

Croatia Business Environment Program
Final Report (TF072839)¹
Reforming the Business Entry Regime in Croatia

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1. Summary

This report summarizes the key activities, findings, recommendations and results implemented under the Croatia Business Environment Program (P163649), supported by the European Commission Structural Reform Support Service (SRSS).

The main counterparts for this program were the Ministry of Economy, Entrepreneurship and Crafts (MoEEC) and the Agency for Investments and Competitiveness (AIK). Under this program the World Bank group provided technical assistance to the Government of Croatia in improving the business environment by establishing the foundations for a modern, electronic, centralized and up-to-date registry unifying data on all business entities operating in Croatia.

The following components were implemented under the program:

A Methodology Development

A.1 Diagnostics

A.2 Data Collection

B. Analysis and Recommendations

B.1. Analysis

B.2. Recommendations

The diagnostics identified that business registration in Croatia is a scattered process involving many agencies and disparate technology platforms. Business owners need to visit government agencies multiple times (often in person), submit the same information multiple times (mostly in paper form) and follow numerous steps to formalize their business. The agencies involved in the process are bound by complex legal framework and lack a national interoperability technology platform to enable sharing of information. The process for formalizing a business is time consuming, expensive and lacks the appropriate security features of modern systems.

At the same time the **business entry regime in Croatia has a great potential to evolve and become more streamlined, rule-based and transparent in accordance with the relevant EU directives and good international practices.** The World Bank team identified the strengths of all involved agencies, key eGovernment enablers such as a common business identifier (OIB), as well as existing and planned initiatives which can lead to the implementation of the required reforms in a relatively short time frame -- assuming better inter-agency coordination and improved governance of business entry processes.

The World Bank team identified a set of principles for reforms which are outlined below, followed by the key issues and gaps, feasible options for reform and a three-phased implementation roadmap.

All the details used to design the reform options and implementation roadmap are presented in the Diagnostic Report and ICT Assessment reports. The approach recommended by the World Bank team is evolutionary, aligned with existing and planned projects contained in the strategies and action plans already adopted by the Government of Croatia. The modernization of the business registration project will leverage these ongoing and planned initiatives and, with proper coordination and governance, would lead to achievement of the reform principles in a reasonable timeframe with minimum additional investments.

The recommendations given under this program received broad support by key stakeholders, both from government as well as from the business community. There is consensus that all preconditions have been met to achieve significant progress in this area. The World Bank team conducted several awareness raising events during the implementation of this program – from focus groups with businesses to a hackathon with relevant government agencies, and a high level final event to present the results of the program. Due to these activities, there is an increased awareness and consensus of all stakeholders to move towards modernization of the business registration by applying an integrated approach, thus eliminating separate and parallel processes.

The Government of Croatia enacted a Decree on integration of business entry procedures on August 4, 2018 (official gazette 71/2018). This Decree set the path for implementation of an integrated business entry process. This Decree is an important milestone and the first major step in a more comprehensive integration of all business registry functions in the country.

In order to implement the above Decree, upon completion of this program, the MoEEC will continue to work with the Financial Agency (FINA) and other stakeholders on designing an integrated business registration process (START) that is due to be launched early next year (2019). In parallel, The Ministry of Justice is preparing amendments to key laws that govern business registration, namely the Companies' Act, the Law on Court Registers and the Law on Notaries. These amendments represent an opportunity to regulate this area in a more comprehensive way.

The reform impact is likely to be significant. According to the e-Government Strategy and Action Plan 2020, using the Standard Cost Model (SCM) methodology, it was calculated that implementing electronic procedures for starting a business through a single point of contact would **reduce administrative costs by at least 70 percent.**

In addition, even by just implementing the first phase of the reforms, as proposed in the recommendations of the WBG team, the integration of business entry and automation of the process has the potential to reduce business **registration procedures from 8 to 2** as counted by the Doing Business.

2. Activities and Results Implemented Under the Project

2.1. Component A – Methodology Development (diagnostics and data collection)

In several missions, workshops and focus groups, the WBG team assessed the legal and institutional framework, current programs/strategies/donor support as well as technology platforms and services in the business registration domain.

