

# ANALYSIS OF ADMINISTRATIVE AND REGULATORY COSTS OF DOING BUSINESS IN GRADIŠKA MUNICIPALITY



**SEED**

Southeast Europe  
Enterprise Development



Foreign Investment  
Advisory Services



**IFC**

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## **EXECUTIVE SUMMARY**

The presented report on existing administrative barriers on the territory of the Gradiska Municipality, that is, the analysis of the investment climate in the Municipality, has been conducted in partnership between the Gradiska Municipality, FIAS (Investment Advisory Agency of the World Bank), and SEED (Southeast Europe Enterprise Development Program), administered by the International Finance Corporation – IFC.

Coordination of the municipal and republic governments is the key brake in the regulatory sense, that is, what happens is multiplication of administrative requirements, variety in interpreting and application of regulations. Lack of clarity and frequent regulatory changes make it more difficult to operate and it becomes harder to predict changes in the business environment, which pertains to regulations at all government levels. The problems are particularly prevalent in the procedures of permit issuances and inspection controls of business entities, either due to the issue of transparency or the related costs for enterprises. Until the new system of inspections is established, it is necessary to systematize the work and control, coordinate the existing inspections at the municipal level and have clearer reporting and data systematization. The areas of construction and annexing of facilities represent the most complex procedures, most time- and money-consuming to the businessmen. Efficiency in resolving of their requirements and a relevant reduction of fees for investment on the territory of the municipality (through reduction of time and required money expenses) in the area of real estate and construction industry, are a key step forward for the economic development of Gradiska.

Although the municipality only has a portion of competency and can only influence one segment of the administrative procedures in enterprise operations, the evident shift undertaken by the more progressive municipalities demonstrates that it is possible to establish an entrepreneurship-friendly environment at the local level too. In that sense, Gradiska can undertake a number of measures to make business operations quicker and easier. This analysis in its conclusions brings a number of recommendations that can help the municipality to meet its mid-term and long-term development goals.

Opening of a One-Stop-Shop and reworking of the procedural guides for the citizens and businesses will simplify the business registration. However, it is required to also strengthen the statistical tracking and processing of data on business entities in the municipality. Briefly, both through strategic planning and in practical applications of plans a strategic and service-oriented approach must be ensured by the administration towards citizens and businesses, which as tax payers will continue to finance the municipality work.

The Municipality must adopt the Development Strategy, but also the Action Plan, which will transform the recommendations from this report into specific activities and priorities, along with precise institutional assignments and time frames for conducting of these activities. In addition to all of the competent municipality bodies, the newly founded Local Development Agency may also constitute a useful instrument, particularly in the dialogue with the private sector. As early as from the initial stage, it is critical to include entrepreneurs in drafting of the Strategy and the Action Plan, which may help in monitoring of implementation of such documents.

## **INTRODUCTION**

1. The project goal is to draft a report on the existing administrative obstacles on the territory of the Gradiska Municipality, that is, the analysis of the investment climate in the municipality, and it was conducted in cooperation between the Gradiska Municipality, FIAS (Foreign Investment Advisory Service of the World Bank), and SEED (Southeast Europe Enterprise Development Program), administered by the International Finance Corporation – IFC. The primary goal of this analysis is to assist the Gradiska Municipality in promoting its competitiveness as a location for investment, through reduction of business operations expenses. Such a reduction of expenses is possible through identification and removal of administrative barriers to investment.
2. During the preparatory stage, partnership was secured between SEED and the Gradiska Municipality by signing the Partnership Agreement for a joint program aimed at encouraging and promotion of wood industry company competitiveness in the region.
3. FIAS shall provide the design, methodology and supervision of survey implementation and data analytics, relying on the previous work in the segment of administrative barriers at the state level.
4. The activities were done on a pilot basis, aiming at transferring the knowledge and skills onto the municipality, local consultants and SEED, in order to simplify monitoring of the business environment at the local level.

### **Partners on the project**

#### Gradiska Municipality

5. The Gradiska Municipality is located in the northwest part of the Republic of Srpska, encompassing the Lijevice Polje and Potkozarje areas, with an area of 762 km<sup>2</sup>.
6. The territory of the Municipality has some 62,000 population, and the city itself some 17,000. The Municipality has 69 villages, organized in 54 local communities. Gradiska is at a 50 km distance from Banja Luka, at 300 km from Sarajevo, at 280 km from Belgrade, and at 130 km from Zagreb.
7. Municipal administration affairs at the Gradiska Municipality are performed by departments established as organizational units, as follows:
  - Department for general administration,
  - Department for agriculture and social activities,
  - Department for urban and physical planning,
  - Department for finance,
  - Department for housing and utilities, and
  - Department for protection of demobilized soldiers and disabled persons.As a separate unit founded by the municipality, the Gradiska Local Development Agency is also operating.
8. The municipality mayor represents the municipality, he is the holder of the executive power and manages the municipal administration. There is a provision of the

Law on Local Self-Administration providing that the municipality mayor shall be elected by citizens at general direct elections for a four-year mandate.

### SEED

9. Southeast Europe Enterprise Development – SEED is a five-year initiative worth USD 25 millions, funded by donors and administered by the International Finance Corporation – IFC, aimed at strengthening small and medium-sized enterprises (SMEs) in the region. SEED has been active in Albania, Bosnia and Herzegovina, FYR Macedonia, and Serbia and Montenegro. One of the basic goals of the program is to build the market and to meet the needs for high-quality consulting and training services within the SME sector. From its initiation in September 2000, SEED has had continued efforts directed towards:

- Increasing of competitiveness of SMEs in the region,
- Building of the business development service market, and
- Improvement of the business environment for SMEs.

10. A single approach and products, integration with IFC within the World Bank group, as well as knowledge of the regional market of small and medium-sized enterprises, ensures realization of the SEED's vision in becoming the major local partner for development of the private sector by 2005.

### FIAS

11. Foreign Investment Advisory Service – FIAS has provided assistance to the government of Bosnia and Herzegovina (BH) in identifying the key elements required to improve the foreign investment environment and to attract a larger number of quality foreign investment projects. Under the initial advisory project, FIAS has offered assistance in drafting of the new Law on Foreign Investment after the Dayton Agreement. This Law was adopted at the state level of May 18, 1999. The second project, completed in September 1999, offered assistance in development of the institutional framework for the national investment promotion function and establishment of the Foreign Investment Promotion Agency (FIPA), with funding provided by the European Union.

12. In 2001, FIAS prepared a study on Commercial Legal Framework and Administrative Barriers to Investing in BH. This study constitutes a fundament for a number of donor activities aimed at offering assistance in the areas analyzed by FIAS, including registration of business entities. In 2002, FIAS started a pilot project aimed at offering assistance to governments in development and implementation of the reform action plan.

13. FIAS is currently providing assistance in implementation of specific aspects of administrative barrier reform through:

- Drafting of recommendations for strengthening the capacities of the state and entity governments in developing, implementation and controlling the elements of the business environment reform, on a continual basis;
- Implementing tools for controlling of business promotion; and
- Encouraging dialogue between the public and private sectors in order to provide support to an effective reform process.

## **Administrative procedures and business environment at the local level**

14. Any legal entity or an individual only beginning with business registration must go through a whole number of procedures in an effort to start a business, to operate on the market and to liquidate the enterprise at the end of the life cycle. In such a cycle, divided into three main components:

- entry into the market;
- operations; and
- exit from the market,

legal entities are faced with numerous bureaucratic procedures in order to exercise rights or opportunities. This report deals with such administrative procedures, focusing primarily on the local level, that is, on the administrative procedures that enterprises face with in their business operations within the Gradiska Municipality.

15. Whether the administrative procedures are very numerous, whether they are complex, overlapping or difficult to understand, is also determined by the business environment of a region or country. A favorable business environment, that is, investment climate, applies in such environments where bureaucracy is reduced to a minimum; the number of procedures and the time required for their completion constitute no significant obstacles to business operations, and the enterprise can focus on the market rather than on the administrative requirements.

16. However, the business climate may be measured both at the national and the local levels. In all the countries of the region, including BH, there are municipalities that have recognized the market rules of the game and oriented themselves in a client service manner – in order to attract as many clients, that is, registered entities, with profitable operations on the territory of such municipalities. Unlike the progressive places, some other municipalities have complicated administrative requirements, it is not sufficiently transparent or clear in which way they can be met and each procedure requires very much time and fees that are paid in order to complete such bureaucratic steps.

17. In the beginning of this decade, certain competition started among the municipalities in BH themselves, in which they are making efforts to attract business clients from each other onto their territories, by offering more favorable terms. An example is Laktasi, from which all the enterprises operate that gravitate to Banja Luka, or for instance Gradacac, where companies are located serving Tuzla in FBH as well as Modrica in RS. This is a very impressive progress that such municipalities have accomplished, as well as the satisfaction of their clients and citizens in general with the work of the local administration. In such places, even citizens and the businesses themselves are deciding to fund new infrastructure themselves, because they have full confidence into the local authorities, so progress and growth of the municipality goes much faster than if only relying on the public budget. The tax, rent and administrative fee revenues, plus any contributions, have raised these local communities to a much higher level of development than the majority of others in the country.

### Method to address problems

18. In order to offer suggestions to assist the Gradiska Municipality to streamline their procedures and steps and make them more acceptable for all the legal entities

operating on its territory, including the citizens of Gradiska themselves, SEED and FIAS have approached the problem from a number of aspects.

- a. Existing **procedures and guides** for clients have been analyzed as prepared by the municipality. (list of guides/procedures stated in Annex 3 of this report).
- b. **Two focus groups** have been organized:
  - i. with the municipality employees working on processing of administrative procedures, and
  - ii. with the businessmen of the Gradiska Municipality, who discussed the same procedures from their viewpoint. (list of participants of both focus groups is found in Annex 4 of this report).
- c. **A survey has been made of administrative and regulatory costs (ARCS)** on a sample of over 50 enterprises on the territory of the Gradiska Municipality, in order to obtain a relevant section picture of all the business operations segments.

19. Based on everything compiled, the SEED and FIAS expert team has prepared this report documenting the procedures of registration and business operations, stating its findings and the recommendations for their improvement.

20. The municipality has processed 15 procedures in detail, for which it has printed guides for the citizens, with precise instructions as to in which way and at which offices of the administrative building these procedures may be completed, and what documentation needs to be submitted. Only four guides are of a general nature and do not pertain to businesses, whereas 11 of them are either directly or indirectly pertaining to business operations and the investment climate. The guides were published for the following procedures:

- Municipal citizen registration system, counter services and election lists
- Citizens' status (general administrative procedures)
- Offering of legal aid
- Exercising of demobilized soldier and disability rights
- Independent business and other activities
- Incorporation of enterprises
- Local procedures for entrepreneurship activities
- Issuance of urban permits
- Issuance of construction permit/license
- Reports to urban planning and construction/building inspection
- Issuance of use permits
- Issuance of sanitary permits for the location, design and use of facility
- Permits and fees from the utility area
- Issuance of certificates for agricultural production
- Issuance of agricultural permits

21. The focus groups were organized at the municipality building in early June 2004. The first one included 10 municipality employees or officials, and the other one 10 company managers. In both cases, the participants were assigned 36 various topics for discussion from the following areas:

- Regulation and licensing
- Transparency and rule of law
- Land and infrastructure

- Business operations
- Business support.

22. The participants rated the intensity of the problems and the dynamics, that is, whether the problems are started to be addressed or the situation is deteriorating, and to which extent.

23. The survey of administrative and regulatory costs was conducted in 54 enterprises, and the final number of questionnaires processed was 50. They include 30 mainly complex issues, by analyzing:

- General data on the respondent
- Regulatory areas in general
- Company registration
- Licenses and permits
- Real estate and construction
- Commodity customs clearance
- Labor relations and regulations
- Inspections
- Tax administration.

24. The respondents answered them with varying levels of information quality. Some companies have more data in specific segments of business operations, and therefore more frequent encounters with specific administrative procedures. Others use agents to perform specific actions, so they have only minimum information on the costs related to the procedures. However, even under such circumstances, the sample was broad enough to offer some very interesting parameters on the business operations on the territory of the Gradiska Municipality.

