

Bosnia as Wunderkind of Doing Business

Outline of 14 steps to take

A Proposal to the presidency of
Bosnia and Herzegovina

19 March 2015

Overview

Letter to the members of Bosnia's Presidency	0
Basic facts about Doing Business	1
Year one: catching up with the Balkans	3
Construction permits	3
Getting electricity	7
Paying taxes.....	9
Starting a business	12
Trading across borders	15
Registering Property.....	17
Protecting minority investors	19
Getting credit.....	20
Summary	22

To:

H.E. Dr Mladen Ivanic, Chair of the Presidency of Bosnia and Hercegovina
H.E. Mr Bakir Izetbegovic, Member of the Presidency of Bosnia and Herzegovina
H.E. Dr Dragan Covic, Member of the Presidency of Bosnia and Herzegovina

19 March 2015

Dear members of the Presidency,

Today, according to the World Bank, Bosnia is the worst place in Europe for business. This is not a good reputation to have.

The most recent [World Bank Ease of Doing Business report](#) ranked 189 countries. Singapore came first, Eritrea came last and Bosnia came 107th. This implies that it is more difficult to do business in Bosnia than in Kosovo (75th), Azerbaijan (80th) or in Ukraine at war (96th).

In this letter we would like to suggest how to change this situation within a very short period of time and without a huge effort. We carefully studied the astonishing rise in Doing Business rankings by Georgia and Macedonia. Here we outline how *within one year* Bosnia can reach a better rank than the Balkan average; and it will help you understand how *within another year* Bosnia could overtake the EU. The objective is to make Bosnia another global Wunderkind of Doing Business.


In December 2014 you drafted the [Joint Statement on the commitment to undertake reforms in the framework of the EU accession process](#). Since then all Bosnian leaders and parliament have agreed to implement “social and economic reforms in the framework of the Compact for Growth and Jobs.” And as the European Commission wrote in the [Compact for Growth and Jobs](#):

“Bosnia and Herzegovina needs to boost competitiveness by approving a results-based plan aimed at improving the conditions measured by *Doing Business* indicators to match the regional average.”

To be frank, let us note what we can and cannot do. We can advise you on how to improve Bosnia’s ranking within one year. We do not promise that this will actually lead to any more jobs or investment. And yet, it is time for some surprising good news from Bosnia. What the European Commission has asked you to do you can do, and more. And then turn to policies which might actually make a real difference in the long run.

We remain at your disposal for further discussions,

Yours sincerely,


Adnan Cerimagic


Gerald Knaus

BASIC FACTS ABOUT DOING BUSINESS

As you plan Bosnia's rise in the Doing Business (DB) rankings, it is useful to focus on a few basic facts about this ranking.¹

To begin, study the starting position in the race you are about to begin. Here is Bosnia's ranking compared to other countries in the Western Balkans today:²

Race I: 2015 Ease of Doing Business ranking

Country	Position
Macedonia	30
Montenegro	36
Average	60
Albania	68
Kosovo	75
Serbia	91
Bosnia	107

And here is Bosnia compared to the EU's average ranking:

Race II: 2015 Ease of Doing Business ranking

Country	Position
EU average	36
Bosnia	107

DB is based on the following ten indicators which together determine the global rank:

Race II: Balkans vs. EU

Indicator	Western Balkan average	EU average
Overall ranking	60	36
Dealing with construction permits	141	82
Getting electricity	100	78
Paying taxes	93	56
Starting a business	42	53
Trading across borders	89	34
Enforcing contracts	112	48
Registering property	77	62
Protecting minority investors	33	48
Getting credit	30	55
Resolving insolvency	65	33

¹ All tables in this paper are, if not otherwise stated, based on data of the World Bank's [Doing Business 2015 Ranking](#).

² Note that throughout this document Bosnia's ranking is not included in calculation of the Western Balkan average.

You may be surprised to find that “getting credit”, “protecting investors” or “starting a business” is easier in the Western Balkans than in the EU. But do not worry, the international media skip over such implausibilities. They will report Bosnia’s rise in the ranking without asking questions, as they have celebrated the rise of Georgia.

(If you want to know more about the flaws, please read our newsletter: [Pumpkins, outliers and the Doing Business illusion](#) from 4 November 2014).

Now let us take a look at how Bosnia compares to its neighbours at the level of indicators:

Race I: Bosnia vs. Balkans³

Indicator	Bosnia	Western Balkan average
Overall ranking	107	60
Dealing with construction permits	182	141
Getting electricity	163	100
Paying taxes	151	93
Starting a business	147	42
Trading across borders	104	89
Enforcing contracts	95	112
Registering property	88	77
Protecting minority investors	83	33
Getting credit	36	30
Resolving insolvency	34	65

Bosnia is already better than the Balkan average at “enforcing contracts” and “resolving insolvency”.

