USAID | BOSNIA-HERZEGOVINA
FROM THE AMERICAN PEOPLE

An SME Perspective of Public Services

The Survey Report

SPIRA: Streamlining Permits and Inspections Regimes Activity

June 2008

This publication was produced for review by the United States Agency for International Development. It was prepared by Chemonics International Inc. with The IRIS Center at the University of Maryland, College Park

An SME Perspective of Public Services

THE SURVEY REPORT

SPIRA: STREAMLINING PERMITS AND INSPECTIONS REGIMES ACTIVITY

CONTRACT NO. AFP-I-00-03-00030-00, TASK ORDER NO. 01

ACTIVITY NUMBER 24

CTO RANDY CHESTER

USAID/BOSNIA-HERZEGOVINA ECONOMIC RESTRUCTURING OFFICE

AUTHORS

Zoltan Milić (Chemonics International/USAID-SPIRA) with Diana Rutherford and Malcolm Russell-Einhorn (The IRIS Center, University of Maryland, College Park)

The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

ACKNOWLEDGMENTS

The authors extend special acknowledgement to USAID SPIRA Chief of Party Stephen Farkas, the staff of Prism Research (especially Emir Dervišević and Eldin Sarajlić), and all interviewees and participants whose good will made this report possible.

CONTENTS

ABOUT SPIRA 5

ABOUT THE SURVEY 6

A. Research Goal 6

B. Survey Design 6

C. Sample Design 7

PROFILE OF SURVEY RESPONDENTS 9

BUSINESS REGISTRATION 11

A. Introduction 11

B. Survey Findings: Time to Register 13

C. Survey Results: SPIRA's Fast-Track Registration 15

D. Survey Findings: Verifying Minimum Technical Requirements 17

CONSTRUCTION PERMITTING 21

A. Introduction 21

B. Survey Findings: Obtaining Permits 21

C. Survey Findings: business person Experiences 25

INSPECTIONS 30

A. Introduction 30

B. Survey Findings: Inspections 31

POTENTIAL REFORMS 37

CONCLUSION 39

ANNEX 1: Survey Instrument 41

Annex 2. Key Informant Interviews 48

ANNEX 3. Survey Design and Other Business Environment Surveys 49

ANNEX 4: Exclusion Criteria 51

EXECUTIVE SUMMARY

USAID SPIRA undertook this survey for two reasons: (1) to set a baseline against which to measure the outcomes of project activities to improve business registration, construction permitting, and inspection processes; and (2) to better understand what relevant issues affect the business registration and permitting processes and in what manner.

The survey consisted of 552 face-to-face interviews with micro and small business owners and managers answering the survey questionnaire in both Bosnia-Herzegovina's entities as well as 15 more widely ranging interviews with randomly selected entrepreneurs from both entities to enhance SPIRA's understanding of certain sensitive issues. The survey fieldwork was conducted during November and December of 2007 while the in-depth qualitative, non-structured interviews were held over the period of two weeks in March 2008. We are proud to present our findings in this report.

The results indicate that there is significant room for improvement in business registration. On average, it takes more than six weeks to register a small business in Bosnia-Herzegovina (BiH), although it is significantly faster to register in the Republika Srpska (RS) than in the Federation of Bosnia-Herzegovina (FBiH). These findings corroborate entrepreneurs' perception of complicated or excessive numbers of formalities as the greatest difficulty faced by small and medium-sized businesses in BiH. Analogously, entrepreneurs believe that the focus of reform efforts should be on the reduction of excessive regulations and reduction of permitting time, thus confirming the validity and the utility of the USAID SPIRA project focus and activities carried-out so far.

With respect to construction permitting, the survey indicates that the system of construction permitting is in dire need of serious overhaul. Respondents report that it takes an average of 14 months to two years to obtain the three key construction permits. The magnitude of this problem — which produced illegal construction — cannot be overstated. The estimated value of illegal construction in FBiH alone amounts to about BAM 5.2 billion. This is a vast amount of capital that cannot be used for any economic purpose, since illegal property cannot be used for collateral nor can it be legally sold.

In the area of inspections, it is clear that the current haphazard planning of inspections and the limited number of inspections actually conducted create inefficiencies and, when inspections do occur, opportunity for bribery and extortion. Despite the legal obligation to inspect all businesses, such inspections do not appear to be taking place. Of respondents, 26% reported that in 2007 they never received a market inspection, 62% never received a construction inspection, and 64% never received an urban inspection.

This survey provides a wealth of information for development practitioners in BiH and points to areas that merit attention from reformers. It also provides a baseline that SPIRA staff can use to measure business owners' satisfaction with reform activities at the project's end. We hope to be able to report the results of our subsequent survey with even greater pride and satisfaction.

ABOUT SPIRA

The purpose of the USAID Streamlining Permits and Inspections Regimes Activity Project (SPIRA) is to improve access to the marketplace for small and medium-sized enterprises (SMEs) by reducing administrative barriers to their establishment and operation. The project seeks to achieve this objective through four principal areas of activity: (1) streamlining business registration and permitting procedures associated with business start-up; (2) streamlining the issuance of construction permits; (3) improving the efficiency and fairness of inspections performed by the relevant government agency charged with verifying compliance, and (4) using information technology to improve communication between relevant government agencies — and between such agencies and businesses — that exchange information related to the abovementioned processes. These activities support USAID Objective 1.3 (SO 1.3), entitled "Accelerated Private-Sector Development."

To effectively conduct project activities, the SPIRA team undertakes a multi-step process. First, staff map the elements of existing relevant administrative and regulatory processes. Second, they organize working groups of domestic stakeholders to review and propose relevant changes to the existing regulatory framework. Third, staff help draft — and encourage adoption of — legislation that streamlines administrative and regulatory processes. Fourth, they encourage the agencies involved to adopt new information and communications technology when it can improve the efficiency of the registration, permitting, and inspections processes. For example, SPIRA is working with Inspection Directorates to develop an inspection management system that will allow inspections managers to plan, execute, monitor, and evaluate inspections to promote greater efficiency and accountability. Lastly, staff train government officials to enable them to effectively implement newly streamlined processes. The SPIRA team also conducts outreach to the business community and the public to educate them about the improved procedures.

ABOUT THE SURVEY

A. RESEARCH GOAL

The SPIRA team undertook this survey for two reasons: (1) to set a baseline against which to measure the outcomes of project activities to improve business registration, construction permitting, and inspection processes; and (2) to better understand what relevant issues affect the business registration and permitting processes and in what manner.

The first objective of the survey was to set a baseline against which to measure the outcomes of project activities. Ideally, such a survey would be conducted near the outset of the project and repeated close to the end of the project, allowing more time for clear identification of changes in stakeholder views before and after project implementation.

Given the characteristics of the survey instrument – length, sensitivity of certain topics, and the scope of geographic coverage – SPIRA staff decided to employ a face-to-face survey.

The response rate was 87%, a significant response for this type of research.

While this survey cannot be a true baseline because some reform activities were underway when it was conducted and at least one major legislative change in the Republika Srpska — related to the verification of minimum technical requirements1 — had already occurred, the operational impact of these changes on businesses had not yet been felt, allowing for a relatively accurate pre-reform gauge of stakeholder views.

In an added benefit, the survey questions designed to elicit information on the customer-responsiveness of relevant governmental authorities could shed more light on the views and operations of small and micro-enterprises in BiH (principally craft shops), whose views on such matters are often inadequately known or factored into reform agendas.

B. SURVEY DESIGN

The SPIRA team designed the survey instrument (Annex 1) with 48 questions and seven sections: (1) general profile of businesses surveyed; (2) experiences with business registration; (3) experiences with inspections; (4) experiences with obtaining construction permits; (5) perception of and experiences with corruption; (6) potential reforms to improve businesses' experiences with registration, permitting, and inspections; and (7) demographic profile of respondents.

The bulk of questions were designed to elicit the opinion of businesses on a five-point scale with respect to the quality of their experience with certain procedures associated with registration, construction permitting, and inspections. Several questions required respondents to give their opinion on matters such as the perceived frequency of inspections. Other questions focused on matters of predictability, customer service (knowledge and

[1] For further explanation, see page 18 of this report.

courtesy of officials), and transparency (clarity and availability of information about required elements of certain administrative processes). Additional questions were included about registration or permitting denials and the clarity of information about appeals procedures.

Finally, to elicit some broad-based comparative judgments, respondents were asked to rank the severity of certain existing procedural barriers (e.g., length of time to register a business versus lack of information about the registration process), as well as the relative importance of certain potential reforms (e.g., reduction of time necessary to register a business versus a reduction in the number of regulations necessary to register a business). In addition, to capture some of the reasoning behind respondents' opinions, the project team decided to conduct individual interviews to help interpret the results.

C. SAMPLE DESIGN

The survey sample was designed using quota sampling. We selected this sampling method because we do not know the accurate total population of micro-, small, and medium-sized businesses in BiH. Therefore, we sampled business sectors related to USAID SPIRA's focus: trade, catering, crafts and tourism. We also included an "other" category (with a random selection of all other businesses) to enable cross-industry comparisons.

We crafted our sample with the goal of obtaining responses from 250 businesses per entity, to yield a total of 500 businesses surveyed. Sampling more than 500 of our target businesses would not be scientifically justified or economical. Assuming that BiH has more than 20,000 businesses, our selected sampling design yields a sampling error of ± 4.4% — a tolerable error for social research. Each industry is represented by 100 respondents (50 per entity), enabling inter-industry and cross-industry comparisons.

Additionally, we sought a minimum of 100 respondents answering construction permitting questions from the pool of 500 respondents, minimizing the resources required to conduct the survey. In addition, the sample was limited to businesses registered after 2001 to ensure respondents had experience with existing registration, permitting, and licensing procedures and staff.

According to EU classifications (Table 2), small businesses in BiH are primarily micro-businesses, with fewer than five employees and usually operated exclusively by the owner/manager. Given that the majority of businesses in crafts and trade are such micro-businesses, SPIRA faced the challenge of identifying these "one-man" businesses for inclusion in the sample frame. While SPIRA's primary focus is unincorporated businesses, we decided to also include incorporated businesses with fewer than 50 employees,[2] because we wanted to understand the impact of the registration/permitting processes on small businesses.

Table 1: Classification of Businesses by Size (as defined by the European Union)

Enterprise Category	Headcount: Annual Work Unit	Annual Turnover
Medium-sized	<250	≤ € 50 mil.
Small	<50	≤ € 10 mil.
Micro	<10	≤ € 2 mil.

[2] Such businesses are considered SMEs by the EU's criteria.

Unincorporated businesses are those in which a self-employed person performs business activity with or without business premises (a craftsperson usually has a place of business but a consultant might not).

The most significant features that distinguish this type of business from incorporated businesses are: (1) the fact that the businesses are registered in the municipality rather than in the courts; and (2) their size. The majority of unincorporated businesses are micro-enterprises (less than five employees).

Bosnia and Herzegovina has multiple business registries that do not communicate with each other, making this challenge all the more significant. Various agencies and branches of the governments at all levels maintain records of business activity, most of which are kept in hard copy not electronically.

After considering various options, SPIRA staff finally settled on using the Unified Database of Transaction Accounts. Maintained and owned by the BiH Central Bank, this database contains records of all transaction accounts of business subjects in BiH. Businesses can be both legal and physical persons engaging in any business activity. Consequently, even individual entrepreneurs (who are most commonly owners of craft shops) are listed in this database.

We took a random sample of 1,000 from the Unified Database of Transaction Accounts (which has more than 30,000 entries). This preliminary sample — including businesses from both entities — was then "cleaned" (using appropriate exclusion criteria, see Annex 4) to conform to the sample design, leaving 500 businesses.

The first round of field research did not yield the required 100 respondents answering the construction permitting questions, the sample was boosted by 52 respondents, resulting in 552 businesses surveyed and a sampling error of ± 4.2%. To reach 100 construction permitting respondents, the registration restriction date was moved back, so the final sample includes 24 businesses registered prior to 2002. The results presented related to business registration and inspections exclude these 24 businesses.

PROFILE OF SURVEY RESPONDENTS

The majority of respondents to our survey worked in firms with fewer than five employees (75.9%) who had registered their businesses in the last three years (68.29%). Each business sector is approximately equally represented, while greater emphasis in sampling was placed on the most developed business sector in BiH: trade.

Table 2: Characteristics of Respondents' Businesses

Characteristic		Number of Respondents
Business Sector	Trade	148
	Tourism	67
	Catering	124
	Crafts	113
	Other	100
Number of Employees	One	135
	Two	163
	3 to 4	121
	5 to 9	66
	10 to 49	67
Respondent's Position in Business	Owner	389
	Manager	163
Length of Business Operations	1 to 12 months	146
	13 to 24 months	111
	25 to 36 months	85
	37 to 48 months	72
	49 to 60 months	107
	61 months or more	31
Year of Business Registration	2001 or earlier	24
	2002 or 2003	151
	2004 or 2005	163
	2006 or 2007	214
Total Number of Respondents		**552**

In terms of demography (Table 3, next page), male respondents dominate the sample in both entities (65% men in FBiH; 66% in the RS). We believe that these figures accurately reflect the predominance of male business ownership and management, perhaps reflecting BiH's traditionally paternalistic societal pattern. The majority of respondents in both entities are high-school graduates (68% in FBiH; 75% in the RS), while university graduates and holders of advanced degrees are a minority (30% in FBiH; 24% in the RS). The majority of respondents are under 40 years of age (57% in each entity), though entrepreneurs over 40 constitute a significant portion of the sample (43% in FBiH; 43% in the RS).