#### Gradiska as a location for entrepreneurship

25. Gradiska is located at the altitude of 92 m, the fertile Lijevece plain is at an average altitude of 110 m, and some villages in the hilly area are up to 300 m. The road network consists of 700 km of local roads, and 90 km of main roads, leading through Gradiska towards the eastern part of Republic of Srpska and to Banja Luka, and towards the Central and Western Europe to the north. Along the Sava river to the north, along an over 30 km section, it borders with the Republic of Croatia, the municipalities of Novska, Okučani, Stara Gradiska and Nova Gradiska, to the East with the municipality of Srbac, and to the south mainly with Laktasi and partially with the city of Banja Luka, and to the west and southwest with the Kozarska Dubica and Prijedor Municipalities, which in terms of road infrastructure is a very attractive location.

26. Gradiska also hosts one of the most significant international border crossings in BH for passenger and cargo traffic.

27. Small handicraft shops developed into modern factories, and on the rich forest resources of the Kozara and Prosara mountains, and on the fertile ploughed fields of the Lijevece and Potkozarje areas, processing capacities were built in the furniture, wood, agricultural and food industries. At the same time, enterprises were also developed in

other industries, particularly metal and textile ones, machine building, construction, trade, and production of electrical supplies and plastic.

28. On the territory of the municipality, over 600 private enterprises are active, with over 1,400 private shops. The majority of the private sector activity is directed on the areas of trade and hospitality, and a smaller number on some production activities.

## **COMMERCIAL AND LEGAL FRAMEWORK FOR INVESTING INTO THE GRADISKA MUNICIPALITY**

### **Introduction**

29. Operations of business entities are conducted within an environment created by the state and local self-administrations. The environment in which the business entities operate may be stimulating or non-stimulating for their work.

30. In the Gradiska Municipality, the business environment is created at three levels:

- state level (level of BH)
- entity level (level of RS)
- municipal level

31. According to the results of the survey done with the business entities in the Gradiska Municipality, the work of the state authorities was rated as useful or very useful was given by a small number of business entities:

- 18 % of the surveyed entities rated the state level as useful,
- 16 % of the respondents rated the entity level as useful, and
- 18 % of the respondents rated the municipal level as useful.

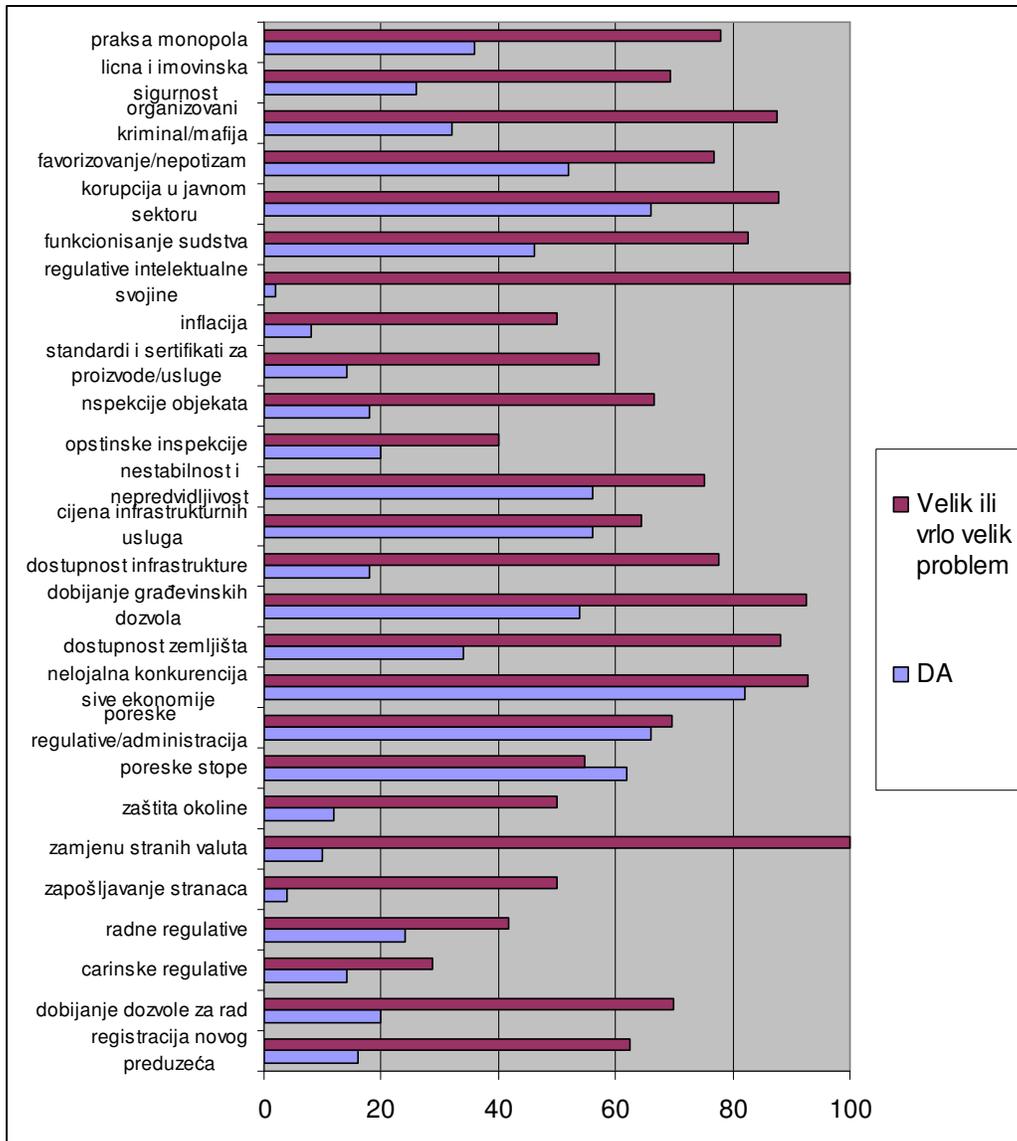
32. Whereas, an extremely large number of business entities rated the work of the state authorities as non-useful (rating of non-useful or very non-useful)

- 52 % of the respondents for the state level
- 48 % of the respondents for the entity level
- 44 % of the respondents for the municipal level

33. The above outcome indicators of the survey done among the Gradiska businessmen, it is more than evident that they are not satisfied with the work of the public services. There is a marginally less critical rating given to the local level, which after all indicates of somewhat broader access of the authorities than of those at higher levels.

34. However, in spite of this, it is symptomatic for the municipality that 74% of the respondents are not satisfied with the work of the municipal administration. Even 30% of the surveyed enterprises believe that the municipality keeps neutral (on the side) in relation to the business developments on the territory of the Gradiska Municipality, and even 44% of the respondents, that the activities undertaken by the local self-administration are non-useful or very non-useful.

35. The above facts impose a need to introduce a different approach by the local self-administration to the business issues, a shift towards the local economic development, or a need for a more active participation by the local self-administration in creation of the business environment in Gradiska. The same could be accomplished through physical planning projects allowing for implementation of a newly developed and yet non-adopted Developmental Strategy for the Gradiska Municipality, encouragement to formation of business associations, development of partnership between the private and public sectors, redefinition of tax policies, support to the work of the development agency as an element of infrastructural support to entrepreneurship development, and use of other instruments to support the local economy.



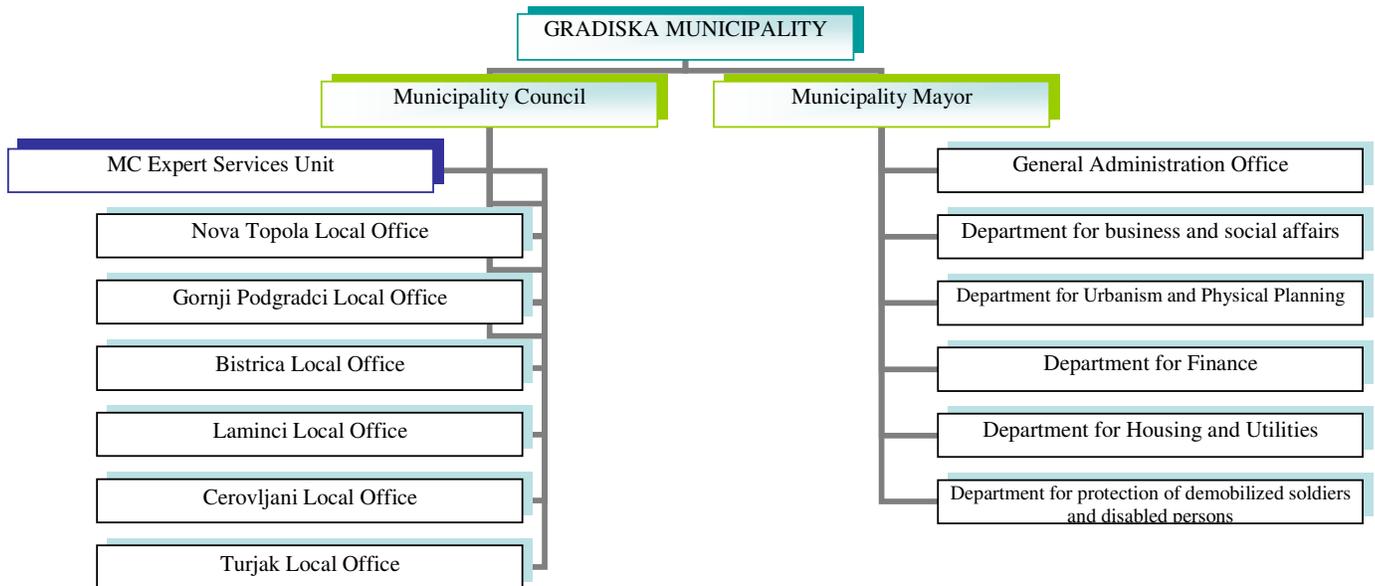
Graph 1 – Frequency and Intensity of the Problems from the Perspective of the Enterprises in Gradiska. Source: ARCS, 2004

Monopoly practice  
 Personal and property security  
 Organized crime / mafia

Favoritism / nepotism  
Corruption in the public sector  
Functioning of the judiciary  
Intellectual property policies  
Inflation  
Standards and certificates for products and services  
Inspections of facilities  
Municipal inspections  
Instability and unforeseeability in prices of infrastructure services  
Infrastructure availability  
Obtaining of construction permits  
Land availability  
Unfair competition  
Gray economy  
Tax policies and administration  
Tax rates  
Environmental protection  
Foreign currency exchange  
Employment of foreign nationals  
Labor policies  
Customs policies  
Obtaining of work permit  
Registration of a new enterprise

36. The graph above shows how much some of the offered problems are really present among the enterprises, as well as how complicated it is to address in the case of companies where it arises. Thus, dominating are the issues of transparency in the work of the public administration, unfair competition, frequency of legal changes and other issued from the domain of the rule of law. The next group of problems addresses licensing and permits, primarily those related to building of facilities. And finally, the graph also presents the problems related to tax administration and legislation, as well as issues of tax rates.

## Municipal structure



Picture 1: Municipal Structures in Gradiska. Source: Act of Incorporation of the Gradiska Municipality

37. There are three relevant municipal departments for business activities on the territory of the Gradiska Municipality, as follows:

- Department for business and social issues, and the municipal inspection service units are affiliated with it
- Department for physical planning
- Department for housing and utilities

The work of the above listed departments today is directed mainly to addressing administrative applications from entrepreneurs. These are departments resolving applications through administrative procedures. The efficiency of their work and the speed at which they resolve applications from entrepreneurs are of big relevance to the operations of business entities.

38. In the future, the work of the municipal departments will be of major relevance to the economic development of the Gradiska Municipality. The Development Strategy of the Gradiska Municipality exactly states the local administration as an implementer of numerous projects relevant to the future development of the municipality. In the forthcoming period, Gradiska will need to attach much attention to development of local administration staff who will be implementing the defined projects.