With regard to enforcing contracts, Bosnia is on place 95 among 189 countries. This is better than the Western Balkan average of 112.

When we look at resolving insolvency, Bosnia on place 34 is not only much better than the Western Balkan average (65). It is also better than twelve EU countries. The EU average is place 33.

³ Doing Business, [2015 Ranking](#). Doing Business, [2015 Ease of Doing Business in Bosnia and Herzegovina](#).

Resolving insolvency: BiH vs. 12 EU states

Country	Position
Malta	86
Lithuania	67
Western Balkan average	65
Hungary	64
Luxembourg	62
Croatia	56
Greece	52
Cyprus	51
Romania	46
Slovenia	42
Latvia	40
Bulgaria	38
Estonia	37
Bosnia	34
EU average	33

Acting strategically, it makes sense to focus on the other eight indicators where Bosnia lags behind the Western Balkan average.

Before we do this, please be aware *where* DB measures the business climate: it always measures it in the “economy’s largest business city”. In Bosnia, this is Sarajevo. So, the situation elsewhere in Bosnia is irrelevant. You just need to focus on Sarajevo.

YEAR ONE: CATCHING UP WITH THE BALKANS

Construction permits

With regard to construction permits, Bosnia is ranked 182nd among 189 economies in the world. The Western Balkan average to beat is rank 141.

The World Bank looks at three sub-indicators. First, the total number of procedures required to build a warehouse in Sarajevo with two floors and 1,300 square meters of space. Second, the total number of days needed to finish all necessary administrative procedures. And third, the costs of these procedures.⁴

In Sarajevo, there are 15 procedures. The Western Balkan average is 14.

⁴ Doing Business, [Dealing with Construction Permit Methodology](#).

Construction: total number of procedures

Country	Procedures
Montenegro	8
Macedonia	11
Average	14
Bosnia	15
Kosovo	15
Serbia	16
Albania	19

DB lists the following 15 procedures in Sarajevo:

1. Obtain excerpt from the cadastre plan showing status of the land plot
2. Obtain excerpt from the land registry book showing proper registration*
3. Obtain urban planning consent
4. Obtain preliminary verification of water supply and sewage system projects
5. Obtain preliminary verification of study on fire and explosion prevention*
6. Obtain validation of technical audit of the main project
7. Pay the rent fee and shelter construction fee at a commercial bank*
8. Apply for building permit
9. Request marking of the land plot
10. Notify the Municipality about the commencement of works
11. Request water and sewage connection
12. Receive technical inspection from the Municipality*
13. Request occupancy permit
14. Register the building with the Municipality's Cadastre Department
15. Register the building with the and Registry Department at the District Court of Sarajevo

**Takes place simultaneously with other procedure⁵*

In order to reach the Balkan average, Bosnia should get rid of at least one procedure.

The World Bank estimates that it takes 179 days to complete the 15 procedures to build a warehouse in Sarajevo. The average of the Western Balkan countries is 178.

Construction procedures: total number of days

Country	Days
Macedonia	89
Kosovo	152
Montenegro	158
Average	178
Bosnia	179
Albania	228
Serbia	264

⁵ Doing Business, [2015 Ease of Doing Business in Bosnia and Herzegovina](#).

This yields our first recommendation: **Bosnia needs to get rid of at least 1 of the 15 procedures necessary to build a commercial building. It should select one whose elimination will also shorten the time to complete the procedures.**

In order to assess the level of the costs of the procedures, the World Bank puts them in relation to the value of the warehouse. This value is assumed to be 50 times the monthly income per capita.⁶ In Sarajevo, the costs of the procedures represent 19.7 percent of the assumed value of the warehouse. The Western Balkan average is 11.2 percent.

Construction procedures: costs in percent (of cost of warehouse)

Country	Percentage
Albania	3.3
Kosovo	6.7
Macedonia	8.2
Average	11.2
Montenegro	12.2
Bosnia	19.7
Serbia	25.7

In absolute terms, the procedures in Sarajevo cost 35,000 Euro, while the Western Balkan average is 22,000 Euro.

Construction procedures: costs in Euro

Country	Euro
Albania	5,000
Kosovo	9,000
Macedonia	13,000
Average	22,000
Montenegro	33,000
Bosnia	35,000
Serbia	51,000

How can Bosnia lower the costs? Let us look at the individual cost items as quoted by Doing Business:

⁶ The World Bank does not elaborate further, but it must be using Gross National Income per capita, which [it cites at 4,740 USD](#) (3,470 Euro in June 2014, according to [oanda.com](#)). This corresponds to a monthly GNI/capita of 290 Euro. Multiplied by 50 = 14,500 Euro. Doing Business, [Dealing with Construction Permits Methodology](#).