Table 3: Demographic Profile of Respondents			
		FBiH	**RS**
Gender	Male	65%	66%
	Female	35%	34%
Education	None	0%	0%
	Elementary School	2%	0%
	High School	68%	75%
	University Graduate	18%	18%
	Advanced Degree (MS, PhD)	12%	6%
Age	< 20	1%	1%
	20 – 29	20%	25%
	30 – 39	36%	31%
	40 – 49	28%	25%
	50 – 59	14%	15%
	60 or more	2%	3%
Ethnicity	Bosniak	72%	3%
	Bosnian Croat	17%	4%
	Bosnian Serb	2%	87%
	Other	5%	1%
	No answer	4%	4%
Total		**287**	**265**

The distribution of respondents by ethnicity offers no surprises. In FBiH, the majority of respondents are Bosniaks (72%), while in the RS, the majority of respondents are Bosnian Serbs (87%). Respondents from minority ethnicities make up 24% of the sample in FBiH and 8% in the RS. In both entities, 4% declined to answer this question. While we believe this distribution reflects the post-war realities in BiH, we cannot be sure because no reliable population data exists for the country.

BUSINESS REGISTRATION

A. INTRODUCTION

To start a business (incorporated or unincorporated), a business person must go through three stages (see Figure 1, pg. 13):

1. Pre-registration: relevant documents required by the law are acquired by the founder, collected from various state authorities (e.g. tax certificate, birth certificate, etc.) or legalized by the specific state authority such as the court, municipality, etc.

2. Registration: the company/craft shop is registered with the court/municipality. During this stage, the business (company or craft shop) is legally created and, as a result, is recognized by the state.

3. Post-registration: the business receives a tax identification number from the tax authorities and opens a bank account and fulfills other requirements necessary to its legal function. In addition, its compliance with minimum technical requirements is verified (see page 21 for explanation of minimum technical requirements).

Numerous studies of BiH's business environment have persistently labeled its business registration system as one of the most cumbersome in the region. By all accounts, the process is slow. The WB/IFC's *Doing Business* report for 2008 ranks BiH 150 of 178 with respect to starting a business. According to the WB/IFC data, it takes 54 days to start a business in BiH, a figure which has been constant since 2006.

The majority of studies on the subject focus on the time required to process the business permit. This would be an adequate measure of the permitting agency's efficiency, but it is not an adequate measure of length of time businesses spending passing through the three stages described above. SPIRA used more appropriate definition (see text box below).

SPIRA defined the measurement of business registration process as the length of time, starting with the submission of a request for registration to such point in time when a business attains legal capability to invoice another party (i.e. engage in a transaction).

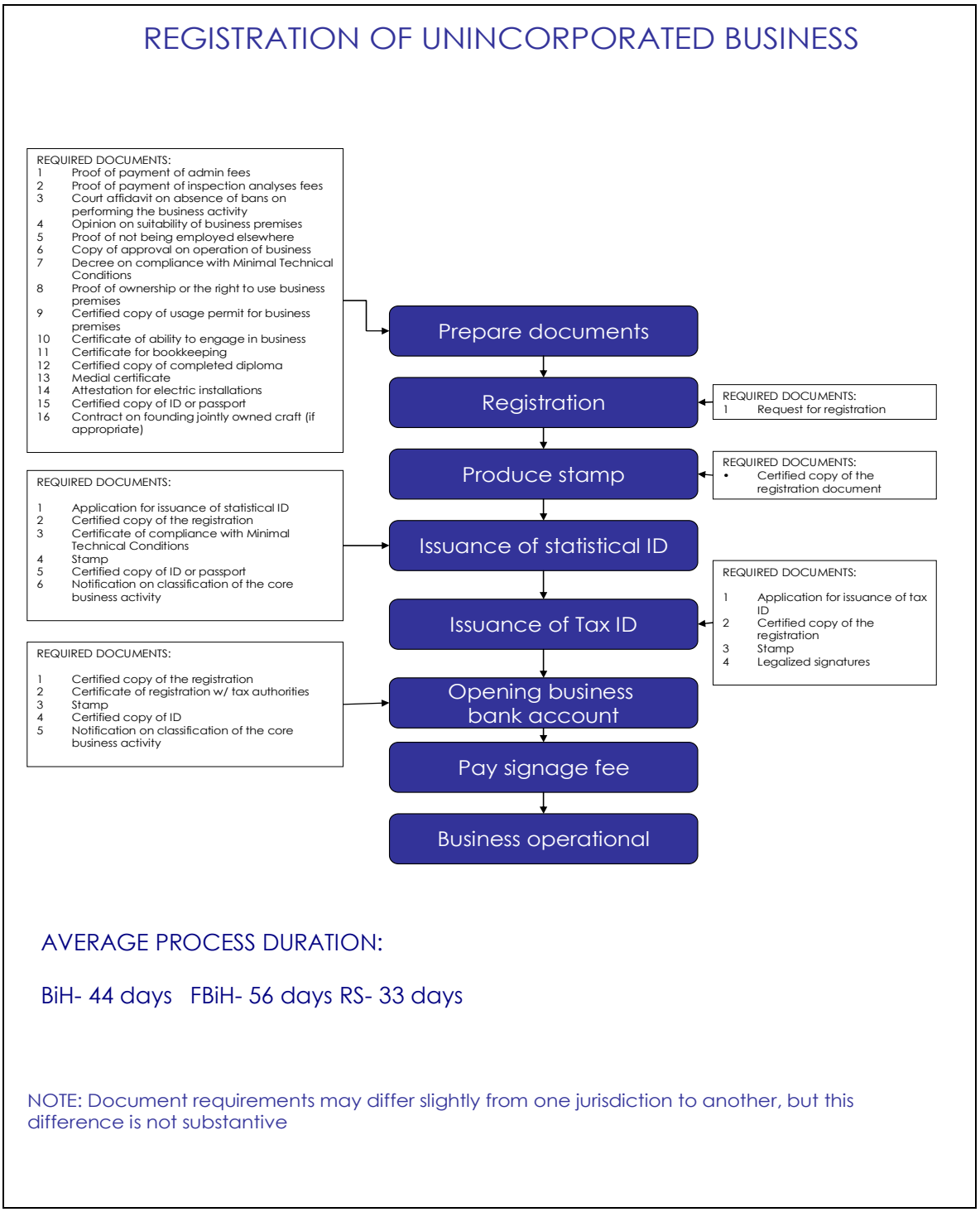


Figure 1- Registration of Un-incorporated Business Process

B. SURVEY FINDINGS: TIME TO REGISTER

Surveyed businesses indicated that registering a business in FBiH takes 56 days on average. In the RS, it takes an average of 33 days, bringing BiH's overall average to 44 days. Businesses can register 41% faster in the RS than in FBiH (Table 4).

Only 13% of sampled businesses reported they were able to register within one week between 2002 and late 2007, while 58% said that the process required more than four weeks (Table 5).

Table 4: Business Registration by Entity

Entity	Length of Registration (days)
FBiH	56
RS	33
BiH	44

Table 5: Time Required for Respondents to Register Their Businesses

Registered business within…	Number of businesses	Percent
one week	62	13%
two weeks	52	11%
three weeks	75	16%
four weeks	5	1%
more than four weeks	270	58%
Total	**462**	**100%**

Respondents reported that registering tourism-related businesses required an average of 63 days, while registering a crafts business required a little more than a month (Table 6, below). The 45% time difference between the process in tourism and crafts is statistically significant at 5% level. The same holds true for the 40% difference between the tourism and catering sectors.

If we compare businesses by size (defined by the number of employees), we see that micro, small, and medium-sized businesses all experience a long registration process. According to survey respondents, it takes longer to register a business with 3 or 4 employees than a business with 5 or more employees (Table 7, below). An analysis of the resulting variance indicates that the only statistically significant difference exists in the duration of the registration process between for those businesses employing one person and those with 10-49 employees (at 5% level).

Table 6: Time to Register By Sector

Business activity	BiH average duration (days)
Trade	42
Tourism	63
Catering	38
Crafts	35
Other	53

Table 7: Time to Register By Size

Number of employees	BiH average duration (days)
One	34
Two	44
3 to 4	54
5 to 9	43
10 to 49	50

"…[knowing these results] would have a terrible effect on an honest entrepreneur. It will have absolutely no effect on these criminals, these money-laundering crooks. Gorenje is a big company. They wanted to build their facility in Blažuj and you know what? They waited for three years for paperwork.

Just call them and ask them if you do not believe me. They left for Serbia and got papers in two days. Now they are building refrigerators in Serbia. Just think, why don't we have Nokia investing here? Why are they going to Romania?"

Male owner/manager in trade in Sarajevo

It must be remembered that an application to register a business is not automatically granted- it can be denied on various grounds. In the case of surveyed businesses, an application for business registration was denied in a very small number of cases (16 businesses or 3% of the sample).

These long wait times have implications for BiH's "gray economy." When asked how long their business was in operation without being officially registered, only 68 (13.6%) of respondents declared that they operated without official registration documents[3]. Of those, 42 operated for a year or less, while the remaining 26 operated 15 months to more than 25 years without registering. The majority of businesses that operated without registering were in the crafts sector. The most common explanation interviewees gave for not registering was that "the people got sick of waiting and just went ahead and started working."

Surprisingly, despite the delays respondents reported — more than half waited more than four weeks to register — more than three in four rated their experiences with municipal or court staff as fair, good, or very good. Only one of five respondents said the experience was poor or very poor. How can this be the case?

Such high satisfaction rates may be a function of several factors:

1. *The lack of customer-awareness*. Citizens pay for governmental services primarily through indirect taxation (VAT tax). As a result, people do not see their money as funding government services and do not see themselves as government customers. Government officials behave as if they provide favors to citizens, which only reinforce the lack of citizens' awareness of the fact that they actually pay for government's services both directly (fees) and indirectly (taxes).

2. *Low expectations.* Citizens are used to government incompetency. According to Transparency International, people in BiH consistently see political parties, police, and health and executive bodies as the most corrupt of all BiH's institutions. Coincidently, the mentioned institutions (with exception of the health sector) all serve the function of governing. However, they select their personnel, especially their leaders, based on nepotism or political/ethnic affiliations rather than competence. Therefore, as many of our surveyed owners or managers reason "…it can always get worse."

3. *Fear of government.* Since the governments (and its bureaucracies) control the state's repressive mechanisms, ordinary individuals fear repercussions if they complain or seek remedy. This applies across the board to governments at all levels. In that sense, a majority of people are willing to do what has to be done and get on with life.

[3] The exact formulation of the question implies that the businesses ultimately legalized their status at some latter period of time which they may or may not have done.

While these explanations are anecdotal, they are based on interviews in which subjects expressed similar thoughts. If someone states that the "paperwork to start the business is

> „… [municipal administrations] in Sarajevo has poor contact with citizens. If you have to get a prior consent for some piece of paper you seek, more often than not you have to go from one counter to another, because no one can tell you where to go exactly. They just tell you "you need this" and if you do not have connections and contacts, you can wait for a single paper a whole month. That requires a lot of mental stamina and money. "
>
> Male owner/manager of a catering facility in Sarajevo

complicated" and continues to claim that "the amount of paperwork is justified" in virtually the same breath, then something is deeply flawed in logical reasoning of the customer. Not all agree of course, but great majority of interviewees appear to have such flawed reasoning.

C. SURVEY RESULTS: SPIRA'S FAST-TRACK REGISTRATION

Table 8: Results of Pilot Fast-Track Registration

	Length of Registration (days)		
Municipality	**Mean**	**Std. Deviation**	**Median**
Banja Luka	40	157	30
Jajce	85	6	33
Siroki Brijeg	34	18	30
Laktaši	23	37	20
Mrkonjić Grad	8	15	5
Sarajevo	58	88	50
Prijedor	27	39	15
Travnik	11	11	10
Tuzla	63	27	30
Vitez	51	8	30
Zenica	60	30	30
Mostar	72	26	30

To become legitimate a business requires four different independent registrations, one each with the Pension Fund, the Social Insurance Fund, the Tax Administration, and the municipality. For example, registering an unincorporated business is cumbersome: each institution involved processes its registration separately from the others, and the entrepreneur must submit an extensive number of documents (see Figure 1, pg. 13).

In response to this situation, SPIRA designed a procedure in which the municipality acts on behalf of the entrepreneur and submits registration applications to and collects registration certificates from the other three institutions and delivers the full package of registration documents to the entrepreneur at the end of the process.

The procedure was piloted in two municipalities in the RS: Mrkonjić Grad and Laktaši. Table 8 compares data collected during the three-month pilots with data from non-pilot cities. It is obvious that the registration in pilot municipalities lasts shorter.

In designing the survey, SPIRA staff included a sampling of businesses in these two municipalities to analyze if any differences in duration of business registration process exist between those and businesses from other municipalities included in the sample. It was evident that differences exist and the t-test results confirm that those differences between pilot municipalities and other sampled municipalities were statistically significant at 1% level.

The municipality of Laktaši represents a somewhat special case. The municipal officials maintained dual registration systems- the old system of business registration and the fast-track registration- offering the choice of the registration procedure to business people. This was not the case in Mrkonjić Grad, where only the fast-track procedure was offered.

USAID SPIRA could not seek out individual businesses which used fast-track procedure in Laktaši due to confidentiality and privacy concerns. Therefore, the sample of businesses in fast-track municipalities could only be based on the geographic location criteria. This is the reason for upwardly skewed results in Laktaši when compared to Mrkonjić Grad- the sample included both fast-track and non-fast-track registered businesses in Laktaši.

