



# Building a Better Business Environment: Business Registration

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## Reform of registration procedure and implementation of the Charter

Bosnia and Herzegovina has been in the process of reforming business registration procedure since 2002, when DiFD funded program: "Reform of Business Registration Project in B&H" started. Since then B&H endorsed the Charter for Small Enterprises together with other countries of the Western Balkan Region at Thessalonica summit in June 2003, passed the Framework Law on Registration of Business Entities in 2004 and harmonized entity laws on registration of business entities in 2005. Despite all these regulatory changes and taken international commitments nothing has changed in reality and the registration procedure still remains unchanged as prior to 2002.

Doing Business Report for 2006 gives a good summary of the problem, presented in the below table; it shows that an entrepreneur in B&H needs on average 54 days to register business at a cost equal to 37% of gross national income per capita.<sup>1</sup>

In addition to the above stated the study shows that an entrepreneur when wanting to register a business in this country will encounter countless problems: lack of information, complexity of procedures that takes him/ her on numerous occasions from one government office to another, necessity of hiring a solicitor and unpredictable longevity of the process.

Apart from the problems associated with non-implementation of the new legislation in this field that would, when implemented, reduce the time for processing registration application to 5 days and bring many other improvements to the current court based system, the registration procedure is in general burdened with requirements that are under jurisdiction of other state institutions, namely the Tax Authority. For instance, an entrepreneur who cannot obtain Proof of having no tax liabilities from the Tax Authority cannot open Temporary Bank Account and therefore cannot even initiate the registration procedure. Moreover, the capital requirement of 2000 KM, which was imposed to ensure that the business entity has funds with which to meet liabilities, is one of the most expensive considerations for small enterprises and the most importantly does not serve its intended purpose. Furthermore, entrepreneurs are generally faced with a lack of information about registering business and therefore condemned to hire a solicitor who will prepare documentation for submission to the court.

The registration process as it is now at its best is described as inefficient. In case that the process of business registration stays as it is, unchanged, by ignoring laws on registration passed in 2004 and 2005, it can be expected that many companies will remain in the informal sector, in which they find it difficult to grow.

## Summary

The main contribution of policy study "Registering Small Business in Bosnia and Herzegovina: Implementation of EU Charter" is analysis of the reform process of registration procedure in the country on the example of Mostar registry court, while also placing the problem in a wider context of improving business environment, reducing the size of grey economy and creating preconditions for more informed government economic policy.

The study gives evaluation and analysis of the procedure as it is conducted now, while in the second part of the document gives an evaluation of the same procedure after the implementation of the legislation passed in 2004 and 2005. Accent is placed on urgency to implement the new legislation and therefore improving and modernizing the current system, which would expedite the processing of registration applications. The paper also sets longer term goals developed on the basis of best world practices and the Charter recommendations.

Indicator	Bosnia and Herzegovina	Region	OECD
Procedures (number)	12	9.6	6.5
Time (days)	54	36.4	19.5
Cost (% of income per capita)	40.9	13.5	6.8
Min. capital (% of income per capita)	57.4	49.1	41.0

Source: World Bank Doing Business Report 2006: Bosnia and Herzegovina

<sup>1</sup> World Bank: Doing Business Report on Bosnia and Herzegovina in 2006; The report is based on information regarding the registration procedure at Sarajevo Registry Court; Estimated GNI per capita in B&H is 2440\$.



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Even though the informal sector provides jobs and income for those involved and offsets the general poverty level, this alone should be of a serious concern for the government for the reasons of taxation and regulation of economic activity. Lack of policy towards development of small enterprises and towards the reform of the registration process, is reflected in a narrow tax base and government's inability to make informed public policy or investment decisions. Improved registration procedure would improve the overall environment for the private sector and raise standards of efficiency and transparency for government agencies. A better functioning system of registration would also permit statistical analysis for setting policies, determining revenue collections and monitoring economic trends. In a country like Bosnia and Herzegovina where public perception about corruption in government is high, measures that help increase transparency and efficiency of government services would contribute in changing this negative perception that citizens have towards government institutions.