39. The business department will have a very important role in communication with businessmen and in development of partnerships with the private sector and potential foreign investors.

40. The spatial planning department will in the future be the one to define future business areas.

41. The housing and utilities department will have a big influence on proposals for tax policies.

42. The work of these departments will in the forthcoming period be very important, because in the future they will be the proponents for measures to be adopted by the Gradiska Municipal Council.

### **Business structure**

#### Local

43. According to statistical indicators, the number of registered enterprises in the Municipality is 404, of which 13 companies in the wood processing sector and 4 in the production of furniture. Trading companies, 156 of them, are predominating, plus a small number of them in other production segments. The details are provided in Annex I to this document.

#### Foreign

44. There are no examples of direct foreign investment on the territory of the Gradiska Municipality. Therefore, the low intensity and frequency of problems related to employment of foreign work force, which are in both cases minimal, do not reflect the reality of this problem at higher levels of authority.

### **Courts**

45. There is no court on the territory of the Gradiska Municipality competent for business activities, but all actions – from registration to business disputes and liquidation – are conducted at the Banja Luka District Court. The text below provides more details.

### **Corruption**

46. In spite of the years of reforms, very comprehensive analyses and billions of dollars of international aid invested into the post-war development of BH, the country is facing serious challenges of corruption and very poor and inefficient institutions that are supposed to fight against it.

47. There is a need for many more reforms of fundamental institutions, such as the judiciary, prosecution and police. In spite of all, the country has accomplished a certain progress, which can better be seen from the outside (for instance, through the corruption perception index measured by Transparency International), than from the inside of the country. The corruption perception research conducted by TI BH have recently shown a decreasing readiness of the citizens to offer bribe, and in relation to this, a reduced tendency to request bribe at public institutions, whereas some services are even recording increased rate of confidence on the part of the public. There is somewhat lower corruption at the local authority level, and higher one at the entity and state levels.

48. Administrative corruption involves the majority of procedures and institutions that enterprises face in their operations. However, complexity and overlapping of the levels of power, ambiguity in competencies, including the procedures, multiplication of redtape, and the like, seems to be a bigger problem than the corruption within institutions itself. Therefore, only clear division of competencies and the work of services based on the subsidiary principle, meaning that only one level is in charge of a specific task, can retrieve the trust of citizens into the institutions of the system.

## **COMPANY REGISTRATION AND PERMITS**

### **Introduction**

49. There are at least two key organizational forms relevant to the operations of privately owned business entities on the territory of the Gradiska Municipality:

- independent business or other activities in compliance with the Law on Handicraft and Entrepreneurship Activity; and
- enterprises.

50. The first form requires a much simpler registration procedure, but also offers a much narrower range of business capacities. The enterprise allows for performing of all activities envisaged in the Law on Enterprises (Official Gazette of Republic of Srpska, no. 24/98), but also provides for a much more complex registration and regular reporting on operations. Pursuant to the law in RS, it is possible to establish:

- Public enterprises,
- Joint liability company,
- Limited liability company with varying liabilities of owners,
- Shareholding company,
- Limited liability company.

### **Procedures to establish a business entity**

51. The procedures are divided into two groups, depending on the form of the business entity to be registered.

#### Independent shop / handicraft in Gradiska

52. Individuals may perform independent business and other activities in compliance with the provisions of the Law on Handicraft and Entrepreneurship Activity. Any independent activities may be performed as a basic or supplementary profession, except for the activity of public transportation, which may only be performed as a main activity.

53. The approval for foundation of independent shops is to be issued by the Department for Business and Social Activities, that is, the officer in charge of independent businesses, for shops whose business seat is located on business premises

on the territory of the Gradiska Municipality. There are three forms of independent shops:

- Trading shops
- Hospitality shops
- Handicraft shops – handicraft activity

54. Only such persons may be granted approval for any of the above that meet the following requirements:

- citizenship of RS, that is, citizenship of BH
- of age and with full business transaction capacity (personal ID, and certification on business transaction capacity from the Center for Social Work)
- certificate that there is no final decision of a competent body pronouncing against him a measure of banning this specific activity (certificate from the Municipal Minor Offense Court based on the applicant's residence, and the certificate from the Center for Public Security based on the applicant's place of birth)
- meeting the general health and/or specific health condition requirements, if the Law sets it forth as a precondition for performing certain activities (medical certificate)
- proof of the business space (urban permit, construction permit, permit for use of business space)
- contract for lease of business space (if the space is not owned)
- if the law provides an appropriate expert qualification for performing of a certain activity, in addition to the requirements above, the applicant must also attach evidence of appropriate qualifications, or must employ a person with appropriate qualifications.

#### Limited liability company on the territory of the Gradiska Municipality

55. The enterprise is established by entry of the act of incorporation into the court registry of the court competent as to place of seat of the enterprise, or the district court in Banja Luka, and thereof it obtains the capacity of a legal entity. Following court registration, the enterprise obtains a single identification number at the Tax Administration, in the place of the company's seat.

56. The enterprise may begin with business activity once the competent local administration body as to the place of the seat of the company renders the decision confirming that the requirements have been met in terms of technical equipment, work protection and environmental protection, as well as other prescribed conditions.

57. In order for the enterprise to be able to operate, in addition to the municipal decision it must also have a seal, a bank account, a single statistical number (assigned by the RS Statistics Institute), as well as the customs number assigned by the RS Customs, if it is involved in foreign trade transactions.

58. The minimum starting equity required for foundation of a shareholding company may not be less than 50,000 KM (with simultaneous foundation), or 100,000 KM (with successive foundation), whereas the minimum nominal amount of a share of equity is 1 KM. The company may only be founded by one individual and/or by one legal entity.

59. The minimum starting equity for foundation of a limited liability company may not be less than 5,000 KM, and individual equity shares may not be less than 500 KM. The company may be founded by one or more than one persons.

60. A foreign national as an individual in Republic of Srpska may operate as an independent entrepreneur if he has a work permit and if he has registered a private entrepreneurship activity with the competent municipal body in whose territory is the seat of the entrepreneurship activity.

### **Enterprise registration procedure**

61. Any foreign investors, before registration with the competent court, must perform registration of foreign investment with the Ministry of Foreign Trade and Economic Relations of BH – Department for Foreign Trade Transactions and Foreign Investment.

62. The registration requires submission of the following documents:

- Request for foundation of enterprise
- If the founder of the enterprise is a foreign national as an individual – a document verifying the identity of the foreign investor (copy of passport)
- If the founder is a foreign legal entity – certified excerpt from the court registry or another appropriate document verifying the legal status of the founder in the country of origin, not older than six months
- Verification of identity for persons authorized in foreign representation
- Decision to found the enterprise (a certified copy)
- Fill out the DSU 1 form (general information on the projected investment, to be filled in at the Ministry)

63. The steps required to register an enterprise with the competent court are:

- Decision on foundation of the enterprise
- Registration of enterprise with the competent registry court
- Act of incorporation (decision, agreement) – court-certified
- Application with attachments 1 - 4 (blank attachment no. 7)
- Certified signature of the person authorized for representation
- Certified copy of the diploma for the director
- Proof of initial equity deposit (with the Bank – 2,000 KM)
- Court administrative fees 1,600 KM
- Announcement
- Seal
- Statistical number
- Bank account
- Tax number
- Customs number
- Permit from the competent municipality for the activities of the enterprise
- Register the enterprise and the employees with the RS Pension and Disability Fund

No.	Type of institution or entity to which the payment is made	Amount (KM)
1.	Ministry of Foreign Trade and Economic Relations of BH	55
2.	Municipal registry court	1,600
3.	Official Gazette of RS – Announcement on foundation of the company, the price is charged per printed line	4.5
4.	Seal maker – making of seal	20-50
5.	Statistics Institute of Republic of Srpska	50
6.	Ministry of Finance – costs for obtaining a customs number	20
7.	Municipal inspection bodies	170
8.	Attorney fees – if an attorney is hired	1,000-1,500
9.	Other costs – copying, certification, court translator, etc.	200
10.	TOTAL	approx. 3,700 KM or, 1,850 €

**Table 1:** Recapitulation of costs of registering an enterprise in foreign ownership, **Source:** Chamber of Commerce of the Republic of Srpska, [www.inecco.net/pkrs](http://www.inecco.net/pkrs), 2004

64. On the other hand, in order to obtain the work permit from the municipality, one needs to submit the following documents at the local administration office:

- Decision on entry of the enterprise into the court registry, with forms 1-4, or the Decision on foundation of the enterprise.
- Any changes of the act of incorporation of the enterprise in terms:
  - adjustment of activities,
  - change of seat, or
  - additional activities.
- Use permit for use of business space
- Business space lease contract
- Attestation on measurement of electrical installations (if the use permit or the previous measurement is older than 3 years)
- The municipal administrative fee in the amount of 50 KM
- Payment of fee for commission inspection of the space, in the amount of 150 KM
- Proof of expert qualifications of the director, or the proof of expert qualifications of the employed worker
- Decision from the municipality competent as to the seat of the enterprise, if the decision is sought for work of part of the enterprise, a business unit, and the Decision by the director for opening of the business unit, with the designation of the activity and the manager
- Photocopies of traffic licenses, if the case involves transportation activity
- Decision from the competent ministry (if the case involves foreign investment, tourist- or healthcare-related activity).

65. The completed request with the required documentation in originals or certified photocopies is to be submitted to the reception office no. 4. After entry of the request into the database of the administrative office, the case is assigned to an officer who determines whether the documentation is proper and complete. Then he refers the case to the commission, who goes for an on-site visit and makes a record on whether the requirements in terms of technical equipment, work protection and environmental protection, or any other prescribed requirements, are met.

## **Problems related to enterprise registration**

66. Whereas the process of registering an independent shop is not designated as a problematic one, the enterprise registration process is characterized by two key problems.

67. The District Court in Banja Luka has become a bottleneck due to reduction of the number of judges working on registration of business entities. Currently, only one judge performs these tasks. The registration is otherwise mostly let be done by attorneys specialized in this area, so the period of waiting itself is not so long, and the related costs justify this solution. The majority of the presented problems are related to human rather than the legal nature.

68. Only 34% enterprises have not outsourced expert assistance, that is, has not hired attorneys for registration of enterprises and performed the process by using their own effort. However, even 76% of all the ARCS respondents stated that the process of registration is not an obstacle to operating, which fully corresponds with the information obtained in the FIAS ARCS survey conducted throughout BH in April 2002, on a sample of 100 enterprises from RS. An almost identical percentage (74%) of entrepreneurs in Gradiska do not see obtaining of the work permit as a significant barrier.

## **Licenses and permits**

69. Most permits are issued at the municipal or entity levels, and on average 1.5 per entity. The complexity of their issuance and the related costs have not significantly changed over the past year. However, two permits are prevalent with the respondents:

- work permit, and
- use permit for business space.

### Work permit

70. All of the 50 respondents applied for permit to start their business activities, and on average they consumed 27 days for preparation of documentation, submission and waiting for the permit to be issued. This permit is issued by the municipality.

### **Use permit for business space**

71. The procedure for its issuance envisages, if the business space for the desired activity is a precondition, that the municipal officer assigns the case to the commission that goes for a site visit and determines if the space and equipment requirements are met. Although the sample of answers to this question is small (10 companies), the overall official expenses related to obtaining of this permit exceed 4,000 KM. This is in a significant disproportion with the official information provided by the municipality on alleged related costs. There is also a similar situation with legal timeframes, which call for issuance of the permit within 15 days from submission of the complete documentation. However, the focus group consisting of the municipality employees

itself admits that one may wait for this permit for even up to one month. The information obtained from the municipality officials and the businessmen are therefore completely overlapping.

72. There are however also some extreme situations, where the time of waiting for the issuance of the use permit was even up to 28 months (the case of the local chicken slaughterhouse), at which the owner of a slaughterhouse reported ultimately ambiguous requirements in the sphere of work technology, a very expensive procedure, which even twice required travel and provision of additional certificates from Belgrade (because there are no local capacities for their issuance), and various additional environmental permits.

