



## Regulatory reform on the local level

## Challenges and Results



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The greater the obstacle, the bigger the satisfaction of overcoming it.

*Jeanne-Baptiste Molliere*

# WHY IS DOING BUSINESS IN SERBIA DIFFICULT?



## *Foreign Institutions and Investors' Point of View*

One question but unfortunately - too many answers. Investment capital is one of the rarest "natural phenomena" in today's business world. There is plenty of space, people and incentives for investment at different meridians but there is even more cautiousness in every potential investor. For each new job the investor must get professional and transparent treatment and often a wide range of benefits. Legal certainty, predictability, swiftness of response and action, availability of information and compliance with the achieved agreement are sacred for doing business. In aggravated Serbian economy and its pre-bankruptcy state, it would be justifiable to think that these business rules are recognized here too. Unfortunately, experience from practice indicates otherwise.

World rankings indicate difficulties of doing business in Serbia. According to the World Bank's Ease of Doing Business indicator in Doing Business 2015, Serbia is ranked 91st in the world, with extremely poor results in the area of construction permits (186th place), tax regime (165th) and contract enforcement (96th). The World Economic Forum's Global Competitiveness Report (2014-2015) points to a very bad situation concerning the quality of institutions and especially, regulations (122nd place) as well as macroeconomic environment (129th) and market efficiency (128th). Similarly, the White Book of the Foreign Investors Council in Serbia (2014) stresses out that there was no progress in the area of establishing competitiveness of actors and anti-monopoly policy, as well as regarding stable and balanced economic policy. There is minor progress in simplifying bureaucratic procedures at all levels and attempts to eradicate corruption.

## *Opinions of Local Entrepreneurs*

National level surveys of business entities provide a particularly relevant source of knowledge about problems in doing business. USAID Survey of 1000 entities (2014) on this subject reveals that, regardless of some progress, the main obstacles to doing business remain big administrative burdens, tax administration, fiscal and para-fiscal fees, access to financing, absolutely non-functional system for issuance of construction permits and tardy court system that makes debt collection totally uncertain. All this, as mentioned, makes enterprises and entrepreneurs very cautious in terms of new employments (only 26% of businesses plan new employment). Survey of 112 managers conducted by the Business Policy Network (2014) showed dissatisfaction with operation of majority of institutions, among which primarily Tax Administration, local self-governments, Ministry of Finance and Cadastre which are jointly characterized by tardiness, lack of organization and, frequently, corruption.

## *Problems on the Local Level*

Business environment created by the local level bodies carries its own specific challenges. Local governments often cannot affect their own finances and regulation-wise they are frequently left "at the mercy" of republic and provincial tiers of government. But apart from that, there are problems that the local government can resolve and that are identified through the consultations with local entrepreneurs. The issues that entrepreneurs universally point out as of primary importance on the local level include lack of transparency, need for quick resolution of cases, lack of application of ex-officio obtaining of documents and unclear and non-uniform submission forms. According to findings of other research, the procedures in the area of planning and construction are universally seen as the main "offenders" related to problems in doing business.



## PART OF THE ANSWER

# IMPROVING ENVIRONMENT FOR BUSINESSES AT THE LOCAL LEVEL

### *Paving the Way Forward*

The problems of doing business in Serbia are not simple to solve nor will they solve themselves. To make some progress you need experience, vision and awareness about problems and possible solutions. In the area of doing business on a local level, all these pieces of mosaic have been successfully put together by the Standing Conference of Towns and Municipalities – National Association of Local Authorities in Serbia (SCTM) and OPTIMUS – Center for Good Governance (OPTIMUS). As a meeting place of local governments in Serbia, SCTM was the logical starting point to achieve the vision of improved business environment. OPTIMUS contributed to the reform project by providing knowledge and experience in the matter of regulatory reform. The Project “Improving Environment for Businesses at Local Level through Regulatory Reform” is the result of the partnership between SCTM and OPTIMUS owing to financial support of the Swiss State Secretariat for Economic Affairs (SECO). Total worth of the Project is EUR 1.16

million and it is being implemented in 16 local governments in Serbia from December 2011 to June 2015.

