roadside bandits have been making potholes for the purpose of damaging tires of passing automobiles; when the driver stops the car to change a tire, the bandits rob him and steal the vehicle. Often, different sources of information were contradictory, and triangulation was necessary for reliability. Much information is kept secret by authorities, and the attempt to obtain complete answers to certain questions can be quite frustrating. The lack of infrastructure complicates logistics. Public transport is unreliable and fuel for private automobiles is sometimes scarce or sold at a premium by individuals in the black market. Also, 58 bridges have been destroyed, resulting in hundreds of kilometers of detours. Finally, getting around can be confusing as numerous place names have been changed, but maps do not necessarily reflect changes. In Sarajevo, for instance, ul. Omladinska should be read as Musala Street. More symbolically, ul. Tito has become Mohammed Street. Although both Cyrillic and Latin alphabets used to be common across Bosnia-

Herzegovina, since the war signs in the Bosnian Federation tend to use only the Latin alphabet, and those in Republika Srpska are exclusively written in Cyrillic.

ECONOMIES IN TRANSITION

Small business, in post-communist and in transition economies, has been receiving considerable attention in academic literature. However, most of the related research has focused on the People's Republic of China (PRC), on the formerly Soviet bloc, and on Indo-China (especially Vietnam). Among the numerous studies about emerging entrepreneurship in the PRC are Chau (1995), Dandridge and Flynn (1988), Fan, Chen and Kirby (1996), Siu (1995), and Williams and Li (1993). The Czech and Slovak Federal Republic was researched by Rondinelli (1991) and the Czech Republic by Sacks (1993). Estonia was studied by Liuhto (1996). Hungary was studied by Hisrich and Fulop (1995), Hisrich and Vecsenyi (1990), Noar (1985), and Webster (1993). Kazakhstan was researched by Dana (1997a), and Moldova by Dana (1997b). Poland was investigated by Arendarski, Mroczkowski and Sood (1994), and by Zapalska (1997). Russia was the topic of Brutton (1988), and Hisrich and Gratchev (1993). Slovakia was researched by Ivy (1996). Dana (1994a) examined the small business sector in Vietnam and Dana (1995) researched the same in Laos. The small business sectors of Albania (Dana, 1996a), Cuba (Dana, 1996c), Mozambique (Dana, 1996b) and former Yugoslavia (Dana, 1994b) have also been studied.

Small business in Bosnia-Herzegovina, however, has not been the focus of many scholars; yet, it should be because the environment for small business and entrepreneurship is quite unique there. Ivy (1996) explained that most of the attention in post-communist and transition economies is centered on the privatization of existing state-owned enterprises. In Bosnia-Herzegovina, however, most of the formerly state-owned industry has been damaged during inter-ethnic fighting. Here, a free-enterprise system is not so much the result of the transfer of ownership of existing firms; instead, entrepreneurs are rebuilding the economy by identifying niches, and the flexible structures of new ventures make these dynamic. As noted by Julien (1993), the recovery of an economy can be linked to the growth of entrepreneurship.

THE RISE OF ETHIC CONSCIOUSNESS IN THE BALKANS

Medieval Bosnia was the strongest power among the southern Slavic nations. In 1463, however, Bosnia was conquered by the Ottomans. In 1482, the fertile farmland of Herzegovina was attached to the vast forests of Bosnia. Thus came into existence the entity called Bosnia-Herzegovina. Under Ottoman rule, this region was primarily agricultural and the Ottoman agrarian system influenced many residents to convert to Islam. This contributed to the decline of the Bosnian Church.

A multicultural society developed, and religious affiliations became the basis of national identities within Bosnia-Herzegovina. The Serbs preserved their traditional Byzantine and Slavic traditions. The Muslims – later known as Bosniaks–

adopted Turkish-Islamic culture along with the values of the bazaar economy. The Croats observed Catholicism with its influences from Western Europe. Beginning in the 1500s, Ladino-speaking Sephardic Jews, tracing their origins to Spain and Portugal, became prominent in the business realm of Bosnia-Herzegovina. Here, they pioneered in the medical, pharmaceutical, and metalsmith trades.

In 1878, the Austro-Hungarian Empire occupied Bosnia-Herzegovina and, at the Berlin Congress, received a 30-year mandate to govern it, even though the area remained formally under the sovereignty of the Ottoman sultan. German-speaking Ashkenazi Jews came from the Austro-Hungarian Empire in large numbers, encouraging and financing the industrial development of Bosnia-Herzegovina. This trend was accelerated in 1908, when Bosnia-Herzegovina was annexed to the Austro-Hungarian Empire.

