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SERBIA IN A REGIONAL PERSPECTIVE
(Analytical Report)

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Introduction

Since 2003, the World Bank/IFC's annual *Doing Business* publication has ranked countries according to selected indicators of the business environment. In their latest report, *Doing Business in 2008*, ten indicators of the business environment were used to rank 178 countries; the upcoming report (*Doing Business in 2009*) is expected to expand coverage to 180 countries, and add two other indicators—to address transparency and infrastructure, respectively. These rankings have received growing attention by development practitioners, and in particular by donors. In fact, each publication of the latest ratings in September has become something of a report card on regulatory reforms. The principal argument is that “you can't manage what you can't measure.” There are of course some reservations whether these indicators fully capture the regulatory and administrative burden on business, but the attention they receive suggests that any comprehensive reform strategy should also include an element of “managing what is being measured.” If reforms are in fact proceeding, why not get some—domestic as well as international—recognition in terms of the *Doing Business* rankings?

This strategic review examines Serbia's performance on the ten business environment indicators reported in the latest edition of the *Doing Business* series which is based on data gathered in early 2007. The approach is *strategic* in the sense of identifying and prioritizing possible interventions to move the business environment reform forward and to gain recognition in the cross-country comparisons. Basically, this paper will analyze to some extent also detailed data used in the calculation of the indicators and subindicators to identify specific opportunities for reform that are reflected in changes in *Doing Business* rankings¹. It views the reported business environment indicators for Serbia in a regional context, relating the evidence to the same measures for three countries selected from the region—Macedonia, FYR, Bulgaria, and Croatia.

The analysis here proceeds indicator by indicator, ten in all. For several of these indicators, the *Doing Business* approach is based on estimates of the number of procedures, time and costs for selected transactions, like “starting a business” or getting the permits for building a warehouse, “dealing with licenses.” Other indicators are estimated on the basis of qualitative responses, including responses on a yes-no basis, sometimes weighted, scaling the results to yield an index over a particular range. The sources of the information are legal firms or other intermediaries familiar with the respective processes. In other words, the *Doing Business* indicators are *not* based on statistically representative surveys, but reflect inputs from key informants, aggregated into a composite measure. Key to changes in the indicators therefore is the specific *experience* of these key informants—something to be considered in executing a reform strategy.

Interpreting the individual indicators requires an understanding of the specific cases that define the parameters of the transaction, especially since some of the broad labels may not

¹ In 2007, *Doing Business* team has published reports on each one of the 178 countries that provide a detailed presentation of individual data elements—procedures, time, cost, etc. for each indicator. The report for West Bank and Gaza offers more detail needed for interpreting the comparisons. All data used here are from the *Doing Business* web site, www.doingbusiness.org.

always fully represent the elements used to construct them. For example, “starting a business” refers to very specific type of business, a limited liability company with five partners, a certain level of paid-in capital, etc.. In order to interpret each one of the measures, it is imperative to be fully aware of the underlying definitions. A brief summary description therefore precedes the analysis of each indicator.

Specifically, the review here is designed to provide some guidance as to what steps affecting procedures, duration, costs or the presence/absence of particular provisions may be required to improve the country’s *Doing Business* rankings. The web site maintained by the *Doing Business* team offers a “rankings simulator”—define what changes are to be made and obtain an estimate of the improvement in rankings among the 178 countries. These simulations assume, of course, that there are no changes in the indicators for other countries.

The overall rankings

Table 1 provides a brief overview of Serbia vs. the other three countries selected for review here. Serbia has about the same per capita Gross National Income (GNI) as Bulgaria, ranking ahead of FYR Macedonia, but lagging significantly behind Croatia. In 2008, Serbia ranked 86th out of 178 countries (which corresponds to the 48th percentile),² far behind Bulgaria at rank 46 (26th percentile), but ahead of Croatia with rank 97 (54th percentile). In 2006, Serbia ranked as a leading performer in the *Doing Business* rankings, but its ranking declined by 2 places since last year.³

Table 1: The four countries examined

	Population (1,000)	GNI per capita	Ease of Doing Business Ranking	
			2008	2007
Serbia	10,150	3,910	86	84
Croatia	4,438	9,330	97	120
Bulgaria	7,699	3,990	46	54
Macedonia, FYR	2,038	3,060	75	96

Note: The *Doing Business* team has adopted a “forward-looking” reporting mechanism. The measures for 2008 reflect observations for 2007 and the ones for 2007 the patterns observed in 2006.

The other countries have all advanced; Croatia’s ranking has improved by 23 places from 120 to 97, and that of the FYR Macedonia by 21 places from 96 to 75. Even Bulgaria with a higher starting position has moved by 8 places from 54 to 46. To put this in perspective:

² The percentiles are calculated here by dividing the ranking by the total number of countries ranked; the rankings simulator provided by the *Doing Business* team uses a different method for translating rankings into percentiles, basically by taking the average of the rankings on individual scores.

³ Rankings for the previous year have been recalculated on the basis of the procedures used for the ranking in *Doing Business in 2008*.

the reform “winner” of 2007, Egypt, advanced by 26 places. While other countries in the region have come close to that standard, Serbia’s drive to reform the business environment has stalled both in absolute and relative terms.

Figure 1: Overall DB rankings by the ten indicators

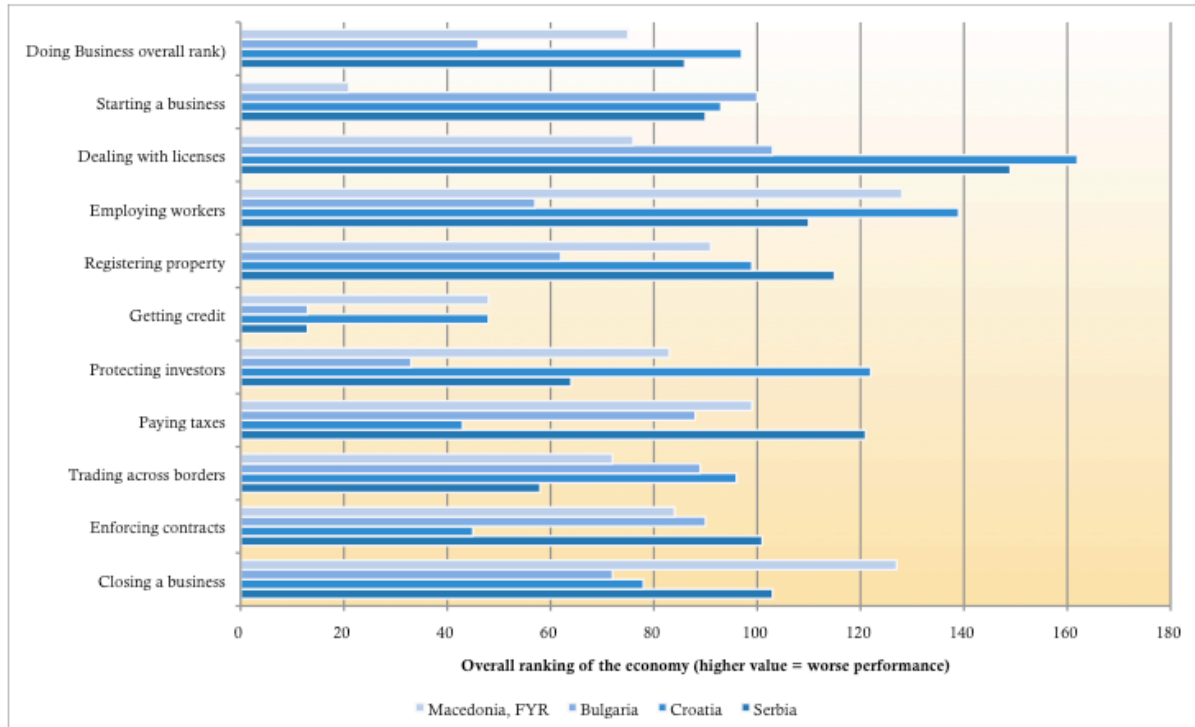


Figure 1 shows the overall rankings for the aggregate measure of “ease of doing business” and for the ten business environment indicators. It also illustrates the relative strengths and weaknesses across the ten individual indicators, Serbia scores highest in terms of the “getting credit” indicator with rank 13 which puts it in the top 10 percent of all countries (7th percentile), in a tie with Bulgaria. The country also does relatively well in terms of “protecting investors,” at rank 64 or the 36th percentile. Serbia is doing worst in terms of the “dealing with licenses” indicator, a measure of the administrative burden associated with setting up a warehouse, and in “paying taxes.” Let’s look at each of these indicators in turn to address the underlying factors that shape strengths and weaknesses.

Starting a business

Defining the transaction and subindicators⁴

Four subindicators describe the burden associated with starting up and formally operating an industrial or commercial business. The activities include obtaining all necessary licenses and permits and completing any required notifications, verifications or inscriptions for the

⁴ The summaries here draw, sometimes verbatim, on the definitions provided in *Doing Business in 2008*. An Annex presents the full definitions from that publications.

company and employees with the relevant authorities. The procedures refer to the establishment of a limited liability company with five owners who are nationals of the country; none of the owners is a legal entity. The company does not require special permits or licenses like those needed for running a pharmacy. The company has a start-up capital 10 times the per capita income, and will have 10 to 50 employees one month after commencement of operations.

A *procedure* is defined as any interaction of the company founders with external parties (for example, government agencies, lawyers, auditors or notaries). The founders are assumed to complete all procedures themselves, without middlemen, facilitators, accountants or lawyers, unless the use of such a third party is mandated by law. Procedures that must be completed in the same building but in different offices are counted as separate procedures. If founders have to visit the same office several times for different sequential procedures, each visit is counted separately.