### *Quicker, Simpler, Cheaper*

The goal of the Project is to ensure better business-enabling environment on the local level in Serbia through simplification of complicated and non-transparent local administrative procedures and to improve general regulatory framework. The aim is to ensure good regulatory implementation in the future and prevent adoption of regulations that would unjustifiably burden the business sector. Although it might seem abstract, the goal of the project actually refers to some very concrete quality indicators pertaining to business environment: transparency of information on administrative procedures, amount of time, money and documents to complete a certain procedure, as well as the (non-)existence of mechanisms for measuring the impact of new regulations on the business environment.

### *The Answer for the Future*

The Project came about in response to the constant complaints of the business community regarding the problems with excessive and inefficient administration and low ranking of Serbia in reports dealing with the quality of business environment. It relies on direct experience obtained through implementation of previous reforms. It turned out that local governments have a significant role in creating unnecessary administrative burden for the economy. That is why they were the direct “target” of the project. Another important factor for the project is Serbia’s wider context – European integration entails strict obligations concerning the quality of administration and harmonization with the *EU acquis communautaire*. Quality of public administration’s work is one of the topics of chapters to be negotiated with the EU and that fact gives additional importance to the efforts directed to local governments.



*Presenting the regulatory reform to public officials in Leskovac*



*Presenting the regulatory reform results in Kraljevo*

## SMALL AND LARGE TOGETHER FOR DOING BETTER BUSINESS

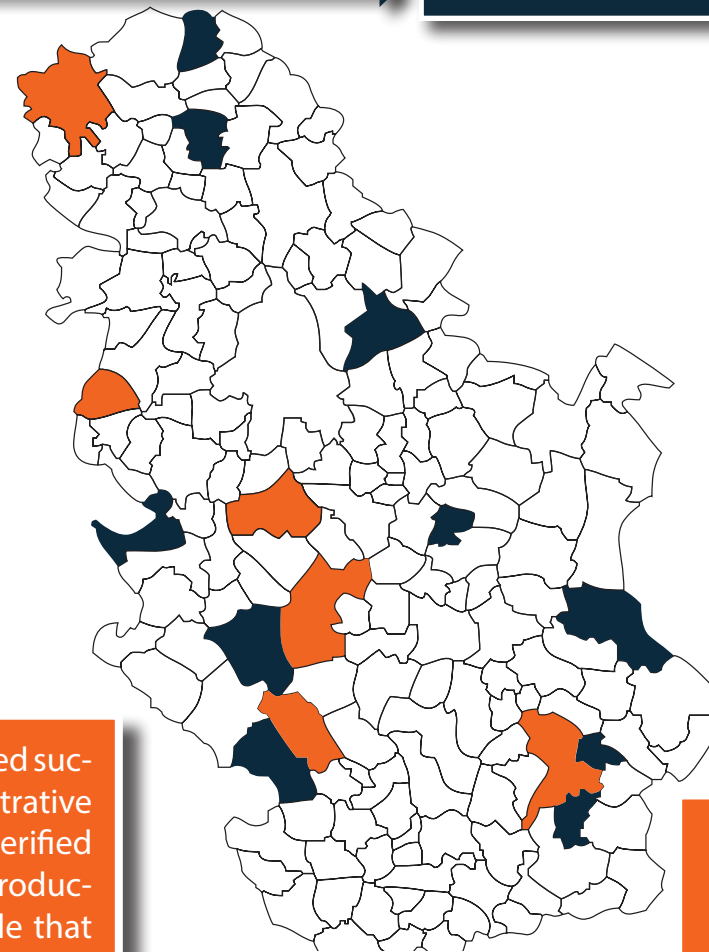
### TWO PROJECT COMPONENTS

**Component 1** includes developing a set of models for implementation of 15 selected administrative procedures in 10 smaller municipalities across Serbia – Vladicin Han, Bajina Basta, Knjazevac, Ivanjica, Kanjiza, Vlasotince, Kovin, Cuprija, Becej and Tutin.

**Key elements:**

- developing a set of models of simplified procedures for selected tasks;
- adopting and testing the models with possible further dissemination across Serbian municipalities.

Innovative approach to developing a set of models for 15 selected procedures within Component 1 enables the smaller municipalities to implement regulatory reform through direct application of developed models.



**Component 2** is the continuation of a recognized success of systemic regulatory reform of administrative procedures on the local level, based on the verified methodology enriched by a new element: introduction of regulatory impact assessment principle that would prevent recurrence of mistakes in the future.