The surrender of the Austro-Hungarian Empire, in 1918, led to the creation, by the Allies, of the Kingdom of Serbs, Croats, and Slovenes. This new entity, which included Bosnia-Herzegovina, was renamed Yugoslavia in 1929, and joined the Axis in 1941. Under Italian and German dictatorship, during World War II, Bosnia-Herzegovina became part of the quisling Independent State of Croatia.

After World War II, Bosnia-Herzegovina was integrated into the Socialist Federal Republic of Yugoslavia, under the strong leadership of Marshal Tito, a Croat who ruled from Serbia. The U.S.S.R. wished for this federation to be dependent on Soviet exports, and proposed a merger of Yugoslavia and Bulgaria. Instead, Tito leaned toward self-management with a shade of capitalism. He favored industrialization, and considerable industry was concentrated in Bosnia-Herzegovina. Given the availability of iron ore and of coal, much steel was produced in Bosnia-Herzegovina, where Yugoslavia's largest steel mill was set up, 80 miles from Sarajevo. Additionally, Bosnia-Herzegovina became home to a major oil refinery on the Sava River and to an aircraft industry in Mostar.

Meanwhile, Tito tried to create a Yugoslav nationalism that would melt cultural differences. Although urbanization encouraged secular life, ethnic consciousness emerged as some cultural beliefs were incompatible with one another. In a Muslim family, for example, it was more important for women to stay home than to receive higher employment; this contributed to a substantial income differential between Muslims and non-Muslims in Bosnia-Herzegovina. Also, the Muslim population increased, becoming twice that of Croats and Serbs. In 1968, Tito recognized Bosnian Muslims – Bosniaks – as having their own nationality, distinct from Croats and Serbs in Bosnia-Herzegovina.

POLARIZATION AND INDEPENDENCE FROM YUGOSLAVIA

Yugoslavia was among the first socialist countries to move toward a free enterprise system. In 1990, the introduction of the new dinar (worth 10,000 dinars) was a boost to the Yugoslav economy. This new currency, being convertible and pegged to the German currency, made it easy for entrepreneurs to import sophisticated machinery to upgrade their operations. Yugoslavia was the strongest

economy of eastern Europe, and Bosnia-Herzegovina enjoyed a trade surplus, but this would soon change.

Following similar moves by other constituents of the Yugoslav federation—namely Slovenia, Croatia and Macedonia—Bosnia-Herzegovina adopted its first ever declaration of independence on October 14, 1991. Never before had Bosnia-Herzegovina been an independent entity. In a February 29, 1992 referendum, the nation voted in favor of independence. The new country was recognized by the European Union and by the United States in April 1992. Perhaps even more significant was Bosnia-Herzegovina's membership in the United Nations as of May 5, 1992.

STATE OF WAR

On April 6, 1992, Bosnian-Serbs joined Serbia in a war against Bosnian-Croats and Bosnian-Muslims (Bosniaks). The following year, a separate conflict arose between Bosnian-Croats and Bosniaks. Repeatedly, mortar attacks killed civilians in Sarajevo's Central Market. Some people were killed waiting in line for bread; others were blown up in the queue for water. Blockades interrupted manufacturing. Factories were looted. Fighting stopped production at Volkswagen's passenger car assembly line in Sarajevo. The Holiday Inn was among the many hotels that was bombed. Most enterprises were paralyzed. Cigarettes became a common currency, especially Marlboros and Pall Malls. A few entrepreneurs prospered during the war. Among these were Mirsad Delimustafic and his brothers—owners of the BH Banka and also of Cenex, a food processing and trading conglomerate. Cenex also diversified to operate a luxury hotel in Sarajevo. Political connections helped this commercial empire flourish; one of the brothers was Minister of Interior during the war.

Other entrepreneurs thrived in black market activities arising from wartime shortages. Even water was rationed and could be sold to desperate buyers who were willing to pay a premium. More clandestine opportunities arose when Serbia and Montenegro cut economic ties with Bosnian Serbs. Individuals made money smuggling guns. Others exported drugs, or profited by selling orphans whose parents had been killed during the war. Some children were sold to people who wished to adopt them; many were sold into sex slavery. Interviewees, who classified themselves as Croatian intellectuals, told the author that it was particularly ethnic Croats in Bosnia-Herzegovina who profited during the war.