However, when properly applied, the fast-track procedure enables business registration in a day or almost 98% shorter than the BiH average.

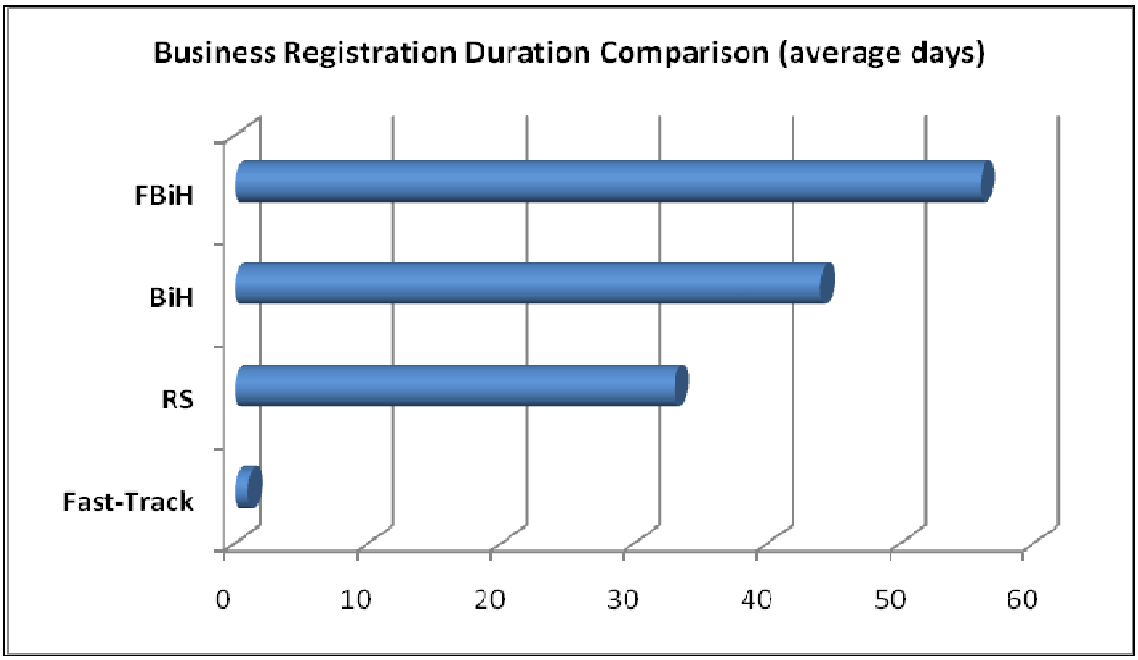


Figure 2- Comparison of average durations of business registration

As a testimony to the success of this model, the fast-track procedure is still being applied even after the expiry of pilot-period in both municipalities (it is still offered as an option in Laktaši), while the concept is being embraced by the two FBiH municipalities: Posušje and Vareš.

D. SURVEY FINDINGS: VERIFYING MINIMUM TECHNICAL REQUIREMENTS

"The best example that I can offer is the Book of Complaints. When I opened this place, I was told that I have to have it, and have it officially certified, before I can start working. They did not tell me where to get it so I spent two days looking for the right bookstore. When I got it, the "one-stop shop" people in the municipality were not sure who should certify it, so I spent another two days going from office to office, before finding out that it's not under municipal jurisdiction rather cantonal.*

So the canton charged me 50 KM for a stamp and said that it's valid for six months, and that I should be back again with the new book after six months. So, I have to get the new book, even if I have not used the old one, pay for it, and give them 50 KM again for the privilege… "

Male owner/manager of a catering facility in Sarajevo

** The Book Complaints is a standardized log, which can only be purchased in a bookstore. Theoretically, customers can log their complaints there, and the inspectors will check the log and investigate the issue. Municipalities require that each catering facility maintain one.*

Loosely defined, the minimum technical requirements (MTRs) are a set of conditions that a business must meet prior to beginning its operations. These requirements are established by the laws that regulate each industry. For example, before a butcher shop can open, it is required to have a freezer. However, not all MTRs are as logical. For instance, while all businesses must own or lease their premises before opening, they are required to demonstrate the proof of legal construction (permit for the facility use) of the facility in which the premises are being located, regardless of who built the facility in the first place- owner of a business or some other party.

Before submitting an application to register a business, an MTR commission must visit the business to verify the business' compliance with the MTRs. Thus, following the example above, a business owner who legally leases a room in a building that has been illegally built will not receive verification from the MTR commission and cannot register his/her business. While these commissions are a mechanism to enforce government regulation, they are organized on ad hoc basis and staffed by personnel who are not professionally trained inspectors.

„… there are lots of requirements… and I do not know if that's necessary. I'm not an expert. I understand that my store has to comply with some sanitary requirements… I mean, I sell food. But, I couldn't register the business until I had the proof that the land on which I built it belongs to me… I had to obtain construction permit… and my land was last registered in the books of Austro-Hungarian Empire… so I had to correct my great-great-grandfather's mistakes…"

Male owner in trade in Banja Luka

In general, the process of seeking MTR verification is far from standardized. The MTR commissions fall under municipal jurisdiction and each local government has its own rules and practices. In addition, because the commissions must be convened every time a business seeks verification, this step adds significant time to the registration process.

A Real-Life Example

A baker leased a space in an illegally built building in Novo Sarajevo. The building was duly connected to utilities (water, gas, sewage, electricity, etc.) by public utility companies, although the law does not allow illegal buildings to use public utilities.

The baker applied to get a verification of his business' compliance with the minimum technical requirements. Although his premises were in perfect compliance, his application was rejected by the Sarajevo Canton experts' team (an MTR commission) because the owner was not able to present proof that the facility was built legally (the use permit for the building). Pursuant to the law, the experts' team prioritized legal issues over substantive issues of compliance. In such a case, the MTR commission is put in the position of deciding legal matters instead of technical ones.

As a testimony of significant time consumed by MTR Commissions (Table9, below), 37% of the FBiH respondents reported that it took more than 10 days for the business to be checked by an MTR commission, while 17% of the RS respondents reported the same.

Table 9: Timeliness of MTR Inspection, By Entity

Q. How many days did it take for a MTR verification commission to come and inspect your business premises?							
Entity	**1 - 10 Days**	**11 - 20 Days**	**21 - 30 Days**	**31 - 40 Days**	**More Than 40 Days**	**Never Checked**	**Not Applicable**
FBiH	60%	21%	11%	2%	3%	3%	0%
RS	74%	8%	6%	2%	1%	7%	2%

To address these delays, SPIRA implemented changes in the RS that enable faster business registration, by applying the "MTR-shift" methodology in three sectors: trade, catering, and crafts. That is, the checking for compliance with MTRs has been shifted to after business registration — during the regular inspection — rather than before it. Now, a business owner/manager can sign a legally binding statement verifying compliance with MTRs. Soon after the business begins operations, the regular inspection occurs, the MTRs are checked, and if the business does not comply, appropriate legal action is taken.

The MTR shift is a significant breakthrough, and it is being expanded to cover all industrial sectors in the RS. It increases the predictability of the business registration process, preserves public safety (with regular inspections), and speeds up business registration. Obviously, reducing the time required to start a business will ultimately improve BiH's standing in the World Bank/IFC's *Doing Business* survey and allows business owners to start generating revenue sooner.

Additionally, MTR-shift methodology insists on preservation of public interest (safety, security, health etc.) by eliminating involvement of the non-trained or non-adequately trained municipal staff from the process. The minimal technical requirements for business

operations are checked by professional inspectors under this model, thus maintaining the focus on the public health, safety and security, rather than on the administrative issues.

However, this methodology needs further refinement as shifting the time of inspection does not necessarily eliminate any irrationalities in the MTRs themselves (as described above) nor does it solve preexisting problems with regular inspections. For those reasons, SPIRA not only works with both entity Inspectorate Administrations to improve their operating practices but also encourages revision of the substance of the MTRs (this work has been completed in the trade, crafts, and catering sectors in the RS).

Table 10: Consistency of MTR Inspection

Q. Has your business EVER been checked by an MTR commission?		
Entity	**Yes**	**No**
FBiH	89%	9%
RS	80%	18%

The majority of survey participants had experience with an MTR commission (see Table 10), but their replies revealed something unexpected. It is not surprising that 89% of FBiH respondents have been inspected (considering that MTR-shift has not been implemented there). However, it is surprising that 9% were not inspected at all (since all businesses in FBiH should be visited by the MTR commissions) while the entity officials claim that existing system is efficient. The most likely explanation for these numbers is that — due to municipalities' delays in organizing commissions — business people simply start operations regardless of the permit.

In the RS, we see an encouraging trend of increasing number of businesses not being checked by the Commission, especially in the last year- a result of the SPIRA's MTR-shift methodology being applied in three sectors (trade, crafts, and catering) (See Chart 1, below).

Table 11: MTR Inspection in RS Municipalities

Q. Has your business EVER been checked by an MTR commission?		
Municipality	**No**	**Yes**
Banja Luka	16	151
Laktaši	5	32
Mrkonjić Grad	1	14
Prijedor	26	13

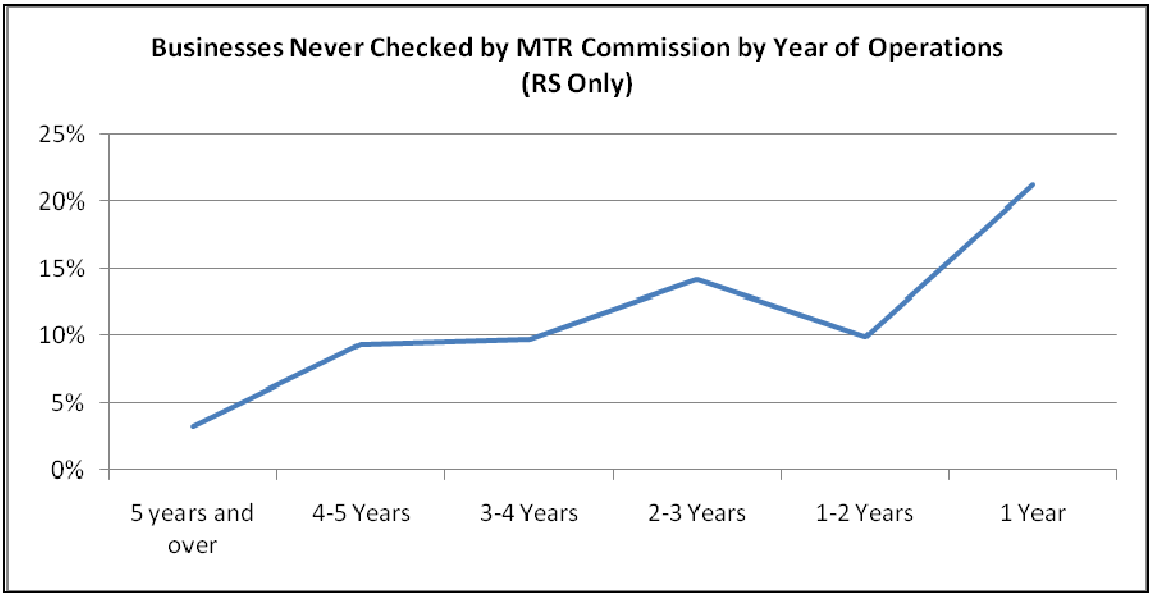


Chart 1- Businesses which were never checked by MTR Commission, by the length of operations

A Real-Life Example

A baker leased a space in an illegally built building in Novo Sarajevo. The building was duly connected to utilities (water, gas, sewage, electricity, etc.) by public utility companies, although the law does not allow illegal buildings to use public utilities.

The baker applied to get a verification of his business' compliance with the minimum technical requirements. Although his premises were in perfect compliance, his application was rejected by the Sarajevo Canton experts' team (an MTR commission) because the owner was not able to present proof that the facility was built legally (the use permit for the building). Pursuant to the law, the experts' team prioritized legal issues over substantive issues of compliance. In such a case, the MTR commission is put in the position of deciding legal matters instead of technical ones.

Yet, as Table 11 (previous page) illustrates, a significant number of RS respondents from Banja Luka municipality were checked. The Banja Luka city administration in many instances goes their own way, not necessarily in compliance with standing regulations. This city openly refuses to comply with the regulation prescribing application of the MTR-shift for three business sectors in the RS without any consequences.

CONSTRUCTION PERMITTING

A. INTRODUCTION

Demographic trends in BiH — such as migration toward urban centers or the increase in smaller households, which produces greater demand for housing — are creating growing demand for urban housing despite the country's decline in population. To meet this demand, builders need reasonable access to construction permits.

However, securing the permits required for each new construction project involves considerable — indeed, excessive — time and money. Builders must obtain three primary permits: the urban permit, the construction permit, and the use (or occupancy) permit. Getting these permits takes an average of 536 days (see table15).