	Licenses		Days		Costs			
	YES	NO	Average duration	Number of answers	Total all official administrative fees	Number of answers	Total gifts and bribe	Number of answers
1. Work permit	50	0	27	27				
2. Use permit for business space	49	1	*28.1 (33.)	26	4256	10		
3. Other								
6. TOTAL			49.7	35				

**Table 2:** Issuance of work permits and use permits. **Source:** ARCS Gradiska, 2004

73. Such data did not either vary in relation to the ARCS for 2002 for RS, that is, there have been no positive shifts.

74. There are also numerous sectoral permits. Many of them are very specific and they often refer to a big number of laws, which may even be contradictory. The examples for this are veterinary and agricultural permits. Given that laws or by-laws either do not exist or they are contradictory, in terms of meeting the requirements of the industry operations, it is not clear which law is the preceding one in terms of the other. For instance, the Law on Spatial Planning and the Decree on Requirements for Sawmills in principle leave the municipality in ambiguity as to which of these needs to be adhered to, and the competent ministries also provide conflicting interpretations of the laws from two different sectors.

**Recommendations**

75. In registration, the key is the bottleneck in the process of issuing use permits, and this is exactly the segment regulated by the local authorities. However, the problems do not exclusively lie with the municipal bodies.

76. In registration of enterprises, there is also a bottleneck at the District Court of Banja Luka, which works with minimum capacities, which can not serve all the business entities in this otherwise major business region of Republic of Srpska. One judge does not only do registrations, he also does commercial disputes, which under the process of reelection of judges had anyway reached an amount of some 3,000 unresolved cases. Therefore one can wait for the court decision on registration for even

up to 42 days, as shown in the Gradiska ARCS, which is a relevant increase in relation to the 18 days from the 2002 ARCS for RS.

77. These problems could be resolved by a new design for the company registration procedure, which by the law adopted in summer 2004 was harmonized for the whole territory of BH, encompassing a number of steps, and relocating the registration into separate court departments where administrative workers work instead of judges. This is envisaged under the DFID project of the British Government, which has assisted exactly in establishing the new process of registration of business entities (enterprises), by making it much simpler, quicker and less expensive.

78. However, there is an evident lack of entrepreneurship culture within the institutions working on registration and certification. The enterprises mainly face highly bureaucratized procedures and staff referring clients around from one office to another, at various levels of authority, with a minimum effort to facilitate this process for the citizens by using some internal communication.

79. On the other hand, the levels of authority themselves, particularly on the relation between the municipalities and ministries, do not function sufficiently well. The ministries are not making efforts to harmonize their policies, which affects the work of the municipal employees, who are often left to their own devices in interpreting laws and rendering licensing decisions.

80. There is also a noticeable excess of regulation in this area. There must be a gradual deregulation in certification and harmonization among the ministries. This is however an issue to be addressed at higher levels of authority. The procedures prescribed for incorporation of an enterprise or an independent shop, according to the opinion of the respondents, are not exceedingly complicated. However, it is much more important that they can be completed in a short time frame and at a single place, thus making the process cheaper and quicker. In those terms, a one-stop-shop office would be of crucial significance to Gradiska.

81. It is much more important for the municipality to insist on establishing a regular channel of communication, through a person who would be assigned by the ministry to communicate with the municipality, and the municipality must insist on establishing this channel, either individually or through the Ministry of Administration and Local Self-Administration, or the Associations of Municipalities and Cities.

82. Some licenses are either remnants from some prior times, or they are quite a surplus under the modern business operating conditions. The Ministry of Foreign Trade and Economic Relations of BH is still retaining some export licenses in effect. Making it hard to export under such bureaucratic requirements, under the conditions of a country with such a high trade deficit, is quite in contradiction with the foreign trade policy.

## **Locating of businesses and building of facilities**

### Introduction

83. The degree of space planning and development of infrastructure on the territory of the Gradiska Municipality is more of a limitation than an incentive for the economic and therefore also social development of the municipality.

84. What is characteristic of the municipality development is more or less a lack of planned approach in resolving spatial and infrastructural problems. This was particularly strong during the war, but it has not been significantly eliminated even today. The available space is still used in a non-functional and irrational way, particularly the city dump areas. We may speak about elements or urban planning chaos, which is among other things also testified by the fact that for several decades already Gradiska has been using outdated spatial and urban planning documentation and constructing buildings based on the problematic urban planning documentation, or without any documentation. The consequences of forty years of inadequate spatial planning and operational action are evident:

- the city is without a clear design and scattered (the city does not have a city core, the central square, etc.)
- significant areas of the city construction land are immobilized and not in the function of building and developing the city (construction land given for use in previous periods, and now not being used for its planned purposes)
- insufficient coverage of the payees of the construction land use fee and there are significant uncollected liabilities on utilities and construction land fees
- lack of a consistent program for construction land planning, caused by a lack of or outdated spatial planning documentation, economic plans, investment policy on the one hand, and realistic economic and social situation on the other hand, have brought about an urban planning voluntarism with visible consequences: insufficiently undetermined and regulated space for any serious economic development of the municipality, insufficiently protected agricultural land, unprotected water sources, lack and non-regulation of green and recreational areas, lack of parking space, lack and non-regulation of wholesale and retail sale marketplaces, a constant process of unlicensed building as a way of skipping paying dues for the location.

85. The drafting of the spatial and urban planning schedule of the municipality is underway, covering the period 2004 –2017<sup>1</sup>.

### **City urbanization area**

86. The Gradiska Municipality has made a Study of Situation and Opportunities for Development and Spatial Organization of the Urban Area of Gradiska. The Study was made in cooperation with the Cathedra for Urban and Spatial Planning of the Architectonic Faculty of the Belgrade University. Only after the Study was made,

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<sup>1</sup> Socio-economic analysis of the situation in the Gradiska Municipality, an official document adopted by the Gradiska Municipality Council (April 2004)

Gradiska made the action plan titled "Development and Drafting of Planning Documentation for the Urban City Area".

87. During 2002, decisions were passed to complete Spatial and Urban Planning Schedule for the Gradiska Municipality for the scheduled period by 2017. The contractor selected for the project works through a tendering procedure was the Urban Planning Institute from Banja Luka. Implementation of these activities started during 2003. The works have not been completed due to shortage of funding.

88. The Draft Development Strategy for the Municipality of Gradiska 2005-2012 defines the Program of Urban Planning, among other things including:

- Spatial plan of the municipality and urban planning schedule of the city and the urban nature settlements – by 2004
- Program for drafting of the implementation spatial planning documentation (regulation plans, urban planning projects, land plot division plans,) – continuously during 2004-2012)
- The program of review of the construction land not used for construction but previously given away for other purposes (Article 95 of the Law on Spatial Planning) – by 2004
- Project to introduce information system and monitoring of collection of fees for use of construction land, utility and other fees
- Program of legalization of the illegally constructed facilities and buildings
- Programs for regulation of construction land<sup>2</sup>

#### Land ownership and administration

89. Unregulated, that is, insufficiently regulated construction land for building constitutes an obstacle to the municipality development. Construction land use management is not adequately resolved in terms of organization, planning, programming or legal regulation. Access to land is one of the essential requirements for investing into specific sectors. Minimum expectations are that the appropriately regulated locations can be quickly identified, purchased and equipped with infrastructure.

90. In the majority of advanced transition countries investors expect to find ready and available industrial locations equipped with all the required infrastructure. Land purchase and obtaining of required permits for infrastructural connections are among the major barriers that investors face in BH.

91. According to the opinion of the businessmen who participated in the businessmen focus group, there are sufficient quantities of land on the territory of the Gradiska Municipality that can be placed into function of development. Lack of spatial and urban planning schedules and unresolved legal issues constitute an obstacle in provision of the land required for building of business facilities.

92. According to the ARCS results, it is evident that even 80% of the respondents opted for building their own business facilities on their own land.

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<sup>2</sup> Draft Development Strategy for the Gradiska Municipality 2005-2012

## Location

93. The construction procedure begins with issuance of the urban permit. The application submitted to the Department for Spatial Planning must contain:

- copy of the cadastre drawing with the identification of the land plot (not older than 6 months);
- administrative fee of 25 KM for housing and accessory facilities, for housing/business and business facilities.
- fee for drafting of urban planning and technical requirements (depending on the facility).

94. Although there are some proposals for simplification of procedures for permit issuance in the department of spatial planning, they are not applied in practice. The reasons vary: the existing staffing structure (the staff insufficiently knowledgeable of such a working method), inertia on the part of the competent authorities, the lack of planning documentation, adequate IT technology, and the like. The program starts from the site analysis as a significant task and document addressing the site before issuance of permits. The site analysis allows the investor, before purchase of the site, to review all the necessary site parameters: usability of the site for industrial or some other type of construction, infrastructural conditions, utility price, amount of rental, etc. Based on such analysis, he opts for purchasing, construction or some other step necessary in capital construction deals. The following step is then easier, because there are preconditions for obtaining of the urban permit.

95. Construction of the building, performance of construction and other works on the surface or under the ground, as well as any changes to the purpose of the construction land or a building, is proceeded with based on the previously obtained decision permitting the construction.

96. Decision on construction permit upon the request of the investor is brought by the Department for Spatial Planning. In addition to the application, one must submit all the legally required attachments:

- Urban permit with the clause of finality;
- Proof of title, or the right of use for the land;
- Technical documentation, that is, two technical designs<sup>3</sup>;
- Requirements in terms of the building site;
- Proof of the regulated rent fee issued by the Department for Housing and Utilities;
- Fire safety permit for technical documentation (issued by the Public Security Center of Banja Luka);
- Water safety permit for technical documentation (issued by the Ministry of agriculture, water management and forestry in Bijeljina, or by the competent municipal body);
- Evidence on paid fee for funding establishment of the cadastre of real estate (0.3% of the estimated value of works);

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<sup>3</sup> Made in accordance with the requirements provided in the urban permit, Law on Spatial Planning and appropriate technical regulations, standards and norms. The technical documentation is subject to technical control. The costs of the technical documentation control are to be paid by the investor

- Sanitary permit for technical documentation (issued by the municipal sanitary inspector);
- Postal permit for technical documentation (issued by the Telecom Gradiska field office);
- Electricity permit for technical documentation (issued by the Electric Power Public Company “Elektrodistribucija” Gradiska);
- Public water and sewer pipeline permit (issued by the public utility company "Novi Grad")
- Public heating system permit (issued by the public utility company "Toplana");
- As needed, the permit from the RS Road Directorate for technical documentation;
- As needed, evidence on paid fee for conversion of agricultural land into construction land;
- As needed, permit on meeting the work protection and environmental protection measures and norms (Work and Environment Protection Institute);
- Paid fee for control of technical documentation, and
- Administrative fee for the application.

97. The application for issuance of the construction permit accompanied with the above documentation is submitted to the reception office no. 4 of the municipality, or mailed.

#### Analysis

98. The results of the businessmen survey corroborate the conclusions of the businessmen focus group, stating that the territory of the Gradiska Municipality has land available, but that the procedures for obtaining of permits to put it into business function are very time-consuming and expensive, which contributes to illegal construction.

99. The survey results have shown that some procedures last unacceptably long and that they require high expenses additionally burdening the businessmen. The most blatant examples of this are the following procedures:

- The municipal right of first refusal, according to the survey results, has been only passed by 14% of the respondents. As for expenses caused by this procedure, we may say it does not burden the businessmen significantly. but on the other hand, the period required for its application is extremely long.
- Entry of real estate into deed books is very long (130 days on average, although there are cases when this takes even longer).
- Compilation of technical regulations, according to the results of the survey, has been passed by 66% of the respondents. The average time for this procedure is relatively long, and costs are very high (7,267 KM on average).
- Obtaining of architectonic and urban permits have been passed by 70% of the respondents. The survey results have shown a relatively long period this takes (81 days on average), and huge expenses to obtain the decision on permit (8,900 KM).
- Obtaining of construction permit takes 122 days on average, and costs 9,600 KM also on average. This procedure has been passed by 68% of the respondents.
- Final technical certification and acceptance of the building has been passed by 56% of the respondents. The procedure took some 44 days on average, and average expenses were 2,833.3 KM.

