



**REAL ESTATE
REGULATORY IMPROVEMENTS
DRIVE SERBIA UP ON THE
WORLD BANK DOING BUSINESS LIST**

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All economic indicators in the Republic of Serbia have directly depended on foreign direct investments which has been clearly visible in the past fifteen years. At the time of the initial opening of the Serbian market, in the early 2000s, the investors' goal was to secure a good starting position in the market. At the time, significant investment risks were acceptable which otherwise would have been deal breakers in regular business operations. From the outset investors came across systemic obstacles in their operations. These in turn incrementally crystallized as unacceptable risks for new investments.

In addition, 2008 saw the Global Economic Crisis which caught inert and inflexible Serbian economic system completely off-guard. The consequences of the crisis have been most visible in the construction sector.

The end of investment euphoria, marked by the beginning of the GFC, demonstrated that the Republic of Serbia is uncompetitive and hardly able to match countries in the region which have, in various ways, attracted investments and maintained their development. The methods for attracting investments differ but the efficiency of any model depends on the business environment functionality, i.e. the systemic support to investors. No incentive offered to an investor (from subsidies to tax reliefs and exemptions) can yield expected results if there are implementation obstacles and no effective system that will enable investors to carry out their plans and protect their investments.

The annual Doing Business ranking published by the World Bank is the primary business environment indicator of a country and enables investors to assess cost-effectiveness of their investment in a specific country. The list is published after data gathered through case studies has been processed by the World Bank. The overall ranking is formed by assessment of number of business areas/factors/aspects, such as time and cost of start-up, time and cost of connecting to the electrical grid, tax system efficiency and speed of resolving court proceedings. A position on this list is certainly one of the most important factors affecting an investment decision.

In 2016 the Republic of Serbia climbed from the 54th to the 47th place on the overall list of the World Bank. This improvement is mostly owing to an impressive leap from the 116th to the 36th place in the segment relating to the issuing of building permits. After the new regulations on issuing building permits came into effect in 2015, the time needed to issue a permit dropped by 171 days and the number of ancillary procedures relating to the issuing of building permits decreased from 19 to 12.

Due to such a notable improvement in regulatory framework, Serbia has managed to rise from the bottom of the list and take a place among the world's most developed economies.

The primary reasons for such an improvement in the area of issuing building permits is the formation of a one-stop-shop system for issuing building permits which reduced number of investment procedures from 19 to 12, shortening of real estate registration procedure, decrease of parafiscal charges, and, most importantly, introduction of an electronic procedure for issuing building permits.

Improvement of the regulatory framework is the result of a transparent and pragmatic approach to creating and enacting new regulations. This has been done through a dialogue between the legislators, commercial sector and stakeholders to whom these regulations directly apply. A number of objections and proposed solutions were adopted during the dialogue. A number of new regulations were fully drafted by the non-governmental sector. It goes without saying that implementation of regulations in Serbia has stood out as a fundamental issue, so the ranking improvement is a new test for the Serbian government.

A commendable step forward has been taken after a long time and the legal framework, the largest obstacle in the Serbian economy so far, has been significantly improved. However, it should be noted that the World Bank's analysis is based on a universal case study, starting from the assumption that the system works perfectly and that there are no bottlenecks in the permit issuing procedure. The high ranking is the result of the analysis of one ideal case, which can rarely be seen in practice. The slow and inert government apparatus will have to be much more proactive and agile in the building permit issuing procedures in order to unleash the full potential of the new regulations.

The other problem of analyzing one ideal case can be seen in certain contradictions within the World Bank's list itself. For instance, according to the latest rankings, the time required to connect to the electrical grid, is 125 days, and in this area Serbia occupies a very poor 92nd place. If we remember that one of the main bottlenecks in the issuing of building permits has been connection to the electrical grid, it becomes questionable how realistic are the overall 156 days required for the whole building permit issuing procedure, given that it takes 125 days just to connect to the electrical grid.

The rise in World Bank ranking is a step in the right direction and an excellent signal to investors. The Serbian Statistical Office data shows that the number of building permits issued in August 2016 is 22% higher than in the same month in 2015, so the new regulations are obviously producing positive outcomes and, although partially, influencing the onset of a more positive business sentiment.

However, we cannot ignore the fact that the total value of works, despite the increase in number of issued permits, has decreased which clearly shows that the new regulations have not yet been tested on major projects and that remains the greatest challenge to come. Major projects in the construction business have been announced for 2016 and 2017. In that respect, the new regulations and systemic solutions will really be put to the efficiency and flexibility test. Serbia's future Doing Business ranking should in turn be determined based on investors' experience in practical implementation of the new law.

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