*Construction in Bosnia: breakdown of costs in Euro*⁷

Procedure	Euro
Pay the rent fee and shelter construction fee at a commercial bank	16,331
Obtain validation of the technical audit of the main project	14,451
Request occupancy permit	4,002
Request water and sewage connection	256
Register the building with the Municipality's Cadastre Department	92
Obtain preliminary verification of the study on fire and explosion prevention	77
Obtain preliminary verification of water supply and sewage system projects	60
Rest of procedures combined	67
Total	35,336

The single most expensive item – 16,331 Euro – is for a *rent fee and shelter construction fee*.

The rent fee is a payment for the use of roads, street lights and other infrastructure provided by the state. It is established under a Federation law and the amount is set by the municipality.⁸

The Federation also requires businesses to provide for shelters for their personnel in case of war or natural disasters.⁹ The shelter construction fee covers the enlargement, where necessary, and maintenance of existing shelters. It is set at 1 percent of the costs of the construction of a new building.¹⁰ The entrepreneur also has the option to build a new shelter, but this is rarely done since it is more expensive.¹¹

According to the World Bank, there is no requirement to pay for shelters and for “renting” infrastructure in other Balkan countries. Our second recommendation is therefore: **The Federation should consider abolishing or significantly lower the rent fee and the shelter construction fee.**

⁷ Doing Business, [2015 Ease of Doing Business in Bosnia and Herzegovina](#).

⁸ For rent fees in Sarajevo, see website of the Novi Grad Municipality, [“Rente: Stari Grad najskuplji, a Novi Grad najjeftiniji”](#) (Rent fees: Stari Grad most expensive, Novi Grad cheapest), 25 February 2015.

⁹ Federation Government, [Law on the financing of assistance to remove the consequences of natural disasters and to rebuild the areas hit by natural disasters](#); Federation Government, [Federation law on protection and rescue](#).

¹⁰ Canton Sarajevo, [Uputstvo o nacinu uplate i trosenja naknade za izgradnju i odrzavanje javnih sklonista u Kantonu Sarajevo](#) (Instructions for payment and spending of shelter fee in Canton Sarajevo), 24 April 2007; [Municipality of Novo Sarajevo](#), Guide to construction permit.

¹¹ Federation Government, [Law on financing of help for removing consequences of natural disasters and rebuilding of areas hit by natural disasters](#); Federation Government, [The Federation Law on protection and rescue](#).

Getting electricity

Bosnia is in 162nd position when it comes to getting electricity for a warehouse. The Western Balkan average rank is 100.

The World Bank again uses three sub-indicators: first, the number of procedures; second, the number of days needed to finish the procedures; third, the cost of obtaining a permanent electricity connection for the warehouse in Sarajevo.¹²

In Bosnia there are 8 procedures. The Western Balkan average is 5. Bosnia should reach this average.

Electricity: total number of procedures

Country	Procedures
Serbia	4
Average	5
Montenegro	5
Macedonia	5
Albania	6
Kosovo	7
Bosnia	8

Six of the eight procedures in Bosnia are linked to the Federation's public electricity company Elektroprivreda BiH:

1. Obtain initial electric power permit from Elektroprivreda BiH.
2. Request issuance of electro-energetic consent from Elektroprivreda BiH.
3. Elektroprivreda BiH carries out external visit of the site.*
4. Receive electro-energetic consent and go to utility's main building (Elektroprivreda BiH) to submit application for connection, pay estimate and sign contract.
5. Await and receive external connection works by Elektroprivreda BiH.
6. Hire specialized electrician to issue a certificate of compliance for the internal wiring.
7. Receive site visit by a technical commission of the municipality.*
8. Elektroprivreda BiH comes to the warehouse to energize the connection.

* *Takes place simultaneously with another procedure.*¹³

The Federation government is the majority owner of Elektroprivreda BiH.¹⁴ This gives it leverage. It should push Elektroprivreda BiH to cut the procedures from 6 to 3.

There is also a need to shorten the time it takes to get an electricity connection. According to DB, it takes 125 days to get electricity in Sarajevo. The average in the Western Balkan is 106 days. The waiting time in Sarajevo needs to be reduced by at least 19 days so that Bosnia performs better than the Balkan average.

¹² Doing Business, [Getting Electricity Methodology](#).

¹³ Doing Business, [2015 Ease of Doing Business in Bosnia and Herzegovina](#).

¹⁴ Elektroprivreda BiH, [Executive Board](#), accessed on 18 March 2015.

Electricity: total number of days

Country	Days
Kosovo	46
Montenegro	71
Average	106
Macedonia	107
Bosnia	125
Serbia	131
Albania	177

Of the 125 days it currently takes to get electricity in Sarajevo, 116 days are related to procedures involving Elektroprivreda BiH. This should be 19 days less: 97 days.

Our third recommendation is: **The Federation government should convince Elektroprivreda BiH to reduce the procedures for an electricity connection from 6 to 3 and make sure that the remaining procedures take less than 97 days.**

The average cost of getting electricity in the Western Balkans is 15,000 Euro. In Sarajevo it is 17,000 Euro.