100. The survey also showed that a certain number of procedures, that can be deemed very important from the standpoint of urban planning decisions by the municipality, are not mainly passed by the businessmen, which could bring about future problems in the urban planning area. This is the case with two procedures:

- Coordination of the design with the regulations (only 8% of the respondents passed), and
- Approval of design (only 6% of the respondents passed the procedure).

101. In terms of this area (real estate and building construction), it is typical that businessmen mainly do not opt to outsource attorneys or consultants for assistance (72% of the respondents did not outsource assistance).

### **Building construction**

102. The beginning of construction works must be reported to the Municipal urban planning and construction inspection at least 8 days before the works start. The land plot marking is performed by the administration body in charge of spatial planning in presence of the investor, and a record is made to that effect and submitted to the urban planning and construction inspection.

103. The constructed facility for whose building the construction permit is obtained, or for its part which is a technical and technological integral whole and can be used as such independently, as well as facilities of preliminary and preparatory works build based on a separate construction permit may be used or set into function after the administration body that issued the construction permit issues the decision on use permit, based on the previously completed technical inspection of the facility or its part (use permit).

104. No one may perform technical certification and receipt of the facility or a part of it, nor approve its use, if the facility or a part of it has been built without the building permit.

105. For this permit, the investor submits the application to the Department for Spatial Planning after the completed building of the facility. The application needs to include the following attachments:

- Urban permit for the facility,
- Technical documentation with changes entered;
- Copy of the construction permit;
- Construction diary book;
- Proof of quality of the installed materials, supports, equipment and machinery;
- Documentation on testing of works, supporting constructions and the like, in terms of carrying capacity, technical safety and stability;
- Proof of application of measures on earthquake prone grounds;
- Construction contract with the contractor;
- License for works;
- Document appointing the works supervisor;
- Fire safety permit for use of the facility (Public Security Center of Gradiska);
- Attestations for electricity and lightning proofing installations and working tools;

- Electricity permit;
- Bacteriological and chemical water analysis;
- Sanitary permit for use of the facility<sup>4</sup>;
- Water management permit (if the facilities affect the level of underground waters);
- Paid fee for technical inspection;
- Paid fee for establishment of the real estate cadastre, unless paid in the procedure of building approval;
- Proof of completed land survey recording of the facility;
- Record on land plot marking of the facility; and
- Application administrative fee.

106. The application for issuance of the use permit with the above stated documentation is submitted to the reception office no. 4, or mailed.

107. The use permit can only be issued after the technical inspection determines that the facility or a part of it, has been constructed in compliance with the technical documentation based on which the building permit has been issued, that is, that the facility has been constructed in compliance with the technical regulations, standards and norms whose application is mandatory in constructing of facilities that specific type.

108. The technical inspection is made by the expert commission, and the following needs to be provided for its on-site work:

- conditions for inspecting of documentation and making of record;
- smooth access to all parts of the facility;
- certified construction design;
- decision on urban permit;
- interim situation plan or urban planning and technical requirements; and
- construction design and attestation – related documentation.

109. The work of the technical inspection commission will be attended by the representatives of the investor, contractor and the competent inspector, and the costs of the technical inspection are to be paid by the investor.

### Analysis

110. The process of entry of the real estate into deed books is very long (130 days on average, although there are some extreme cases when this time is even significantly longer). Slowness in processing of applications submitted by entrepreneurs and high fees are a disincentive to investing on the territory of the Gradiska Municipality. In order to attract investment, the Gradiska Municipality will have to increase efficiency of the administration, by reducing the time and the required expenses for the procedures pertaining to the area of real estate and building construction. The current situation is blocking increase in the business activity on the territory of the Gradiska Municipality and discourages the people who wish to invest or start up their own businesses.

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<sup>4</sup> Obtaining of sanitary permit requires provision of the interim situation plan (issued by the Department for Spatial Planning), urban permit (issued by the Department for Spatial Planning) and the application (application form available at the reception office of the municipality).

111. It is very unproductive to duplicate the documents required in the construction and use permit issuance procedure. Given that the legal construction requires meeting of all the requirements for issuance of construction permit, and with the application for issuance of use permit the copy of the construction permit is attached, so that it is not necessary to submit identical documents such as in the preceding administrative step (for instance, urban planning permit, technical documentation and numerous infrastructural permits/licenses). At the same time, the use permit for the facility and the work permit in starting up of the entrepreneurship activities contain a lot of administrative overlapping and there is room to appreciate meeting of the material and technical conditions referred to in the use permit in the process of issuing of the municipal permit for performing of entrepreneurship activities.

112. In all the municipalities in BH, the situation with real estate and permits is very similar, so the above findings also pertain to Gradiska. Nevertheless, there are certain differences in terms of administrative requirements, and some of the RS municipalities impose less complex requirements for issuance of urban permits, construction permits and use permits. Therefore it is necessary to conduct comparison of requirements and do the adjustment in Gradiska using a model example of good practices, yet without compromising laws, that is, within the framework of the local regulations. It is particularly important to eliminate duplication in the bureaucratic requirements in issuing permits in the construction area.

113. There has been a shift in this area made by some municipalities thus significantly reducing the problem by forming of one-stop-shop offices for entrepreneurs, whose portfolio of activities also includes procedures related to use of real estate for business purposes (urban and construction permits). Unfortunately, one must conclude that the major problems exist in terms of adherence to internal standards for issuance of such permits exactly at the Department for Spatial Planning, even in municipalities where one stop shops exist.

## **Employment**

### Local workforce

114. The tables presented below show that there has been a reduction in employment and increase in unemployment rate during the monitored period in the Gradiska Municipality. Until to date, BH and RS have not created a clear and stimulating economic framework for addressing the employment problem. Therefore, the municipalities are forced to bring their own provisional solutions to address the employment problem.

115. The population of the Gradiska Municipality as the basic factor of development, due to unfavorable trends in the business and employment areas, may also become a future social problem factor.

## Analysis

116. In terms of economic development, the Gradiska Municipality today shares the destiny of the majority of municipalities in BH. The war and post-war developments, the transition from the centrally planned system into a market-based system, privatization that has not yielded the expected results, together with the lack of orientation by the municipality management under new economic conditions during the post-war period have brought the Gradiska Municipality into an exceptionally difficult situation. Today, the Gradiska Municipality is a municipality burdened with numerous economic and social problems. It is characterized by a reduction of economic activity, growth of economic loss, incomplete privatization, economic restructuring, a big share of the gray economy and an increase in the number of the unemployed.

117. The results of the survey in view of this area show that businessmen mainly do not believe that their obstacles are the elements specified in the survey. Of the stated elements, it would only be of significance to mention the minimum salary as determined by the state (40 % of respondents rated it as an obstacle), and mandatory social security contributions (38 % of respondents rated it as an obstacle), having in mind that the degree of seriousness of the mentioned obstacles is mainly minor or moderate.

118. As for the other elements in this area, related to restrictions in releasing workers and redundancies, as well as the restrictions related to hiring of local and foreign workforce, one must mention that the structure of enterprises sampled has practically determined non-consideration of the mentioned elements obstacles to business

### **Textbox 1:** Training of young designers aimed at resolving staffing and unemployment problems

In order to offer support in creation of local capacities for replacement of outdated and old types of furniture with products designed in a modern way, SEED has started a program of training for young, talented designers in Banjaluka.

**Purpose of training:** During May, a five-day seminar was organized for young and talented future designers, selected from the final years of studies at the Architectonic-Building Construction Faculty in Banjaluka, who are interested after they finish the studies to be involved in furniture and interior design. The basic intention was to have the 12 selected future designers informed about the most recent trends in furniture and interior design on the world, European and local markets. The training was performed by marketing experts and three selected designers from Italy, prominent in furniture and interior design.

**Goal of training:** The basic goal of the training is to contribute to education of future young specialists in design and development of furniture and interior products. The training focused on the analysis of the current and expected future trends in the area of furniture demand on the markets of interest to the local manufacturers. Special attention was attached to styles and features of the products attracting attention and meeting the taste of consumers on the local and European markets. Consequently, the seminar participants were trained in how to design products in accordance with the desires of future consumers on the global market.

**Networking with manufacturers and designing of new models:** One of the goals of the training is to have the young designers network with the local furniture and other wood product manufacturers. This is aimed at contributing to establishment of a mutually useful future cooperation on development of attractive production programs in the final wood processing industry. As a result, the young designers visited several factories and are currently working on designing new models of furniture. After the designing stage, prototypes will be made and tested at furniture fairs, and after gathering of suggestions to improve the models and to remove any objections, test series will be produced. As a result, efforts will be made to create preconditions for a new beginning in removal of weaknesses in design, accumulated during the previous transition phases.

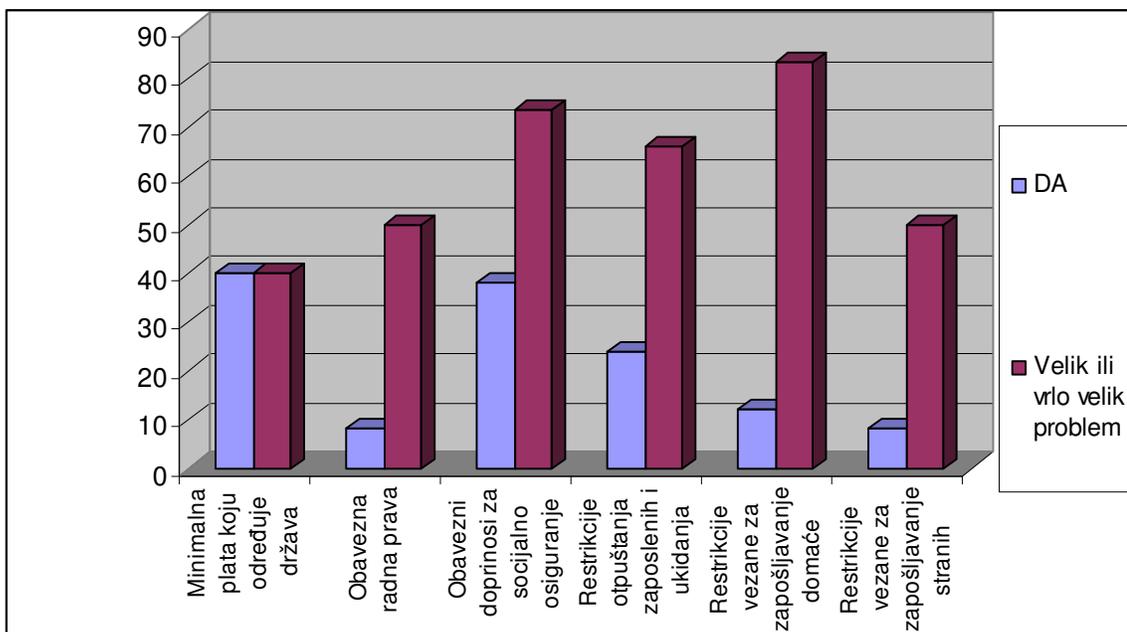
The training included several students from Gradiska, and the Gradiska Municipality itself became actively involved in project support and implementation.

operations (the sample only included privately owned enterprises, which unlike the state owned enterprises mainly have no problems with the above mentioned restrictions).

119. A lack of a clear and stimulating developmental concept in BH and RS has brought municipalities into a position that under the new economic conditions they must independently develop local economies, seeking their own opportunities for setting into function the development of material, financial and human resources they have available on their territories.

120. In the majority of BH municipalities, the post-war development has been disorganized. Due to negligent attitude towards the former bearers of economic development and employment, large state-owned enterprises, nowadays characterized as strategic enterprises, the Gradiska Municipality is also under exceptionally hard circumstances. Further destiny of the large business systems is very precarious. Municipalities are not able to influence their privatization, but they have an obligation to take over a large portion of the social obligations resulting from closing down of large enterprises or their restructuring. On the other hand, the private sector in the Gradiska Municipality has not yet developed sufficiently to be able to take over the role of the bearer of economic development.