The following key issues were identified:

- (i) **There is no unified registry/database of all business entities.** The current approach to registering business-related entities is scattered amongst several ministries, agencies and the courts.
- (ii) **Businesses need to visit several government offices** to start operating their business.
- (iii) Many of the **existing registries lack accuracy, accessibility and transparency.**
- (iv) **There is a low-level exchange of data between the stakeholder institutions** that in turn increases the burden on businesses that have to re-submit the same information to several agencies.
- (v) **Companies cannot submit electronic filings**, and filed documents are not kept or entered in the register in electronic form, which makes the current regime non-compliant with European directives — i.e. DIRECTIVE 2009/101/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 16 September 2009. In addition, the current regime does not enable the implementation of the EU “once only” principle (see Diagnostic Analysis report for EU related requirements).
- (vi) **The business registration process in the Commercial Court Registry is highly discretionary** and, in many respects, not consistent with good international practice. The reservation of a business name process is an example of such excessive discretionary powers creating significant barriers to business entry.
- (vii) **Currently business entities are issued (at least) 3 identification numbers.** The OIB (Personal Identification Number) issued by the Tax Authority, the Statistical Number issued by the Statistical Office and the Registration Number issued by the Commercial Courts. OPG’s (agricultural family farms) are issued a separate number by the Ministry of Agriculture (MIBPG), and Crafts, besides the personal OIB number identifying an owner, receives a separate Craft ID number.
- (viii) **Crafts and OPG’s are treated as a form of business operation** and register in their respective registries. However, a craft may also be required to register as a sole trade, or can register as a LLC and bypass requirements to obtain a craft permit.
- (ix) **Sole proprietors (sole traders), which are by far the most frequent form of operation for sole traders in other countries, are an exception in Croatia,** as they are linked to a certain level of turnover, after which registration in the Court is mandatory.

The following in-depth diagnostic reports were produced working in cooperation with the MOEEC:

- (i) **The Diagnostic report provided a detailed analysis and identified the issues,** notably: (a) the lack of unified registry/database of all business entities; (b) inability to submit electronic application for business registration; (c) discretion in the business registration process; and (d) need to improve data exchange among the stakeholders. **The Data Collection report showed that out of 150 data elements for**

the registration of companies, more than 50 are duplicated and provided more than once, which imposes a significant burden on businesses (Annex 1).

- (i) **The ICT Assessment showed there are no technological impediments to deploy a unified and online business registration**, with analysis of the current ICT environment of agencies involved in the business registration. It outlined a potential approach for integrating the registration processes and the business registry, as all stakeholder agencies already manage interoperable ICT solutions, with existing data exchange interfaces (Annex 2).

The Diagnostic, ICT Assessment and Data Collection reports, produced under the Croatia Business Environment program, showed that **the modernization of the business registration system in Croatia could be done using an evolutionary approach**. The options for reform can be viewed as phases from the digital transformation perspective, for the implementation to align with the reform principles. The Government can decide on the timeline to implement the first phase, first two phases, or all three phases.

2.2. Component B. Analysis and Recommendations

The WBG team identified the following five reform principles that should guide any institutional, legal and technical solutions for the modernization of the business registration regime:

1. **Principle 1. STANDARDIZATION** - Remove any discretionary and adjudicative aspects of business registration and make it an administrative process/function.
2. **Principle 2. STREAMLINING** - Streamline business forms and data requirements for each class of business and eliminate any unnecessary registration requirements.
3. **Principle 3. INTEGRATION** - Create an integrated, accurate, up to date registration system that unifies all forms of business operators and allows a single window access to services (including statistics, tax, pension and health insurance).
4. **Principle 4. ACCESSIBILITY AND TRANSPARENCY** - Create a registration system that is transparent and accessible to the general public online.
5. **Principle 5. EU COMPLIANCE AND GOOD INTERNATIONAL PRACTICE** - Ensure full compliance with EU directives and develop a system that will be at the forefront, as one of the most efficient European registration practices.

Three policy options that address gaps and deficiencies have been identified and assessed, starting from less effective and less demanding to more effective but also more demanding in terms of time, institutional and legislative changes required for implementation. These include:

Option 1 – Virtual interconnection between existing business registries, while retaining the current institutional set-up and registration competencies.

Option 2 – Integration of core business registries — including sole traders, companies and financial accounts, plus interconnection with other relevant business entry processes (e.g., statistics, tax, pension and health insurance) through a single access point (both physical and online).

Option 3 - Integration of extended business registries — including sole traders, companies, crafts, OPGs and financial accounts, plus interconnection with other relevant business entry processes (e.g., statistics, tax, pension and health insurance) through a single access point (both physical and online).

The options were assessed in the Diagnostic Report based on two sets of criteria:

- (i) how comprehensive is the option in addressing the above principles and gaps; and
- (ii) how the option rates against implementation criteria - time needed and extent of institutional and legislative changes.