**Key elements:**

- thorough inventory, analysis and improvement of all administrative procedures;
- fundamental improvement of transparency through the introduction of E-registry of administrative procedures;
- changing the way the future regulations are adopted through introduction of regulatory impact assessment principles.

**Component 2** includes a systematic regulatory reform of business-related administrative procedures in 6 selected cities/municipalities – Novi Pazar, Kraljevo, Leskovac, Loznica, Sombor and Gornji Milanovac.



## COMPONENT 1

# DESIGNING AND IMPLEMENTING MODELS

**Component 1** is directed to smaller municipalities that usually do not have financial or human resources to implement comprehensive and demanding projects such as the regulatory reform. The reason for that is that implementation of regulatory reform is a complex process, demanding in both operational and financial way. Thus, in accordance with a costs and benefits principle, the selected local governments are those in which more significant results can be achieved due to a greater number of business entities resulting in greater cumulative impact on the local government.

In the Component 1 municipalities the reform is based on a previously prepared set of models for 15 administrative procedures that were recognized in practice as those causing the biggest problems. Through their reform it is possible to achieve greatest savings, i.e. in the areas like urban development and construction, environmental protection and tax administration. Within developed models that are then implemented in pilot municipalities, all phases of administrative procedures were described

in detail; optimal deadlines for certain phases were proposed; information, documentation and amounts of administrative taxes required from citizens and businesses were defined, as well as the legal basis for every proposed element of administrative procedure.



*Signing the Cooperation Agreement in the Municipality of Knjazevac*

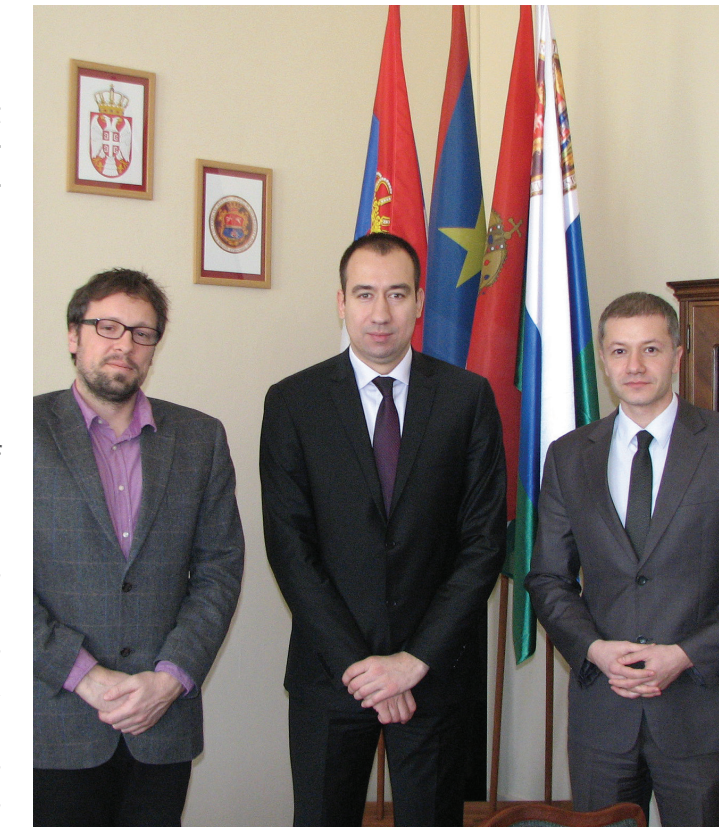
Implementation of a model in practice is not based merely on its adoption in local governments but it involves the process of participation and education of employees on the need for and content of the reform so that the newly introduced solutions and simplifications could really be accepted in practice, thus ensuring sustainability upon the completion of the project.



*Working Group meeting in the Municipality of Kovin*

Apart from that, evaluation of application and effects of the adopted models is of great importance as a feedback for their further improvement and implementation in other municipalities. At the end of the process an electronic registry of selected administrative procedures, improved in line with the model, is posted on the local government's website ensuring transparency.