This red tape does not encourage private investors who wish to spend their money on business construction (factories, retail spaces, warehouses, etc.) to do so. In October 2007, SPIRA's "Construction-Related Regulations Assessment Report" diagnosed general underlying causes of the complex permitting process:

- *Lack of a coherent national political strategy*. The lack of a coherent strategy shared by the RS and FBiH presents a major obstacle to legislative reform, including reform related to construction.
- *Complicated state administrative structure*. A number of permit-related laws are based on laws enacted previously under a centrally controlled economy. Today, these laws are administered by several levels of government: the entity, canton, and municipality. These different levels always act in uncoordinated ways.
- *Diversity of legislation affecting construction*. BiH has a large number of construction-related laws, bylaws, technical requirements, and standards but there is no single reference work where they are all listed, making them difficult to identify. In addition, the content of many laws overlap, creating a lack of transparency and coordination.
- *Lack of professional organizations/associations*. BiH has no professional organizations/associations of architects and engineers that can push for the reform of technical regulations, laws, and bylaws that regulate construction. The efforts and input of such groups is critical for reform.

The Construction-Related Regulations Assessment Report made recommendations to improve permitting process. The survey results below supplement this analysis.

B. SURVEY FINDINGS: OBTAINING PERMITS

Of the 552 businesses surveyed, one in five (114) either has constructed or is constructing a facility. Most (46.5%) are engaged in new construction, while others are engaged in an addition (25%), alteration (19%), or renovation (8%). Nearly a third (30%) are engaged in residential development, 28% in commercial manufacturing, and another 25% in commercial retail. Half of these businesses' projects are smaller than 100 square meters. Another 25% are between 100-250 square meters. Only 5% are between 1,000 and 2,000 square meters. In terms of cost, the bottom quartile (or 25%) of projects represents an estimated investment of less than 17,000 BAM; the next 25% between 18,000 and 70,000 BAM; the next 25% between 75,000 and 140,000 BAM, and the top quartile between 150,000 and 1,500,000 BAM.

> "I've waited since 1984 [laughs]... because this piece of land is nowhere in the plan. Two years ago I got the permits, and I have had this store since the Olympic games... Yet, they gave me the papers, and there's no plan still. "
>
> Male owner in catering in Sarajevo

Just over half of these 114 businesses involved in construction are in FBiH (53.5%), while the other 46.5% are in the RS. In FBiH, respondent businesses tend to be engaged in altering existing facilities (80%). In the RS, new construction is dominant, with 64% (of the 114 businesses) undertaking it. Not surprisingly, the businesses that have been in operation for 49 months or longer are more likely to be involved in new construction (68%).

In terms of type of facility, residential development buildings (32%) are the most prevalent among respondents (and in BiH). They usually have commercial space (for sale or lease) on the ground floor and residential space (apartments or condos) above it. The second-most common facility among respondents is a commercial-manufacturing building (30%). The average size of useable space is 232 square meters or 2,497 square feet (278 square meters in the RS and 278 square meters in FBiH).

The entrepreneurs' investments in construction are relatively sizeable, considering BiH's GDP per capita (BAM 4,960 in 2006[4]). Among respondents, the average investment in construction was BAM 149,231 (approximately US$ 117,243), or 30 times the GDP per capita. Respondents in trade in catering made the largest investments in construction, and those in the RS invested almost double what those in FBiH did (BAM 103,841 in FBiH and BAM 205,969 in the RS).

Given the level of investment, one might think making permits easy to obtain is in the governments' interest. Unfortunately, the results of our survey are extremely disappointing. Respondents reported that it took 227 days to secure the urban permit, 119 days for the construction permit, and 140 days for the use permit.

Table 12: Average Time to Secure Construction-Related Permits

Permits and consents	Mean duration (days)
Urban permit	277
Construction permit	119
Use permit	140
Ecological permit	16
Electricity consent	13
Water/sewage consent	19
Telephone hook-up consent	34
Average time to obtain all permits	**619**

That is, an investor must wait, on average, 536 days — roughly a year and a half — before he/she can secure permits to begin construction. If an investor is also seeking an ecological permit and utilities consents, he/she will have to wait 619 days total, or a little less than two years (Table 12).

The three key construction permits (urban, construction and use permits) cannot be procured simultaneously- by law, the order is sequential. In order to attain construction permit, an investor must have obtained urban permit, and in order to procure the use permit, an investor must have obtained construction permit. Other permits and consents may, theoretically, be procured simultaneously- especially "utility consents" (electricity,

[4] BiH Agency for Statistics

water/sewage etc.). However, this is not the frequent case in practice, as this really depends on diligence of an investor.

The differences between the entities are also surprising. In FBiH, it takes 375 days to obtain the urban permit, or 147% longer than in the RS. However, FBiH delivers the construction permit in only 87 days (which is 44% faster than in the RS). Obtaining the use permit takes about the same amount of time in each entities (3% faster in FBiH).

Table 13: Average Time to Secure Construction-Related Permits, By Entity

Permits required	FBiH*	RS*	Difference (%)
Urban permit	375	152	147%
Construction permit	87	155	-44%
Use permit	142	138	3%

** excluding statistical outliers, defined as the values of ± 2 standard deviations from the mean*

Longest time to secure construction-related permits by sector is given below (Table14). We can see that distribution is very "equitable"- it really does not make much of a difference in which type of business facility is being constructed, an investor is being short-changed in at least one stage of permitting process.

Table 14: Longest Time to Secure Construction-Related Permits, By Sector

Permits required	Business sector	BiH mean*
Urban permit	Trade	663
Construction permit	Tourism	203
Use permit	Catering	309

** excluding statistical outliers, defined as the values of ± 2 standard deviations from the mean*

Comparing the results of the SPIRA team's 2006 research (based on municipal records) to the survey responses reveals interesting results (Table15). The average difference in time to secure permits between the survey and 2006 municipal records is 64%.

Table 15: Average Time to Secure Construction-Related Permit, By Data Source

Permit	Mean (survey)*	Mean (municipal records)*	Difference (%): survey versus records	Mean of means
Urban permit	277	114	143%	196
Construction permit	119	111	7%	115
Use permit	140	102	37%	121
TOTAL	**536**	**327**	**64%**	**432**

** excluding statistical outliers, defined as the values of ± 2 standard deviations from the mean*

There are three possible explanations for this difference:

- Due to resource limitations, SPIRA conducted research in only five municipalities. In contrast, the baseline survey covered 12 municipalities;
- Investors (i.e., our survey respondents) consistently overstate the length of the process; or
- Government records do not reliably record the time required to secure these permits.

If we assume that any or all of the explanations for the difference are accurate, the mean of the means (Table 15) from each data source should approximate the real situation. Even these modified results are disappointing, as they suggest that it takes builders about 14 months to obtain the three key construction permits. All of these data sources may be unreliable; however, those are the *only* data sources available.

Beyond these three permits, businesses must also pursue an ecological permit — a requirement for obtaining the urban permit — and utilities consents. Obtaining the ecological permit is very difficult because BiH lacks a sufficient number of ecological auditors or qualified engineers who can provide professional attestations. When such personnel are available, the costs of their services are usually prohibitive for many businesses.

Of survey respondents, 18% said they were required to obtain an ecological permit, and it appears that, in the last two years, there has been a slight increase in the demand for ecological permits. Respondents reported that it took an average of 16 days to obtain this permit, not long when compared to the other permits. Businesses engaged in trade reported the longest average wait, at 29 days. In FBiH, businesses secured this permit more quickly (in 12 days), while businesses in the RS had to wait 20 days.

As might be expected, the ecological permit was instituted to regulate manufacturing plants and other industrial facilities that may impact the environment. Curiously, our survey found that businesses from all sectors had to obtain an ecological permit. Given that small and medium-sized businesses in trade, crafts, and catering contribute very little to overall environmental pollution, this situation suggests the presence of a problem characteristic of BiH's business environment: form over substance.

> "All of those consents and papers are not the real problem. The administration is slow. You'll get the forms, fill them out, and return tomorrow. Then they say to come back in a week. After that, you go back and they tell you that you need another piece of paper or stamp or something else. You get that, and they tell you to come back in a week, and they want another paper again. It goes like that for six months, for a year! That can be done in one month max. They cannot tell me that it can't. Come on! We all know what the road is. We know where the potential landslides areas are. Than all the commissions and inspections… it'll be long — no doubt.

Male owner in trade in Sarajevo

Some officials consider only that the law mandates an ecological permit rather than whether a given business really needs such a permit in the first pace. As yet, there is no list of business activities that should merit obtaining an ecological permit. It appears that municipalities simply direct small businesses to apply for this permit; the designated ministry gives the application a cursory review and almost automatically issues the decision that no ecological permit is required for that particular business activity.

Table 16: Utilities Consents

Consent type	Mean
Electricity	18
Water/sewage	19
Telephone	34
Total	**66**

Hence, it appears that municipalities direct small businesses to apply for this permit, while the designated ministry barely reviews the application and almost automatically issues an official write-up concluding that no ecological permit is required to perform particular

business activity. Nevertheless, the short, redundant procedure still drains resources: the permit fee is BAM 70 and the waiting period averages 16 days. Before beginning operations, businesses must also obtain consents from the public utilities, which can be a time-consuming process. In addition, the procedure is not clearly spelled out, and the business person may spend days visiting different public utilities multiple times before obtaining these documents. When compared to the time required to obtain the three key permits, the utilities consents may seem like a breeze. However, the results (Table16, previous page) indicate that there is a plenty of room for improvement.

C. SURVEY FINDINGS: BUSINESS PERSON EXPERIENCES

Despite the length of the process, most respondents rated their overall experience with the permitting staff in the municipalities as fair, good, or very good (Table17). In addition, key informants indicated that people in BiH do not necessarily hold the line staff liable for the efficiency and/or length of the process.

Table 17: The Quality of Service From Municipal Permitting Staff

Characteristic of service	Very poor or poor	Fair	Good or very good
Availability of information about steps in the permitting process	34%	35%	37%
Clarity of information about steps in the permitting process	28%	31%	39%
Availability of information about documentation requirements for permitting	28%	32%	37%
Willingness/availability of staff to answer questions about the permitting process	33%	28%	35%
Staff knowledgeable about the permitting process	28%	31%	37%
Courtesy of staff involved in handling applications and questions	32%	27%	37%

The majority of key informants reasoned that the line staff follows procedures designed by the lawmakers and that the responsibility for any redundant rules or poorly designed procedures rests on elected officials and lawmakers.

However, interviews with key informants also suggested that people see the lines and the delays associated with the permitting process as normal. One said that “the line is enormous” and that officials cannot reasonably be expected to resolve all those requests. Interestingly, no informant seemed to question whether those lines should exist in the first place. With respect to the courtesy of staff, one respondent said that “it is not reasonable to expect the lady on the counter [in municipal offices] to be in the same mood at the beginning and towards the end of the day.” Some element of discourtesy is also regarded as normal.

> “They could be better but they could be worse too. If they were the ones making the rules, they would certainly not be working the counter in a municipality [laugh].”
>
> Female owner in trade in Sarajevo

On the other hand, informants who have some issues during the process mentioned that they found it difficult to find a knowledgeable municipal employee to guide them through the process, if needed. But this group was in the minority.

SPIRA does not address property issues, but one key informant's story highlighted how such issues impact the speed of construction permitting. In this interviewee's particular case, the land on which he desired to build was still registered as belonging to the family that owned it during the Ottoman Empire. This was the case even though it had been in his family for several generations. Because his forefathers had wanted to avoid the tax levies, they did not officially record their ownership. As a result, he faced delays in the permitting process because he needed to record his ownership. His experience suggests that the reform of the cadastre and property records should consider how tax considerations impact the will to record ownership, rather than focusing on the problem in a more mechanistic way.

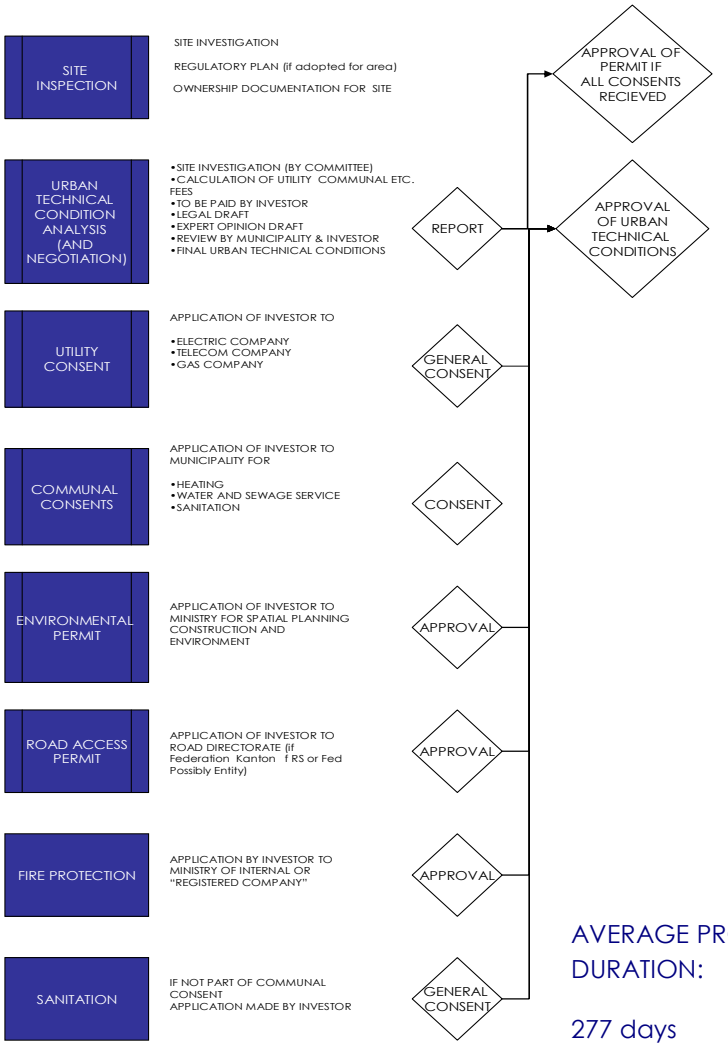
However, aside from the impact of property rights, the length of the permitting process is a serious impediment to greenfield and build-operate-transfer investments, and consequently to the diversification of the municipal revenue base. According to the FBiH Ministry of Spatial Planning,[5] some 50,000 buildings were built illegally after the war. Sarajevo Canton has the most illegal buildings, with 19,358. If we multiply the average investment in construction in FBiH (based on survey responses, BAM 103,841), the amount of capital invested in illegal real estate equals roughly BAM 5.2 billion.