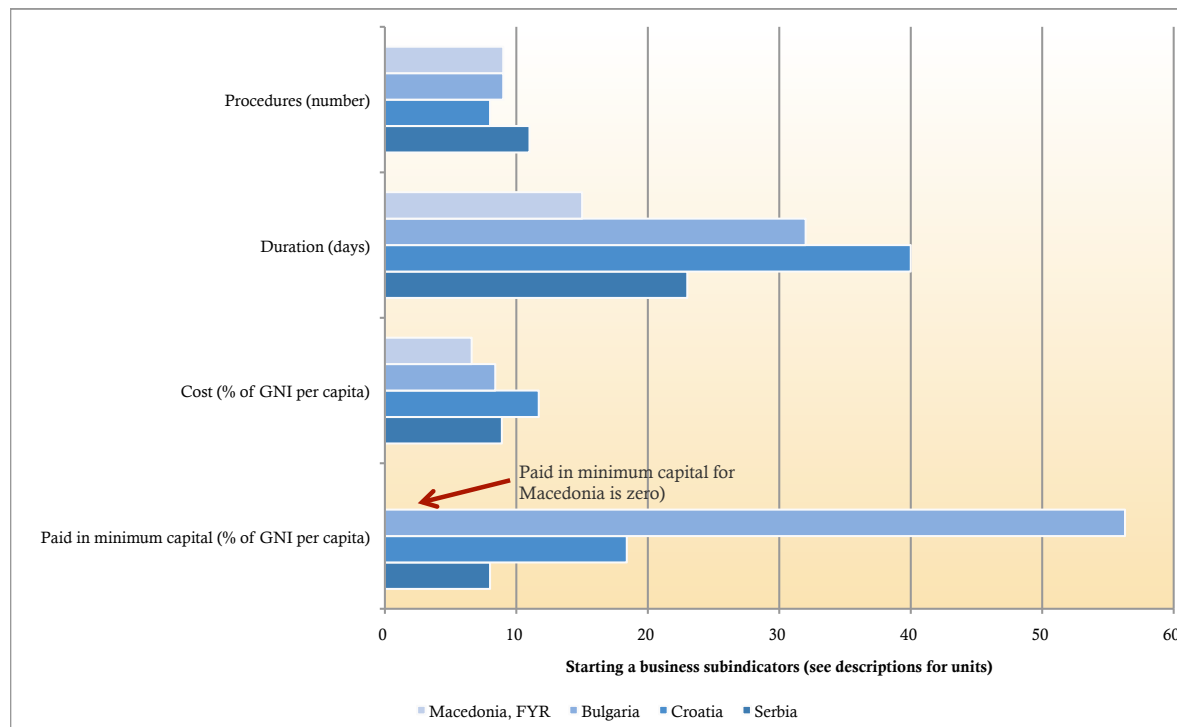
Time is recorded in calendar days. The minimum time required for each procedure is 1 day. While procedures may take place simultaneously, they are counted as starting on consecutive days. The estimation of the time required ignores any activity linked to gathering information: the company founders are assumed to be aware of all entry regulations and their sequence from the beginning. *Cost* includes all official fees and fees for legal or professional services if such services are required by law, and is expressed as a percentage of the country's income per capita. In all cases the cost excludes any bribes. The *paid-in minimum capital* requirement reflects the amount that the entrepreneur needs to deposit in a bank or with a notary before registration and up to 3 months following incorporation; it is recorded as a percentage of the country's income per capita.

Performance on subindicators

Figure 2 provides a comparison of the four subindicators that shape the ranking of countries on the "starting a business" measure. Serbia's economy ranks just about the same as its overall average, with a rank of 90 (or the 51st percentile). However, the country has slipped 6 places from its ranking in the year before, a slippage that contributes to the deterioration of the overall ranking. But it scores better on this measure than Bulgaria (where the paid-in capital requirement brings its ranking down to 100 or the 56th percentile), and about the same as Croatia. It is easier to start a business in FYR Macedonia, which reportedly does not require any minimum capital, and where both cost and speed lead the group.

In terms of the four subindicators, Serbia reportedly has the greatest number of procedures, but the differences within the region are small. But the economy is competitive with respect to the paid-in capital (second only to FYR Macedonia, which does not require any minimum capital), cost and duration. In Bulgaria, for example, it takes almost twice as long to start a business than in Serbia (40 vs. 23 days).

Figure 2: Subindicators for “starting a business”



The breakdown of the eleven procedures in Table 2 suggests that obtaining the tax identification number and registration with the tax authority are the two steps that take a week or more. It may be possible to combine registration at the SBRA and tax registration which would reduce the number of procedures and presumably also the total time required.

Exploring the impact of reforms on rankings

The “rankings simulator provided by the *Doing Business* team on their web site allows for an assessment of the impact of selected reforms in one of the subindicators on the ranking of a particular economy—always assuming, of course, that other countries do not reform at the same time. In the case of the economy of Serbia, an exploration of the likely return on reform steps may provide some guidance.

Without changing the minimum paid-in capital requirement, which remains at about 8 percent of per capita GNI, let’s assume that the three registration procedures can in fact be collapsed into a single procedure, reducing the number of procedures from 11 to 9 (the same as FYR Macedonia). That step is likely to reduce cost, say, from 9 to 7 percent of GNI, and duration, for example from 23 days to 15 days; both of these are the reported measures for FYR Macedonia. Under this scenario, Serbia ranking would improve by 9 places, to rank 77 (again, assuming other countries do not reform simultaneously).

Table 2: The components for the "starting a business" subindicators

No.	Procedure	Duration	Cost
1	Obtain registration forms (Form RJR-1, Form OP, Forms M1 and M4)	1 day	RSD 5 (form OP)
2	Notarize the memorandum of association and lease contract at the Basic Court	1 day	See comments
3	Open a temporary bank account; pay founding deposit or its part and all other fees	1 day	no charge
4	Obtain the registration certificate Business Registers Agency (SBRA)	3 days	RSD 5060 (RSD 3600 + RSD 1460)
5	Make Stamp and seal	1 day	RSD 2500
6	Obtain tax identification number (PIB) at the Municipal Hall; certify the signatures (three copies) for opening bank account	6 days	no charge
7	Register with local tax authority	5 days	no charge
8	Open a permanent business account with the commercial bank	1 day (less than half a day)	RSD 400 (signature certification and republic tax)
9	Register the employment contracts with the Employment Organization/Fund	1 day	no charge
10	Obtain certificate from the pension fund (PIO Fund)	2 days	no charge
11	Obtain certificate from the Health Fund	1 day	no charge

Dealing with licenses

Defining the transaction and subindicators

The subindicators for the “dealing with licenses” indicator refer to all procedures required for a business in the construction industry to build a standardized warehouse. These procedures include:

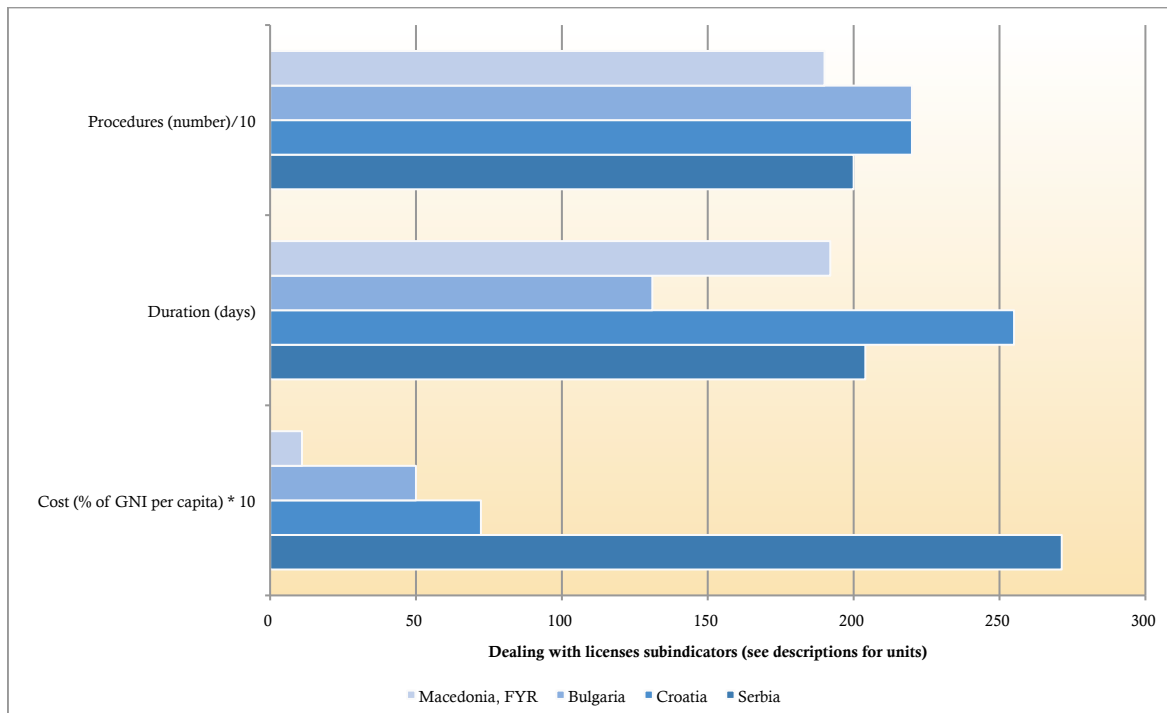
- submitting all relevant project-specific documents, such as building plans, to the authorities;
- obtaining all necessary clearances, licenses, permits and certificates;
- completing all required notifications;
- receiving all necessary inspections;
- obtaining all utility connections; and
- registering the property so it can be used as collateral or transferred.

The assumptions include characteristics of the warehouse (14,000 square feet on two stories, located in a periurban area, etc.), and of the company that is building it (*BuildCo*). The definition of the subindicators is very similar to that for the “starting a business” measure. They include the number of procedures, total duration, and the associated cost.

Comparisons by subindicator

On this indicator, the Serbian economy ranks lowest, at rank 149 (or the 84th percentile). It is of little consolation that Croatia ranks even lower at rank 162 (the 91st percentile, or ranking in the bottom ten percent of all countries). Figure 3 illustrates the main reason for the low ranking: the cost expressed as a percent of GNI exceeds for the comparator countries.

