

Doing Business in the European Union 2018

Fact Sheet: Croatia



Doing Business in the European Union 2018: Croatia, the Czech Republic, Portugal and Slovakia is the latest in a series that aims to expand the benchmarking to secondary cities in all EU member states with a population above 4 million. This edition covers 25 cities from the four member states. The focus of the report is on indicator sets that measure the complexity and cost of regulatory processes, as well as the strength of legal institutions, affecting five stages in the life of a small to medium-size domestic firm: starting a business, dealing with construction permits, getting electricity, registering property and enforcing contracts. Top performing cities are identified and best regulatory practices are highlighted. The report suggests that reform-minded officials need not look far: the region has good, practical models to draw on.

DOING BUSINESS IN CROATIA

The report goes beyond the capital cities—measured by *Doing Business*—to identify good regulatory practices, uncover administrative bottlenecks and recommend reforms based on examples from each country and 186 other economies measured by *Doing Business*.

In Croatia, the report assesses the business regulatory environment and its impact on local entrepreneurs in **5 cities**: Osijek, Rijeka, Split, Varazdin and Zagreb.



The report was prepared by the World Bank Group, with the assistance of the Agency for Investments and Competitiveness of Croatia under the auspices of the Ministry of Economy, Entrepreneurship and crafts, and funded by the European Commission, Directorate General for Regional and Urban Policy.

MAIN FINDINGS

- **Croatian entrepreneurs face different regulatory hurdles depending on where they establish their businesses.** Implementation of business regulations as well as efficiency of public agencies vary within the country. There are substantial differences in regulatory performance among the five cities. Multiple regulatory reforms over the years have led to inconsistencies in how regulation is implemented at the local level. Moreover, uneven transaction volumes appear to affect performance in some areas. In Split, for example, the heavy workload at the building department means a wait for a building permit that is three times as long as the average for the other cities: three months rather than one. But not all cities with higher transaction volumes struggle. Zagreb completes property transfers one month faster than Split does, despite a caseload four times as large.

- **Largest performance gaps within Croatia are seen in dealing with construction permits, enforcing contracts and starting a business.** Completing the construction permitting process for a simple warehouse in Varazdin takes 112 days and costs 5.3% of the warehouse value—half the time it takes in Split, at a third of the cost. Among the reasons

for these differences: the heavy workload at the building department in Split, high mandatory contributions toward municipal infrastructure and additional municipal requirements—such as a work safety inspection and a clearance from the waste collection department. Similar differences emerge in the area of starting a business as a result of differences in how companies are registered. In Split more than half of new limited liability companies are set up using HITRO.HR services—and start-up requires six procedures and six days. In Zagreb, by contrast, most new businesses are registered in-person at the court. This takes eight procedures and more than three weeks. For enforcing contracts Osijek would rank near the top among EU member states, behind only Lithuania, Austria and Estonia. Meanwhile, Split is below the EU average. This is not surprising: cases in the commercial court in Split typically take more hearings to be resolved. Adjournments and rescheduling add to the delays. And obtaining expert opinions takes longer, with experts often submitting their report past the deadline. As a result, resolving a commercial dispute in Split takes nearly 11 months longer than it does in Osijek.

- **No city excels in all five areas.** Starting a business is easier in Split, where most limited liability companies are set up using a government service that simplifies start-up (HITRO.HR, or “single access point”)—indeed, Split has the highest take-up among the five cities. Dealing with construction permits is easier in Varazdin. This city also leads in the area of getting electricity, thanks to a more reliable power supply—with shorter and less frequent service interruptions than the other cities—and relatively short waits for a new connection. Osijek stands out for its performance in the areas of registering property and enforcing contracts—perhaps predictably, given the lower caseload at the local land registry office and the smaller backlogs in its courts. But being at the forefront of regulatory reform—such as the piloting in February 2017 of new software allowing online submission of property transfer applications by certified legal professionals—is another factor behind Osijek’s top performance. Rijeka, a runner-up in four areas, lags behind only in enforcing contracts.

- **There are opportunities to make tangible improvements by replicating good practices found in the cities measured.** If Zagreb were to replicate the best performances recorded across the five cities in the areas of starting a business, dealing with construction permits, getting electricity, registering property and enforcing contracts, Croatia would rise to 40 in the global ranking of 190 economies on the ease of doing business—11 places higher than its current ranking according to *Doing Business 2018*. What regulatory changes in Zagreb could help drive this jump in Croatia’s overall ranking? For example, learning from Split how to encourage a massive take-up of the HITRO.HR business registration services would improve Croatia’s ranking by 22 places, from 87 to 65. Similarly, learning to make the electricity connection process as efficient as in Osijek and the power supply as reliable as in Varazdin, Rijeka or Split would improve Croatia’s distance to frontier score for getting electricity by more than 4 points. And in enforcing contracts, achieving the best performances observed among all five cities on time, cost and quality would allow Croatia to jump 12 places in the ranking, from 23 to 11.

- **Despite a number of good practices documented in the report, challenges remain.** Croatia has made much progress in closing the gap with global best practices in business regulation. Yet more could be done to further ease the regulatory burden on companies and align regulatory processes with good practices identified in other EU member states. To make starting a business or transferring property easier, Croatia could follow Portugal’s example and make the use of notaries optional for companies using standard incorporation documents or deeds. This would allow significant cost savings for entrepreneurs, who today pay costs amounting to 7.3% of income per capita to start a business—more than twice the EU average of 3.4%. Croatia could also make start-up easier over the long run by consolidating all electronic platforms used for different steps into a single online business registration system.

ABOUT SUBNATIONAL DOING BUSINESS

Subnational Doing Business studies capture differences in business regulations and their enforcement across locations in a single country. The reports provide data on the ease of doing business in selected areas, rank each location, and recommend reforms to improve performance at the local level.

- **Offers a new diagnostic tool.** Applying the methodology used in the cross-country global Doing Business report in a number of locations in the same country or region, the projects create micro-level data on various areas of business regulation. This allows the participating locations to compare their business regulations among themselves and with 189 economies worldwide.

- **Motivates regulatory improvements.** The studies uncover bottlenecks, provide policy recommendations and identify local good practices that can easily be replicated without changing the country’s legal and regulatory framework. The studies motivate regulatory improvements, mainly through peer-to-peer learning.

FULL REPORT AVAILABLE AT:

www.doingbusiness.org/EU2.