> "What property issues? It's another rip-off. Look at Sarajevo, all of those premises that were nationalized and now they want it back...Communists took those away, true. But you tell me, where else have you seen that after 50 years? While other people invested in those premises, the government of a country says that those should be returned to the original owner. So after 50 years of rights on a property, the democratic government says I should return it to the people that have not fought for that right before? "

Male owner in catering in Sarajevo

[5] San Daily, 15th April 2008, pg. 14

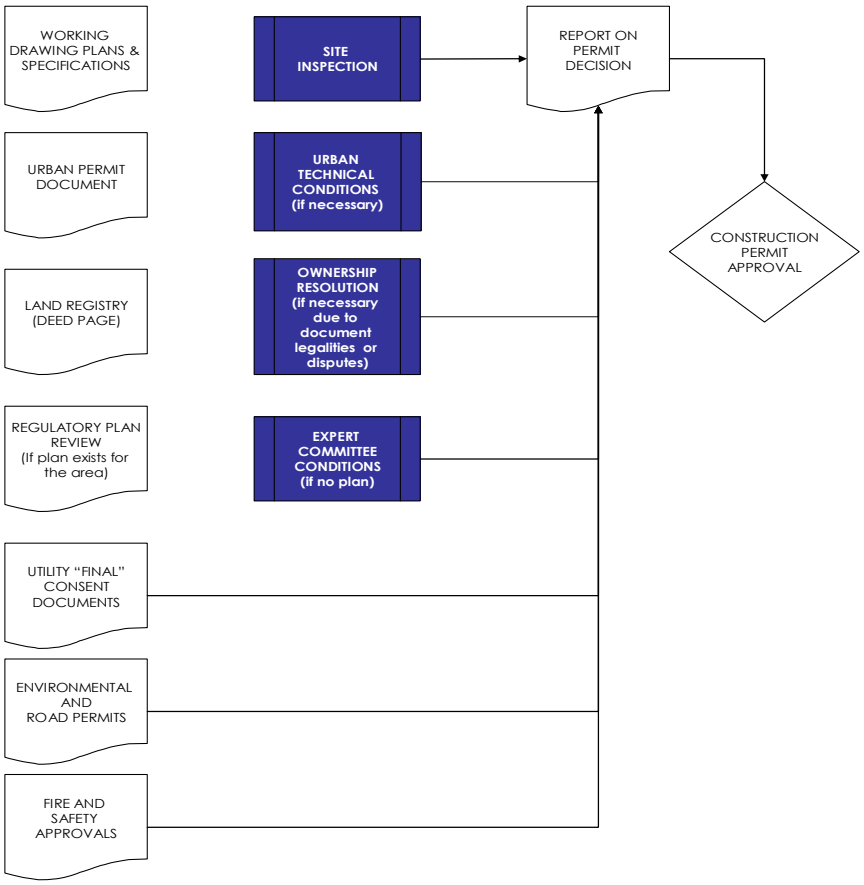
CONSTRUCTION PERMITTING- Urban (Location) Permit Phase



AVERAGE PROCESS DURATION:

277 days

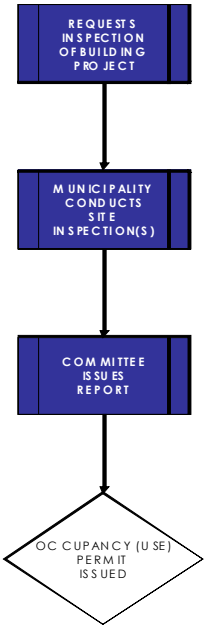
CONSTRUCTION PERMITTING- Construction Permit Phase (Assumes no requirements for "Priority Right")



AVERAGE PROCESS DURATION:

119 days

USE PERMIT



AVERAGE PROCESS DURATION:

140 days

INSPECTIONS

A. INTRODUCTION

Government agencies use inspections to promote and verify compliance with regulations designed to protect a public or private interest, such as the safety and well-being of society. For example, inspectors protect air and water quality by ensuring compliance with environmental regulations and ensure the structural integrity of buildings by ensuring compliance with building standards.

The purpose of an inspection program as it relates to businesses (and the work of SPIRA) should be to validate compliance with relevant regulations and to encourage businesses to maintain that compliance. The content of an inspection — that is, what the inspection inspects — is determined by applicable laws and regulations. While penalties resulting from inspections may generate revenue for the government, these fees are not a legitimate focus of inspection efforts.

In BiH, particular ministries have conducted inspections, as the enforcement arms of the bodies responsible for regulatory policy. Generally speaking, inspections took place annually. Partly due to this decentralized structure, a hodge-podge of laws and bylaws arose to regulate the inspections themselves, creating overlapping responsibilities for certain types of inspections and loopholes for others (areas where inspections did not occur because the law did not clearly define which agency should conduct them).

In addition, some observers held that the association between ministries and inspection services lent itself to abuses. For example, certain businesses might be subject to excessive inspections (perhaps to generate revenue or punish political enemies), and others were essentially left alone. For these reasons, the World Bank's Business Adjustment Credit to BiH required that BiH's inspection system be rationalized and that the numbers of days each year that businesses can be subjected to certain types of inspections be legally limited.
The World Bank also sponsored changes to the entities' laws. Under the new regime, the inspectorates are centralized according to functionality. With all inspections organized within a single body, it is considerably easier to ensure regular, uniform application of the law and professional instructions/explanations. However, FBiH's inspection law has been deemed unconstitutional[6] for some time, due to the reluctance of both domestic and international institutions to change the law to ensure constitutional compliance. Realizing that no positive reforms can be enacted in FBiH before this issue is resolved, SPIRA began extensive work with the FBiH Inspection Administration and the FBiH Constitutional Court to amend the law (which is now being introduced in Parliament). Nevertheless, some progress had been achieved with respect to inspections: the RS centralized their inspections in 2006, while FBiH followed in late 2007.

While there are a range of inspection services in both entities — tourism, health, labor, etc. — the SPIRA project focuses on three in particular: urban inspection, construction inspection, and market inspection. As a result, the baseline survey focused on these three inspections.[7]

---

[6] Some crucial provisions were ruled unconstitutional. Since the Supreme Court does not provide clarification and/or guidance on its rulings, this remains a point of contention in FBiH's inspection institutions.

[7] From this point, the term "inspections" refers specifically to the three inspections SPIRA is working with.

B. SURVEY FINDINGS: INSPECTIONS

Table 18 shows the frequency of the three kinds of inspections (which start with a visit to the businesses physical location), as reported by survey participants.

Table 18: Frequency of Inspections in 2007, By Type of Inspection

Inspection type	Never	Once	2 - 3 times	4 - 5 times	6 or more	No answer
Market inspection	25%	38%	26%	3%	4%	3%
Construction inspection*	62%	19%	5%	2%	2%	9%
Urban inspection**	64%	20%	4%	2%	1%	9%

**Examines the construction site, building, and equipment for compliance with appropriate standards.*
*** Examines planning documentation and the use of space in accordance with the plan.*

Tables19, 20, and 21 break down the frequency of each of these three inspections by sector (Table19) or by entity (Tables 20 and 21).With respect to the market inspection, 26% of sampled businesses (148) had never been inspected, while 38% (210) were inspected only once in 2007 (Table19). For the construction inspection, about 62% of businesses (342) were not inspected at all in 2007 (Table18), while for the urban inspection that percentage climbs to 64% (353, see Table18).

Table 19: Frequency of Market Inspections in 2007, By Sector

Q. How frequently was your business inspected by the following inspection services in the last year?

Sector	Number of respondents	Never	Once	2 - 3 times	4 - 5 times	6 or more	No answer
Trade	148	26%	30%	34%	4%	4%	2%
Tourism	67	16%	46%	18%	6%	9%	4%
Catering	124	16%	44%	28%	2%	6%	3%
Crafts	113	35%	35%	24%	2%	2%	3%
Other	100	32%	37%	20%	4%	1%	6%

Table 20: Frequency of Construction Inspections in 2007, By Entity

Entity	Number of respondents	Never	Once	2 - 3 times	4 - 5 times	6 or more	No answer
FBiH	287	51%	20%	8%	3%	3%	15%
RS	265	75%	19%	2%	1%	-	3%

Table 21: Frequency of Urban Inspection, By Entity

Entity	Number of Respondents	Never	Once	2 - 3 times	4 - 5 times	6 or more	No answer
FBiH	287	51%	21%	7%	3%	3%	15%
RS	265	77%	18%	1%	1%	-	3%

Table 22 identifies the percentage of respondents whose businesses had never been subject to any of the three inspections since the beginning of their business operations.

Table 22: Consistency of Inspections, By Type			
Q. Has your business EVER been checked by any of these inspections?			
Inspection	**No**	**Yes**	**No answer**
Market inspection	21%	77%	2%
Construction inspection	61%	37%	2%
Urban inspection	62%	37%	2%

These results are unexpected, especially when we take into account the year the surveyed business was registered. For businesses that registered between 2002 and 2005, 55 of them were never subject to the market inspection (in both entities); 194 were never subject to the construction inspection, and 202 were never subject to the urban inspection (Table 23).

Table 23: Consistency of Inspections, By Year of Business Registration			
Number of respondents answering "no" (%)			
Inspection/ year of registration	**2002-2005**	**2006-2007**	**Total**
Market inspection	55 (18%)	62 (29%)	117
Construction inspection	194 (62%)	139 (65%)	333
Urban inspection	202 (64%)	134 (63%)	336

> "I remember now, they [the construction inspectors] were here little bit before Olympic Games (1984)… not before, or after…"
>
> Male owner of a craft shop in Sarajevo

According to the law, urban and construction inspectors have a mandate to inspect *existing* facilities (to verify continuing building safety) as well as new construction. One would expect a high percentage of businesses to report urban and construction inspections, though that is obviously not the case here.

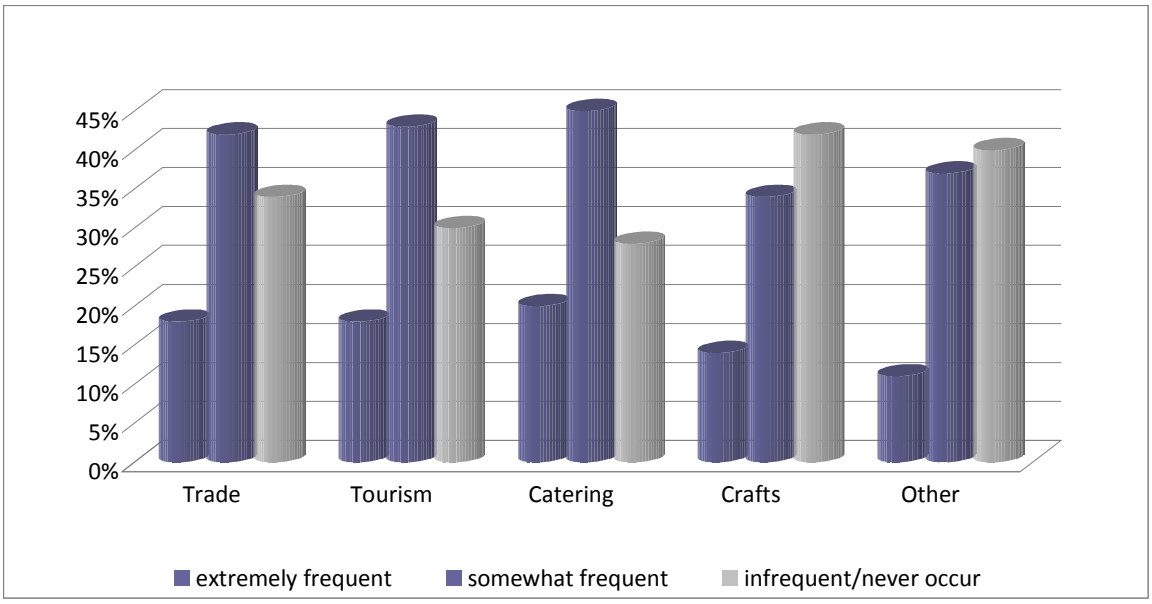
These results are surprising and suggest that the inspectors' role may be administrative in nature at the moment. They may spend their time with documents rather than inspecting building safety onsite. The practical experience of SPIRA staff also suggests that if a particular requirement is not stipulated by law or regulation, it is unrealistic to expect government staff to fulfill it.

When inspectors do conduct inspection visits, the survey data suggests that efficiency is not their primary focus. A majority (74% in FBiH and 58% in the RS) stated that none of inspections they experienced took place simultaneously (Table 24, next page).