### **Policy Recommendations**

Since the entity governments have shown some improvements recently, by approving installation of electronic Registry System and passing the Rulebook on Use of the Main Book of Register, new laws on registration of business entities passed in 2005 will start slowly to be implemented. However, in order to ensure the functioning of the system and its sustainability the additional recommendations should be implemented:

- Further training of court personnel to ensure the proper and unified implementation of the relevant legislation and use of the electronic system.
- Human and financial resources should be dedicated for transferring paper database on registered companies into the electronic Register (this process will probably take a year to complete).

However, the registration procedure will not be improved much only with the introduction of the electronic Single Registry System, since many other problems that burden the registration procedure will remain. The sustainability of court registry procedure prescribed by the Framework Law on Registration of Business Entities will be questionable if further reforms are not to be introduced. Namely: online registration needs to be introduced for the purpose of increasing the transparency and efficiency of the process, while the costs need to be cut and unnecessary requirements removed. Therefore, the government needs to take the following recommendation for the near future:

- In order to introduce online business registration or a possibility of sending registration application via email, the Law on Electronic Business and Law on the Agency for Information Society in B&H need to be passed. Only the Law on Electronic Signature was passed at the end of 2006, while the remaining two laws have been in the parliamentary procedure for some time but not approved yet. Apart from these laws, appropriate amending of the Law on Administrative Procedure will have to be done in order to introduce electronic exchange of official documents between government institutions.
- The capital requirement, which is currently 2000KM, needs to be eliminated by amending the entity Law on Business Entities;
- Requirement imposed by the Tax Authority: Proof of having no tax liabilities, should be eliminated. Tax Authority should use its own direct mechanisms to enforce tax obligations;
- Technical requirement for business premises could be resolved in such way that the registrant certifies by signature that his premises meet the Technical Requirements. This should be followed, after a business start, by ordinary regulatory inspection to verify compliance.



- Court taxes for registration of business entities that are regulated by cantonal laws on court taxes in the FB&H and RS Law on Court Taxes need to be reduced and charged in the future on cost recovery basis. Once the Single Registry system becomes operational it will be possible to estimate the real cost, which is expected to be negligible, and charge accordingly. It would be advisable to harmonize the court taxes across the country or prescribe a maximum amount that could be charged. Entity and state ministries of justice together with state Ministry of Foreign Trade and Economic Relation, which is responsible for implementation of the Charter, should lead this process.
- Accessibility of information required for registration should be partially solved with functioning of the Single Registry system, which will have its own website where registrants will be able to find basic information about registration process. This is going to be a huge improvement in comparison to the current situation. Further work needs to be done in compiling all information about start up process and making it widely accessible in municipalities and registry courts in hard copy. State and entity governments should finance this.
- Administrative forms and documents required for the process of registration must become use friendly and widely accessible so to eliminate need for solicitor's assistance (and therefore the fees). Ideally, two or three forms should be developed to capture the entire data set needed by every government institution requiring company information. These forms must be accompanied by instructions. This requires a wider action involving not only responsible ministries of justice but also tax authorities, ITA, ministries of finance and MoFTER in order to agree on eliminating unnecessary administrative requirements and simplifying forms (the same group should also develop a national strategic framework of rationalizing costs in relation to business needs)
- A wider educational campaign is needed about benefits that small private companies have for the society. This is needed in order to change a negative perception of a large number of population and more importantly civil servants that they have towards business owners.

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- In the future, registration process should be taken away from the court system. Ideally agency for registration should be formed on the state level with regional/ entity or cantonal field office that would be accepting and processing applications as the main registrant body. The registration process should be unified and should incorporate also the craft shops and single proprietors that are currently being registered in municipalities.



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