Electricity: costs in Euro

Country	Euro
Albania	1,000
Macedonia	9,000
Average	15,000
Bosnia	17,000
Serbia	18,000
Kosovo	24,000
Montenegro	25,000

In order to assess the level of the costs, the World Bank presents them as a percentage of the economy's income per capita.¹⁵ In Bosnia, the costs amount to 484.4 percent. The Balkan average is 494.6 percent. Bosnia is already below the average, so in the short-term there is no need to take action.

Electricity: costs as percentage (of the economy's income per capita)

Country	Percentage
Macedonia	255.3
Serbia	454.9
Montenegro	467.9
Albania	472.6
Bosnia	484.4
Average	494.6
Kosovo	822.5

¹⁵ Doing Business, [Getting Electricity Methodology](#). According to the World Bank, [the Gross National Income per capita was 4,740 USD](#) (3,470 Euro in June 2014, according to [oanda.com](#)).

Paying taxes

As regards the tax burden, Bosnia is placed 151st, behind Afghanistan (79th), South Sudan (98th) and Egypt (149th). The Western Balkan average rank is 93.

To measure the tax burden, the World Bank looks at a Sarajevo-based commercial company with 60 employees, and the following six sub-indicators: first, the number of tax payments per year. Second, the number of hours needed to calculate and pay taxes. Third, the profit tax. Fourth, the labour tax and contributions. Fifth, the percentage of other taxes. And sixth, the total tax rate expressed as a percentage of profit.¹⁶

In Bosnia there are 45 payments to be made per year. The average of the Western Balkans is 34.

Paying taxes: total number of payments per year

Country	Payments
Macedonia	7
Montenegro	29
Kosovo	33
Average	34
Albania	34
Bosnia	45
Serbia	67

It is easy to change this with a single reform. In the Federation, there is a tourism fee that the majority of companies and self-employed businesspeople have to pay on a monthly basis. It is paid to the Cantonal Tourism Association in order to help develop tourism. If this fee had to be paid only once a year, there would only be 34 procedures, which is the Balkan average.

In addition, the Federation government could also limit the types of companies that have to pay this fee to those that directly work in tourism. This way, the sample company that the World Bank uses – a company that “performs general industrial or commercial activities” – would be excluded.¹⁷

Our fourth recommendation is: Allow for annual payment of the tourism fee and oblige only tourism companies to pay it.

As regards the second sub-indicator, it takes 407 hours per year in Bosnia to prepare, file and pay the three major types of taxes that the World Bank looked at: corporate income tax, value added tax and labour taxes including payroll taxes and social contributions. The Western Balkan average is 246 hours.

¹⁶ Doing Business, [Paying Taxes Methodology](#).

¹⁷ The Federation government is already considering to reduce the types of persons and companies that have to pay the tourism fee.

Paying taxes: number of hours

Country	Hours
Macedonia	119
Kosovo	155
Average	246
Serbia	279
Montenegro	320
Albania	357
Bosnia	407

In Bosnia, more than 60 percent of this time (258 hours) is spent on dealing with the value-added tax (VAT), which needs to be paid monthly. The Western Balkan average for VAT is 112 hours. In Macedonia it is only 44 hours. This means it takes almost six times longer to calculate, prepare, file and pay VAT in Bosnia than in Macedonia.

Paying taxes: number of hours VAT

Country	Hours
Macedonia	44
Kosovo	87
Serbia	105
Average	112
Albania	144
Montenegro	179
Bosnia	258

Our fifth recommendation is: **Bosnia should streamline the procedures related to preparation, calculation and payment of VAT so that this activity does not take more than 94 hours/year.**

In this way, the number of hours needed for all three types of taxes would be 245, which is 1 day below the Balkan average.

Concerning the third sub-indicator “profit tax” (expressed by DB as a share of commercial profit), Bosnia is doing better than the Western Balkan average. There is no need to do anything in this area.

Paying taxes: profit tax, in percentage of profit¹⁸

Country	Profit tax
Macedonia	5.5
Montenegro	7.1
Bosnia	7.2
Kosovo	9.1
Average	9.5
Albania	9.5
Serbia	16.2

¹⁸ Doing Business, [Paying Taxes Methodology](#).

As regards to labour tax and contributions paid by employer, the Western Balkan average is 11.5 percent. In Bosnia it is 13.5 percent. In Macedonia it is 0 percent.

Paying taxes: employer-paid labour tax and contributions, in percentage of profit¹⁹

Country	Percentage
Serbia	20.2
Albania	18.8
Bosnia	13.5
Montenegro	12.8
Average	11.5
Kosovo	5.6
Macedonia	0

Our sixth recommendation is: **The Federation should lower the labour tax and contributions paid by the employer to the Western Balkan average of 11.5 percent.**

As regards to the “total tax rate”, no action is needed. The World Bank measures the total tax rate as “the amount of taxes and mandatory contributions borne by the business in the second year of operation, expressed as a share of commercial profit.”

