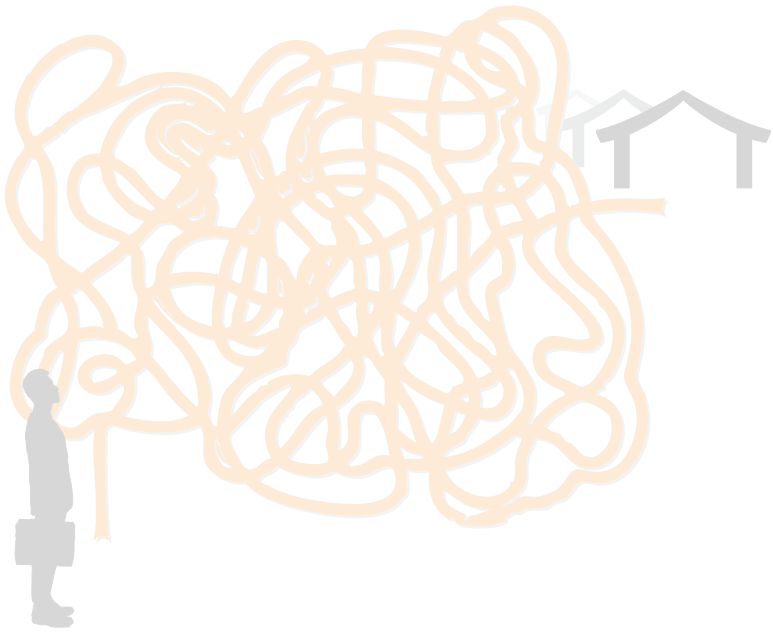


Budimir Balaban, a City Councilor

INITIATIVE FOR LESS BUREAUCRACY AND MORE INVESTMENTS

An example of the construction of buildings in Banja Luka





The text below presents description of an initiative for making simpler and more cost-effective processes for the construction of buildings, which I, as a City Councilor, have elaborated on at the Banja Luka City Council and, in parallel, tried to turn into adequate practice of the City Council and City Administration, to the extent of political and administrative feasibility. It was written in hope to motivate and encourage other City Councilors to prepare and initiate similar initiatives for resolving the numerous problems we are faced with.



From a City Councilor's point of view

A response to the question of what do we really need, whether it is more bureaucracy or more investments, seems to be an easy, simple and obvious one. Truly, there is no dilemma that the citizens need more investments in their city, more new jobs, cheaper services, with fast and efficient administration, instead of a surplus of employees in the administration (hence, higher budget expenses) as well as more expensive public services and more complicated solutions for significant living issues. From the point of view of a City Councilor, things should be looked at in the same way, as it is precisely the City Councilors who are the elected representatives of citizens and who should represent their interest in the best of ways.

Unemployment, a general impression of investment blockage, corruption stories, the budget decline, illegal construction, the World Bank's Report that Bosnia and Herzegovina is at 182nd position out of 189 monitored countries in the world in terms of easy obtaining of construction permits have all, needless to add anything else, affected my decision to deal with the problems and processes of the construction of buildings, from the moment of adopting a decision on construction or changes in the regulatory plans and all the way to the issuance of a certificate of occupancy. It seems that precisely in this we may find one of the (numerous) levers for changing the existing situation. And the existing situation at the City of Banja Luka approximately looks like this:

- The employment rate in the city area, in the beginning of 2015, amounted to 31%, that is, out of 199,191 citizens, 61,820 were unemployed, 37,903 were pensioners and 17,958 were unemployed;
- It is estimated that there is between 25 and 30 thousand of illegally built buildings;
- The budget has been shrinking every year by about ten percents;
- The number of steps in the process of construction of a building has reached 70;
- The number of days for obtaining a certificate of occupancy, from the moment of submission of an initiative for the preparation of or change of a regulatory plan amounts to 1,300, including in that the construction of at least one year;
- The number of days for issuance of a permit, if we do not include construction into it and adoption of a regulatory plan, reaches 400 days, while in the developed European countries it ranges between 60 and 100 days.

Then, why are we surprised that the investors, both domestic and foreign ones, give us a wide berth?

All these indicators clearly point out towards the necessity of urgent and dramatic changes. The changes need to be started immediately, first those that depend on the local government to be followed by those being related to the higher levels. How? First, by making technical and procedural simplifications and changes of bureaucratic behavior and, then, by simplifying the regulations.

Key problems: overcomplicated, supernumerary and overregulated

What does the analysis I have undertaken, to be able to propose adequate changes, show?

The number of steps, from an initiative for the preparation or change of a regulatory plan up to a certificate of occupancy, reaches the number of 70 and the number of days reaches 1,300 or about three and a half years. It is clear that very few investors will get into such an investment, for which, in order to finalize it, they would need to wait for such a long period of time, while, also, only after that they will be able to either sell such a constructed real estate or start with production or another service providing activity using it. The causes of such a situation are both technical and procedural ones. The question is why each regulatory plan undergoes several changes and there are some that were changed even as many as twenty times (eg. Alley Center 1). I would not get into elaborating on the possible reasons, as it seems to me that it is far more important to find a solution, so as not to end up in such situations. The analysis has shown that it takes 365 days to change a regulatory plan.