Figure 3: Subindicators for "dealing with licenses"



In terms of the total number of procedures, Serbia is actually ahead of Bulgaria and Croatia. It is second to Croatia in terms of total duration, but roughly comparable to FYR Macedonia. In terms of the cost, however, the reported value for Serbia is almost four (3.8) times that for the second-worst score, Croatia, and about 25 times the measure reported for FYR Macedonia.

The breakdown of the individual procedures, their duration and cost immediately identifies the reason for this “outlier:” the city building land tax is reported as almost RSD 5.4 million.

Such a tax is absent from the other countries, although it may well be that some form of real estate tax applies to all.

Table 3: Procedures and their duration and cost for “dealing with licenses”

No.	Procedure	Duration	Cost
1	Request and obtain an extract from the urban plan or act on zoning conditions	30 days	RSD 60,000
2 *	Request and obtain proof of ownership of the construction site	6 days	RSD 130
3	Request and obtain main construction project-plan clearance from the electric energy authority	45 days	RSD 10,000
4*	Request and obtain main construction project clearance from the water and sewerage authority	60 days	RSD 159,500
5*	Request and obtain main construction project clearance from the labor inspection department for work safety	60 days	RSD 2,000
6*	Request and obtain main construction project clearance from the heating authority	45 days	RSD 12,500
7*	Request and obtain main construction project clearance from the telecommunications authority	45 days	RSD 20,000
8*	Request and obtain main construction project clearance from the traffic authority	60 days	RSD 5,900
9	Request and obtain a building permit	15 days	RSD 450
10 *	Request and obtain technical review of the main project	10 days	RSD 92,071
11	Notify and obtain approval for the start of construction from the municipality and pay city building land tax	1 day	RSD 5,379,281
12	Hire expert supervisor of the construction work	1 day	RSD 455,000
13	Request and obtain consent regarding the connection of the plot of land to the nearest public road	30 days	RSD 61,000
14*	Request and obtain consent regarding regulations on environmental protection	30 days	RSD 80,000
15 *	Request and obtain water and sewerage connection	10 days	RSD 159,500
16 *	Request and obtain electricity connection	7 days	RSD 508,200
17 *	Request and obtain telephone connection	7 days	RSD 12,000
18	Request technical examination of the building by the municipal commission	1 day	RSD 120
19	Receive technical examination of the building from the municipality commission and obtain use permit	15 days	RSD 25,686
20	Register the building	45 days	RSD 4,000

* Simultaneous with other procedures/

Exploring the impact of reforms on rankings

For an illustration of the likely impact of reforms on the *Doing Business* rankings of the Serbian economy, assume the following scenario:

- the number of procedures is reduced from 20 to 15 (the value reported for Slovenia, which is not shown in the graphic comparisons), say, through the introduction of one-stop shop principles;
- the total duration is reduced by 24 days to 180 days, again as a result of the adoption of one-stop shop principles;
- and the cost is lowered to 720 percent of per capita GNI, roughly corresponding to the measure reported for the “runner-up,” Croatia.

These three assumptions together produce an improvement in total rankings by a remarkable 18 places, from 86 to 68. While the cost stands out, just reducing it to the level reported for Croatia would only result in an improvement of 5 places, from 86 to 81. Again, in interpreting these gains, they presume that “other things being equal,” that is, other countries do not reform.

Employing workers

Definitions

The subindicators for “employing workers” seek to characterize the regulation of employment, especially as it relates the hiring and firing of workers and the rigidity of working hours. The worker is assumed to be a 42-year old male who has been with the same company for 20 years in a non-executive position. He is assumed to earn a wage corresponding to the country’s average wage.

The subindicators are calculated differently from the procedure-oriented approach used for “starting a business” and “dealing with licenses.” Specifically, some of them are in effect estimated as an index based on the presence or absence of specific regulations. Others, such as non-wage labor cost, are estimated on the basis of available regulations. Specifically, the “employing workers” indicator is based on the following subindicators:

- The *rigidity of employment index*, basically the average of the following three subindicators;
 - the *difficulty of hiring index* which reflects whether fixed-term contracts are prohibited for permanent tasks, the maximum cumulative duration of fixed-term contracts, and the minimum wage for a to the average value added per workers; the responses are scored, and averaged to obtain an index between 0 and 100;

- the *rigidity of hours index* comprises five components—whether night work is restricted, whether weekend work is restricted, whether the workweek can consist of 5.5 days, whether the workweek can extend to 50 hours or more for seasonal increases in production, and whether paid annual vacation is 21 days or fewer; again, the responses are scored and averaged to obtain an index between 0 and 100;
- the *difficulty of firing index* comprises eight components—whether redundancy is disallowed as a basis for terminating workers; whether the employer needs to notify a third party (such as a government agency) to terminate 1 redundant worker; whether the employer needs to notify a third party to terminate a group of 25 redundant workers; whether the employer needs approval from a third party to terminate 1 redundant worker; whether the employer needs approval from a third party to terminate a group of 25 redundant workers; whether the law requires the employer to consider reassignment or retraining options before redundancy termination; whether priority rules apply for redundancies; and whether priority rules apply for reemployment; again, the responses are scored and averaged to obtain an index between 0 and 100.
- *non-wage labor costs* combines all social charges as a percent of the employee’s salary; and
- *firing cost* refers to any advance notice requirements, severance payments and penalties for terminating a redundant worker, expressed in terms of weekly wages.

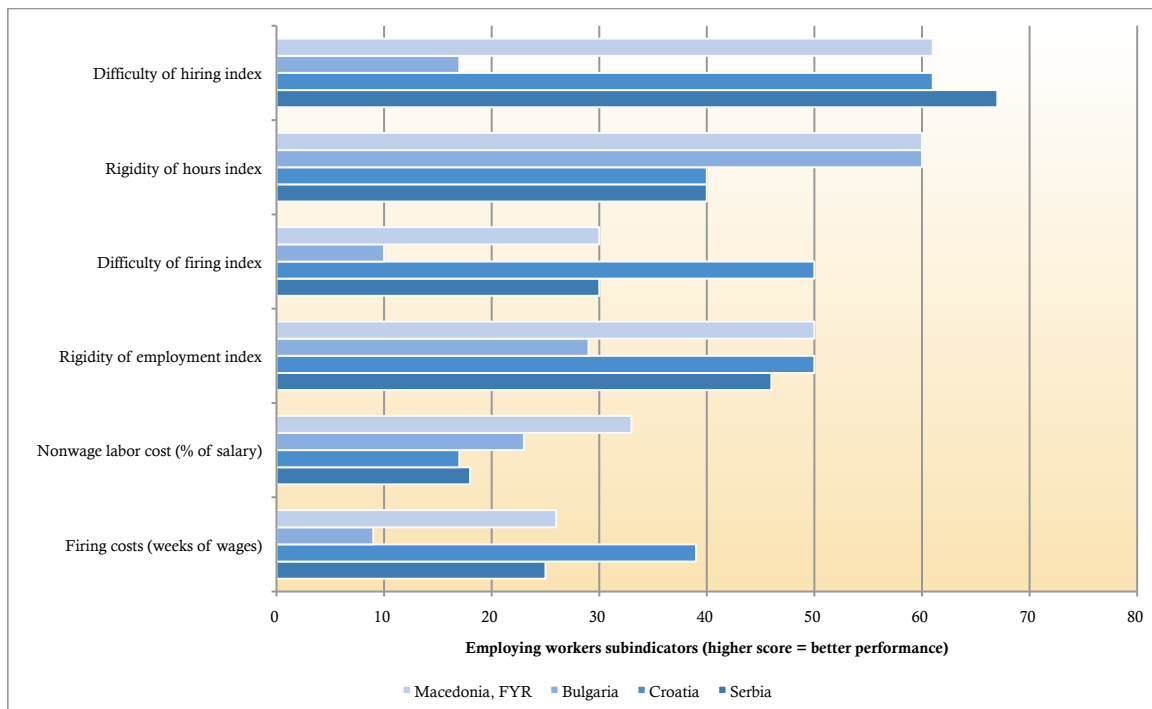
Comparisons by subindicator

Figure 4 presents the comparison of the various subindicators for “employing workers.” Overall, the Serbian economy scores worse than its average ranking, with a rank of 110 (62nd percentile). Its score is much better than that for Croatia (rank: 139) or FYR Macedonia (128). Of the comparator countries, only Bulgaria stands out, with a rank of 57.⁵ Relative to Bulgaria, Serbia shows a much higher cost of firing, at the equivalent of 25 weeks vs. 9 for Bulgaria. However, the non-wage cost reported for Serbia is at the low end of the spectrum, about the same as that for Croatia (and Slovenia), compared to the much higher values reported for FYR Macedonia (and the Czech Republic).

With respect to the indicators relating to labor market flexibility, Serbia overall ranks in the middle of the pack. The summary measure, the “rigidity of employment index,” puts it in second place after Croatia and FYR Macedonia with equal scores, and ahead of Bulgaria. Serbia ranks worst with respect to the “difficulty of firing index,” where it scores the same as FYR Macedonia, ahead of Bulgaria, but behind Croatia.

⁵ The other two countries we looked at, Czech Republic and Slovenia, set the envelope for this measure: with a rank of 166, Slovenia shows the worst performance, while the Czech Republic is similar to Bulgaria with a rank of 55.

Figure 4: Subindicators for “employing workers”



Clearly, labor regulations deserve further attention in articulating a strategy that seeks to improve Serbia’s business environment as reflected in the *Doing Business* rankings. Labor regulations, at least originally designed to protect workers, are politically highly sensitive, and donors tend to shy away from getting embroiled in a highly visible debate. However, some thought should be given to introduce greater flexibility in the labor market. While both the costs of firing and non-wage labor costs are not out of line, the other subindicators show a labor market that is less flexible. Especially in an environment where unemployment runs high, and business uncertainty imposes frequent shifts in levels of activity, it may be easier to forge a constituency for reforms that allows employers greater flexibility in dealing with employment issues.