In order to ensure multiplication of effects of the project intervention, SCTM as a national association acting as a representative of local governments, promotes regulatory simplification in other cities and municipalities, as well as to other stakeholders: policy-makers, chambers of commerce and enterprises. Moreover, SCTM provides transfer of lessons learned from the local to the national level thus supporting the process of comprehensive regulatory reform.



*Mayor of Becej and SCTM representatives after the signing of Cooperation Agreement*



## COMPONENT 2

# SIMPLIFICATION OF ADMINISTRATIVE PROCEDURES

Activities take place in phases which demand different degrees of participation from the representatives of local government. It is important to note that the Working Group in each local government consisting of public employees is actively involved in the process and intensively supported by OPTIMUS. In this way the employees' capacity is permanently built and sustainability of the reform upon the project completion is provided.

The reform process starts with a detailed analysis of the current situation – inventory of the existing administrative procedures, with identification of all the relevant details for every one of them. The inventory represents a basis for preparation of recommendations for improvement of administrative

“By participating in this Project, our aim is, among other things, to make Novi Pazar European City, with European norms. Our goal is to ensure that business people and citizens get all necessary documents in the shortest possible period. This is so called guillotine of the local regulations and it represents the beginning of introduction of E-government.”

*Meho Mahmutović,  
Mayor of the City of Novi Pazar*

“This is the first project to be implemented in the City of Sombor where the benefits were presented adequately both to politicians and employees. Representatives of the OPTIMUS equally work with local employees who do their part of job with eager and see the benefits at each phase of the process. I think that all local governments should implement regulatory reform because we have to “clean up in front of our house” first in order to be ready to welcome the new regulations and burden from the national level.”

*Irina Burka Parčetić,  
Head of the City Administration in Sombor*

procedures and amendment of local and national regulations.

In order to have successful regulatory reform, it is particularly important to ensure that the voice of the local business community is heard. For that purpose, consultations in the form of focus groups are held with the representatives of local enterprises and entrepreneurs. On these occasions the local problems are identified and specific proposals are made for the improvement of the local business environment as well as for the improvement of national regulations.

The next step is the detailed analysis of procedures and preparation of recommendations for their simplification done by the OPTIMUS experts, with regular consultations with the local officials. Proposals from the business community are particularly analyzed and they affect the drafting of concrete proposals for simplification of administrative procedures to the extent necessary.

The Working Group adopts recommendations based on which the local legal acts are prepared introducing recommendations in the legal system of the local government. Furthermore, recommendations for amendments of national regulations are prepared and are submitted to the competent ministries and other authorities at the Republic level. Final results of the reform - total savings for businesses related to the resolu-



*Training on analyzing administrative procedures in Novi Pazar*

tion of their requests in local administration - are calculated after the so called *ex-post* economic analysis, using Standard Cost model.

“Effectiveness means that businesses and citizens can exercise their rights more easily without unnecessary procedures. Innovation involving new activities implemented by the City Administration, faced with new regulations, is needed. This will be the way to overcome all that has caused the occurrence of the saying “you are one paper short”. Kraljevo City Administration will obtain that paper on behalf of the parties since we will provide everything they need *ex officio* if it is at the disposal of the City Administration.”