Table 24: Number of Times Inspectors Performed Inspections Simultaneously			
How many times were any two of these inspections performed simultaneously (by team of inspectors)?			
Entity	**Never**	**Once**	**Twice or more often**
FBiH	74%	3%	4%
RS	58%	7%	2%

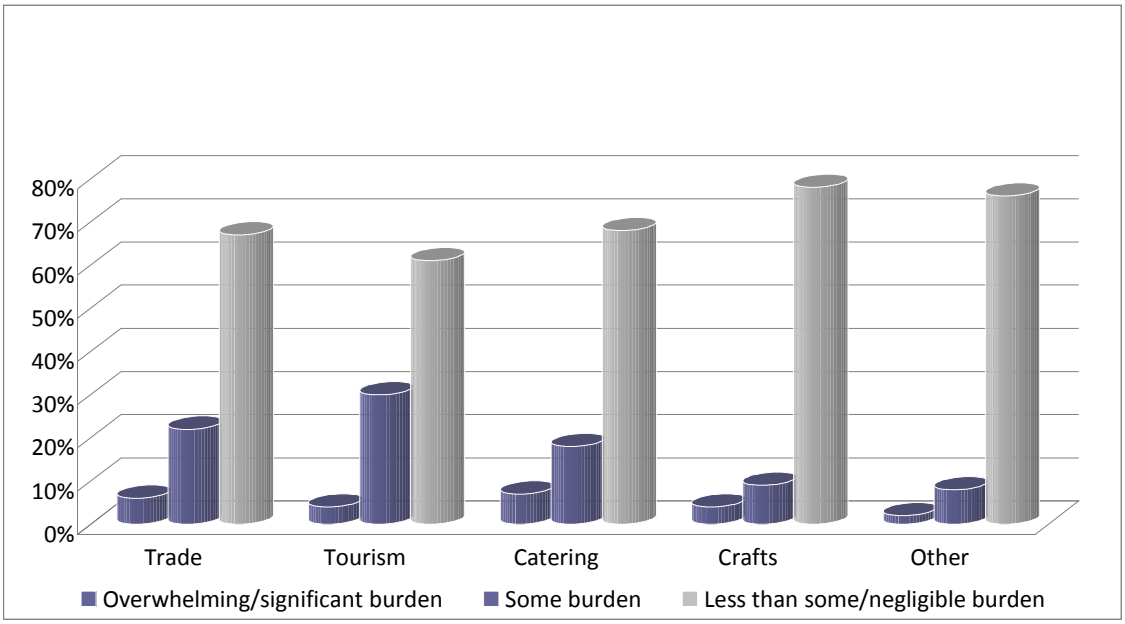
Nevertheless, despite the fact that inspectors rarely combine inspections, the majority of respondents believe that the inspections are infrequent or somewhat frequent (Chart 2).

Chart 2- Opinion on the inspection frequency (by Sector)



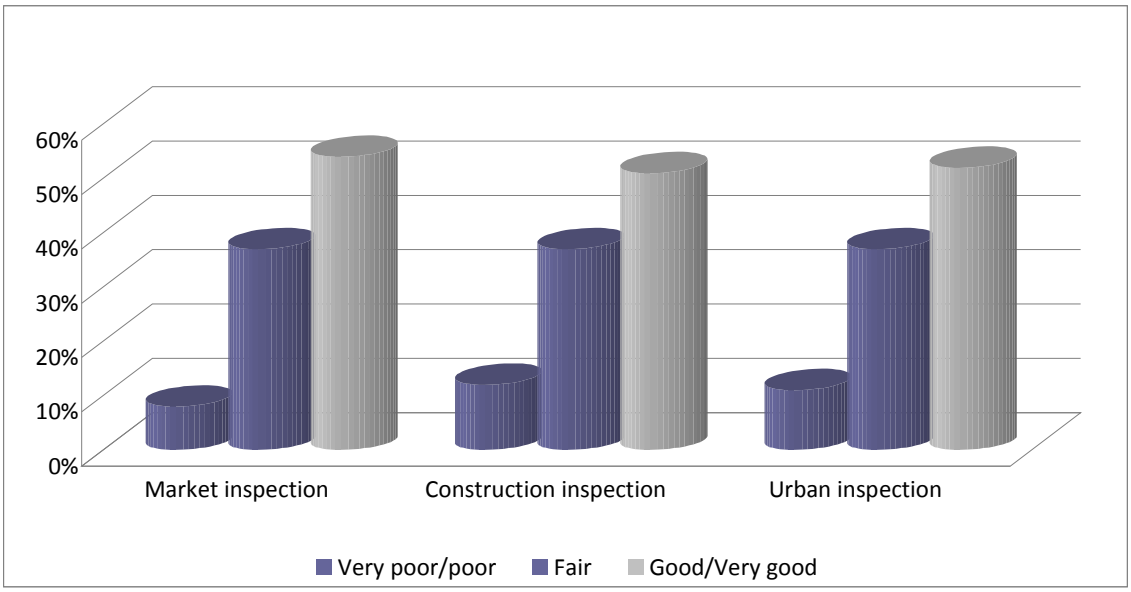
The majority of respondents also reported that inspections cause them little or no burden (Chart 3, next page).

Chart 3- Opinion on the level of burden exerted by inspections (by Sector)



A majority of respondents report either good or very good experiences with inspections (Chart 4). Considering the fact that so many businesses were never or only rarely inspected, the high degree of satisfaction is to be expected — a good inspection is the one that never checks on your business.

Chart 4- Experience rating by inspection and sector



Interviews with key informants provided additional insight into the issue of satisfaction with inspections. Some informants described many inspectors as fair and reasonable, though they also said they had negative experiences with inspectors outside of the three SPIRA focuses on. Other informants said that inspectors are always trying to “find something to give

you a fine for," rather than trying to solve the problem and give businesses an opportunity to fix the deficiency identified.

> "I don't have the problem with them *per se.* I do mind when they come in and are just itching to give me a fine. You can see that… They have never told me, 'Look this is wrong. We'll be back in a few days, but you make sure to fix it.' They just want the money: 50 marks for this, 100 marks for that, and then they ask me if I'll sign the report. Yeah, sure, I'll sign. What else to do?"
>
> Male owner in trade in Sarajevo

Several interviewees stated that they are afraid when the inspectors arrive and claim unfair treatment. One gentleman said the local government uses inspections to exert pressure on his business, because a certain highly placed political official is interested in the land it sits on. Another experienced inspection pressure to get out of business (see box below). Given this additional information, an analyst might conclude that a sizable portion of respondents rating inspections as either "fair" or "good" were reluctant to provide their actual opinions.

> "… some important people in here have a restaurant, pizza-parlors, and wanted me out of business… a sanitary inspection came out to my place 30 times and I know for a fact that they did have not conducted 30 inspections total for that year, if you exclude my place, [laugh]… I'm still in a court, suing them, but I closed [my place]…"
>
> Male owner in catering in Mrkonjić Grad

Table 25 reveals that FBiH respondents were somewhat more likely to rate inspection services as poor or very poor as compared to their RS counterparts. This is especially true for the "poor" category with regard to market and construction inspections. Overall, the largest difference between the entities is in market inspections, where nearly 12% of FBiH respondents rated this inspection as poor or very poor, while only 5% of RS respondents felt the same way.

Table 25: Negative Experiences With Inspections, By Entity

Institution	Entity	Experience rating		
		Very poor	Poor	Total
Market inspection	FBiH	1.4%	10.2%	11.6%
	RS	2.7%	2.2%	4.9%
Construction inspection	FBiH	1.0%	12.5%	13.5%
	RS	3.4%	6.7%	10.1%
Urban inspection	FBiH	2.0%	9.9%	11.9%
	RS	2.7%	8.2%	9.8%

The rate of survey respondents who report failing an inspection is within the expected range (Table 26, next page). Of those that failed, 25% reported receiving written inspection reports. In fact, all of the businesses reporting failure of a construction inspection received written reports. According to respondents, the market inspectors are the most uneven in their services: 12% of businesses that failed inspection did not receive a written inspection report. While it is encouraging to see that 86% of businesses that failed an inspection also received

the appropriate written report, nevertheless the inspectorates still have room for improvement.

This room for improvement is illustrated more clearly by inspectors' failure to provide an explanation for a warning or failed inspection in many cases (particularly for market and urban inspections). Given the small number of businesses within this sample, we must be careful in drawing conclusions from these results. While it appears that written explanations contain the appropriate information, they are not provided consistently.

Table 26: Experience of Businesses That Failed One of the Three Inspections

Type of inspection	Percent received failure or warning after inspection	Percent received written inspection results	Percent received written explanation	Percent received legal citation	Percent told how and where to file appeal	Percent told number of days to file appeal
Market inspection	10% (41)	85% (35)	63% (26)	85% (22)	89% (23)	85% (22)
Construction inspection	5% (10)	100% (10)	90% (9)	100% (9)	100% (9)	100% (9)
Urban inspection	4% (8)	63% (5)	50% (4)	75% (3)	100% (4)	100% (4)

POTENTIAL REFORMS

> "Well, if you have capital to invest here, you have to do it fast. The rules and conditions change rapidly, so there's a great possibility to lose a nice chunk of change... It does affect your decision, since some people cannot wait. For everything that you want to do, you need a piece of paper; if there's some rule regulating it, some paper is involved... "
>
> Male owner of a craft shop in Laktaši

The need to reform the business environment in BiH is well documented and long discussed. In arguing for reform, many experts quote the time required to register a new business — one of the most popular yardsticks — to illustrate the urgent need for business environment reform. SPIRA's work in the RS implementing the low-tech concept of fast-track registration has proved to be an effective way to speed registration. Similar reforms are currently underway in FBiH.

To test the conventional wisdom that the slow registration process is indeed the biggest obstacle for businesses, the SPIRA team asked survey participants about the obstacles they faced during business start-up as well as operation. Somewhat surprisingly, entrepreneurs pointed to complicated or excessive numbers of formalities as the greatest difficulty faced by small and medium-sized businesses in BiH (Table 27).

Table 27: Ranking of Challenges Faced by Small Businesses in BiH

Greatest difficulty for businesses	Rank
Complicated or excessive numbers of formalities	1
Length of the registration process	2
Lack of information about the registration process	3
Frequently changing regulations and requirements	4
Informal payments	5

The qualitative interviews SPIRA conducted furthered our understanding of entrepreneurs' views.

Table 28 : Reforms Supported by Survey Participants

Reform	% of respondents
Reduction of the number of regulations	50%
Reduction of time	34%
Regulations adopted after consultation with the businesses	11%
Implementation of fair and impartial inspections control	3%
Do not know	2%

Even though information about procedures and required documents is available via various channels (one-stop-shops in municipalities, Web sites, etc.), entrepreneurs stated that the procedures often require documents that seem unnecessary and create additional work for them.

An entrepreneur shared the following story, which is indicative of this phenomenon. He owns a restaurant and his kitchen was required to keep "material accounting." His staff had to record all materials used in producing a meal so that inspectors could ascertain whether the

prices he charged were justified (based on the costs of his ingredients). In other words, someone had to keep tabs on how much salt or pepper was used to make the soup. Failure to comply carried a stiff penalty. The owner angrily recalled keeping an accountant permanently in his restaurant to account for used materials, until the rule was revoked by the government (after six months) under pressure from the Chamber of Commerce. A local author claimed that "…people from the Balkans exhibit their utmost irrationality when they attempt to behave rationally." This failed rule serves as the testimony to the accuracy of this statement. Consequently, it is not surprising that a majority of respondents would most like to see a reduction in the number of regulations (Table 28, previous page).

While three of four respondents had no additional suggestions, some alternative reforms worthy of a note are (in order of popularity):

1. Decrease administrative fees and charges;
2. Lower taxes;
3. Improve loans; and
4. Decrease employment contributions.

> "These things affect me personally. Look now, I want to open a car wash. It would be more profitable than my primary business, there's demand. If the permits take that long, I'll lose spring and summer, the most attractive season for the car wash. If I get all the papers, and then they want some — I don't know, ecological paper — what am I supposed to do then; where should I go with the request?"
>
> Male owner in trade in Laktaši

CONCLUSION

The opinions of the respondents confirm the validity of the USAID SPIRA project. The majority of respondents from both entities pointed out the complicated and excessive number of regulations and the length of the registration process as the greatest challenges faced by small businesses in the BiH. Analogously, entrepreneurs believe that the focus of reform efforts should be on the reduction of excessive regulations and reduction of permitting time, thus confirming the validity and the utility of the USAID SPIRA project design.

The reforms in business registration, construction permitting, and inspections are dependent on the political will of the powers-that-be, which consistently put the BiH economy and investment climate on the backburner of political issues of the day. Throughout efforts on implementation of reform proposals, it became evident that the administrative apparatus was (and still is) more interested in serving the needs of their political parties and party agendas, rather than to serve the benefit of the people. For example, the Government of the Federation of BiH consistently refused discussing any proposal put forward by the USAID SPIRA until March of 2008 (almost full 3 years since the project's commencement).

Despite significant delays caused by the lack of cooperation from governments and their institution at all levels (state, entity and even local), the fact that enormous efforts were spent on "selling" the proposals (with public awareness alone facilitating 149 print media articles and 249 minutes broadcast media airtime) to various officials and the unreasonably long and arduous process of legislative approval by the Parliaments in both entities, SPIRA has had some significant achievements towards elimination of challenges for small businesses in BiH.

Business registration in the RS is being reformed—a new Law of Companies, which has provisions to stream line the process by as much a 76%, is in the legislative adoption process. The same streamlining techniques are being piloted in the Federation and the Ministry of Crafts has introduced a law with registration streamlining provisions to the legislation adoption process. In the RS all legislation was reviewed and duplicate, contentious and outdated laws were removed—almost 50%---by the respective ministries. With over 150 ministries in the Federation this effort is not possible and the business community continues to suffer as a result.