121. The graph below emphasizes the areas in which there are problems related to the labor regulation. It is noticeable that the majority of enterprises in fact have no major problems, but there where they do exist, they are of very high intensity.



Graph 2: Issues in the area of labor regulation – frequency and intensity of the problems. Source: ARCS Gradiska, 2004.

- Minimum salary set forth by the state
- Mandatory labor rights
- Mandatory social insurance contributions
- Restrictions in outlays
- Restrictions in hiring locals
- Restrictions in hiring foreign nationals

## Recommendations

122. The management of the Gradiska Municipality is facing a big future responsibility for seeking a way to enable cessation of the negative trends in the economy and return the Gradiska Municipality economy onto the path of progress. In those terms, the potential of the municipality also lies in the Local Development Agency, which could on a mid-term basis take on the obligation to create the preconditions not related to the administrative procedure, specifically preparations of construction sites, organization of construction of industrial parks, incubators, guarantee and support funds, and the like.

123. The municipality will have to insist on quick resolving of the destiny of the large state owned enterprises through restructuring and privatization, while at the same time development partnerships with the existing private companies in order to find ways for escaping from the economic collapse.

124. It would be very important for the Gradiska economy to have the existing market oriented strategic enterprises or some of their parts revitalized. Parallel with these processes, there have to be processes of creation of new business entities and strengthening of capacities of the existing business entities. At the same time, in the forthcoming period, using an exceptionally favorable geographic situation, human and material resources it has available, Gradiska should be working intensively towards attracting of investors.

125. Self-employment and strengthening of the private sector which is only emerging will depend on the success of implementation of such or similar initiatives, aimed at reducing of administrative procedures to a minimum and creation of an attractive local economic space.

## **Business operations**

### Introduction

126. Similarly like with registration and licensing, in everyday operations of the enterprises on the territory of the Gradiska Municipality, they are facing similar administrative procedures at various levels of authority. In addition to the inspections with separate competencies, the majority of institutions supervising operations of business entities, or to whom regular operational reports are submitted, are of the entity-level nature.

127. The following five segments come under the operations of enterprises:

- Real estate and construction building (land purchase and building of real estate)
- Customs clearance of commodities (import, export, transit)
- Labor relations and regulations (employment, mutual obligations and dismissals)
- Inspections (on-site control of company's operations)
- Tax administration (reporting, payment of taxes and return of taxes).

Whereas this study does not analyze the legal regulations governing certain areas, but only their changeability and possibility of anticipation. Institutionalization and interaction of public administration with business entities is the subject of this report.

## **Tax system**

### Legal framework

128. Tax laws and administrations exist exclusively at the entity levels and they are in the jurisdiction of this level of authority. The administration is centralized, particularly in RS, and regional offices exist at municipalities. However, staffing and management is done exclusively within the central tax administration, which for RS is in Banja Luka, and the municipal authorities have no touching points with the regional offices. They are just physically placed within the municipality buildings, such as the case is in Gradiska, too.

129. The administration for indirect taxation of BH was established in 2004 with the goal to unify the revenues of entity customs and tax administrations and to introduce the value added tax (VAT). In those terms, only further tax centralization and uniformity of the procedures can be expected at the level of the whole country. Only after law changes shall one be able to discuss the new procedures and rates, which will pertain to Gradiska equally like to any other place in BH.

#### a. Institutional arrangements for tax administration and revenues in Gradiska

130. Sales tax is the main source of tax revenue for the entity budgets. The system was reformed almost every year, but without introduction of precisely defined models of fiscal decentralization. Although the law provides that 30% of the sales tax collected on the territory of a municipality be transferred back to the same municipality from the RS Tax Administration, in reality such return is much less transparent. Namely, due to difficulties in determining and tracking of revenues towards the municipalities, the return that comes into the municipalities is no more than 8-10%, whereas the balance ends up in the entity budget to settle the daily costs.

131. The municipalities therefore rely on the original revenues and administrative fees to a much larger extent than on the funds collected through the Tax Administration. Such revenues mainly pertain to rents from spaces and land owned by municipalities. On the other hand, there are also local administrative fees related to performing of administrative actions in municipalities. Due to such non-transparent approach in distribution of the tax funds, the municipalities, including Gradiska, often impose various high administrative fees or rents, in order to be able to settle their liabilities created through the local budget.

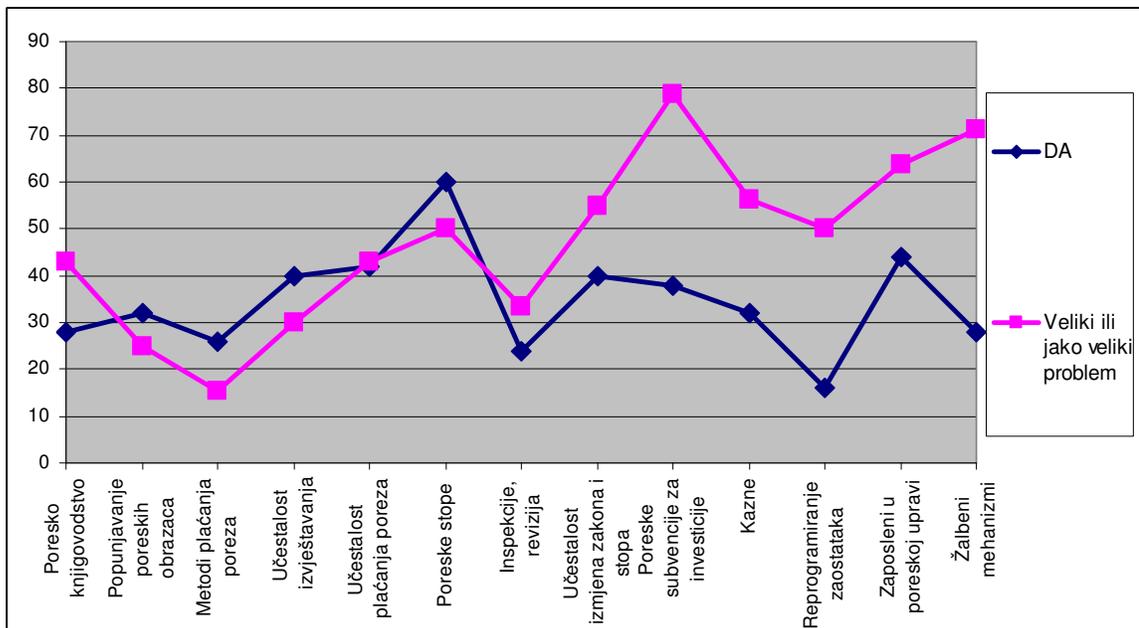
#### b. Analyses and recommendations

132. The analysis of respondents' answers related to tax administration shows that for a large number of the respondents the tax administration is not a priority problem to be addressed. More than 50% of the respondents in all answers related to the tax administration stated that the tax issues are not a problem for them. The problem in fact is the level of tax rates for 60% of the respondents.

133. The respondents who stated that they have problems with tax administration have most seriously ranked (either as being a big problem or a very serious problem) the following areas:

- Level of tax rates (50 %)
- Application of tax exemptions for investment projects (78.9 %)
- Frequency in changes of rules and rates (55 %)
- Appeal procedure (71.4 %)
- Level of late payment fees (56.3 %)

The other answers were rated as being minor problems or moderate problems, meaning that they do not constitute serious barriers in their business operations.



Graph 3. – Frequency and intensity of the problems related to Tax Administration of RS. Source: ARCS

- Tax accounting
- Completion of taxation forms
- Tax payment methods
- Frequency of reporting
- Tax payment frequency
- Tax rates
- Inspection, audits
- Frequency of changes in laws and rates
- Tax subventions for investors
- Penalties
- Programming of backlogs
- Employees in tax administration
- Appeal mechanisms

## Customs and customs administration

### a. Introduction

134. Pursuant to Article III of the Constitution of BH, the customs policy is the task of the common institutions of power in BH. However, pursuant to the Law on Customs Policy, the customs territory has to be harmonized and unified on the territory of the whole state. Therefore, the policy and administration must be identical in each part of the country.

135. In order to be able to import or export, legal entities must be registered with the Entity Customs Administration. The customs duties are paid at field offices, that is, customs offices closest to the customs crossing where the commodities enter the country. AT import, the following documents are required, which do not have to be provided directly by the enterprise, but this can be done by way of freight-forwarding houses.

- Import permit
- Customs declaration and selection of the customs procedure.

136. In which the customs procedures may include the following actions, in compliance with the European Union standards:

- Distribution for free circulation
- Transit
- Customs warehousing
- Internal processing
- Customs-controlled processing
- Temporary import (for the purpose of export)
- Temporary export (for the purpose of import)
- Export.
- 

### b. Export/import procedures

Table 3		Hours			Payments				
		Waiting time at the border (spent at border crossing and with customs officers)	No. of responses	Do not know	Total official dues and payments (amount)	No. of responses	Total costs of transport	No. of responses	Do not know
<b>Export of commodities</b>									
1.	Customs duties	1.8	5	9	157.5	2			12
2.	Inspections (of all types)	2	2	12					14
3.	Obtaining of customs certificates from border officers	1	2	12					14
4.	Other			8	75	1			
5.	Total	6.7	11	3	200	3	153	5	6
<b>Import of commodities</b>									
6.	Customs duties	4.9	8	14	60	2	145	3	18
7.	Inspections (of all types)	6	5	17	15	1			21
8.	Obtaining of customs certificates from border officers	5.6	5	17					22
9.	Other								
10.	Total	11.8	16	6	100	2	153	5	15

Table 3: Administrative Costs of Commodity Customs Clearance. Source: ARCS Gradiska, 2004

137. The location of Gradiska is really a specific one. The very center of the city is found on the border crossing with the Republic of Croatia, and the customs officers and the State Border Service, who perform administrative actions at the border, have become an integral part of the city. Therefore the answers given by the Gradiska businessmen are probably less representative than if they were withdrawn from within RS or BH. Personal acquaintances and the physical vicinity of the border facilitate business operations for companies related to border crossing at import or export of commodities.

c. Analysis

138. Regardless of such conditions, the majority of companies finds outsourcing freight forwarders a much more acceptable solution. With such advantages and an already established freight forwarding service, the customs procedures are not time-consuming. The differences in relation to the 2002 ARCS are relevant – what was measured in days two years ago is now counted in hours. From preparation of documentation for import or export, until the moment of completed customs clearance no longer than two days pass, and the majority of administrative tasks are completed within a couple of hours.

139. One of the objections from the focus groups was frequent changing of the customs legislation and customs tariffs. They were designated as the insufficiently transparent and unforeseeable, and the tariffs are the set of regulations most frequent subject to changes. On the other hand, export is often more complicated, which depends on the destination of commodities. The Croatian regulations are also very complex and unforeseeable, and the border procedures are often lengthy and complicated.

140. As far as the municipal authorities are concerned, they almost have no touch with the work of the customs services. The only procedure linking these two institutions is issuing of the certificate on performing of agricultural activity, which is obtained by such individuals at the municipality, in order to be able to import agricultural equipment and raw materials exempted from customs duty. However, the municipality has a clear agency role here, because they will be further seeking for this information at the cadastre plan of the Republic Administration for Land Survey and Legal Property Issues – Regional Unit of Gradiska.

141. Globally viewed, the participants of both focus groups have stressed a strong lobby in the segment of wood processing and foreign trade arrangements. As a result, the export of raw, non-processed or semi-processed wood is extremely liberal.