*Miloš Petrović,  
Head of Kraljevo City Administration*

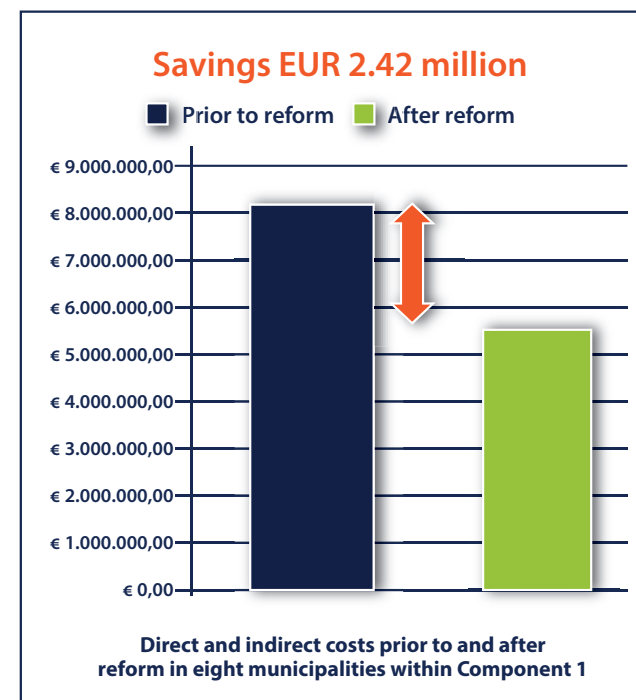
## WHAT WE ACHIEVED WITHIN COMPONENT 1

### RESULTS OF IMPROVEMENT IN 10 SMALLER MUNICIPALITIES: Vladičin Han, Bajina Bašta, Knjaževac, Ivanjica, Kanjiža, Vlasotince, Kovin, Čuprija, Bečej i Tutin

Regulatory reform, through the application of the models, has been completely implemented in all 10 municipalities through the adoption of recommendations by competent municipal authorities by the enactment of new or amendments to the existing legal acts.

In terms of concrete results, the project facilitated elimination of **262 unnecessary documents required from citizens and businesses, numerous eliminations of required information in new, improved submission forms and reduction of deadlines in 71,9% of reformed procedures.**

An economic analysis showed that the reforms implemented in 8 municipalities so far resulted in **EUR 129.683 of annual direct savings for the business sector, and EUR 2.423.326 of private sector**

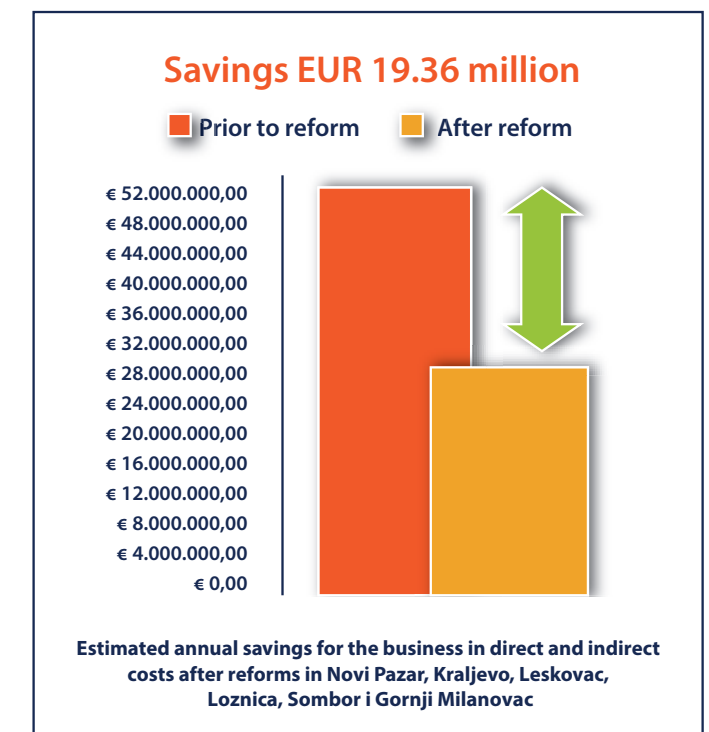


**savings in direct and indirect costs** on annual basis, which accounts for **32.9% reduction compared to pre-reform costs.**

## WHAT WE ACHIEVED WITHIN COMPONENT 2

### RESULTS OF IMPROVEMENT IN LESKOVAC, KRALJEVO, LOZNICA, GORNJI MILANOVAC, SOMBOR AND NOVI PAZAR

The process of producing inventories, analysis and simplification of administrative procedures has been completed in all 6 local governments. **The implementation of recommendations will achieve direct and indirect savings for the private sector amounting to EUR 19.36 million on annual basis.** The savings have been accomplished by adopting **2,964 recommendations for improving 635 procedures of interest for the business sector** (99% of total analysed). What is particularly important is the comprehensive and versatile nature of changes. Combining shorter deadlines, simplified collection of documentation, cutting down of taxes and fees and improving the request forms has produced the effect that business entities can enjoy some of the advantages of reform at any point in time during the procedure.