Option 3 was assessed as the preferred option when it comes to level of integration of government services as well as compliance with EU requirements. This option would enable the most cost-effective and business centric approach. It would maximize benefits in terms of unifying all business-related databases, providing a single window access point for all business forms (including crafts, OPG's and associations), and facilitate managing a complete, accurate and up to date repository of data on businesses. Crafts and OPGs would be classified as sole proprietors or LLCs and vocational licensing would be separate and would have to be streamlined in parallel. However, this is also the most complex option to implement. It would require continued high level political support as well as significant efforts in implementation, in terms of time required, legal and institutional changes. Integration of crafts and OPG's would have to be carefully assessed in order not to put these businesses in a less favorable position than they are currently.

Option 2. was ranked second, and it would enable integration of business entities currently registered at the Court Registry and financial accounts under the authority of one institution and thus eliminate discretionary/adjudicative aspects of registration. It would enable easier compliance with EU requirements and reduce the number of access points to services. This option rated lower than Option 3 in terms of integration efforts, as it leaves out crafts and OPG's. It would retain multiple access to services for businesses not integrated (crafts and OPG's). In addition, it would be more difficult to implement the EU "once only" principle.

Option 1. would be least intrusive in terms of legislative and institutional changes, as well as time and cost of implementation, however, it would rate less favorably than other options when reviewed against the minimum objectives – principles of reform. This option rates lowest compared to other options when it comes to integration of government services, as well as cost-effectiveness and compliance with EU requirements. Currently there are 5 institutions and a total of 111 centers/offices that handle (among other) registration processes – virtual interconnection will not solve the issue of these multiple access points to services, unless a single access point to services is established, which would entail certain institutional changes. The EU "once only" principle would be difficult to implement. It would be significantly more difficult to eliminate the discretionary and adjudicative aspects of registration

2.3. ICT Assessment

The ICT Assessment examined the current registry technology platforms being utilized by the agencies involved in the registration processes, including the structure of the registry in each agency, and level of integration of these platforms.

The technology platforms employed by the agencies and respective ministries managing or participating in the registration of various types of business in Croatia are technologically up-to-date, largely utilizing proprietary software along with outsourced implementation and maintenance. However, the integration of these registry technology platforms is mainly limited to the OIB system and point-to-point data exchange services that have been established based

on individual agreements. The Court receives the application for business registration from FINA (HITRO.HR) in electronic form through the electronic data exchange, and in confirming the registration of business, the OIB is automatically generated, integrating the Tax registration (only for those that not also registering for VAT or foreign trade, which requires separate registration). Nevertheless, though the data and electronically signed documents are received from HITRO.HR, the Court still requires paper documents to be forwarded. The integration stops at this point, and the registration with the State Bureau of Statistics, the Croatian Institute for Pension Insurance (HZMO), and the Croatian Institute for Health Insurance (HZZO) is done as additional steps as a follow-up to the court registration.

Given that about 10 percent of applications for business registration, and 30% for name reservations are currently being rejected, trying to register online under the current policies and level of judicial discretion will require much back-and-forth that will make for a very frustrating experience for investors. Having an effective online registration process requires a set of objective business rules to allow the applicant to complete the procedures in one online session, particularly if one is combining name reservation with the actual registration.

2.4. Phased Implementation Approach

The Diagnostic and the ICT Assessment show that the modernization of the business registration system in Croatia can be done using an evolutionary approach. The options for reform can be viewed as phases from the digital transformation perspective, for the implementation to align with the identified reform principles. The Government can decide to implement the first phase, first two phases, or all three phases.