The Western Balkan average is 22.8 percent. In Bosnia it is 23.3 percent. So Bosnia is only 0.5 percent above the average.²⁰

Paying taxes: total tax rate as share of profit²¹

Country	Percentage
Macedonia	7.4
Kosovo	15.3
Montenegro	22.3
Average	22.8
Bosnia	23.3
Albania	30.7
Serbia	38.6

According to DB, an entrepreneur in Bosnia has to pay the following taxes and contributions:

¹⁹ Doing Business, [Paying Taxes Methodology](#).

²⁰ Doing Business, [2015 Ranking](#).

²¹ Doing Business, [Paying Taxes Methodology](#).

Paying taxes: taxes and contributions in Bosnia, as share of profit²²

Tax or contribution	Percentage of profit
Social security contributions (10.5% of gross salaries)	11.84
Corporate income tax (10% of taxable profit)	7.16
Forestry tax (0.07% of turnover)	1.24
Contribution for disabled employees (25% of average net salary in the Federation per disabled employee)	0.91
Tourist community fee (0.05% of revenue)	0.88
Local property tax (2 Euro per sqm)	0.46
Fee for protection against natural and other disasters (0.5% of net salaries)	0.39
Water protection fee (0.5% of net salaries)	0.39
Signage fee (100 Euro)	0.02
Fuel tax	0.00 (Very small amount)
VAT (17%)	Not included here
Social security contributions paid by employee (31% of gross salary)	Paid by employee
TOTAL	23.3

This list includes the tourism fee. We already recommended that it should be limited to companies that directly work in tourism. If this is done, the tax rate in Bosnia will decrease by 0.88 percentage points to 22.4 percent of profit. With that, it will be below the Western Balkan average of 22.8.

Starting a business

Bosnia performs very badly when it comes to starting a business. It ranks 147th among 189 economies, behind Afghanistan (24), Iran (62) and Libya (144). But the fact that Afghanistan does so well here shows you that it should be easy to improve Bosnia's ranking.

The Western Balkan average ranking is 42, below the average in the EU, which is 53.

Starting a business

Country	Position
Macedonia	3
Albania	41
Kosovo	42
Average	42
Montenegro	56
Serbia	66
Bosnia	147

²² Doing Business, [Paying Taxes Methodology](#).

DB looks at four indicators: first, the number of procedures required to register a business with at least 10 employees. Second, the number of days that this takes. Third, the costs of the necessary procedures as a percentage of Bosnia's income per capita. And finally the amount that must be paid in advance as a minimum deposit, as a percentage of income per capita.

There are eleven procedures to be completed in Sarajevo, compared to five as the Western Balkan average.

Starting a business: total number of procedures

Country	Procedures
Macedonia	2
Albania	5
Kosovo	5
Average	5
Serbia	6
Montenegro	6
Bosnia	11

DB lists these procedures in Bosnia:

1. Stipulate a founding act and have it notarized by a notary
2. Obtain a statement from commercial bank that full amount of the capital has been paid in; pay the registration fee to the budget account of the Cantonal court
3. Obtain the statement of tax authorities that the founders have no tax debts
4. Court registration with Municipal Courts
5. Buy a company stamp
6. Obtain the Certificate of the business premises
7. Notify the commencement of the business activities to the Cantonal Inspection Authority
8. Apply for company identification number with the competent tax office
9. Open a company account with commercial bank
10. Enrol the employees in health insurance with Health Insurance Institute and in the pension insurance
11. Adopt and publish a rule book on matters of salary, work organization, discipline, and other employee regulations.²³

Canton Sarajevo and the Federation could look to either Kosovo or Republika Srpska for inspiration how to reduce the number of these procedures.

Kosovo has five procedures. A business registration agency provides a fiscal number, a value added tax registration, a business certificate and other services to entrepreneurs.

According to the 2015 National Economic Reform Programme, Republika Srpska recently cut the number of days needed to register a firm from 23 to 3 and the number of procedures from 11 to 5. It also made the registration of business much cheaper.²⁴ All the Federation needs to do is to copy the reforms adopted in Republika Srpska.

²³ Doing Business, [2015 Ease of Doing Business in Bosnia and Herzegovina](#), accessed on 18 March 2015.

²⁴ BiH Agency for Economic Planning, [2015 National Economic Reform Program](#), January 2015.

Our seventh recommendation: **The Federation/Canton Sarajevo should cut the number of procedures needed to register a business from 11 to 5, following the example of Republika Srpska.**

This would also automatically cut the number of days needed to register a business. According to DB it takes 37 days in Sarajevo, compared to 8 in the Western Balkans.

