INVESTMENT GENERATION:
Some Business Regulation Indicators

Investment Climate Department VIENNA OFFICE

JANA MALINSKA
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Sarajevo, December 16, 2010
Agenda

1. Introduction: Supporting government policies for business environment
2. Review of business environment and regulation data and indicators for Bosnia and Herzegovina
3. Suggestions for areas of improvement
4. Potential reform results
INTRODUCTION: Supporting government policies for business environment

- WBG Financial and Private Sector Development
  - World Bank and International Finance Corporation Vice-Presidency
  - Developing a regulatory environment that fosters opportunities for entrepreneurship and job creation and facilitating access to broad range of financial services—for firms and for households.
  - Data and Indicators: Enterprise Surveys; Doing Business; Investing Across Borders; Global Investment Promotion Benchmarking; Women Law and Business; Privatization database; Remittances; etc.
  - WB Bosnia and Herzegovina Country Partnership Strategy
  - Investment Climate Department VIENNA OFFICE
    - Assisting on investment climate related issues in response to a request from the government to accelerate FDI-related reforms.
Regulatory environment among the top determinants of FDI in SEE countries

Source: FDI Confidence Index, A.T. Kearney.
Review of business environment and regulation data and indicators - Bosnia and Herzegovina:

A. Doing Business 2011
   (www.doingbusiness.org)

B. Investing Across Borders 2010
   (http://iab.worldbank.org/)

C. Subnational Doing Business in South East Europe 2008
   (www.doingbusiness.org/see)
BiH: Doing Business 2011 (www.doingbusiness.org)

<table>
<thead>
<tr>
<th>REGION</th>
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BiH: Reforms in the Registering Property area (www.doingbusiness.org)

Source: Doing Business database
BiH and SEE economies: Doing Business 2011 (www.doingbusiness.org)

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BiH: Starting a (foreign) business (http://iab.worldbank.org)

- Starting a foreign business in BiH requires 4 more steps and takes more than twice as long as the average in the Western Balkans region.
- In the most efficient country in the Western Balkans region the process requires 6 steps (BiH: 14) and takes 7 days (BiH: 71).
Court registration, municipal licensing and tax registration are the most time consuming process steps in BiH.

- The process steps of registering the company at the municipal courts, applying for municipal operating permits and applying for the tax identification number take up almost two thirds of the total process time.
- Those steps are required for both, foreign as well as domestic companies.
BiH: Subnational Doing Business in SEE 2008
(www.doingbusiness.org/see)

Days to deal with construction permits

- Days to deal with construction permits:
  - Bitola (Macedonia): 94 days
  - Prizren (Kosovo): 151 days
  - Zrenjanin (Serbia): 183 days
  - Pristina (Kosovo): 188 days
  - Pljevlje (Montenegro): 190 days
  - Niksic (Montenegro): 192 days
  - Podgorica (Montenegro): 197 days
  - Skopje (Macedonia): 198 days
  - Shkodra (Albania): 202 days
  - Belgrade (Serbia): 204 days
  - Vlora (Albania): 225 days
  - Sibenik (Croatia): 252 days
  - Vranje (Serbia): 253 days
  - Osijek (Croatia): 295 days
  - Krusevac (Serbia): 304 days
  - Banja Luka (Bosnia and Herzegovina): 306 days
  - Varazdin (Croatia): 323 days
  - Tirana (Albania): 332 days
  - Zagreb (Croatia): 390 days
  - Uzice (Serbia): 414 days
  - Sarajevo (Bosnia and Herzegovina): 467 days
  - Mostar (Bosnia and Herzegovina): 535 days

Source: Doing Business database

OECD average (153 days)
Ukraine (429 days)
Suggestions for areas of improvement: Business Entry Process

- On June 23, the Law on Amending the BiH Law on FDI Policy came into effect, abolishing the requirement to register foreign investments at the Ministry of Foreign Trade and External Relations (MOFTER).

- Further reduce procedures, time and cost to register a company:
  - Eliminate minimum capital requirement;
  - Eliminate requirements to obtain: (a) resolution on intended activities from the Municipality; (b) statement from tax authorities that the founders have no tax debts before registration; (c) utilization permit from the canton ministry of commerce; (d) company stamp.
  - Make temporary tax identification number (issued as a part of court registration process) a permanent one, without the requirement for businesses to subsequently request tax identification number from Tax office.
  - Conduct thorough document verification at the court’s Business Registry front desk and post all requirements publicly.
  - In a longer term, consolidate government approvals at one access point.
  - Reduce registration fees (Banja Luka).
Suggestions for areas of improvement: Dealing with construction permits

- Reduce procedures and time, and substantially reduce the costs by:
  - Consolidating issuance of pre-construction clearances by the utility providers at the local level.
  - Eliminating the requirement for Municipality to mark the land plot before construction.
  - Issuing the certificate of completion of construction with the final technical commission field inspection.
  - Continuing shortening the time necessary to register new buildings in the cadastre registry and land book registry.
  - Reducing costs of compliance with building permit regulations.
  - Make it mandatory that municipalities obtain excerpts 1) from the cadastre plan showing status of the land plot from the cadastre office and 2) the land registry book showing proper registration, and not the business.
  - In a longer term, computerize the application process.
  - Continue consolidating the building permit approval process.
Potential reform results: Evidence on the impact of entry reforms

- **Quasi-experimental evaluations of registration simplification**
  - One stop shops in **Mexico**
  - One stop shops in **Colombia**
  - Reduction of entry procedures in **India**
  - 5% increase new firms registered, 2.8% employment
  - 5.2% increase in new firms registered
  - 6% increase in new firms registered

- **Cross-country studies on the average effects of entry regulation**
  - Reduction of entry cost from 24.5% to 0.7% of income per capita (e.g. Peru to Singapore)
  - 10-11% increase in firms registered

- **Higher impact when entry reforms are combined with other investment climate reforms**
  - Entry reforms in Indian states with reforms in working permits
  - 17.8% larger increase in real output gains than in states that did not reform working permits

Thank you!