Exploring the impact of reforms on rankings

Labor market regulations tend to be politically highly sensitive. Any exploration of the impact of changes in these regulations therefore has to be illustrative rather than indicative. Hypothetically, assume that the cost of firing workers is brought down from 25 weeks to the 9 weeks reported for Bulgaria. Assume also that the “difficulty of firing index” is brought down from 30 to 20 (an average, corresponding to the value reported for the Czech Republic), the “rigidity of hours index” stays at 40, since that is the minimum for the four countries, and the “difficulty of hiring index” drops to the Bulgarian level of 17. These

changes would imply an 18-point improvement in the overall ranking of the Serbian economy.

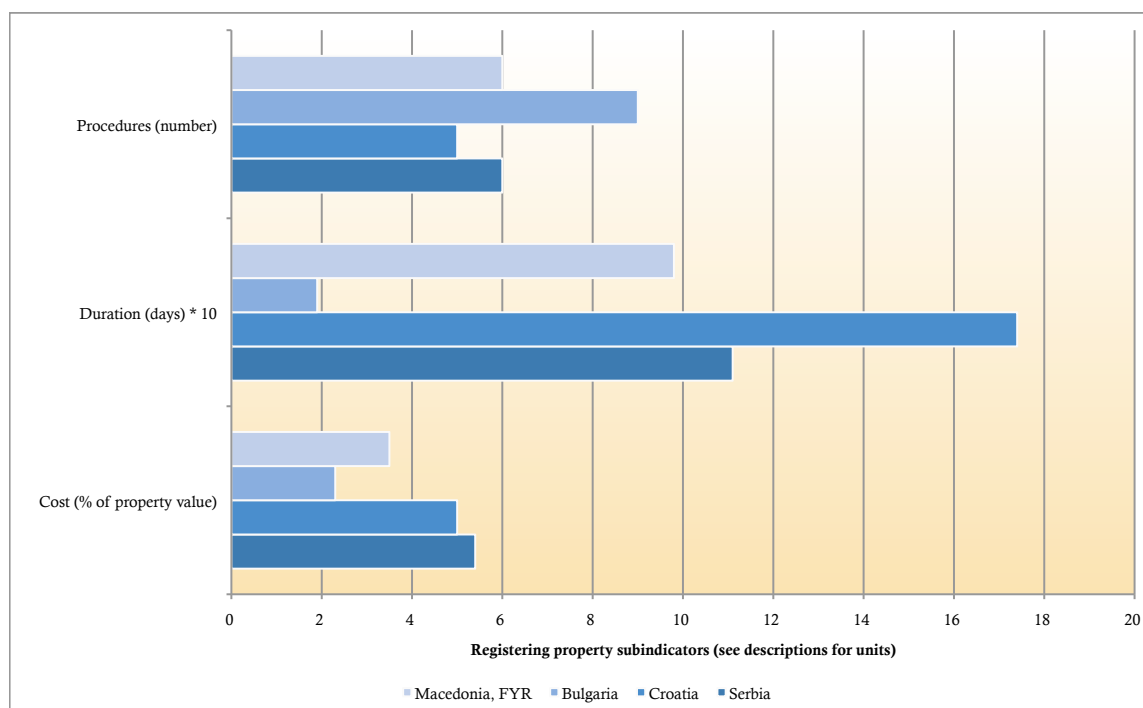
Registering property

Definitions

This indicator records the full sequences of procedures necessary when a business purchases land and a building to transfer the property title from another business to enable the buyer to use the property to expand activities, as a collateral for any new loans, or to sell to another business. Every procedure by law or administrative practice is included, whether it is the responsibility of the buyer or seller.

Both parties (seller and buyer) are limited liability companies with 50 employees. The property has a value 50 times income per capita, and is free of any liens or occupants.

Figure 5: Subindicators for "Registering property"



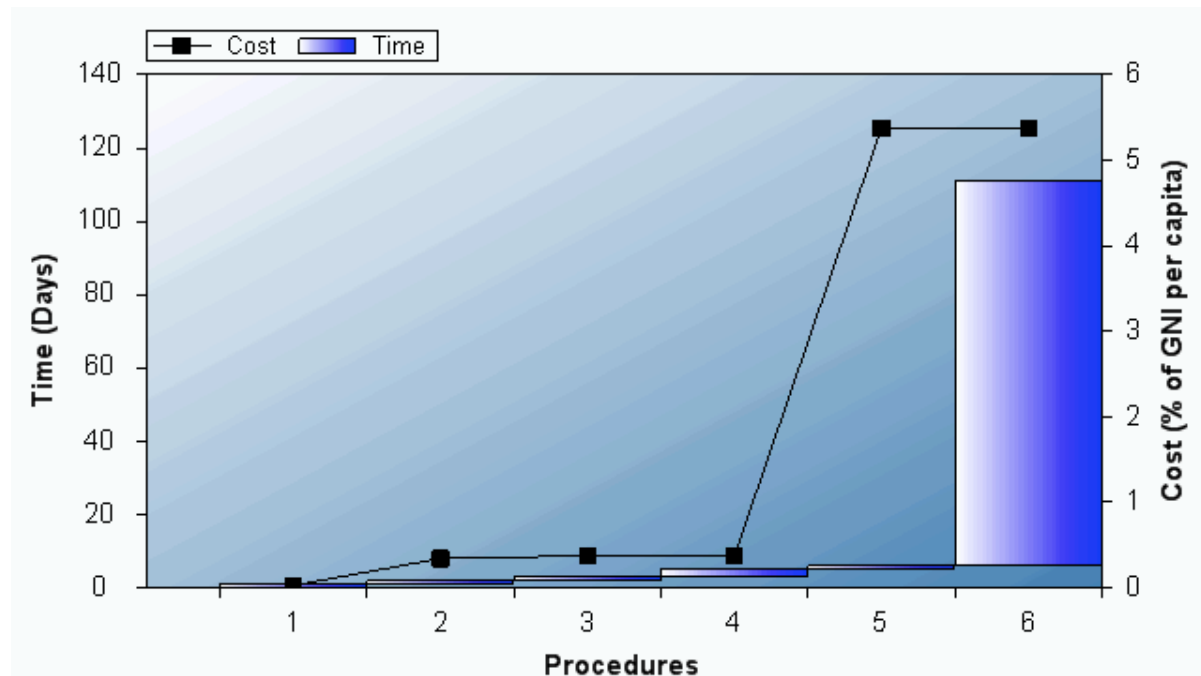
Comparisons by subindicator

In terms of the "registering property" indicator, the Serbian economy ranks much worse than its overall score, with rank 115 (65th percentile), or 29 places behind its overall average. It trails all comparator countries in the region (including both the Czech Republic and Slovenia) on this particular indicator. The scores for the three different subindicators for the "registering property" measure are shown in Figure 5 for the four countries. In terms of the total number of procedures, Serbia ranks more or less in the middle between the high for

Bulgaria and the low for Croatia. (Only the Czech Republic reports fewer procedures, four, than Croatia.)

Serbia is second to Croatia with respect to the it takes to register property, 110 vs. 170 days, roughly the same as in FYR Macedonia. Bulgaria is the country with the shortest duration at 20 days. Finally, the cost for registering property, relative to per capita GNI, in Serbia is the highest among the four countries, slightly worse than Croatia, but about double the amount for Bulgaria.

Figure 6: Registering property in Serbia—Time and cost



1. Obtain an extract from the register of companies
2. Verify the sale purchase agreement before the court
3. Submit request for registration to the Municipal Court Land Register or to the Cadastre
4. Submit an application to Tax Authorities to approve transaction value and authorize payment of transfer tax
5. Pay the transfer tax
6. The Cadastre/Land Registry makes a decision on the title

Figure 6 illustrates the causes of total cost and duration. The entire process is dominated by procedure number 6, the decision by the Cadastre/Land Registry which accounts for about 100 days of the total duration of 111 days, and for virtually all of the cost. Clearly, a process re-engineering study might identify options for reducing the time and cost for this particular step.

Exploring the impact of reforms on rankings

For illustrative purposes, suppose that the application of one-stop shop principles and increased transparency succeed in bringing down the time required for the decision of the Cadastre/Land Registry significantly, such that the total duration drops to the minimum

reported, the 20 days for Bulgaria. Further, assume that the total cost can be brought down from 5 percent of the value of the property to the 2 percent reported for Bulgaria (and Slovenia).

These assumptions would yield a fairly dramatic improvement in the overall rankings of the business environment in Serbia by 21 places, from 86 to 65. To put this in perspective again: the 2007 “reformer of the year,” Egypt, had registered an overall improvement of 26 places.

Getting credit

Definitions

This indicator is based on measures of the legal rights of borrowers and lenders, and the sharing of credit information. Doing Business constructs a *legal rights* index which measures the degree to which collateral and bankruptcy laws protect the rights of borrowers and lenders and this facilitate lending. This index ranges from 0 to 10, depending on the answers to specific questions about legislation or institutions (like a unified registry of liens on movable property) in place. There are ten questions, and a score of 1 is assigned if the law/institution exists.

A depth of credit information index is also calculated by adding up the number of positive responses on six questions about the availability of credit data and their coverage. The index therefore ranges from 0 to 6. It is actually closely linked to the coverage of public credit registry and private credit bureau coverage. Obviously, if a country has no credit bureau coverage (as is the case for Moldova), this index is automatically equal to zero.

The other two elements of the “getting credit” indicator refer to the coverage of public and private credit bureaus.

The measures for “getting credit” focus on fairly narrow aspects of the issues related to access to credit for businesses in a given country. While credit bureau coverage, the quality of the information provided by these bureaus, and the existence of an adequate legal framework for lending are of course critical, there are aspects that other observers would consider important.