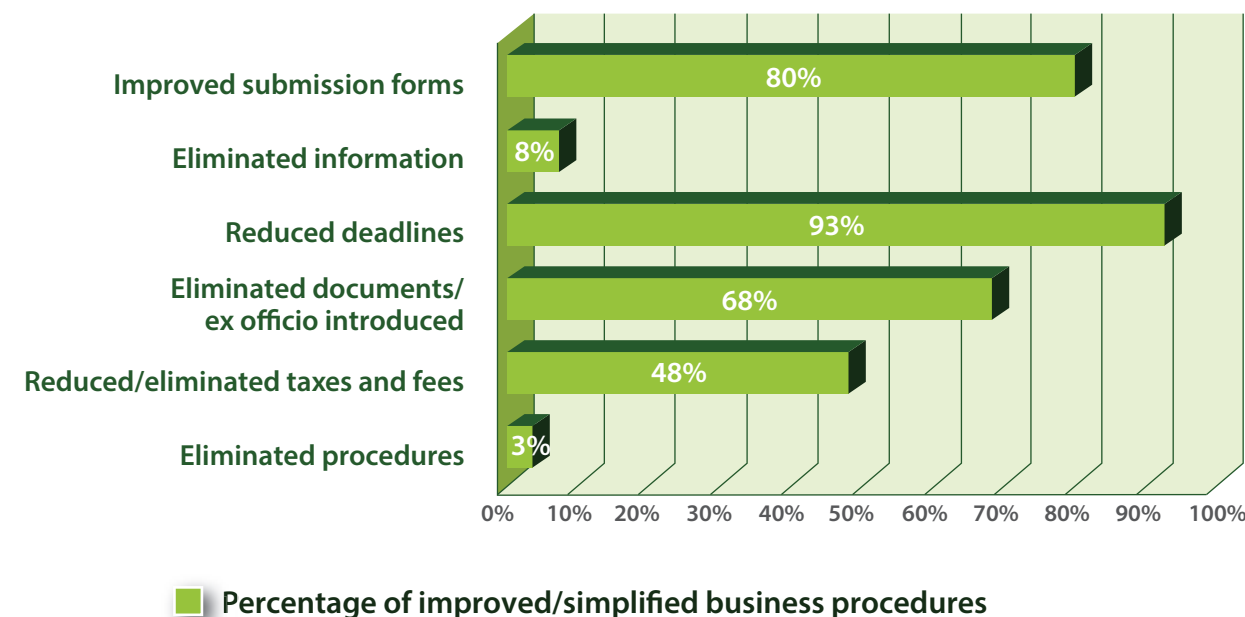




Working Group adopts recommendations for simplification in Gornji Milanovac

“Our goal is to have “work desks without drawers” in local administration, i.e. the employee to issue permit within a day, in case a client submits complete documentation. The local government intends to create an efficient, mobile and cost-effective administrative mechanism.”

*Goran Cvetanovic, Mayor of Leskovac*



## Results of the dialogue with the business sector

The phase of consultations with local business community proved very fruitful. During 25 focus groups in all the cities and municipalities involved in the Component 2, a total of **296 recommendations for reform were made by businessmen**. Out of that number, **280 recommendations were adopted**, and 15 partially adopted. Local businessmen could thus feel as being part of bearers of the implemented reform, which might inspire further development of dialogue between the local government and business community in the future.



Focus group with entrepreneurs in Sombor

- At one of the focus groups, a representative of telecommunication company said the following: “For the development of primary and secondary telecommunications network, first it is necessary to procure a permit accompanied with the relevant documentation. This documentation differs from one municipality to another and we were several times instructed, everywhere, to procure yet another document. We are now aware of all we need to prepare but it consumed quite a lot of time”.

- An example of a construction company owner who mostly builds smaller housing facilities, presented at a focus group, is devastating. Namely, the company has hired an employee whose only task is to “fight” the administration in procuring various “papers” during the process of construction.

## Added value – improving bureaucracy for citizens

In addition to simplifying business-related administrative procedures, **454 civil procedures have been simplified (100% of total analysed)**. A reform of these procedures represents a special added value, given that the project was initially focused on business procedures alone, while civil procedures have been subsequently included in the reforming process, following an agreement with local governments. In that way, the benefits of reform can reach the broadest population in cities and municipalities

## E-registry as a source of all information on submitting a request

The key aspect of visibility but also sustainability of a reform is availability of its results and necessary information to business entities and citizens. That is why an important element of Component 2 was the introduction of electronic registries for all administrative procedures conducted in local governments in Leskovac, Kraljevo, Novi Pazar, Gornji Milanovac, Loznica and Sombor (e-Registries). E-Registry is constituted by a local legal act as a public, legally secure database of local administrative procedures. At the same time, it represents a solid basis for future e-government which is slowly, but inarguably, approaching the administration at all levels of government.