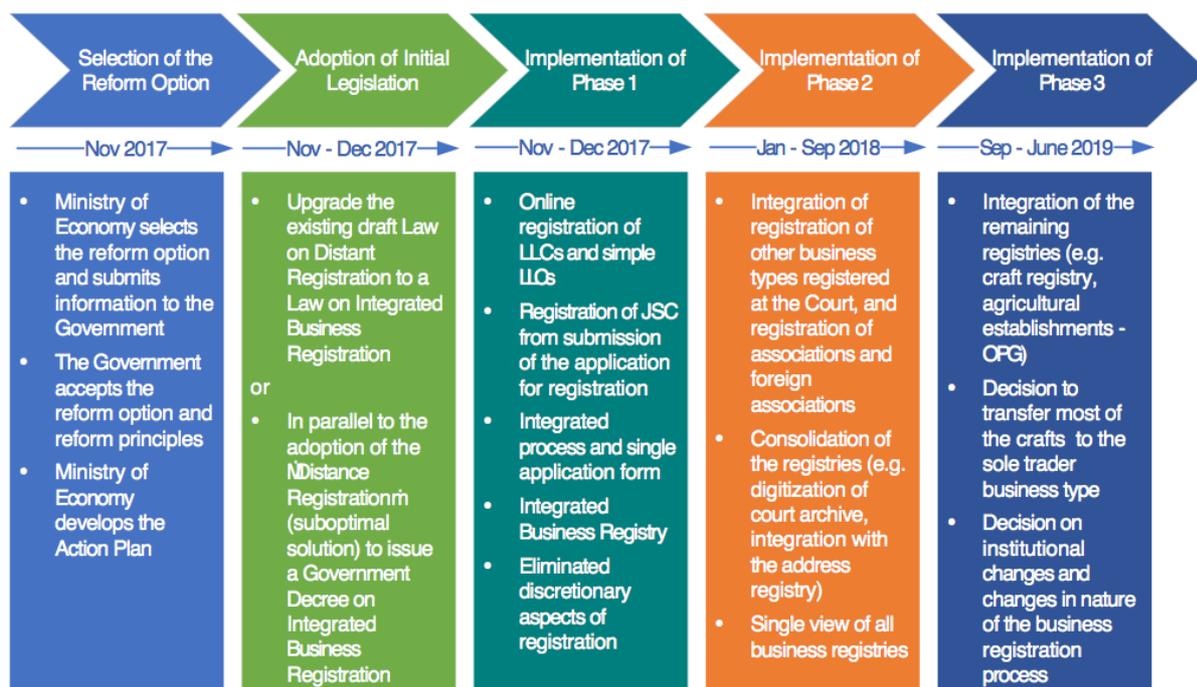
The proposed technology approach for the modernization of the business registration system in Croatia includes the following three phases:

- (i) **In the first phase, the process of registration (and changes) of Limited Liability Companies (LLCs) and simple LLCs would be integrated and moved on-line, including the simultaneous registration in the Court Registry, Tax, Statistics, and institutes for pension and health insurance, using a single point of contact and a single application form.** Given that the process of registration of Joint Stock Companies (JSC) is identical to the process of registration of LLC from the point of submission of the application to the Court, **JSC can also be included into the scope of the first phase from that point in the process.** To enable efficient automation, all adjudicative/discretionary aspects of registration would be eliminated, including the discretionary power of judges to evaluate the “appropriateness” of business name reservation. The single point of contact for online services could either be the Point of Single Contacts portal (psc.hr, according to the Action Plan e-Croatia 2020), or the Central State Portal (gov.hr). The Central State Portal is already used as the services’ access point for citizens, with an initiative started by e-Croatia to introduce the online services for businesses (e-Business and PKP – Business User Mailbox, e-Croatia 2020 Action Plan, Project No. 2).
- (ii) **In the second phase, a state interoperability platform would be piloted to support the business registration process (and changes) and would include business entities registered at the Court as well as the associations and foreign associations, registries maintained by the Ministry of Public Administration. This**

phase would also involve a certain consolidation of registries (for instance, digitization of the court archive, integration with the address registry implemented by the State Geodetic Administration) and improvement of the Meta-Register. The government portal gov.hr, with an initiative already started by e-Croatia to introduce the online services for businesses (e-Business and PKP – Business User Mailbox), could be used as a single point of access, employing single-sign-on using the National Identification and Authentication System (NIAS), and an e-Payment system which is also planned for introduction. **The interoperability platform would allow for a single interface to all business registries and enable orchestration of business registration processes.** According to the e-Croatia 2020 Action Plan, implementation of the interoperability system is planned as part of the establishment of the Shared Services Center project (Project No. 3, between 4Q/2017 and 4Q/2020), and Project No. 101 “eCourtRegister (phase 2)”, to make technological and functional upgrades of the Court Register and establish the Court Register interconnection system.

- (iii) **The third phase would integrate the remaining registries** (e.g. craft registry, agricultural establishments - OPG). In parallel to improvements to the business registration processes, it may be decided at some point to have most of the crafts be transferred to the sole trader business type (while re-assessing the need to retain vocational licensing for the remaining 32 activities).

Figure 1. Business Registration Reform Implementation Roadmap.