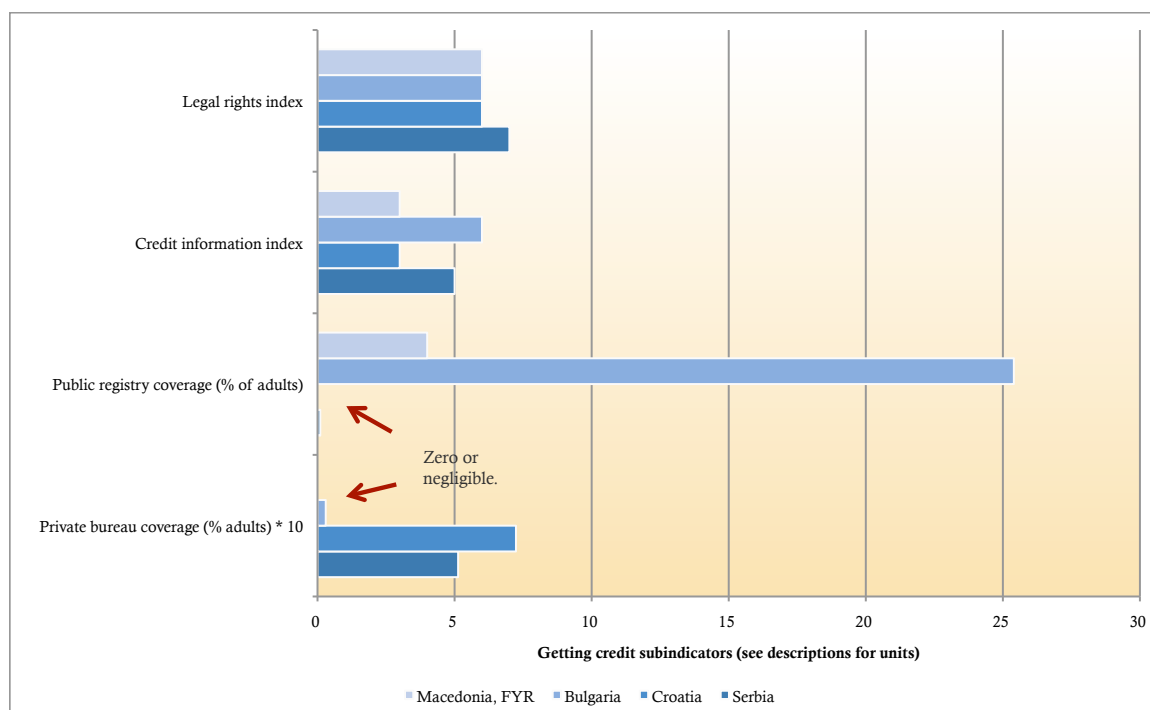
Comparisons by subindicator

Serbia scores very well on this indicator, with an overall rank of 13 (corresponding to the 7th percentile, that is, well within the top 10 percent of the 178 countries ranked in 2008). Much of this result is due to its leadership in the “legal rights index,” where it is ahead of all comparator countries. It even scores higher than the average for the OECD countries on this particular measure.

With respect to the “credit information index,” Serbia barely trails Bulgaria, but scores better than Croatia or FYR Macedonia (as well as Slovenia). It has significant coverage by pri-

vate credit bureaus of the adult population, trailing only Croatia with a 70 percent coverage.

Figure 7: Subindicators for “getting credit”



Note: The scale for the two coverage ratios differs. Serbia’s private bureau coverage is double that for the public registry in Bulgaria (and Croatia’s is 70 percent).

Exploring the impact of reforms on rankings

Obviously, given the leading position of Serbia on this particular indicator, it probably is not a priority target for reforms. But some reforms here can contribute to the improvement of the overall ranking for the country. For example, if some changes were possible to gain in terms of the “credit information index to reach the level for Bulgaria, Serbia’s overall ranking would improve by 6 places, from 86 to 80.

Protecting investors

Definitions

The indicator is designed to measure the strength of minority shareholder protection against directors’ misused of corporate assets for personal gain. The indicators distinguish three dimensions of investor protection: the *extent of disclosure index* reflects the transparency of related-party transactions; the *extent of director liability index* describes the liability for self-

dealing; and the shareholder suits index refers to the ability of shareholders to sue officers and directors for misconduct.

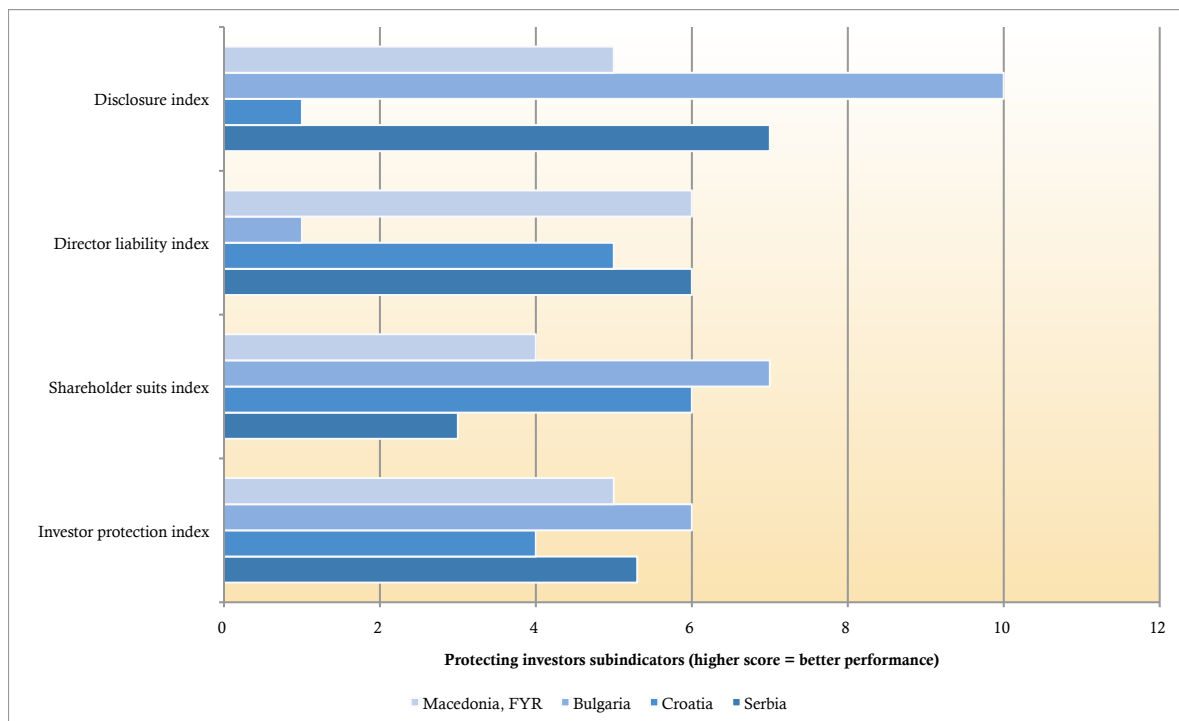
The Buyer is a publicly traded corporation (if there is a stock exchange, otherwise a large private company with multiple shareholder). The transaction involves a shareholder, Mr. James, who owns 60 percent of the company, is a member of the board of directors, and elected two directors to the five-member board. Mr. James also owns 90 percent of the Seller. Mr. James proposes to Buyer that it purchase Seller's unused fleet of trucks to expand Buyer's distribution of its food products. Buyer agrees. The price is equal to 10 percent of Buyer's assets and is higher than the market value. Buyer enters into the transaction. All required approvals are obtained, and all required disclosures made (that is, the transaction is not fraudulent). The transaction is unfair to Buyer. Shareholders sue Mr. James and the other parties that approved the transaction.

The three indices are calculated on the basis of particular responses to a number of questions. The notes in the individual country reports explain the scoring methods in greater detail; all of these reports, one for each country, can be downloaded from www.doingbusiness.org.

Comparisons by subindicator

Overall, Serbia ranks in the middle of the field on this indicator. Among the four countries, Bulgaria leads with rank 33 (19th percentile), while Croatia brings up the rear with a rank of 122. Slovenia outranks all with a rank of 19 (11th percentile).

Figure 8: Subindicators for "protecting investors"



The comparison of the subindicators shown in Figure 8 suggests considerable variations across the four categories. For example for “disclosure index, the range is from 1 to 10, and a similar variation exists for the “director liability index,” where Serbia shares the lead with FYR Macedonia.

Table 4: Elements of the "protecting investors" indicator

Disclosure Index	7
What corporate body provides legally sufficient approval for the transaction? (0-3; see notes)	3
Immediate disclosure to the public and/or shareholders (0-2; see notes)	1
Disclosures in published periodic filings (0-2; see notes)	1
Disclosures by Mr. James to board of directors (0-2; see notes)	2
Requirement that an external body review the transaction before it takes place (0=no, 1=yes)	0
Director Liability Index	6
Shareholder plaintiff's ability to hold Mr. James liable for damage the Buyer-Seller transaction causes to the company. (0-2; see notes)	1
Shareholder plaintiff's ability to hold the approving body (the CEO or board of directors) liable for damage to the company. (0-2; see notes)	1
Whether a court can void the transaction upon a successful claim by a shareholder plaintiff (0-2; see notes)	1
Whether Mr. James pays damages for the harm caused to the company upon a successful claim by the shareholder plaintiff (0=no, 1=yes)	1
Whether Mr. James repays profits made from the transaction upon a successful claim by the shareholder plaintiff (0=no, 1=yes)	1
Whether fines and imprisonment can be applied against Mr. James (0=no, 1=yes)	0
Shareholder plaintiff's ability to sue directly or derivatively for damage the transaction causes to the company (0-1; see notes)	1
Shareholder Suits Index	3
Documents available to the plaintiff from the defendant and witnesses during trial (0-4; see notes)	0
Ability of plaintiffs to directly question the defendant and witnesses during trial (0-2; see notes)	1
Plaintiff can request categories of documents from the defendant without identifying specific ones (0=no, 1=yes)	1
Shareholders owning 10% or less of Buyer's shares can request an inspector investigate the transaction (0=no, 1=yes)	0
Level of proof required for civil suits is lower than that for criminal cases (0=no, 1=yes)	0
Shareholders owning 10% or less of Buyer's shares can inspect transaction documents before filing suit (0=no, 1=yes)	1
Investor Protection Index	5.3

Note: The notes refer to the individual report for Serbia.