142. Establishing of the Foreign Trade Chamber of BH caused numerous further ambiguous and confusing regulations. Evidently, they resulted in the export license issued by the Ministry of Foreign Trade and Economic Relations of BH, and it still remains unclear for which commodities and under which conditions. However, It happens that export is sometimes conditioned by this certificate. The Chamber itself requires payment of a certain percentage of the total exported volume onto the account

of the Foreign Trade Chamber of BH, which is an unprecedented case. This payment, although voluntary and in the form of a membership fee, constitutes an obstacle which makes confusion in exporting of commodities, because customs officers, because they do not know the regulations, require proof of payment of the “export fees” to the Chamber.

d. Recommendations

143. In accordance with all of the above, it is necessary to do as follows:

- Make the regulations in the area of customs and tariffs as simple as possible, more accessible, understandable and transparent for all. The Council of Ministers of BH must coordinate the tariffs in transition to the indirect taxation system and adjust them to the process of stabilization and accession to the European Union on a long-term basis.
- The Municipality must lobby for the cadastre certificates and copies of excerpts to be available for issuance on the site, in order to avoid the agency role, creating only unnecessary waste of money and time.
- The membership fee in the form of a percentage from the exported commodities due to the Foreign Trade chamber is an ultimately unnecessary and harmful measure and urgent efforts must be made in terms of lobbying for its revocation, and this effort should involve business associations at all levels.

## **Inspections**

a. Introduction

144. The territory of the Gradiska Municipality has republic and municipal-level inspections, physically located at the municipal administration building, although their competencies and the reporting systems are different.

145. Municipal inspections:

- Market inspection
- Agricultural inspection
- Sanitary inspection
- Construction building inspection
- Traffic inspection
- Utility police
- Environmental inspection
- Veterinary inspection

146. Republic inspections:

- Labor inspection
- Tax administration
- Market inspection
- Forestry inspection

b. Legal competencies

147. The inspection services are independent in planning of their activities. The municipal inspections report on their work to the municipal Department for Business Activities of the competent republic institution, except for the utility police who reports to the municipal department for housing and utilities. Such reports are also forwarded to the Municipality Council, but also to the competent republic inspections. The republic inspections do not have a double reporting system, but they exclusively report to the headquarters of their inspections, and through them the competent ministries.

148. According to the members of the businessmen focus group, the activities of the inspection services are more directed to trading enterprises than to production enterprises. However, the distribution of competencies is not sufficiently clear, particularly where there are the republic and the municipal inspection existing parallel.

149. The Law orders for control of the republic inspection in a manner to monitor companies that have received work permits from the level of the entity ministries, whereas the legal entities with the municipal licenses are subject to the municipal inspection controls. On-site inspections can also be joint ones, which for instance often happens with the market inspection. The result of such work is a rather chaotic system of inspections, at which some enterprises are frequent “targets” of the inspectors, while others have been operating for years without any control. Both the focus group and the ARCS results do not indicate of any high incidence of bribe during inspection controls of companies.

150. The Gradiska Municipality has no data on the number of controls performed on the territory of the Municipality. This pertains to republic-level authorities, whereas for the municipal inspection there are regular quarterly reports from all the inspections on the number of inspection controls performed.

c. Analyses

151. The ARCS and focus group results indicate that the number of visits by various inspections on an annual basis ranges from 1-2 visits on the average per company. According to the findings of the business entity survey, the largest number of controls during the year is performed by the labor inspection. Of the fifty surveyed companies, even 39 of them responded that they were subject to inspection control and all of the 39 were visited by the labor inspection. This data is also confirmed by the focus group results.

152. The average annual inspection burden per company was calculated by multiplying the number of inspection visits to companies (A), the number of inspectors per visit, and the number of days the inspection lasted.

153. Such an indicator of “inspection burden” yields a result of 10.5 inspector days per company for tax and market inspections, whereas the labor inspection is present with 4.5 inspector/days per company. The others are not so frequent and where they did visit, they “cost” the company two inspector days or less. By frequency of visits, the market and the labor inspections are followed by the fire safety (30 companies), tax

administration (25 companies), sanitary (19 companies), and construction building (15 companies) inspections.

154. As for the number of inspectors, the results show a balanced number (1-2 inspectors per one inspection). In terms of duration, the longest were the tax administration inspections (3.9 days on average), whereas the visits by other inspections are balanced by duration (1-2 days). The number of visits of the above inspections, according to the respondents, has not increased in comparison with the previous 12-month period, that is, it has remained at an approximately same level.

155. According to the survey findings, of the fifty surveyed companies only one company had problems with inspections in terms of seizing of business books or blocking of bank accounts. Of the 50 surveyed companies, only three had problems with paying fines (their average fine amounts to 14,033.33 KM).

#### d. Recommendations

156. The initiated processes of unifying and harmonization of the work of inspections through establishment of the single republic inspectorate (according to the model used in the Republic of Croatia) will contribute to a significant reduction of inspections and decrease of the inspector burden on the companies. At the same time, the work of the inspectors should be simplified, and controls will be more balanced, covering a larger number of companies.

157. The indirect tax administration, on the other hand, will take over control over the work of the tax and customs inspectors, which will encompass the remaining segment of the inspection operations.

### **Specific features of the wood sector**

#### a. Introduction

158. The Gradiska Municipality has a long-standing tradition in the wood sector, consisting of forestry and wood processing. According to an undivided opinion, this industry has broad opportunities to significantly contribute to the economic development of the municipality, as all the preconditions are in place for successful competition on the global market and generation of significant export revenues. Analogously, wood growing and processing take a strategic position for the local economy. The municipality has numerous advantages in this sector, including:

- Large inventory of high quality wood is a permanent resource renewed in a natural way. The beech from the local Kozara mountain is broadly accepted on the European market as a hard but relatively easy processable material used for furniture, parquet, construction and building, and other purposes;
- Relatively cheap and still trained workforce with solid technical expertise;
- Significant installed wood processing capacities;
- Historical experience and a long-standing tradition in this line of industry;

- During the pre-war period, several local enterprises became established as reputable suppliers of quality wood and wood products, in several main segments of the world market, etc.

159. There are over 20 enterprises involved in wood processing, of which 3 in the forestry, 13 in production of various primary, semi-final and final products, whereas 4 are specialized in furniture. Two state owned companies are vertically integrated complexes that together have 10 factories for production of lumber, parquet, sponge and furniture. Furthermore, there is a large number of handicraft shops involved in production of a broad range of furniture and other products, customized to the consumers' orders. As a labor intensive activity with a high coefficient of new job creation by unit of invested capital, wood processing offers a significant contribution to total employment. According to official statistics, in late 2003, wood sector enterprises employed over 1,000 workers, which accounts for some 11% of the total of 9,015 registered employed persons on the territory of the municipality (including all business enterprises, handicraft shops, non-business organizations and state institutions). However, together with seasonal and unregistered workforce, the assessed employment rate in the wood sector is by 10 to 15% higher. One should note that the number of employees in the state owned companies has a decreasing trend, whereas the private sector is showing a sluggish rate of growth.

160. Based on the overview of the current situation, it has been concluded that the wood sector is facing the problem of a very slow recovery from the war consequences and the problems brought about by the transition. The key issues and barriers are shown in the table below:

<i>Common barriers and problems of state-owned and privately owned enterprises</i>	<i>Specific problems of state-owned enterprises</i>
<ul style="list-style-type: none"> <li>▪ Unfavorable economic conditions and political environment,</li> <li>▪ Limited purchase power for furniture, doors, windows and other products in the area of permanent consumption;</li> <li>▪ Loss of the key market in Serbia, resulting from the Kosovo crisis, which accounted for the total sales with 50-60%;</li> </ul> <p><u>External Factors</u></p> <ul style="list-style-type: none"> <li>▪ Non-regulated supply and uncontrolled export of logs;</li> <li>▪ Uncontrolled import of furniture;</li> <li>▪ Poor management and lack of knowledge of foreign languages;</li> <li>▪ Lack of expertise in marketing – particularly with export;</li> <li>▪ Poor cost control and cash flow management;</li> <li>▪ Outdated product design and inadequate production programs.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Insufficient sales volume to cover the high fixed costs, conditioned by the large capacities installed in the pre-war period;</li> <li>▪ Low productivity and utilization of capacities (currently below 30%);</li> <li>▪ Serious losses and accrued unpaid liabilities.</li> </ul> <p><u>External Factors</u></p> <ul style="list-style-type: none"> <li>▪ Extended privatization process and its precarious outcome demotivates the employees;</li> <li>▪ Inherited number of superfluous employees;</li> <li>▪ Extremely large general administration;</li> <li>▪ Unstable management, frequently replaced by the political parties.</li> </ul>

Table 4: Problems of the Wood Sector. Source: SEED, 2004

b. Market and other potentials for recovery

161. In spite of numerous difficulties, the wood sector has a good market perspective, as well as good other prospects for a quick future recovery. The main advantages and opportunities could be summarized as follows:

- Vicinity of the major wood product markets (Italy, Germany);
- Customs free arrangements with the neighboring countries;
- Internationally recognized long-standing tradition in the wood industry;
- Competitive advantage of the high quality products (lumber, furniture, veneer, parquet, block-boards, etc.) made of the unique and highly valued "Bosnian beech";
- Utilization of the already installed significant capacities;
- Economic recovery of the countries that are traditional key markets (Serbia, Russia) for this line of industry;
- Development of products at higher stages of processing, returning a higher newly created value, which can be sold on the western markets, etc.

162. By tradition, the wood industry is export-oriented and able to generate additional revenues, foreign currency funds, employment and other benefits for the municipality. Even under the existing very aggravating conditions, this industry has proven its vitality and export capacities, by exporting into Italy, Denmark, Germany, Serbia, Slovenia, Croatia, Luxembourg, Belgium, Australia, and other countries.

c. Retrieval of international competition capacity

163. The municipal bodies and business organizations need to jointly create a development program defining the strategy for the most possible utilization of the evident comparative advantages and resources available in the wood sector. Among others, the strategy for accelerating the development process and overcoming the barriers caused by the war and a very slow transition process, needs to include as follows:

- A marketing strategy and a program to retrieve the lost market position, with a focus on exporting to the western markets. A strong proactive marketing and sales need to be based on the order outreach approach rather than waiting for the buyers to show up themselves.
- Redesign of the outdated furniture programs and other products so the western standards could be met in terms of the new, modern design.
- Improve productivity and efficiency in production to ensure high quality and lower costs per unit of product, in order to retrieve the lost competitive capacity. It is of extreme importance to be capable to compete against the aggressive global competitors from China, Poland, Romania, and the rest.
- A program of continued development of human resources, as the most important factor for modern competitiveness. This should include strengthening of capacities and skills in modern techniques of marketing, knowledge of foreign languages, production management, cost control, financial management, motivation and incentive-based manner of awarding the staff, etc.
- Foundation and/or more active participation in the existing business associations which should assist in implementation of the above listed recommendations. The associations could particularly assist in promotion of export, participation in foreign expositions and fairs, and similar activities.

- Development of programs to improve the climate and to overcome the barriers to foreign investment projects, which could bring in new capital, know-how, export markets, jobs and other benefits.

a. Privatization

164. Special attention should be attached to privatization of state-owned companies through sales of the state equity to reputable and competent investors. Their successful privatization is of the highest priority, because revitalization of these strategic companies is possible only once their ownership is defined, capable management is selected and motivation is returned to employees.

## **CONCLUSIONS**

165. Although the municipality has only a part of the competency, it can influence only one segment of the administrative procedures in business operations, the evident shift that the more progressive municipalities have undertaken demonstrates that it is also possible to establish an entrepreneurship environment at the local level.

166. In those terms, the Gradiska municipality may undertake a number of measures that will make the business operations easier and quicker. This analysis brings a set of recommendations that may help the municipality to accomplish its mid-term and long-term development goals. The recommendation particularly pertains to the area of permit issuance and creation of better conditions for construction and building. At the same time, it is necessary to perform harmonization of all the regulations with the entity ministers, in order to avoid differences in regulations or their interpretation. This pertains to all the reformed legislation at the republic level, where the process of regulatory review and harmonization is required independently.

167. Problem identification and detailed recommendations contained in the above text must be transformed by the Gradiska Municipal Council into an Action Plan, which could become an integral part of the municipality's development strategy, prepared for debating and for adoption in the near future. The municipality should also involve the private sector into such activities, through structured consultations and appreciation of the entrepreneurs' priorities. The dialogue with the private sector may be lead by the municipal Development Agency, as a sort of a «mid-way option».