Although much wartime entrepreneurial activity was opportunistic, it should be added that the situation also gave rise to legitimate value-adding activities. Houses needed roofs and broken walls needed to be rebuilt; shattered windows had to be replaced. Opportunities arose in building, reconstruction, plumbing, painting, and the like. The media was a sector that witnessed particular growth.

WAR-TIME ENTREPRENEURSHIP IN THE MEDIA

Civil war interrupted the privatization of state-owned and controlled media in Bosnia-Herzegovina. Also, fighting damaged existing print shops as well as capacities for radio and television production and broadcasting. While government and military personnel controlled the state-owned media, some entrepreneurs identified an opportunity to create new ventures. Hence, a variety of media outlets were begun. Among those that pioneered alternative journalism in Bosnia-Herzegovina – with no political or military censorship – are *Dani* (an independent monthly launched in 1992), *Slobodna Bosna* (a bi-weekly subsidized by the Soros Foundation and first published in September 1995), Studio 99, Radio ZID, and TV Zetel.

TV Zetel, founded by entrepreneur Zeljko Lincner, began broadcasting in Zenica in 1992. That same year, ten entrepreneurs jointly created independent television *Hayat*, in Sarajevo. Croat television Mostar, employing only two journalists, was launched in July 1994. Independent Radio-Television 99 Sarajevo, which is owned by a group of journalists and technicians, has 22 employees; its NTV 99 television station began broadcasting February 1, 1995. Also in 1995, entrepreneur Zoran Udovicic founded Media Plan, Bosnia-Herzegovina's first private firm specializing in media development. Through this organization, he started Sarajevo's first wartime school for television reporting.

Even in areas controlled by Bosnian Serbs—where media produced propaganda for the authorities—-independent newspapers began emerging in 1995. Examples are *Nezavisne Novine* and *Novi Prelom* in Banja Luka; *Panorama* in Bijeljina; and *Alternativa* in Doboj. The *Nezavisne Novine* calls for inter-ethnic cooperation, while the *Novi Prelom* promotes a market economy. However, *Glas Srpski* (published in Banja Luka) is the only daily newspaper in Republika Srpska, and it serves the interests of the ruling party. Serb Radio-Television, which is broadcasted from Pale, using transmitters captured during the war, also propagates government views.

Although there were numerous start-ups during the war, their survival rate is not obvious. So far, most of their expenses have been paid with funds from foreign donors. How long this can continue is unknown. Furthermore, advertisements and sales are insufficient to support all the different firms. Equipment is often inadequate, and staff lacks training. Many cannot compete without assistance, and in the case of newspapers, circulation figures are artificially high, as large numbers of copies are given away.

THE BOSNIA-HERZEGOVINA PEACE AGREEMENT

In early 1995, a United Nations Protection Force, numbering over 35,000, was sent to encourage peace in the former Yugoslavia; approximately 22,000 of these U.N. peacekeepers were stationed in Bosnia-Herzegovina. However, on May 26, Bosnian Serbs bombed Sarajevo and took hostage 350 U.N. peacekeepers.

Finally, the Bosnia-Herzegovina Peace Agreement—also known as the Dayton Peace Accord—was initialed in Dayton, Ohio, on November 21, 1995 and signed in Paris, France on December 14, 1995. This document became the blueprint for a single sovereign state with a clearly defined international boundary and an international recognized central government, one central bank, a single currency, and a collective head of State made up of Bosniak, Croat, and Serb members. However, that same agreement legitimated two entities, i.e., the Bosnian Federation and Republika Srpska. The Bosnian Federation, shared by Bosnian-Croats and Bosniaks, corresponds to 51.4 percent of the area of Bosnia-Herzegovina.

The new constitution of Bosnia-Herzegovina put trade, customs, monetary policy, banking, financial agreements, and financing under the jurisdiction of the central government. It appears that peacemakers originally assumed that economic interests would overcome ethnic differences, thus making partition irrelevant. For instance, the production of aluminum in Mostar is dependent on co-operation between Bosnian Croats who have bauxite and Bosniaks who control the power. Yet, neither group was eager to co-operate with the other, and the result was no aluminum production. Instead, the elections of September 14, 1996 can be interpreted as a mandate for partition. Economically, this is problematic as ethnic partition can hamper an economy. Experience has shown that economies of Southeast Asia were enhanced by co-operation across ethnic lines; in contrast, ethnic tensions in regions of Africa, Ireland and Kashmir appear to prolong economic malaise.