Starting a business: total number of days needed

Country	Days
Macedonia	2.0
Albania	4.5
Average	8.0
Montenegro	10.0
Kosovo	11.0
Serbia	12.0
Bosnia	37.0

The cost of starting a business in Bosnia is 14.6 percent of income per capita. The Western Balkan average is 4 percent.

Starting a business: costs as percentage (of income per capita)

Country	Percentage
Macedonia	0.6
Kosovo	1.2
Montenegro	1.6
Average	4.0
Serbia	6.8
Albania	10.0
Bosnia	14.6

The absolute cost in the Western Balkans is between 115 and 125 Euro.²⁵ In Bosnia, however, it costs 523 Euro to start a business.

Starting business: costs in Euro

Country	Euro
Kosovo	20-50
Serbia	62-70
Macedonia	65
Montenegro	85
Average	115-125
Albania	344-358
Bosnia	523

²⁵ Note that we convert the currencies for you using the exchange rates quoted by the various national banks on 15 February 2015.

These costs can be reduced by at least 400 Euro in two steps.

First, the introduction of a business registration agency, which would register companies for free, would cut the cost of registration by 284 Euro – the current cost of court registration.

Second, the cost of notarising the founding act should be changed. In Bosnia, the price of notarisation is 205 Euro for all business registrations. In Serbia this price depends “on the amount of basic capital and the value of the lease contract”.²⁶ Since DB cannot calculate it, *it simply does not calculate any costs for this procedure in Serbia.*

Thus our eighth recommendation is: **Introduce a business registration agency in Sarajevo that will register companies for free and regulate the notarisation price as in Serbia.**

Trading across borders

Here Bosnia is ranked 104th. The Western Balkan average is 89.

Trading across borders

Country	Position
Montenegro	52
Macedonia	85
Average	89
Albania	95
Serbia	96
Bosnia	104
Kosovo	118

The World Bank establishes this by looking at the time and costs (excluding tariffs) associated with exporting and importing a standardised cargo of goods by sea transport (also excluding the sea transport costs).²⁷ There are four indicators: first the number of documents needed to export/import. Second, the number of days needed to export/import. Third, the cost of export/import per container. And fourth, the deflated cost²⁸ of a container to be imported/exported.

A company in Bosnia needs to prepare 8 documents for the export and the import of a container each. These documents include for example a customs export/import declaration, an inspection report or a packing list. The Western Balkan average number of documents is 7.

²⁶ Doing Business, [2015 Ranking for Serbia, Starting a Business](#).

²⁷ Doing Business, [Trading Across Borders Methodology](#), accessed on 18 March 2015.

²⁸ The cost for each year is divided by a GDP deflator to take the general price level into account when benchmarking this absolute cost indicator across economies with different inflation trends. In Doing Business 2015, the deflated costs are identical to the non-deflated (base year for the deflator).

Trading across borders: The total number of documents

Country	No. of documents for export	No. of documents for import
Bosnia	8	8
Kosovo	8	7
Albania	7	8
Average	7	7
Montenegro	6	5
Serbia	6	7
Macedonia	6	8

Our ninth recommendation is: **Cut one of the documents needed to export or import a container of goods by sea transport, or combine two similar documents into one.**

At this point in time, Bosnia does not need to do anything concerning the time it takes to import a cargo container. The Western Balkan average is 15 days, while in Bosnia it is 13 days.

However, Bosnia should cut down the number of days it takes for a company to export a container. The Western Balkan average is 14, while in Bosnia it is 16 days.

Trading across borders: total number of days

Country	To import	To export
Macedonia	11	12
Bosnia	13	16
Montenegro	14	14
Serbia	15	12
Kosovo	15	15
Average	15	14
Albania	18	19

Although the documents required per shipment to export or import goods are essentially the same, a company needs seven days to obtain the export documents and only five days to obtain the import documents.

The tenth recommendation is: **Cut by 2 the number of days needed to obtain the necessary documents for the export of a cargo by sea.**

There is no need for Bosnia to do anything about the costs, including deflated costs, associated with the procedures required to import or export a container by sea transport. In both cases, it is already below the Western Balkan average.

Trading across borders: total costs in US dollars

Country	Cost to export	Cost to import
Albania	745	730
Montenegro	985	985
Bosnia	1,260	1,200
Average	1,342	1,292
Macedonia	1,376	1,380
Kosovo	1,695	1,730
Serbia	1,910	1,635

Registering Property

Bosnia ranks 88th with regard to the effort, time and costs it takes to register a property. The Western Balkan average is 77.

Registering property

Country	Position
Kosovo	34
Serbia	72
Macedonia	74
Western Balkan average	77
Montenegro	87
Bosnia	88
Albania	118

A note of encouragement: Bosnia is better than eight EU member states including Germany, France, Luxembourg and Belgium.