Exploring the impact of reforms on rankings

As in the case of labor laws, the revision of the legal, regulatory and judicial framework governing the protection of minority shareholders will require systematic and comprehensive reforms. The complexity of this particular measure is illustrated quite vividly in Table 4. Even without going into detail on them here, the information provided suggests that reforms will require further analysis to track down the features in the legal and regulatory system that determine the reported outcomes.

Even so, Serbia's performance on this indicator could be improved. Just for illustration, supposed that legislative and procedural reforms would bring Serbia to the level of Bulgaria on both the "disclosure index" (from 7 to 10), and on the "shareholder suits index" (from 3 to 7). Such changes would result in a remarkable improvement of the overall ranking from 86 to 61, that is, by 25 places.

Paying taxes

Definitions

The "paying taxes" indicator seeks to measure the burden associated with paying taxes. Specifically, it focuses on the taxes and mandatory contributions that a medium-sized company must pay or withhold in a given year, as well as measures of the administrative burden in paying taxes and contributions, as imposed by government at any level. These taxes and contributions include the profit or corporate income tax, social contributions and labor taxes paid by the employer, property taxes, property transfer taxes, the dividend tax, the capital gains tax, the financial transactions tax, waste collection taxes and vehicle and road taxes. The concept of taxes is broad, since they include labor contributions and value added tax.

Estimating the subindicators refers to a very precisely defined company, assumed to have started operations on January 1, 2005 (and making a loss in the first year). It has five owners, a start-up capital of 102 times the per capita income, and a turnover of 1,050 times the per capita income. There are further specific case characteristics, down to the distribution of the money spent on traveling for the company—assumed to be 10 percent of per capita income, with 20 percent purely private, 20 percent for entertaining customers, and 60 percent for business travel.

Comparisons by subindicator

On this particular indicator, Serbia ranks lowest among the four (or six) comparator countries, with a rank of 121 (68th percentile). Croatia leads in the region, with a rank of 43 (24th percentile, that is, in the upper quarter of all countries ranked). Both Bulgaria and FYR Macedonia rank below their average, with ranks of 88 and 99, respectively.

Figure 9: Subindicators for “paying taxes”

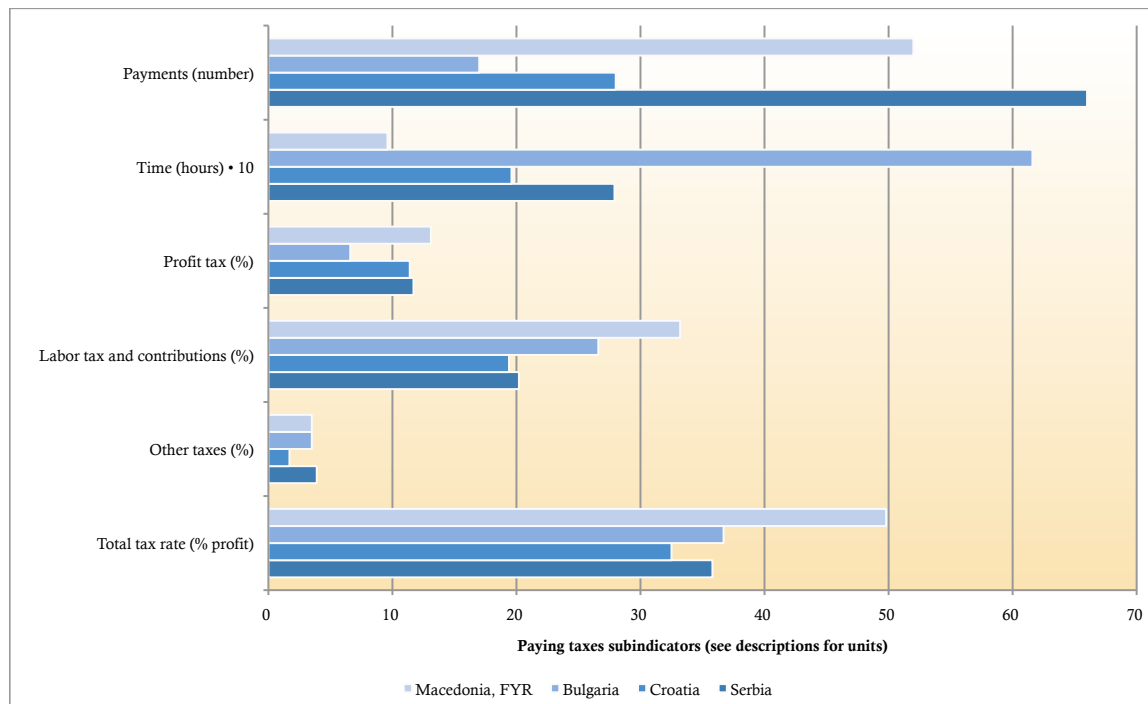


Table 5: Components of the "paying taxes" indicators

Tax or mandatory contribution	Payments (number)	Time (hours)	Statutory tax rate	Tax base	Total tax rate (% profit)
Value added tax (VAT)	12	125	18.0%	value added	not included
Construction land development fee	1		varies	square meter of useful land for construction	
Municipal tax	12		varies	various	
Urban land usage fee	12		varies	per square meter	
Property tax	4		0.4%	property value	0.89
Property transfer tax	1		5.0%	sale price	3.03
Corporate income tax	12	48	10.0%	taxable profits	11.67
Social security contributions	12	106	17.9%	gross salaries	20.19
Totals	66	279			35.8

The comparison by subindicators shows the main “culprit” for the low ranking of Serbia on this measure—the number of payments. As Table 5 indicates, the reason for the large num-

ber of payments is that each payment (VAT, municipal tax, urban land use fee, corporate income tax and social security contributions) is counted separately.

Exploring the impact of reforms on rankings

As in some of the other indicators, fundamental reforms in with respect to the tax regime and tax generally require more than a “stroke of the pen” changes in the underlying system. In order to reduce the burden of paying taxes, critical regulatory and administrative reforms are required. Assume that reforms could be introduced to reduce the number of payments at the municipal and Republic level by 12 each (by combining payments). The total number of tax payments would decline to 42, and the number of hours required would decline proportionally from 279 to 177. These two changes would improve the overall ranking for the Serbian economy by 14 places, from rank 86 to 72.

Trading across borders

Definitions

The “trading across borders” indicator comprises measures of the procedural and cost requirements for exporting and importing a standardized cargo of goods by ocean transport. Every official procedure for exporting and importing the goods is recorded—from the contractual agreement between the two parties to the delivery of goods—along with the time and cost necessary for completion.

The business involved has 100 or more employees, and exports more than 10 percent of its sales. The traded product travels in a dry-cargo, 20-foot, full container load. The goods are neither hazardous nor perishable, and do not pose any environmental issues, that is, do not require any special phytosanitary or environmental safety standards.

Comparisons by subindicator

The Serbian economy does well on this indicator, with a rank of 58 (33rd percentile), leading the other countries in the region. (Of the countries examined here, only the Czech Republic scores better, with a rank of 30.) Figure 10 shows the comparisons across the six sub-indicators. With respect to exports, the number of documents to complete vary little across countries, with Bulgaria showing the smallest number, followed by Serbia. Serbia does significantly better than the rest of the countries in terms of the time it takes to process exports at the border. Processing exports takes about double the time in Bulgaria and Croatia. The data shown in Table 6 suggest that ports and terminal handling account for five of the total of twelve days, while inland transportation and handling accounts for the lion’s share of the total cost.

For imports, Serbia has the lowest number of documents to complete, and the total time required is less than elsewhere. However, it now registers the highest cost, with inland transportation and handling accounting for more than 75 percent of the total cost. In the

case of imports, document preparation takes more time than for exports, accounting for 8 of the total of 14 days.

Figure 10: Subindicators for “trading across borders”

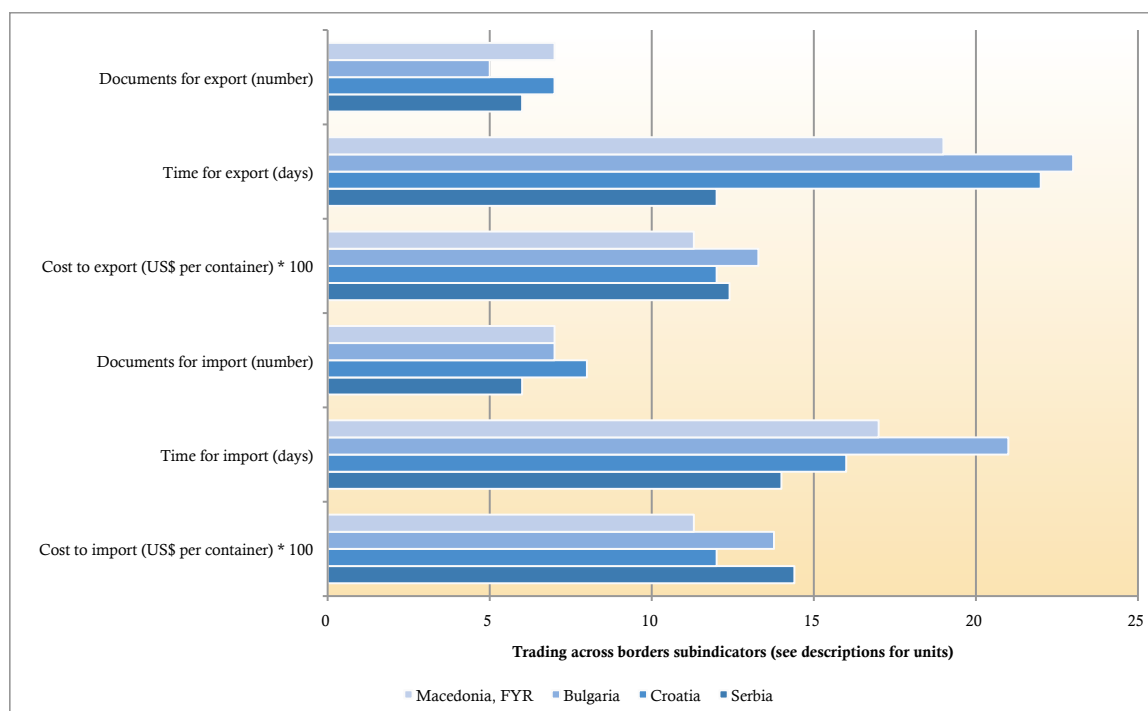


Table 6: Elements of “trading across borders”