Unlike the Bosnian Federation, which welcomed the post-war reconstruction boom, Republika Srpska encountered further struggle with post-war politics. A feud between President Biljana Plavsic and (wartime leader) Radovan Karadzic contributed to economic stagnation in Republika Srpska.

POST-WAR ENTREPRENEURSHIP IN THE BOSNIAN FEDERATION

Although multi-nationals have been hesitant to invest in a country lacking privatization laws and a commercial code, considerable entrepreneurial activity is visible in this part of Bosnia-Herzegovina. However, it is largely limited to reconstruction and small-scale retail trade. Nevertheless, unpublished sources at the World Bank estimate a 35 percent growth rate in 1997. To get around expensive bank loans and the lack of private investment, local entrepreneurs have been obtaining capital from foreign sources, including a U.S. government loan fund and a venture capital loan fund launched jointly by Austrian investors and the European Bank for Reconstruction and Development. Arab entrepreneurs have also been investing, but very selectively; according to Catholic and Christian-Orthodox respondents, Arabs have been financing only Muslim entrepreneurs to create a greater solidarity among followers of Islam.

It is not difficult to launch a new venture in Bosnia-Herzegovina. Survival, however, is a challenge. Interviewees expressed to the author that the government does little to support small business. Taxes were cited as responsible for crippling enterprises that would otherwise be economically viable. Until 1997, an

entrepreneur was required to pay the government 140 percent of total wages paid to employees. A typical wage at the time was 26,000 Bosnian dinars monthly (260 German marks). Effectively, this meant that the entrepreneur's cost of creating jobs was more than doubled. Although the tax was reduced to 86 percent of wages paid, taxes are still collected on a weekly basis, and this is perceived as a burden on the time of owner-managers.

Another factor which interviewees described as crushing entrepreneurial spirit is the deficient infrastructure. Although Bosnia-Herzegovina is legally divided into two entities, it operates as if it were three countries, each with a separate (but inadequate) banking, electricity, telephone, railroad, and water system. In August 1994, the Narodna Banka (Peoples' Bank) issued Bosnian dinars, but these were not accepted as a national currency. Even within the Bosnian Federation, entrepreneurs in the self-proclaimed "Croat-Republic of Herceg-Bosnia" deal in Croatian kuna.

Although the Dayton Agreement did not recognize the self-proclaimed statelet of Bosnian-Croats within the Bosnian Federation, the situation here is unstable and not conducive to long-term investment. Croats in this region are suggesting that if it is acceptable to divide Bosnia-Herzegovina into two components, then they wish to have a third entity (independent from the Bosnian Federation) to represent the interests of Bosnian Croats. Hence, they propose a Swiss-style canton-type confederation consisting of the Bosnian Federation, the Croat-Republic of Herceg-Bosna, and Republika Srpska. A problem, however, is that there appears to be a general distrust between Croats in Croatia and Bosnian-Croats in the Bosnian Federation.

REPUBLIKA SRPSKA TODAY

There is much less entrepreneurial activity in Republika Srpska than in the Bosnian Federation. According to unpublished records at the Economics Institute of Republika Srpska, 1.26 million people live here, nearly one-fourth of whom are refugees. Communist-era policies have perpetuated a non-entrepreneurial frame of mind in this part of Bosnia-Herzegovina. During 1997, unemployment in Republika Srpska exceeded 60 percent, while typical wages were the equivalent of \$20 U.S., monthly. New venture creation is stifled by political elites who have privatized formerly state-owned firms and created barriers-to-entry in order to deter competition. Unlike the situation in the Bosnian Federation, where there is light at the end of the tunnel, the economic forecast is grim in Republika Srpska. Individuals stand outside gutted factories, and try to sell cigarettes in recycled Marlboro boxes.

It used to be that the rich farmlands of this region provided food for the rest of Bosnia-Herzegovina and also for Croatia. However, much fertile land has become idle as the economy is too poor to provide a local market. Weeds have taken root in fields that once yielded cabbage, corn, and green pepper. Pomegranates hang from trees in front of abandoned homes that are scarred with bullet holes. Today, the *Srpska Seljacka Partija* (Serb Peasants Party) is a lonely supporter of agricultural development. Industrial production is a fraction of its pre-war figure. There is

almost no trade between Republika Srpska (which uses unconvertible Bosnian-Serb-dinars) and the Bosnian Federation (where Bosnian dinars are pegged at the rate of one Bosnian dinar to one German *pfenning*). Republika Srpska remains cut off from its traditional markets, and new markets are unlikely as long as Republika Srpska retains its image of political pariah. Serbia, its only friend, is too impoverished to help.