Registering property: Bosnia and 8 EU states

Country	Position
Western Balkan average	77
Bosnia	88
Germany	89
Slovenia	90
Croatia	92
Cyprus	112
Greece	116
France	126
Luxembourg	137
Belgium	171

The World Bank looks at three indicators. First, the number of procedures required to register a property. Second, the number of days needed to register a property. Third, the costs of registering a property as a percentage of property value.²⁹

²⁹ Doing Business, [Registering Property Methodology](#).

The number of the necessary procedures is 7. In the Western Balkans it is 6 in each of the other countries.

*Registering property: number of procedures*³⁰

Country	Procedures
Montenegro	6
Average	6
Kosovo	6
Serbia	6
Albania	6
Macedonia	7
Bosnia	7

Recommendation number eleven is: **Cut one of the procedures necessary to register a property.**

These are, according to Doing Business:

1. Obtain the land registry extract as proof of ownership
2. Parties obtain the court extract certifying that company representatives are authorized to act on behalf of each company*
3. Notarization of sale-purchase agreement
4. Submit the request for an evaluation of the property for tax purposes
5. On-site inspection of a property
6. Payment of transfer tax at the commercial bank
7. Apply for registration at the Land Registry

* *Takes place simultaneously with another procedure.*³¹

Concerning the time it takes to register a property, Bosnia is already doing well, so there is no need for action. In Bosnia, it takes 24 days. The Western Balkan average is 41 days.

Registering property: number of days

Country	Days
Albania	22
Bosnia	24
Kosovo	27
Macedonia	31
Average	41
Serbia	54
Montenegro	69

Finally, the costs of registering a property in Bosnia are 5.2 percent of the property value. The Western Balkan average is 3.9 percent. The property value is simply assumed to be equivalent to 50 times the annual gross income per capita.

³⁰ Doing Business, [2015 Enforcing Contracts](#).

³¹ Doing Business, [2015 Ease of Doing Business in Bosnia and Herzegovina](#).

Registering property: costs, in percentage (of property value)

Country	Percentage
Kosovo	0.3
Serbia	2.7
Montenegro	3.1
Macedonia	3.3
Average	3.9
Bosnia	5.2
Albania	9.9

By far the most expensive procedure is the notarisation of the sale-purchase agreement, which costs 256 Euro.

Our twelfth recommendation is therefore: **Lower the cost of notarisation of a sale-purchase agreement for a business property.**

Protecting minority investors

Bosnia is ranked 83rd out of 189 countries on this indicator. The Western Balkan average is 33.

Protecting minority investors

Country	Position
Albania	7
Macedonia	21
Serbia	32
Average	33
Montenegro	43
Kosovo	62
Bosnia	83

Minority investors are those who possess shares of a company without having voting control. It is important to ensure their protection so that they are not outmaneuvered by a director or majority investor who pursue their personal interest at the expense of the company's interest. The World Bank assumes a scenario whereby a director could decide to buy products from a company which he owns, while this decision may not be beneficial for the company he manages, and where a minority investor then sues the director. This indicator is supposed to assess transparency – e.g. of companies' governance structures, transactions, possible conflicts of interest – and the regulation of conflicts of interest.

DB has divided this indicator into nine sub-indicators, which again represent indexes. These indexes are further divided into 38 components. There is no need to list them all here.³²

Bosnia rates badly on all of the nine sub-indicators. Macedonia has traditionally done extremely well here and ranked 16th in the world in 2013.

³² Doing Business, [Protecting Minority Investors Methodology](#).

Protecting minority investors: Bosnia³³

Indicator	Points	Of maximum
Extent of shareholder rights index	7.5	10.5
Extent of shareholder governance index	6.2	10.0
Extent of director liability index	6.0	10.0
Extent of corporate transparency index	5.5	9.0
Strength of governance structure index	5.5	10.5
Strength of minority protection index	5.4	10.0
Ease of shareholder suits index	5.0	10.0
Extent of conflict of interest regulation index	4.7	10.0
Extent of disclosure index	3.0	10.0
Total	48.8	90.0

The input on all these issues is provided by local corporate and securities lawyers who complete a questionnaire and award points.³⁴

Our recommendation number 13 is: **Look to Macedonia as a model how to address the issues raised in [the questionnaire for protecting investors](#).**

Getting credit

According to the World Bank, Bosnia is doing well at getting credit – something that most entrepreneurs in Bosnia might find surprising. Here Bosnia is ahead of half of the EU:

2015 Getting credit: Bosnia and EU member states

Country	Position
Slovakia	36
Finland	36
Bosnia	36
Austria	52
Spain	52
Sweden	61
Cyprus	61
Croatia	61
Netherlands	71
France	71
Greece	71
Portugal	89
Belgium	89
Italy	89
Slovenia	116
Luxembourg	165
Malta	171

The reason for Bosnia's astonishing performance is that DB does not measure how easy it is to get credit and at which interests rates money is lent. It measures the legal rights of

³³ Doing Business, [2015 Ease of Doing Business in Bosnia and Herzegovina](#).