Nature of Export Procedures (2007)	Duration (days)	US\$ Cost
Documents preparation	2	20
Customs clearance and technical control	2	70
Ports and terminal handling	5	250
Inland transportation and handling	3	900
<i>Totals</i>	<i>12</i>	<i>1,240</i>
Nature of Import Procedures (2007)	Duration (days)	US\$ Cost
Documents preparation	8	20
Customs clearance and technical control	2	70
Ports and terminal handling	3	250
Inland transportation and handling	3	1,100
<i>Totals</i>	<i>14</i>	<i>1,440</i>

Exploring the impact of reforms on rankings

Without understanding the elements that shape the time and cost required for document preparation and other subindicators for the “trading across borders” measure, it is difficult to present a plausible scenario for possible reforms. However, to obtain some notion of the sensitivity of the rankings to changes, suppose that reforms could target three of the subindicators. The time for import document preparation is reduced to correspond to that for exports, from 8 to 2 days, in other words. The time required for ports and terminal handling for exports is reduced from 5 to 3 (as for imports), and the cost of inland transport and handling for imports is reduced to USD 900 as for exports.

This scenario would imply very moderate changes in the overall ranking of Serbia with respect to the ease of doing business. It would gain 4 places, from 86 to 82.

Enforcing contracts

Definitions

The “enforcing contracts” indicator is designed to measure the efficiency of the judicial system in resolving a commercial dispute. The measures follow the step-by-step evolution of a commercial sale dispute before local courts. The dispute concerns a lawful transaction between two businesses, company A and company B (seller and buyer). Company A sells goods worth 200 percent of the country’s per capita income to company B. After the goods are delivered, company B does not pay for the goods on the grounds that the delivered goods were not of adequate quality.

Company A sues the buyer to recover the amount under the sales agreement, and attaches company B’s goods prior to obtaining a judgment. Expert opinions are given on the quality of the goods. The judgment is 100 percent in favor company A: the judge decides that the goods are of adequate quality and that company B must pay the agreed price. Company A takes all required steps for prompt enforcement of the judgment.

Comparisons by subindicator

As for the “paying taxes” indicator, Serbia brings up the rear of the countries examined in terms of the “enforcing contracts” measure. Serbia has an overall rank of 101 (57th percentile). Croatia ranks high (rank: 45, 25th percentile), followed by FYR Macedonia and Bulgaria, which has a rank closer to that of Serbia.

In terms of the number of procedures, all countries are fairly close together, with Serbia actually showing the best measure at 36, with Bulgaria reporting the highest number of 40. In terms of duration, Serbia records the highest number with 635, compared to Croatia and Bulgaria with 561 and 564, respectively. FYR Macedonia reports the shortest duration of 385 days, a little over a year.

Figure 11: Subindicators for “enforcing contracts”

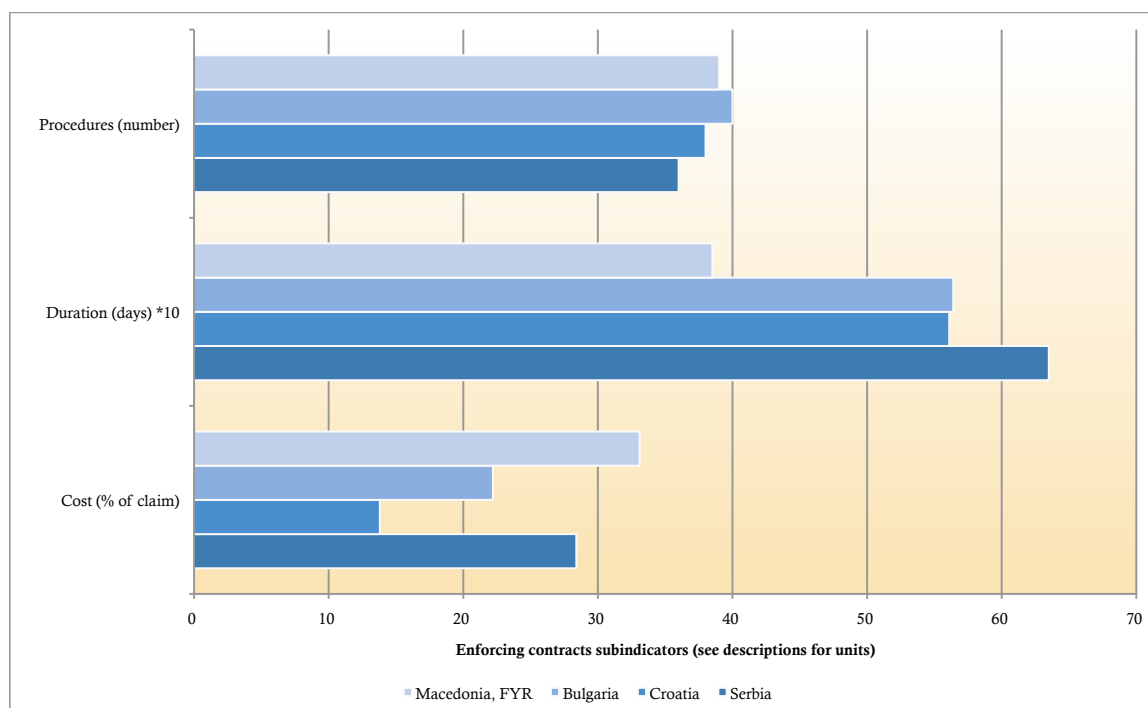


Table 7: Elements of “enforcing contracts”

Nature of procedure (2007)	Indicator
Procedures (number)	36
Duration (days)	635
Filing and service	30
Trial and judgment	496
Enforcement of judgment	110
Cost (% of claim)*	28.4
Attorney cost (% of claim)	8.9
Court cost (% of claim)	12.4
Enforcement Cost (% of claim)	7.1

* Claim is assumed to be 200 percent of GNI per capita, or \$2,240.

Exploring the impact of reforms on rankings

The forces that shape each of these subindicators reflect legal, regulatory, judicial and administrative elements in combination. A plausible reform scenario requires a better understanding of these forces. Assessing the impact of reforms on the overall ranking therefore is once again illustrative. Suppose a scenario with 36 procedures, which already applies to

Serbia, a duration like FYR Macedonia of 385 days, and Croatia's cost of 13.8 percent of the value of the claim. This scenario would bring a significant improvement, as Serbia's overall ranking would move from 86 to 65, a change of 21 positions.

Closing a business

Definitions

The "closing a business" indicator comprises measures of the time, cost and outcomes of bankruptcy proceedings involving domestic entities. The business in question is 100-percent domestically owned, had an average annual revenue of 1,000 times the per capita income. It also had 201 employees and 50 suppliers, to whom it owes money for the last delivery. The business borrowed from a domestic bank five years ago with a total repayment period of 10 years, using its real estate as a security, and a mortgage exactly equal to the market value of the hotel.

The business is experiencing liquidity problems. The company's loss in 2006 reduced its net worth to a negative figure. There is no cash to pay the bank interest or principal. The business has the following options: a judicial procedure aimed at the rehabilitation or reorganization of the business to permit its continued operation; a judicial procedure aimed at the liquidation or winding up of the company; or a debt enforcement or foreclosure procedure aimed at selling the hotel either piecemeal or as a going concern, enforced either in court (or through a government authority like a debt collection agency) or out of court (for example, by appointing a receiver).

Comparisons by subindicator

Overall, Serbia is doing far worse on this indicator than its overall ranking, with a rank of 103 (58th percentile). But it is doing far better than FYR Macedonia with a ranking of 127 (71st percentile). Bulgaria does best with a rank of 72, followed by Croatia with a rank of 78. (Slovenia shows the best performance with a rank of 34 or the 19th percentile.)