Construction permitting is being reformed on two fronts: the law—a new RS law on spatial planning and construction is being readied for the second reading of the government. A similar law is being reviewed and debated by all 11 ministers of spatial planning and construction in the Federation. This law combines 2 of the 3 construction/renovation related permits into one thereby reducing time and cost to the business community. And the process—working groups in Banja Luka and Tuzla have streamlined the permitting process and developed automation criteria that support the legislation.

Inspections are also being reformed on two fronts: the law—a working group is in the process of developing a new RS Law on Inspections. A new FBiH law has been drafted to overcome the constitutional issues and is pending the first reading by government. And the process—it is being streamlined and automated. The process is changing its orientation from annual confrontation to looking for, assessing and managing risk to the public, 1,300 inspectors have been trained to date. The process will be automated by the Inspection Management System which will capture inspection visit data, highlight businesses at risk,

highlight inspectors' performance, and assist planning. The business person will be able to access a portion of the system and understand what inspectors will look at during their visits.

Government Information exchange in the form of a construction permitting document exchange system, including a re-engineered manual process coupled with automation, has been designed with significant participation of two pilot city working groups: Banja Luka and Tuzla. The working groups included municipal officials and representatives from all of the participating infrastructure companies: gas, electricity, roads, sewers, etc. Technical specifications for hardware and software have been developed, reviewed with GAP colleagues, an implementation budget prepared, put out for bid, and the vendor selected.

Towards the end of the fourth (and last) year of the project, this survey will be conducted again to measure any improvements resulting from SPIRA's interventions. At that time, we hope to be able to present significantly better results. Unfortunately, the majority of these improvements will depend on the political will of the governments and ruling parties in both entities.

ANNEX 1: Survey Instrument

INTERVIEW DATE	2007.
COORDINATOR CODE	
INTERVIEWER CODE	
REGION CODE	
SETTLEMENT TYPE (1-URBAN; 2-RURAL)	

COMPANY NAME

COMPANY CODE	

ADDRESS OR DESCRIPTIVE ADDRESS OF COMPANY

CONTACT TELEPHONE

I, the coordinator, hereby state that this survey form had been reviewed in accordance with all applicable review instructions!
Date and signature:
_____

Field control	
Logic control	
Coding	
Data entry	
Survey code for data entry	
Operator control	

INTERVIEWER: READ CONSENT SCRIPT

Good morning/afternoon/evening, I am _____, an Interviewer from Prism Research. I am here on behalf of the USAID SPIRA project. **The purpose of SPIRA is to improve access to the marketplace for Small and Medium Enterprises (SMEs) by reducing administrative barriers to their establishment and operation.**

This study is being conducted in order to better understand problems businesses like yours face and ways to improve the speed and quality of public services that regulate businesses. If you agree to participate, I will ask you questions about your business, your experience with business registration, licensing and permits, specifically with government agencies. This will take about 20 minutes.

All information which you offer will be kept strictly confidential. Your participation is completely voluntary. We encourage you to be as candid as possible and to freely express your sincere opinions in answering the questions.

A1. Number of persons rejecting participation during the time of the last and current interview:	

REASONS FOR REJECTION OF PARTICIPATION:	Record each rejection with 'I'	Total since the last conducted interview
a. No time/ too busy (# of persons)		
b. No. of persons not interested in the subject		
c. Manager or owner not present		
c. Company has more then 50 employees		
d. Other reasons:		

RESPONDENT IS AN OWNER OR MANAGER OF A COMPANY THAT HAS 50 OR LESS EMPLOYEES

START TIME	HOUR	MIN

A2. Category of business

1	TRADE	1
2	TOURISM	2
3	CATERING	3
4	CRAFTS	4
5	OTHER	5

BASIC INFORMATION ON THE BUSINESS

In this section, we want to have some basic idea of characteristics of your business.

v1. How long has your business been in operation?
Enter number of months [ ]

v2. Are you an owner or a manager?

1	Owner	1
2	Manager	2

INTERVIEWER: *If neither, ask when you might speak with the owner or manager, and end interview*

v3. How many employees do you employ?
Enter number of employees: [ ]

INTERVIEWER: *If more then 50, thank the respondent and end interview*

v4. Which of the following would you define as your company's leading competitor?
Show Card V4; Only one answer is sought.

1 Domestic small and medium enterprises (< 50 employees)	1
2 Domestic large private enterprises	2
3 Foreign firm producing in domestic market (not imports)	3
4 State-owned enterprises	4
5 Legal imports of similar goods	5
6 Non-registered businesses or smuggled goods	6
7 Other	7
8 My firm has no competitors	8
98 No Answer	98

v5. What is your primary business activity?
One answer only. Do not read. Based on the answer, enter the activity. If the activity is not on this list, write under „Other."

1 Wildlife and forestry	1
2 Fishery	2
3 Agriculture	3
4 Coal and rock extraction	4
5 Secondary production	5
6 Construction	6
7 Retail	7
8 Wholesale	8
9 Catering	9
10 Transportation, storage and communications	10
11 Financial intermediation	11
12 Real estate, renting and business activities	12
13 Education	13
14 Health and social services	14
15 Personal services	15
16 Husbandry	16
17 Tourism (hotels, motels, agencies etc.)	17
18 Small Crafts	18
19 Other Enter:	19

v6. I'm going to read out different situations which you may or may not have personally experienced before. I would like you to tell me if these situations occur in BiH at all (Column A) and to tell me if you believe that those situations may change or will always occur in this country (Column B)? Read all situations

	Situation	A. Does it ever occur?		B. Will always occur or the change is possible?		
		Yes	No	Will always occur	Can be changed	Does not know/ no experience
a	A police officer stops someone for a traffic violation, and that person "negotiates" with the officer to see if s/he can come to an "agreement"	1	0	1	2	8
b	In everyday business, a person promisses to return the favor in order to recieve the favor	1	0	1	2	8
c	For a favor given, a person receives reciprocal favor from cousins or friends	1	0	1	2	8
d	To secure a positive outcome of inspection, someone takes an inspector or other official to lunch	1	0	1	2	8

BUSINESS REGISTRATION

Now I'm going to ask you some questions about business registration and on your opinions on the process you had to go through to register your business.

v7. When was your business registered? Which year and month?

Month (letters): [ ] **Year:** [ ]

v8. How long did the registration last, from beginning to an end (i.e. from the moment of submission of request for registration to the point in time when your business could invoice another party).

Enter number of days: [ ]

98 Does not remember/ Refuse to answer **98**

v9. For how long was your business in operation prior to registation, i.e. prior to submission of request for registration?

Enter number of months: [ ]

98 Does not remember/ Refuse to answer **98**

v10. Now I'm going to show you some reasons why business registration may be difficult process Show Card V10.

CARD V10

No.	Reason
1	Length of the registration process
2	Complicated or excessive numbers of administrative formalities/documents
3	Lack of information about the registration process and how it works
4	Frequently changing regulations and requirements
5	Informal payments

		Enter # from the card	Does not know
a	Please tell me which of these problems you think causes the most difficulty in BiH?		8
b	Next most important?		8
c	And next?		8
d	And of these last two, which is the most difficult?		8
E	**INTERVIEWER:** *fill in the remaining number*		8

v11. Please rate your experience with the (municipal staff/court staff) in the process of registering your business (do not read: if the business is a craft, the registration is handled by the municipality, otherwhise the courts handle application) Was it very poor, poor, fair, good, or very good? Show Card V11.

		Very poor	Poor	Fair	Good	Very good	Not sure/does not know
a	Availability of information about steps in the registration process	1	2	3	4	5	8
b	Clarity of information about steps in the registration process	1	2	3	4	5	8
c	Availability of information about documentation requirements for registration	1	2	3	4	5	8
d	Willingness/availability of staff to answer questions about the registration process	1	2	3	4	5	8
e	Staff knowledgeable about the registration process	1	2	3	4	5	8
f	Courtesy of staff involved in handling registration applications and questions	1	2	3	4	5	8

v12. Was your application for registration ever denied?

1 Yes → **V13** **1**
0 No → **V14** **0**

v13. Only if answer to V12 was „Yes":

	Experiences	Yes	No	No recollection/ no answer
A	Was the denial ever handed to you in written form?	1	0	8
B	Were the reasons for denial stated in written form?	1	0	8
C	Did it provide a legal basis/citation supporting the reasons given for the denial?	1	0	8
D	Did it explain how/where you could file an appeal?	1	0	8
E	Did it explain how many days you had in order to file an appeal?	1	0	8

v14. Please answer with „yes" or „no" to following questions on your registration experiences. Have you ever encountered any of these situations?

	Experiences	Yes	No	Does not know	Refuse to answer	Approximate value
A	Pressure to hire a particular intermediary firm or an individual	1	0	8	9	
B	Pressure to provide something of a benefit to friends, relatives or another person or organization.	1	0	8	9	
C	Pressure to procure something of value in order to get registered. ***If yes, ask*: Please estimate the value of the payment or gift.**	1	0	8	9	
D	Informal payments of any kind, whether in form of money or a gift. ***If yes, ask*: Please estimate the value of the payment or gift.**	1	0	8	9	

v15. If a firm such as yours pays the required informal payment, is the registration process affected beneficially for the firm as expected? Show Card V15

1	Never	1
2	Rarely	2
3	Often	3
4	Always	4
	-- Do not read --	
8	Does not know	8
9	Refuse to answer	9

v16. How common is it for firms in your line of business to have to pay some informal payment to get registered within a reasonable amount of time? Show Card V15

1	Never	1
2	Rarely	2
3	Sometimes	3
4	Often	4
5	Always	5
	-- Do not read --	
8	Does not know	8
9	Refuse to answer	9

v17. Do firms in your line of business usually know in advance about how much this informal payment is?

1	Yes	1
0	No	0
	-- Do not read --	
9	Refuse to answer	9

INSPECTIONS

Thank you. I will now ask you a few questions about your experience with inspections.

v18. Think of the start of your business, how many days did it take for a Minimal Technical Requirements (MTR) verification commission to come and inspect your business premises? **Do not read out the answers. Based on the aswer determine appropriate time interval.**

1	1 - 10 days	1
2	11 - 20 days	2
3	21 - 30 days	3
4	31 - 40 days	4
5	over 40 days	5
7	Never checked	7
9	Non applicable	9

v19. How frequently was your business inspected by the following inspection services in the last year?

	Inspection	Never	Once	2 - 3 times	4 - 5 times	6 or more times	No answer
A	Market inspection	0	1	2	3	4	8
B	Construction inspection	0	1	2	3	4	8
C	Urban inspection	0	1	2	3	4	8

v20. INTERVIEWER: In table below, circle (1) 'Yes' for inspections with which the respondent had actual experiences (V18 and V19). For those inspections that had not been performed in the past 12 months ask: Has your business EVER been checked by any of these inspection agencies?

	Service	Yes	No	No answer
a	MTR Commission	1	0	8
b	Market inspection	1	0	8
c	Construction inspection	1	0	8
d	Urban inspection	1	0	8
e	Other*	1	0	8
	*** if 1- enter which inspection**			

INTERVIEWER: Ask this question only in the case that respondent stated in V.20 that at least two inspections checked his/her business. If the respondent stated that no inspections, or just one inspection checked the business, enter 9.

v21. How often did any two of these inspections take place simultaneously?

Enter # of times: [ ]

INTERVIEWER: From V22 to V25, ask each question ONLY for those inspections with which the business had prior experiences (those on which the respondent answered „Yes" in V20).

v22. How would you rate the quality of the work of officials in the following services? Please state whether their work is very poor, poor, fair, good, very good. ShowCard V22.

	Služba	Very poor	Poor	Fair	Good	Very good	Does not apply for my business
a	MTR Commission	1	2	3	4	5	8
b	Market inspection	1	2	3	4	5	8
c	Construction Inspection	1	2	3	4	5	8
d	Urban inspection	1	2	3	4	5	8

I'm going to ask you about your experience with inspections with each commission/inspectorate.

v23. How often do you receive the inspection results in writing? Show Card V15

	Service	Never	Rarely	Often	Always	Does not know/ no answer
A	MTR Commission	1	2	3	4	8
B	Market inspection	1	2	3	4	8
C	Market inspection	1	2	3	4	8
D	Market inspection	1	2	3	4	8

v24. INTERVIEWER: Mark with „X“ if the aswer is 'Yes'.