168. Such an action plan must have a list of priorities with institutional assignments by departments of the local administration, individuals managing projects or departments, and precise deadlines for their completion, in order to really implement the plan. Such assignments must also include better coordination with the republic authorities, because there is an evident lack of vertical communication and harmonization of regulations and activities. Such communication must be a two-way one, including seeking opinions from the municipality when passing the entity-level regulations affecting the work of the local government authorities.

169. In relation to the business cycle, the action plan must stress the following segments:

- simplification of the business registration, through opening a one-stop-shop office and further development of the procedural guides for citizens and businesses;
- statistical tracking and processing of data on the business entities in the municipality;
- simplification of the certification procedure and its clarity (transparency) in terms of administrative requirements;
- increased efficiency in resolving applications submitted by entrepreneurs and a relevant decrease of the fees paid for investing on the territory of the municipality, through reduction of time and necessary expenses in the area of real estate and building construction;
- until the new system of inspections is established, it is necessary to systemize the work and control, coordination of the existing inspections at the municipal level, and clearer reporting and systematization of data;
- a development program to define the strategy to benefit from the evident comparative advantages and the resources available in the wood sector, and
- strategic and service-oriented approach of the administration towards citizens and businesses, which as tax payers will continue to fund the work of the municipality.

170. Parallel with the Development Strategy and the Action Plan, the municipality must adopt a separate program for development of small entrepreneurship with clearly identified directions of action recorded in the aforementioned documents. In addition to the directions of action, specific measures or projects need to be identified for development of small entrepreneurship by the resource sectors with clearly defined players, budgets, and above all, action dynamic plan for the period envisaged in the development strategy. This should involve prioritization of activities, by reducing them to urgent – short-term ones, as well as mid-term and long-term activities and projects. The drafting of the above program has been taken on by the Local Development Agency, which will propose such a program to the Assembly in the new composition for adoption. The small entrepreneurship development program is the major document to be used as the basis for the work of the Local Development Agency (for development of small and middle-sized enterprises) and to define the future direction of its work and cooperation with the municipal services.

## ANNEX 1

**Classification and number of registered enterprises in the Gradiska Municipality  
(Source: Statistics Institute of Republika Srpska, 2004)**

No.	Industry	No. of Enterprises
1.	Agriculture	31
2.	Forestry	3
3.	Exploitation of other ores and stone	1
4.	Food and beverages	14
5.	Production of textile materials	5
6.	Production of clothing	4
7.	Wood processing and production	13
8.	Cellulose and paper production	2
9.	Publishing and printing	5
10.	Chemical production	1
11.	Rubber and plastic production	4
12.	Production of other non-metal minerals	4
13.	Production of other metals	1
14.	Production of standard metal products	10
15.	Production of machines and devices non-mentioned otherwise	2
16.	Production of electric machines and devices non-mentioned otherwise	3
17.	Production of medical, precise and optical instruments, clocks and watches	1
18.	Production of motor vehicles, trailers and semi-trailers	1
19.	Production of furniture	4
20.	Recycling	1
21.	Production and supply of electrical power, gas, steam and hot water	1
22.	Accumulation, purification, and distribution of water	1
23.	Construction and building	31
24.	Sale, maintenance and equipping of motor vehicles	20
25.	Wholesaling and commissioning	75
26.	Retailing	81
27.	Hotels and restaurants	11
28.	Land traffic and pipeline transport	15
29.	Accompanying and accessory activities in traffic and travel agency activities	13
30.	Real estate activities	1
31.	Computer-related activities	4
32.	Research and development	1
33.	Other business activities	19
34.	Education	2
35.	Healthcare and social work	4
36.	Removal of waste and garbage	1
37.	Membership-based organization activities	5
38.	Recreational, sports and cultural activities	4
39.	Other services	5
	TOTAL	404

## ANNEX 2

## Employment rates in BH, RS and Gradiska Municipality

No.	Territorial unit	1999		2000		2001		2002		Growth rate
		Number	%	Number	%	Number	%	Number	%	
1.	BH	630,819	100.0	639,053	100.0	625,643	100.0	624,914	100.0	-0.31
2.	RS	220,786	35.0	227,748	35.6	219,954	35.2	234,713	37.6	+2.06
3.	GRADISKA	9,319	1.5	9,545	1.5	9,518	1.5	8,964	1.4	-1.29

## Structure of Gradiska Municipality employed population by industries

No.	Industries	1990		IX/2002		III/2003	
		No.	%	No.	%	No.	%
1.	Agriculture, hunting, fishing and forestry	2376	18.1	910	10.2	874	9.7
2.	Heavy industry and mining	6593	49.9	2837	31.6	2767	30.7
3.	Construction, building and water management	1229	9.3	337	3.8	341	3.8
4.	Trade	894	6.8	1511	16.9	1529	17.0
5.	Hospitality and tourism	164	1.2	502	5.6	519	5.8
6.	Traffic, warehousing and communications	223	1.7	441	4.9	462	5.1
7.	Finance	*	*	67	0.7	65	0.7
8.	Administration	*	*	437	4.9	435	4.8
9.	Business, utility and other services	286	2.2	742	8.3	823	9.1
10.	Education and similar activities	669	5.1	615	6.9	625	6.9
11.	Healthcare and social work	785	5.9	565	6.3	575	6.4
<b>I</b>	<b>Total **</b>	13219	100	8964	100.0	9015	100.0
	Independent shops			1326	14.8	1461	16.2
<b>II</b>	<b>Total without independent shops</b>	13219		7638	85.2	7554	83.8
	Finance and administration			604	6.7	500	5.5
<b>III</b>	<b>Total without shops, finance and administration</b>	13219		7034	78.5	7054	78.2
	<b>Index (1990=100)</b>	100		53.2		53.4	

Source: Republic Statistics Institute of Republika Srpska

\* no data available

\*\* including shop owners, persons having their independent businesses and their employees

## Unemployment rates in the Gradiska Municipality

Registered unemployed	1990	2001	2002	2003
Number of unemployed	3,462	4,364	4,228	4,945
Index (1990=100)	100	126.1	122.1	142.8

## **ANNEX 3**

### **Guides for administrative procedures made at the Gradiska Municipality**

1. Registration office, counter services and election lists
2. Independent business area
3. Guide for the persons intending to establish an enterprise
4. Guide for the persons intending to become involved in entrepreneurship
5. Guide for submission of application for urban permit
6. Guide for submission of application for construction permit
7. Urban planning and construction inspection
8. Guide for issuance of the use permit
9. Sanitary permit for the site, design and use of facility
10. Utility area
11. Demobilized soldiers and disabled persons
12. Certificate for agricultural production
13. Agricultural permit
14. Legal aid
15. Citizen status

## ANNEX 4

### Focus group meetings and their participants

#### Municipality Focus Group

NAME	FUNCTION/DEPARTMENT	PHONE	FAX
1. Boris Divjak	FIAS Consultant	051 216 928	051 216 779
2. Miso Reljic	SEED Consultant	052 241 601	065 525 522
3. Stevo Topalovic	SEED	051 218 273	051 319 684
4. Milenko Gemaljevic	Spatial Planning	051 813 011	065 581 939
5. Radmila Zigic	Reception Office	051 814 120	
6. Jasminka Gvozdenac	Work Permit		
7. Ranka Milakovic-Petric	Spatial Planing Dept.	051 813 538	051 815 091
8. Biljana Kovacevic	Urban construction inspector	051 813 377	
9. Vlado Sladojevic	General administration Dept.	051 880 443	
10. Gordana Puljarevic	Construction land sector	065 921 601	
11. Slavko Subotic	Advisor to the Mayor	051 813 027	065 921 601
12. Dragana Ilic	Graduated Lawyer	051 813 377 ext. 229	
13. Slobodan Sladojevic	Businesses Department	051 813 347	051 814 689

#### Businessmen Focus Group

NAME	FUNCTION/DEPARTMENT	PHONE	FAX
1. Boris Divjak	FIAS Consultant	051 216 928	051 216 779
2. Miso Reljic	SEED Consultant	052 241 601	065 525 522
3. Stevo Topalovic	SEED	051 218 273	051 319 684
4. Azra Delalic	SEED	033 251 555	033 251 555
5. Slobodan Sladojevic	Businesses Department	051 813 347	051 814 68
6. Urox Grahovac	Triko Komerc, Director	051 813 452	051 813 457
7. Zlatan Tomic	Stolarija Tomić, Director	051 814 675	051 814 675
8. Milena Vrhovac	Bor doo, Manager	051 715 264	051 715 264
9. Majda Ciminak	Cimag, Director	051 820 565	
10. Branko Stojevic	Proden-Abro, Expert Assoc.	051 814 720	051 814 788
11. Mirsad Tajic	Radnik Tajic, Director	065 913 402	051 815 579
12. Ranko Cvjetkovic	Metal, Director	051 813 400	051 813 568

## **ANNEX 5**

### **Feedback from the Private Sector Focus Group – 12/06/ 2004.**

Upon the completion of the Report, the final material was presented in the Municipality Gradiska to the focus group representing the private sector. The presentation was also attended by the representatives of the municipal services. The list of the participants is attached.

Generally the Report was evaluated as satisfactory, and that it provides a good review of the regulatory barriers, i.e. priorities for their removal. The comments are essentially summarized as follows:

- Numerous laws and procedural actions are determined at the level of the relevant ministries in the Republika Srpska and only lobbying at the higher level of the authorities may resolve essential problems.
- The inspections do not perform the activities predicted by the mandate. However, most of the business -related problems have their roots in the expensive business operations (tax rates, i.e. social transfers) and the inspections activities mostly relate to penalizing «offenses» which is a repressive activity, meaning that only one of consequences is addressed not the essence of the problem.
- Mandates, responsibilities and coordination of the inspections exclusively depend on cooperation with relevant ministries and it is possible to resolve the problems only with a larger engagement of the entities' authorities. All participants of this project support the reform of the inspection services and their coordination through the Republic Inspectorate.
- The gray economy is increasing in Gradiska, significantly aggravating the monitoring of economic activities and their analysis, and it also reduces business and development potentials of the existing, legal private sector. It is necessary to have better coordination between the private sector and public sector in identifying problems as well as their causes in order to remove them in a systematic way. This does not mean an exclusively repressive mechanism of the public sector, but its reform and removal of the business barriers in order to encourage the conversion of the gray economy into the regular courses.
- The statistical date in Gradiska are very unreliable and the task of the new Development Agency will be to systematize the data in the economy, with a particular emphasize on the private sector and SMEs. It will become a fundamental instrument to monitor the implementation of the recommendations of this Analysis.
- All attendees, including the Mayor of the Municipality, supported the further dynamics of the activities, which is :
  - o Preparation of the Action Plan by addressing the recommendations of this Study ( the Development Agency is assigned; the deadline mid January 2005)
  - o To submit a copy of the Action Plan to SEED in order to provide potential comments (Economic Department is assigned; the deadline mid January 2005)

- Presentation of the Analysis and execution of the Action Plan to the Municipality Council (the Development Agency and Mayor, the deadline early February 2005)
  - Implementation of the Action Plan according to the predicted dynamics with engagement of the private sector and responsibilities of the relevant services.
- SEED/FIAS remain essentially interested in the progress related to the removal of the business barriers and they will be ready to provide an adequate advisory assistance although all parties are in agreement that their service is of the advisory nature and the barriers have to be removed by the official institutions of the authorities in accordance with the Action Plan.

The partners in this project welcomed the inclusion of Gradiska into the multi donor project - GAP, which predicts technical assistance for 40 municipalities in BiH, and which will result in enabling a central counter service hall (shalter sala) and within it “business one- stop – shop”, which will help a two-line communication with the local institutions of the authorities. It is estimated that the strategic development approach of Gradiska and the initiative to improve the business climate contributed that Gradiska is included into the mentioned program.

**List of the participants of the Round Table held on December 6, 2004 in the building of Municipality Council Gradiska:**

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