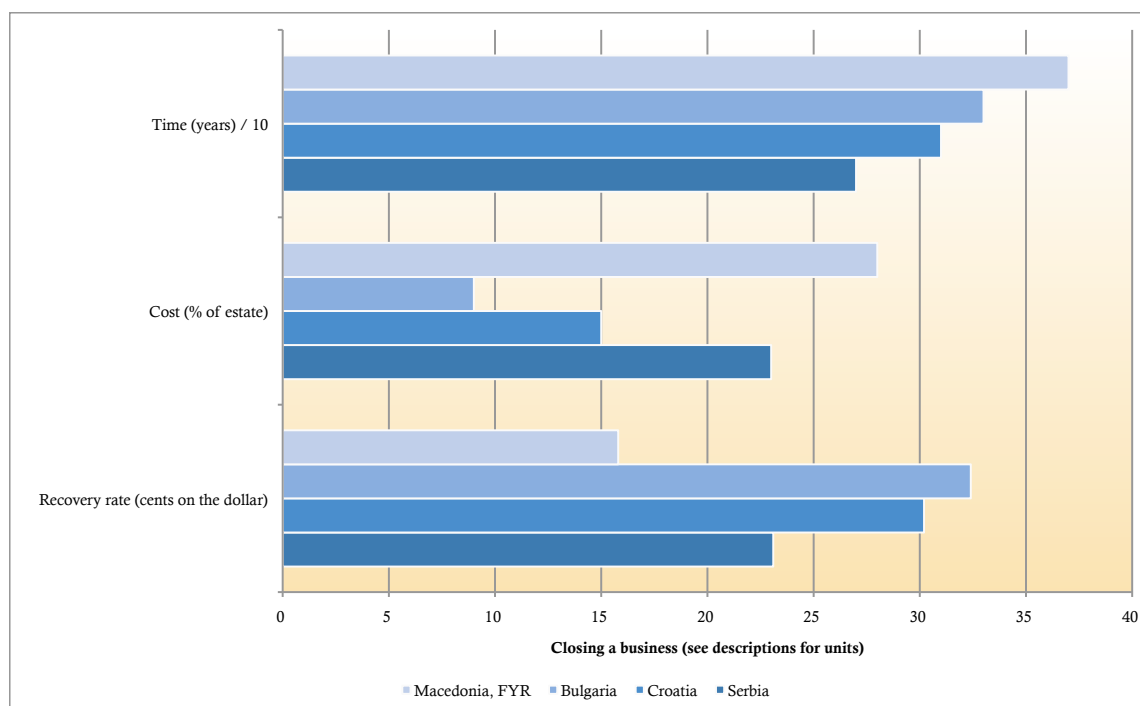
In terms of total duration, it takes less than 3 years to wrap things up in Serbia, which is the best score of the four countries compared in Figure 12. But the cost of closing a business is high in Serbia, and the recovery rate is low.

Exploring the impact of reforms on rankings

The regulatory, judicial and administrative aspects related to bankruptcy proceedings are multi-faceted and linked to other elements of the legal system. Reforms in this area therefore tend to take a long time. As an illustrative scenario, consider how Serbia would fare if it managed to achieve the same recovery rate as reported for Bulgaria, 32.4 percent (Slovenia reports a recovery rate of 46.6 cents on the dollar).

With that change in the recovery to 32.4 cents on the dollar, Serbia's overall ranking would improve by 14 places, from 86 to 72.

Figure 12: Subindicators for “closing a business”



Summary: What may be possible through strategic focus

Clearly, the analysis here has only briefly touched on some of the underlying forces. However, at the beginning we raised the question—how could Serbia gain greater recognition of any regulatory reform efforts through the *Doing Business* indicators? Throughout the discussion, the analysis has provided some examples, sometimes more with a realistic focus, sometimes merely for illustrative purposes. Now is the time to explore the combined impact of the (more) realistic scenarios, where improved administrative efficiency should be able to produce gains. In this combined analysis, the possibility of legislative changes, or of speeding up the judicial process is viewed as a longer-term priority.

In order to get the combined impact of changes, the simulation of rankings applies the following assumptions:

- **Starting a business:** reduce the number of procedures from 11 to 9; trim the time for filing documents from 23 to 15 days (through the application of one-stop shop principles); and bring down the cost to the 7 percent of per capita GNI reported for FYR Macedonia;
- **dealing with licenses:** cut the number of procedures from 20 to 15, reduce the duration to 180 days, and lower the cost to some 720 percent of GNI, approximately the same as for Croatia;
- **employing workers:** no changes, since the rules are rooted in culture and legislation;

- **registering property:** keep the number of procedures, reduce the duration to 20 days, and reduce cost to 2 percent;
- **getting credit:** any changes here depend on the impact on the expansion of the coverage of the public credit bureau, or the launch of a private credit bureau;
- **protecting investors:** any impact will require legislative changes and improved functioning of the judiciary;
- **paying taxes:** no change, since the illustrative change refers to a significant shift in the total tax regime;
- **trading across borders:** a scenario as described in the text—time for import document preparation from 8 to 2 days, reduction in inland transport and handling by USD 200, and cut the time for exports by 2 days;
- **enforcing contracts:** changes will require new legislation and improved efficiency of the judicial system;
- **closing a business:** Same observations.

Combining these assumption in the rankings simulator results in changes in the overall ranking of Serbia **from 86 to 56**, a rather dramatic improvement of 30 places. Obviously, while the scenarios try to focus on areas that may not require major legislative and institutional changes, the combination may be far from realistic. But it does describe the range of the possible. It may be worth recalling that the 2007 reform champion, Egypt, only advanced by 26 places.

Doing Business and perceived competitiveness

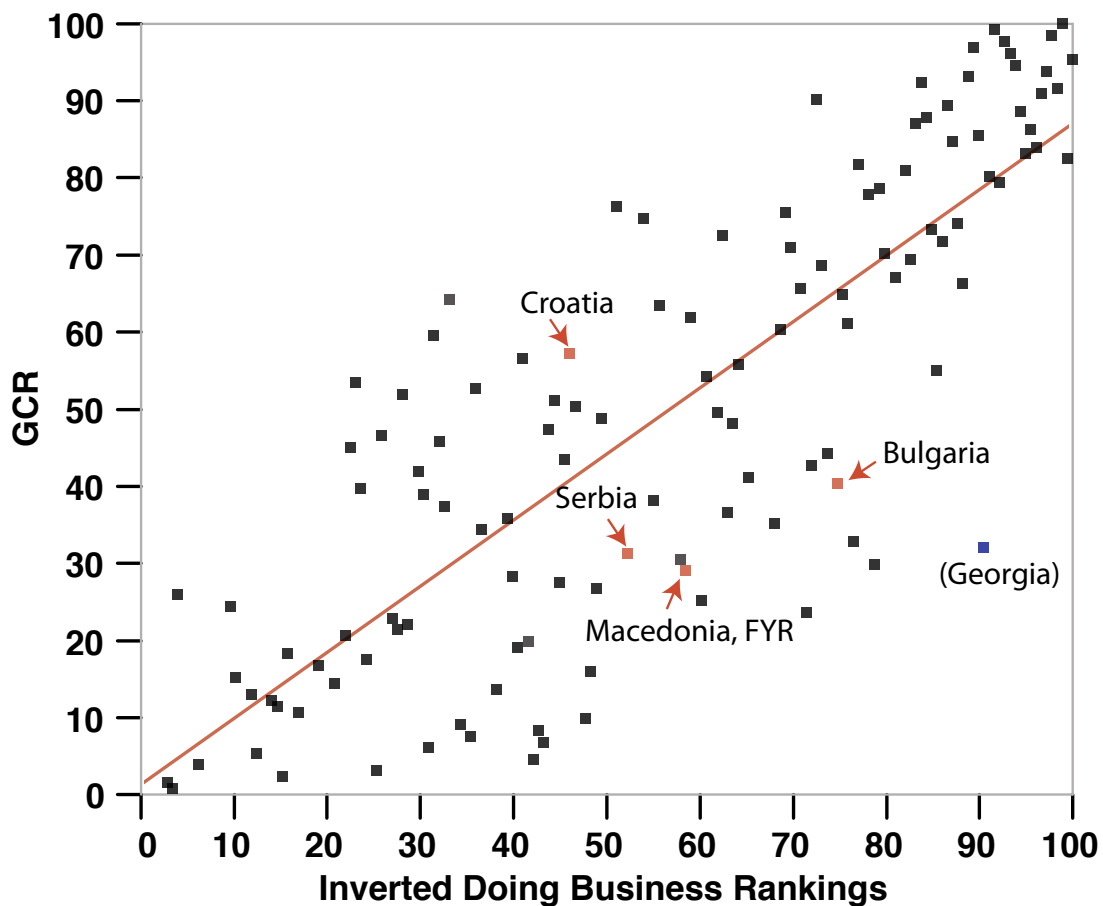
Ultimately, what makes a business environment *enabling* is its impact on competitiveness and growth. At the aggregate level, it appears to be surprisingly difficult to confirm empirically the growth effects of creating an enabling business environment. However, it is possible to catch a glimpse of the relationship between the business environment, as measured by the rankings of the *Doing Business* surveys, and countries' competitiveness. The World Economic Forum publishes its annual *Global Competitiveness Report (GCR)*, covering 131 countries (in 2007), which is largely, though not exclusively based on survey of business executives in each of these countries. These responses are combined with "hard" data, such as macroeconomic indicators, to estimate each country's performance on nine indicators (or "pillars") which are subsequently aggregated into a Global Competitiveness Index. The GCR also ranks countries according to a Business Competitiveness Index which is based entirely on responses to the survey, made up of subindicators for "Quality of the national business environment" and a "Company operations and strategy."

Figure 13 illustrates the relationship between the rankings according to *Doing Business* (x-axis) and the GCR rankings according to the Global Competitiveness Index (on the y-axis). For showing this relationship, both rankings have been inverted—so that a higher score

shown means a higher ranking—and then standardized such that the highest score (best performer) corresponds to 100. Figure 13 also shows the overall regression line between the two scores.

The relationship between the quality of the business environment, as measured by the *Doing Business* indicators and the perceived competitiveness as measured by the rankings in the *Global Competitiveness Report* seems to vary across the range. It is fairly strong in the upper right-hand corner, among the best performers. It also tends to be more concentrated at the bottom of the scale. But in the middle of the range, it would be difficult to establish any kind of pattern. Countries with middling scores on the *Doing Business* indicators consider themselves to be quite competitive, while others score well in the *Doing Business* scale, but lag in terms of perceived competitiveness. One of the most extreme cases, the dot to far right of the graph, denotes Georgia, the 2006 “regulatory reform champion” crowned by the *Doing Business* team.

Figure 13: The relationship between DB and GCR rankings



Three of the countries are below the estimated relationship between Doing Business and GCR rankings. Only Croatia, with a much higher reported per capita GNI, views itself as

being “above the norm” in terms of perceived competitiveness relative to its business environment. Serbia, actually, is closest to the “norm” as described by the regression line in Figure 13.