	Experience/answer	MTR Commission	Market Inspection	Construction Inspection	Urban Inspection
A	Has your business ever received a warning or failed an inspection? **If „Yes“ ask question „b“.**	☐	☐	☐	☐
B	Did you receive an explanation of grounds for the poor result/failure?**If „Yes“ aks questions c-e.**	☐	☐	☐	☐
C	Did it provide a legal citation of grounds for the poor result/failure?	☐	☐	☐	☐
D	Did it explain how and where you could file an appeal?	☐	☐	☐	☐
E	Did it explain how many days you had in order to file an appeal?	☐	☐	☐	☐

v25. Have you experienced the following during an inspection by those agencies we talked about, or with any other inspection? **Mark with „X“ if „Yes,“ if „No“ leave blank.**

	Experience	MTR Commission	Market Inspection	Construction Inspection	Urban Inspection	Other inspection service	**If answer is „Other inspection service“ ask which and enter response**
a	Pressure to hire a particular intermediary firm or an individual	☐	☐	☐	☐	☐	
b	Pressure to provide something of a benefit to friends, relatives or another person or organization.	☐	☐	☐	☐	☐	
c	Pressure to procure something of value in order to improve the findings of an inspection. **If yes, ask: Please estimate the value.**	☐ Value: _____	☐ Value: _____	☐ Value: _____	☐ Value: _____	☐ Value: _____	
d	Informal payments of any kind, whether in the form of money or a gift. **If yes, ask: Please estimate the value of the payment or gift.**	☐ Value: _____	☐ Value: _____	☐ Value: _____	☐ Value: _____	☐ Value: _____	

v26. In your opinion, inspections affecting your business are… **Read!**

1	Extremely frequent	1
2	Frequent	2
3	Somewhat frequent	3
4	Infrequent	4
5	Never occur	5
	-- Do not read --	
9	No answer	9

v27. In your opinion, what burden do inspections place on your business: **Read!**

1	Overwhelming burden	1
2	Significant burden	2
3	Some burden	3
4	Less then some burden	4
5	Negligible or no burden	5
	-- Do not read --	
9	No answer	9

CONSTRUCTION CONSENTS AND PERMITS

Thank you. Now I'd like to ask you a few questions regarding construction consents and permits.

v28. Have you engaged, or are you currently engaged in the construction of a facility for your business?

1	Yes ➔ **V29**	1
0	No ➔ **V38**	0

v29. Which type of project you applied for permitting? **More then one answer is possible!**

1	New construction	1
2	Addition	2
3	Alteration	3
4	Renovation	4
	Other, **write in:**	

v30. What type of facility were you planning to make?

1 Commercial- manufacturing	1
2 Commercial- wholesale	2
3. Commercial- retail	3
4. Commercial- storage/warehouse	4
5. Residential- personal residence	5
6. Residential- development	6

Other, **write in**:

v31. What is the approximate total size of the project in square meters?

m2: [ ]

v32. Approximately, what was your investment in construction project (in KM):

KM: [ ]

v33. How long did it take to obtain the following permits:

		# of days	No answer
a	Urban permit		8
b	Construction permit		8
c	Use permit		8

v34. Were you required to obtain an ecological permit?

1	Yes ➔ **V35**	1
0	No ➔ **V36**	0

v35. How long did it take you to obtain an ecological permit?

# of days: [ ]

v36. How long did it take to obtain the following connections from the date of application?

		# of days	No answer
a	Electricity		8
b	Water/sewage		8
c	Telephone		8

v37. Please rate your experience with the municipal staff in the process of applying for construction permits. Was it very good, good, fair, poor, or very poor? **Show Card V11**

		Very poor	Poor	Fair	Good	Very good	Not sure/does not know
A	Availability of information about steps in the permitting process	1	2	3	4	5	8
B	Clarity of information about steps in the permitting process	1	2	3	4	5	8
C	Availability of information about documentation requirements for permitting	1	2	3	4	5	8
D	Willingness/availability of staff to answer questions about the permitting process	1	2	3	4	5	8
E	Staff knowledgeable about the permitting process	1	2	3	4	5	8
F	Courtesy of staff involved in handling applications and questions	1	2	3	4	5	8

POTENTIAL REFORMS

Thank you. I am going to ask you about your opinions on best methods to encourage development of small businesses in BiH.

v38. In thinking about what changes you would like to see, of the following, (**show Card V38**), which would be the most useful?

a. Most useful **Enter # from Card V38:** ☐

b. Second most useful **Enter # from Card V38:** ☐

CARD V38

#.	Reforms
1	Reduction of time necessary to register a business.
2	Reduction of the number of regulatory formalities (documents, requests, etc.) necessary to register a business.
3	A requirement that new regulatory formalities can only be adopted after notification to and consultation with the business community (chambers of commerce, employers associations etc.)
4	Implementation of fair and impartial inspections control.

v39. Are there any other potential reforms that you believe would be useful to your business?

Enter:

RESPONDENT PROFILE

Thank you. I have just a few questions about you.

v40. What is the highest level of education you obtained?

1	None	1
2	Elementary school	2
3	Highschool	3
4	University graduate	4
5	Advanced degree	5

v41. And your age bracket is:

1	< 20	1
2	20 – 29	2
3	30 – 39	3
4	40 – 49	4
5	50 – 59	5
6	60 or more	6

v42. Do you personally use a computer in your everyday work?

1	Yes	1
0	No	0
9	No answer	9

v43. How often do you use the internet?

1	Every day	1
2	4 – 5 times a week	2
3	2 – 3 times a week	3
4	Once a week	4
5	Less then once a week	5
6	Do not use at all	6

v44. How frequently do you read following newspapers? **Ask for each paper/magazine! Show Card V44.**

	Newspapers	Never	2 times a month	once a week	2-3 times a week	Each day
a	AS	0	1	2	3	4
b	AVAZ	0	1	2	3	4
c	BLIC	0	1	2	3	4
d	GLAS SRPSKE	0	1	2	3	4
e	NEZAVISNE NOVINE	0	1	2	3	4
f	OSLOBOĐENJE	0	1	2	3	4
g	SAN	0	1	2	3	4
h	VEČERNJI LIST	0	1	2	3	4
i	VEČERNJE NOVOSTI	0	1	2	3	4
j	NEKE DRUGE	0	1	2	3	4

v45. What is your nationality?

1	Bosniak	1
2	Croat	2
3	Serb	3
4	Other	4
9	No answer	9

v46. Are you officially a member of any political party?

1	Yes	1
0	No	0
9	No answer	9

v47. Are you a member of any local or professional organization?

1	Yes	1
0	No	0
9	No answer	9

v48. Who is your favorite BiH politician? **One answer only!**

--Do not read--

98	No politician is my favorite	98
99	No answer/refuse to answer	99

THIS CONCLUDES OUR CONVERSATION. THANK YOU FOR YOUR COOPERATION

END TIME

HOUR	**MIN**

TO BE FILLED BY AN INTERVIEWER:

Respondents Gender:

0	Male	0
1	Female	1

v49. Overall, what was the respondent's reaction to the interview?

Very negative				Very positive
1	2	3	4	5

v50. Overall, how sincere did the respondent seem to be in his/her answers?

Very insincere				Very sincere
1	2	3	4	5

Annex 2. Key Informant Interviews

In order to enhance the understanding of the issues diagnosed by the quantitative research, SPIRA decided to conduct a follow-up qualitative research. The sample included 15 respondents, selected from the pool of 552 quantitative questionnaire respondents. The key informants were geographically segmented in flowing manner: 5 respondents from the FBiH, 5 respondents from the RS and 5 respondents from fast-track pilot municipalities (3 from Laktaši and 2 from Mrkonjić Grad). The in-depth qualitative, non-structured interviews were held over the period of two weeks in March 2008.

SPIRA strived to attain such representation in this small sample which would be reflective of the characteristics of overall research. Hence, the sample pool was selected using the following criteria per geographic point:

- Business activity selection: trade (2 respondents), crafts (2 respondents) and tourism and catering (1 respondent);
- At least one respondent having experience with the construction permitting process in the last 5 years;
- At least two respondents being females; and
- At least one of respondents having university-level education.

The interviewers were instructed to cover key issues addressed in survey instrument: business registration, inspections, corruption issues and construction permitting (if applicable). The underlying premise of interviews was to present the preliminary results of the research to the interviewees and seek their comments as to the obtained results. The key observations from those interviews are included in this report, throughout the relevant topical section, to provide specific examples for particular observations and findings.

ANNEX 3. Survey Design and Other Business Environment Surveys

The SPIRA team undertook this survey for two reasons: (1) to set a baseline against which to measure the outcomes of project activities to improve business registration, construction permitting, and inspection processes; and (2) to better understand what relevant issues affect the business registration and permitting processes and in what manner.

Significantly, only some of the major survey instruments used by donors in BiH or elsewhere addressed these matters adequately. For example the World Bank's *Doing Business* methodology focuses strictly on subjective, expert opinions (aggregated into median values) from lawyers and business consultants. It does not solicit the views of small businesses. Instead, it is largely an inquiry into the legal framework and how it is supposed to work in a standard case. It focuses on larger limited liability companies located in capital cities and, in the permitting arena, addresses only construction permitting related to the construction of a particular kind of warehouse. It also assumes that businesses have full information about what is required to undertake the transaction or participate in the regulatory processes at issue. It does not take into account real-world problems with information availability or retrieval of documents.

Meanwhile, the World Bank's and EBRD's *Business Environment and Enterprise Productivity Survey* (BEEPS) is a streamlined survey, administered only every three years, that highlights what firms are saying about a handful of prominent rules and policies in the regulatory framework. The sample is large but includes only about 200 BiH firms, with larger firms significantly overrepresented. There are also only two questions addressing corruption. FIAS's Administrative and Regulatory Costs Survey, which samples between 300 and 500 firms in a country, comes closest in intent to the survey SPIRA conducted. It contains corruption questions and inquiries focused on senior-management time spent dealing with various administrative and regulatory procedures. However, it does not cover questions about transparency and customer service.

Finally, FIAS and the IFC (through the latter's Private Enterprise Partnership Program) pioneered an SME Business Environment Survey (starting in Tajikistan and Ukraine) that sought to obtain, through face-to-face interviews, a more fine-grained view of those firms' understanding of the policy and regulatory environment (and also asked sever questions covering corruption). Its sample includes 1,000 individual entrepreneurs and has an average company size of 15, but even this survey still significantly under-represents micro businesses and individual entrepreneurs. Even in Tajikistan and Ukraine, these segments of the business community outnumber companies by as much as four to one.

The best features of the SME Business Environment Survey concern the ranking of various problems by the respondents according to severity, which helps pinpoint regulatory reform targets. It also includes questions identifying discretionary permits not required by law, as well as other questions related to permit issuance that provide good "roadmap" information. In addition, there are also "time tax" questions that are fine-grained enough to correlate with particular types of procedures (e.g., inspections, licensing, permits, registration, certification, and standards) and steps therein. The SME survey hadn't been made publicly available at

the time the SPIRA Project was drafting its own survey, but IRIS Center personnel were able to obtain a version of the survey to be used in Ukraine that helped inform its design of the SPIRA instrument.

In general, the SPIRA team incorporated design ideas from all of the above surveys — as well as its own experience with business surveys in projects elsewhere in the world — to develop the survey used in this project. We spent considerable time developing an approach to corruption questions. Specifically, we felt it was important for the project to capture information about the relationship between specific streamlining reforms and the potential reduction in unofficial payments, i.e., the particular reasons for such reduction. For example, is it due to less face-to-face contact between firms and officials; fewer delays requiring payment of "speed money," more transparency, less discretion by officials, better appeals and complaint procedures, and/or greater scrutiny by firms and the business community generally. Accordingly, we incorporated corruption questions into the survey to accommodate various considerations of cost, ease of response by firms, and quality and reliability of responses (e.g., too many corruption questions could decrease the overall response rate or increase reticence on many questions). Insofar as IRIS' experience showed that as many as 20-40% of firms may not give candid answer to certain sensitive questions,[8] IRIS and other project team members decided to spend considerable time selecting the phrasing of certain corruption questions, carefully interspersing them among other questions in the survey, and pretesting them to ascertain (at the latter stage, on the survey repeat) if the implemented reforms had any effect on these issues and what that effect was.

[8] *See* IRIS Center, 2005. *Tools for Assessing Corruption and Integrity in Institutions: A Handbook* (Washington, D.C.: USAID).

ANNEX 4: Exclusion Criteria

While the source SPIRA used to identify small and medium-sized businesses to participate in the survey — the United Database of Transaction Accounts — was deemed the best available, it is by no means perfect. A single company might have many transactional accounts. NGOs and nonprofit organizations also have transactional accounts. Governments and their institutions have accounts, as do state-owned enterprises. Therefore, the records we pulled from the database had to be "cleaned" before they could be used to develop the sample frame. For that purpose, we developed a set of exclusion criteria. We used two primary exclusion criteria:

1. Form of ownership; and
2. Number of employees.

The form of ownership is an important consideration due to the fact that BiH businesses with sizeable market capitalization are either remnants of communist-era behemoths now privatized or are still owned by the government. Some privately owned enterprises are listed on the stock exchange but the majority of small businesses are not. Hence, joint stock businesses were excluded from the sample. Government-owned enterprises were also excluded from the sample.

The number of employees is another significant criterion. Logic dictates that under current conditions and in BiH's current economic environment, a business with more than 50 employees cannot be considered a medium-size business, hence we excluded such businesses from the sample. The specific exclusion criteria are the criteria we applied to the preliminary sample obtained from the database, since a business' number of employees cannot be ascertained from this data source, while the form of ownership can be ascertained to a certain degree.

Table 29: Type of Accounts Drawn Randomly in a Sample

Account Type (random selection)	Frequency
Budget user	4
Citizen	73
Executive branch institution	3
Legal person	666
Individual entrepreneur	181
Other	73
Total	**1,000**

- Case uniqueness, i.e. each business entity can appear only once in the sample, regardless of the number of accounts associated with the particular business ID.
- Exclusion of Brčko District from the sample. SPIRA does not operate in Brčko, as it has separate jurisdiction and applies very different procedures in business registration and permitting in general.
- Account classification. Terminated accounts were eliminated from the sample, as such accounts are not allowed to be active.
- Account type. Budget users, individual citizens, and executive branch institutions were eliminated from the sample (see Table 29).
- Type of change. If the change in status indicated that an account was closed, those accounts were eliminated from the sample.