The boundary between the Bosnian Federation and Republika Srpska was intended to be similar to the boundaries within former Yugoslavia (equivalent to a state-line in the U.S.). Instead, Republika Srpska, acting as a separate country, treats the boundary as an actual partition with different currencies and policies on both sides. Pale (in Republika Srpska) is about 10 miles from Sarajevo, and according to Dayton, both are in the same country; yet a phone call would have to pass through Serbia. Economically, this makes little sense. Most entrepreneurs interviewed by the author agreed that the small business sector and the national economy of Bosnia-Herzegovina would prosper most if both constituents (the Bosnian Federation and Republika Srpska) functioned as one economic unit. A unified banking system, for example, would be desirable. Yet, entrepreneurs in Republika Srpska prefer to deal in Yugoslav dinars rather than in Bosnian dinars.

Another issue is that almost like Pakistan prior to the independence of Bangladesh, Republika Srpska is in turn divided into two parts, both Bosnian-Serb areas. Although the Posavina corridor (around the town of Brcko) physically connects both these Serb-controlled entities, each has its own economic leaning. Although the eastern strip maintains economic ties with Serbia, entrepreneurs in the Banja Luka region express a greater affinity toward the economy of Croatia. Also, the *Koalicija Demokratski Patriotski Blok RS* (Democratic Patriotic Block of Republika Srpska), which was established in Banja Luka during 1996, supports strong ties with Serbia and Montenegro. Based in Banja Luka are the *Srpska Radikalna Stranka* (Radical Party of the Serb Republic), which demands unification of Republika Srpska with Serbia, as well as *Narodna Stranka RS* (the Peoples' Party of Republika Srpska), which supports unification. This could lead to a political as well as economic split within Republika Srpska. Few entrepreneurs are willing to undertake risks in such an environment of uncertainty.

TOWARD THE FUTURE

The large industrial complexes that formerly dominated Yugoslavia are now obsolete; their markets have been lost to Eastern European producers that have since improved their quality, marketing and relationships with customers in the West. Seeing self-employment as the means to prosperity, in March 1996, the World Bank allocated \$20 million U.S. for the reconstruction of farms and an additional \$30 million was set aside for loans to small enterprises.¹ U.S.A.I.D., meanwhile, made available \$70 million to entrepreneurs. Is this sustainable?

¹ Source: Private correspondence with the World Bank, Washington D.C.

So far, foreign aid has been Bosnia's largest source of capital. Entrepreneurs have been making money by restoring basic services using donated funds. What will happen when the physical infrastructure is restored, or when donations run out? In the future, it would be preferable for a self-sustaining private sector to lead the country to value-adding prosperity.

Meanwhile, much entrepreneurship in Bosnia-Herzegovina is short-term in scope, with the hope of making money quickly. Entrepreneurs surveyed do not even prepare a business plan. Furthermore, their focus is on themselves rather than on the customer or on market needs. Can this be sustainable?

A pre-requisite to sustainability is a transformation of the dependence-context economy. One means of attracting capital investment, in the long term, is through tax incentives along with the establishment of a stable and integrated banking infrastructure and legal system; then, multinationals will be in a position to subcontract to local entrepreneurs.

The *Stranka Privrednog Prosperiteta BiH* (Party of Economic Prosperity of Bosnia & Herzegovina), composed mainly of businessmen from Sarajevo, from Tuzla and Zenica, suggests that only economic ties can re-integrate Bosnia-Herzegovina. In April 1997, Republika Srpska agreed to have a customs union with Serbia and Montenegro. However, the 1999 war in Serbia, over Kosovo, further disrupted value-adding entrepreneurship in the region.

Serbs have been trading with Bosniaks at the Trznica-Virginia market open-air bazaar in Memici, between Tuzla and Zvornik; items include cigarettes, fabrics, hardware apparatus, household items and shoes. It would be nice to see more inter-ethnic trade.

Finally, as a steam engine pulls a wagon of coal into a railway station, another issue that comes to mind is the environment. Air pollution traditionally has been ignored in Yugoslavia, and even today entrepreneurs lack a long-term perspective. Hopefully, post-war entrepreneurs will be more sensitive to the environment.

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"Business and Entrepreneurship in Bosnia-Herzegovina"

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