The primary purpose of e-Registry is provision of complete information on administrative procedures to all interested business people and citizens, which ensures full transparency of the local administration's work.

E-Registry provides opportunity to retrieve, in a fast and convenient manner, the information about the method of filing requests, required documentation, deadlines, and overall costs. It also enables electronic fill-in and download of the submission form.



Electronic registry of the Municipality of Gornji Milanovac  
[www.gornjimilanovac.rs](http://www.gornjimilanovac.rs)

## Contribution to improvement of construction process

Improvements and reforms can always be taken one step further. This particularly refers to the efforts targeting the big “administrative bottleneck” for business in Serbia – issuance of construction permits. One of the ways to overcome this is through providing support to the Ministry of Construction, Transport and Infrastructure in preparing new Amendments to the Law on Planning and Construction. The Standing Conference has forwarded, through its mechanisms and consultations with cities and municipalities, a set of comments and recommendations during the law drafting process. In the course of project implementation, OPTIMUS has made intensive efforts in the phase of consultations, by sending total of 5 sets of com-



Signing the Protocol on Cooperation in Loznica

ments and recommendations for different versions of the draft Law, as well as participated in the work of the Working group for drafting of the Rulebook on Unified Procedure.

Besides, OPTIMUS and SCTM have took part, alongside the USAID Business Enabling Project - BEP, in a simulated procedure of constructing a building, from obtaining an information on location to registering new property, and prepared concrete recommendations for enhancing the whole process. Large

part of recommended solutions for determining the flow of the process, deadlines and documentation has been built into the Amendments to the Law on Planning and Construction adopted in December 2014. Adoption of recommendations, stemming from the simulation process, resulted in direct and indirect annual private sector cost savings amounting to EUR 6.42 million in 16 Project cities and municipalities. In addition, estimated savings in direct and indirect costs for the business sector throughout Serbia are cca. EUR 75 million annually.

## Support to establishing unified procedure - One Stop Shop

In order to intensify local reforms, from 2013 to 2015, even before the aforementioned changes of the law, OPTIMUS actively supported introducing **One Stop Shop (i.e. Unified Procedure) system for the construction process** in Leskovac, Loznica and Kraljevo. The idea is to speed up and simplify the process of obtaining required documents, particularly permits and approvals, to the largest possible extent. To that end, networking of all interested parties has been organized, the Protocols on Cooperation between local self-governments, national and local public

enterprises and other organizations were signed in Loznica and Kraljevo and trainings were held to establish the principle of official exchange of documentation among all actors. In Leskovac, expert support was provided to make functional the software for unified procedure which was previously installed during the EU Progres project, through training of employees in the city administration, public enterprises and other involved organizations, as well as through the help in annexing the Protocol on Cooperation.

## Standing Conference of Towns and Municipalities – National Association of Local Authorities in Serbia (SCTM)

SCTM advocates the interests of local self-governments before the state bodies and internationally as well; it supports the promotion and development of local self-government capacities, encourages cooperation and dialogue between cities and municipalities and serves as a key factor in information flow and dissemination of knowledge on all issues of importance for the local self-governments in Serbia.

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Standing Conference  
of Towns and Municipalities

National Association of Local Authorities in Serbia

## OPTIMUS – Center for Good Governance

OPTIMUS is an organization established to contribute to improving the investment climate and business environment in Serbia and the Western Balkans. OPTIMUS' experts have significant experience, comprehensive knowledge and achievements in the field of regulatory reform, public service delivery and in other segments of improving public administration at national and local level.

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The Project is financed by the Swiss State Secretariat for Economic Affairs (SECO) – [www.seco.admin.ch](http://www.seco.admin.ch). The Economic Cooperation and Development Division of SECO is responsible for planning and implementing economic and trade policy measures with developing countries, Eastern European and Central Asian States as well as the new member states of the European Union (EU). SECO has two main goals: to support the integration of partner countries into the world economy and to promote their sustainable economic growth, thus contributing to poverty reduction.



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