According to the Strategy e-Croatia 2020 and the Action Plan, a main objective is to ensure interoperability of the systems operated by public bodies to enable integrated e-services. The first project in the Action Plan is “Development of electronic procedures for registering an establishment and obtaining approval for taking up a service activity via a Point of Single Contact”, **and the project owner is the MoEEC.** Referenced as a sub-project, by the end of 2017, starting a company (simple LLC and LLC) will be simpler and will be done electronically via the Internet under Project No. 100 in the Action Plan, **under the responsibility of the Ministry**

of Justice, with the automatic delivery of necessary information on the establishment to the Croatian Bureau of Statistics, Tax Directorate, Pension and Health Fund and commercial banks, without notarization of the incorporation act.

2.5. Awareness raising events

The recommendations given under this program received broad support by key stakeholders, both from government as well as from the business community. There is consensus that all preconditions have been met to achieve significant progress in this area. The World Bank team conducted several awareness raising events during the implementation of this program – from focus groups with businesses to a hackathon with relevant government agencies, and a high level final event to present the results of the program. Due to these activities, there is an increased awareness and consensus of all stakeholders to move towards modernization of the business registration by applying an integrated approach, thus eliminating separate and parallel processes.

Hackathon – December, 2017

The WBG team complemented the diagnostics and analysis with an innovative Hackathon event co-organized with the Agency for Investments and Competitiveness (AIK) in December 2017. The State Secretary for the Development of Digital Society endorsed this open-format event and encouraged participants to seek for ideas and solutions without taking any existing regulation as a constraint to improvements. The participants from institutions involved in the business registration process, together with the ICT companies who implemented their software solutions, comprised the six hackathon teams and presented their proposals for technical solutions to the current challenges.

ECRF Conference Vilnius – June 14-16, 2017

The Bank Team and Croatia delegation participated in the ECRF (European Commerce Registers Forum) annual conference held in Vilnius from June 14-16, 2017, where meetings were held with participants from the Slovenian, Norwegian and some German provincial registries. The Croatia delegation included representatives from AIK, Ministry of Justice and FINA.

Private Sector Focus Group – February, 2018

In February 2018, in partnership with AIK and Croatian Chamber of Economy, the WBG team organized a focus group with the private sector. The event was attended by the representatives of the most influential business entities in Croatia: Chamber of Economy, AmCham, British Business Chamber Croatia, Foreign Investors Council and Croatian Business Angels Network. The focus group demonstrated clear and unequivocal private sector support of the proposed reform of the business registry regime.

ECRF Conference Gibraltar – June 5-7, 2018

The Bank Team and Croatia delegation participated in the ECRF (European Commerce Registers Forum) annual conference held in Gibraltar from June 5-7, 2018, where the participants learned about new topics such as the use of new technologies in business registries (e.g. blockchain), beneficial ownership registration etc.

Final Conference - September 11, 2018

In September 2018, in partnership with MoEEC the WBG team organized the final event gathering more than 100 participants from both private and public sector and interested public as well as media. The Conference drew significant media coverage. The WBG team presented the analysis and recommendations of the program, and international guest speakers presented comparable EU country reform examples from Estonia, Greece and Slovenia. MoEEC presented next steps in reform implementation including, in a nutshell, the design of the new unified business entry regime in Croatia that is to be launched at the beginning of January next year.

3. Conclusions

This program has fully met its objectives. Based on the diagnostics, recommendations, stakeholder consultation and raising awareness efforts implemented under this program, the Government of Croatia enacted a Decree on integration of business entry procedures on August 4, 2018 (official gazette 71/2018). This Decree set the path for implementation of an integrated business entry process. This Decree is an important milestone and the first major step in a more comprehensive integration of all business registry functions in the country.

Having a reform champion, such as the MoEEC in the Government of Croatia, was a key success factor for the reform progress. However, the final success will depend on a high-level of inter-ministerial coordination and representation, which will grant the sustainability of the improvements and open towards the next phases and new reform cycles.

The modernization of the business registration, although envisaged by the National Reform Program 2017 and e-Croatia 2020 Strategy continuously faces governance and coordination problems. The key stakeholders are making steps individually, without coordinated approach and a shared vision of the final solution. This program has, among other results, bridged this gap and secured more coordinated efforts in this area. However, going forward, there is a clear need to reinforce inter-ministerial coordination of these reforms. Considering the MoEEC is leading these reforms, it should also secure that the key representatives of key institutions are jointly coordinating implementation activities at the ministerial and operational level, based on a detailed action plan.