Unfortunately, Croatia still performs poorly on investment climate

Bejaković, Predrag

Source / Izvornik: **Press releases, 2013, 6, 1 - 3**

Journal article, Published version
Rad u časopisu, Objavljena verzija rada (izdavačev PDF)

https://doi.org/10.3326/pr.2013.59

Permanent link / Trajna poveznica: https://urn.nsk.hr/urn:nbn:hr:242:716449

Rights / Prava: Attribution-NonCommercial-NoDerivatives 4.0 International/Imenovanje-Nekomercijalno-Bez prerada 4.0 međunarodna

Download date / Datum preuzimanja: **2024-04-26**

Repository / Repozitorij:

Institute of Public Finance Repository

DIGITALNI AKADEMSKI ARHIVI I REPOZITORIJI

Institute of Public Finance | No. 59 | Zagreb November 14, 2013

INSTITUTE OF PUBLIC FINANCE
ured@ijf.hr | www.ijf.hr
TEL: +385 (0)1 4886 444

PRESS RELEASES

Unfortunately, Croatia still performs poorly on investment climate

PREDRAG BEJAKOVIĆ, PHD, Institute of Public Finance, Zagreb

According to the World Bank's Doing Business 2014 report, Croatia ranks 89th this year among 189 countries around the world on the ease and efficiency of doing business. Last year, it ranked 84th among 185 countries. The country made progress in paying taxes, trading across borders, enforcing contracts and resolving insolvency. However, its rankings on investor protection, dealing with construction permits, getting electricity, registering property and getting credit deteriorated.

What this is all about and what the Survey measures

For eleven years now, the World Bank has conducted a comprehensive investment climate survey in almost all countries around the world, called „Doing Business". The Survey assesses, in an objective and comparable manner, the simplicity and ease of doing business, creating jobs and developing innovative products. A successful private sector directly contributes to a more prosperous society. Governments play the key role in creating a better climate for business, as they set the rules for the determination of property rights and regulation of their observance, reducing of the cost of resolving disputes and increasing of predictability of economic transactions. Without clear rules that are generally observed, entrepreneurs have more difficulties in starting and developing their business firms that are generators of growth and new jobs for most economies around the world.

Doing Business deals with domestic, mainly small and medium-sized firms, and examines how regulations are applied to them during their life cycles. Rankings are based on several indicators: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency (in earlier surveys, winding-up of the company). The Survey also measures regulation of the hiring of workers. Examination of the investment climate is of special importance because, in a global economy characterised by constant changes, differences in performance depend exactly on how clear the business rules are, how strictly they are applied, whether they create undesired incentives and whether they help establish a level playing field.

In the last few years, the *Doing Business* data in many parts of the world clearly suggested remarkable progress made in removing some of the major bureaucratic obstacles to the private sector activity. However, small and medium-sized firms continue to be subject to excessive regulation and vague rules that impair the efficiency of the enterprise sector. This impairs the overall competitiveness of economies and reduces their job-creation potential.

Starting a business on average around the world takes 7 procedures, 25 days and costs 32% of income per capita. However, the situation varies from country to country, so that it takes only half a day and almost nothing in costs in New Zealand, but 208 days in Suriname (former Guyana, a country in the north of South Africa) and 144 days in Venezuela.

How we stand in the international environment and what has changed

This year's *Doing Business* presents the results for business regulation in 189 economies, with four new countries introduced: Libya, Myanmar, San Marino and South Sudan. The data relate to the period from June 2012 to June 2013. Croatia improved its total score on ten indicators by 0.9, from 63.7 last year to 64.6 (out of a possible 100). After data corrections, and given the four newly introduced countries, Croatia went down one notch on the scale (it ranked 88th last year).

On the whole, all the surveyed Southeast European countries, except Macedonia and, to some extent, Montenegro, rank relatively poorly, but there are sharp differences in trends among them. Croatia, for example, dropped ten places in the last four years (partly due to a larger number of surveyed countries), while Kosovo improved its ranking by enviable 31 positions over a relatively short period. In a longer run, considerable progress was again observed in Macedonia and Montenegro, while the ratings of Albania, Bosnia and Herzegovina and Serbia mainly deteriorated.

Table 1 *Rankings of Southeast European countries according to Doing Business reports*

	2011	2012	2013	2014
Albania	77	82	85	90
Bosnia and Herzegovina	127	125	126	131
Croatia	79	80	84	89
Kosovo	117	117	98	86
Macedonia	34	22	23	25
Montenegro	56	56	51	44
Serbia	88	92	86	93

Source: Doing Business Reports, 2011, 2012, 2013 and 2014

Public media generally present figures on the improvement or deterioration in Croatia's rankings on different report topics. Croatia made starting a business easier by introducing a new form of limited liability company with low minimum capital requirement and simplifying the incorporation procedure. Moreover, according to WB, Croatia made remarkable progress in paying taxes and contributions and reducing parafiscal levies, by introducing an electronic system for the payment of pension and health insurance contributions and cutting the contribution rates for forests and the Croatian Chamber of Economy. Thanks to improvements in the physical and IT-system infrastructures at the port of Rijeka and the streamlining of the export customs procedure associated with Croatia's accession to the EU, significant progress was made in trading across borders. Enforcing contracts was made easier by streamlining litigation proceedings and transferring certain enforcement procedures from the courts to state agencies, and resolving insolvency was facilitated by introducing an out-of-court restructuring procedure.

Unfortunately, however, according to the latest *Doing Business* report, Croatia experienced the sharpest deterioration in protecting investors, falling to 157th place, a drop from last year's 139th place. The low last year's ranking of the country on dealing with construction permits (143), fell further to the current level of 152. A slightly lower ranking than last year was earned in getting electricity, registering property and getting credit.

Have we learned anything?

Given such a short reference period (one year), one should be neither too worried nor too enthusiastic about the low or high rankings on the investment climate according to the World Bank performance indicators. However, should the situation not improve, or even deteriorate in the long run, alarm bells should be ringing. Creating a better investment climate is not an easy or simple task to be completed overnight. It rather requires persistence and determination of the most senior decision-makers, but also of all those participating in the decision-making process. This involves the creation of sound institutions that will not be subject to constant changes, development of a system of simple, unambiguous and relatively long-standing laws and regulations and improvement in civil servants' motivation, primarily through reforms of the remuneration and promotion systems. Finally, the overall legislative infrastructure and tax system are highly complex and should therefore not be „auctioned off to the highest bidder "or made the object of unrealistic political campaign promises.

Instead of constantly introducing new legislative and other changes, it is crucial to enforce laws and vigorously fight corruption. Even countries that are relatively close to Croatia, such as Macedonia and Montenegro, provide good examples of how important the determination and willingness of the leaders are in improving the investment climate. We should get rid of the opinion that whatever comes from the West is excellent, because many things can obviously be learned from Eastern economies as well.