³⁴ Doing Business, [Protecting Minority Investors Methodology](#).

borrowers and lenders with respect to secured transactions, and the sharing of credit information.

In comparison with other Western Balkan countries, Bosnia is still below the average. It ranks 36th, while the Balkan average is 30.

Getting credit

Country	Position
Montenegro	4
Kosovo	23
Average	30
Bosnia	36
Albania	36
Macedonia	36
Serbia	52

The World Bank looks at two types of framework which can improve access to credits: the level of protection of the rights of borrowers and lenders in collateral and bankruptcy laws; and a “credit information system”, which consist of a credit information bureau and a registry enabling lenders to view a potential borrower’s credit history.

These two items are measured by four sub-indicators: the “strength of legal rights index”; the “depth of credit information index”; the “credit bureau coverage”; and the “credit registry coverage”. For the first two sub-indicators, DB uses a questionnaire given to financial lawyers and verified through analysis of laws and regulations and public sources of information on collateral and bankruptcy laws as well as through occasional on-site visits.

This is how Bosnia did on the four indicators:

*Getting credit: legal rights and credit information*³⁵

Indicator	No. of points obtained	Max. no. of points possible
Strength of legal rights index	7.0	12
Depth of credit information index	6.0	8
Credit registry coverage (percentage of adults)	39.7	
Credit bureau coverage (percentage of adults)	8.1	

Recommendation number 14 is: **Go through the questionnaire on credit and find the easiest areas where legal changes can generate a few more positive answers.**

This will be enough to improve Bosnia’s ranking on this indicator.

³⁵ Doing Business, [2015 Ease of Doing Business in Bosnia and Herzegovina](#).

SUMMARY

We hope that you and other leaders will task a small team of people to work on improving Bosnia's DB rank. As most changes concern the Federation and Sarajevo it would be advisable to ask the Federation's prime minister to take the lead. You can then report on the success in all your international meetings.

After a few months, this team will discover that it is quite easy. They will easily achieve further-reaching change, beyond what we recommended. This will turn Bosnia into a Doing Business Wunderkind. Here is a summary of all measures we propose for the first year:

1. Bosnia needs to do get rid of at least 1 of the 15 procedures necessary to build a commercial building. It should select one whose elimination will also shorten the time to complete the procedures.
2. The Federation should consider abolishing or significantly lower the rent fee and the shelter construction fee.
3. The Federation government should convince Elektroprivreda BiH to reduce the procedures for an electricity connection from 6 to 3 and make sure that the remaining procedures take less than 97 days.
4. Allow for annual payment of the tourism fee and oblige only tourism companies to pay it.
5. Bosnia should streamline the procedures related to preparation, calculation and payment of VAT so that this activity does not take more than 94 days/year.
6. The Federation should lower the labour tax and contributions paid by the employer to the Western Balkan average of 11.5 percent.
7. The Federation/Canton Sarajevo should cut the number of procedures needed to register a business from 11 to 5, following the example of Republika Srpska.
8. Introduce a business registration agency in Sarajevo that will register companies for free and regulate the notarisatation price as in Serbia.
9. Cut one of the documents needed to export or import a container of goods by sea transport, or combine two similar documents into one.
10. Cut by 2 the number of days needed to obtain the necessary documents for the export of a cargo by sea.
11. Cut one of the procedures necessary to register a property.
12. Lower the cost of notarisatation of a sale-purchase agreement for a business property.
13. Look to Macedonia as a model how to address the issues raised in the questionnaire for investor protection.
14. Go through the questions and find the easiest areas where legal changes can generate a few more positive answers for getting credit.

We hope that this makes clear how the Doing Business ranking works. Once Bosnia has caught up with the Western Balkan average, it can also easily catch up with the EU average. It just needs to improve a little more on each of the eight indicators we have discussed, and the two other DB indicators where it is already doing well: enforcing contracts and resolving insolvency.

Some recent ESI publications

ESI newsletter: [Pumpkins, outliers and the Doing Business illusion](#) (4 November 2014)

ESI essay: [The good news from Greece – Can Thessaloniki point the way?](#) (February 2015)

ESI essay: [Transition and happiness – a Bulgarian paradox?](#) (December 2014)

ESI report: [Protests and Illusions – How Bosnia and Herzegovina lost a decade](#) (23 December 2014)

ESI report: [Vladimir and Estragon in Skopje – A fictional conversation on trust and standards and a plea on how to break a vicious circle](#) (17 July 2014)

Rumeli Observer: [Enlargement 2.0 – The ESI Roadmap Proposal \(Belgrade presentation\)](#) (27 November 2014)

Rumeli Observer: [Enlargement reloaded – ESI proposal for a new generation of progress reports](#) (31 January 2014)