Apart from the previously explained, significant losses of time happen due to slowness of the administration that, in such a way, emphasizes on its own significance. I am convinced that the supernumerary municipal officers lead to imagined procedures and bad technical solutions (supernumerary employees are bad employees, as they are not needed by anybody, because, if they were needed, there would be no need to come up with job positions for them). Namely, we have a long procedure because of overcomplicated procedures and bad and inflexible technical solutions, as well as supernumerary of officers which, in such a way, “justify” for their existence. I would not comment on how such a situation is suitable for the risk called corruption, as this simply creates fertile ground for its uncontrolled development.



How to get to a solution

A road to a solution first includes everything that we can improve within the existing legal framework and, then, the necessary changes of this framework.

First: make it simpler and more practical

First, the number of those resolving the problem should be decreased, bringing them down to those who know and want to find a solution. Besides, the conclusions of the City Council that have followed the adoption of general acts, which realization of investments is dependent upon (Changes and Amendments of the Decision on Spatial Planning and Construction, Decision on the Amount of Charges of the Construction Land, the price of infrastructure works, the price of construction of buildings) are a good basis for the overcoming of this disastrous situation.

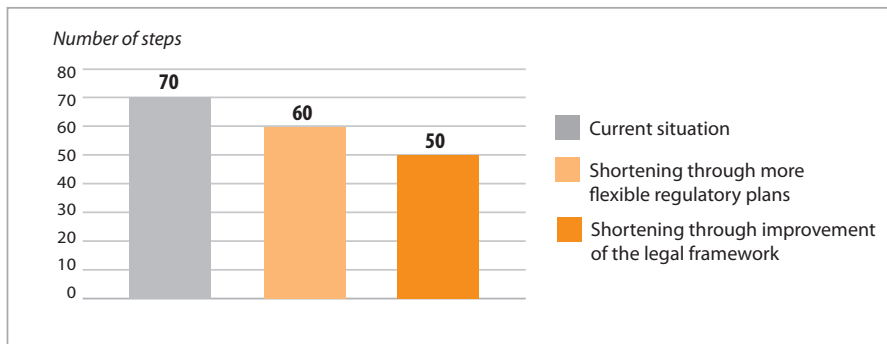
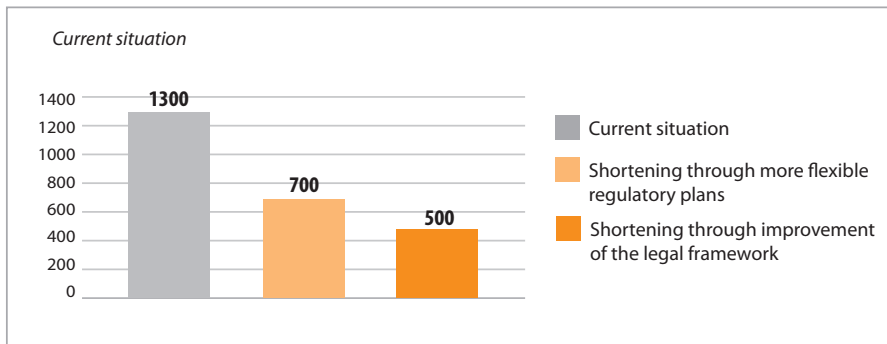
Why the regulatory plans are not done in a more flexible manner, such as the zoning plans? In this way, we would avoid frequent changes, decrease the deadlines, decrease the number of steps and decrease the significance of officers (small and great goods). Optimization of time to provide consents of utility companies should be added to this, taking the agreement-in-principle out to avoid doubling of procedures, as well as decreasing of the number of requests for the land registry documents.

The simulation scenario shows that, in this way, we would bring the total time down (including the time of at least one year for the construction of a building) from 1,300 days to 700 days and the number of steps would decrease from 70 to 60.

Second: improve the legal framework

We should not stop at this, but move forward. Changes of the law should open up new space for improvements in this area. This new space could be found through a more tolerant relation to the ownership over the land (construction should be enabled to the land user) and through avoiding of doubling of utility companies' consents (their consents are now requested twice: first about the location requirements and then again about the project documentation). Legal changes could regulate the building permit to be issued on the basis of the preliminary designs. All these solutions are known both in the European and global practice,

which is why I cannot see a single reason for us not to adopt them. In this way, the number of steps would be brought down to 50 and the time to obtaining a certificate of occupancy would come down to 500 days, including at least one year for physical construction of a building. If we take the time necessary for the construction out, the number of days for obtaining a building permit would be brought down to 140, which is still a lot, but rather tolerable.



Here are some of the facts to confirm and reiterate the previous assessments:

- The neighboring Croatia concluded that it was exceptionally complicated to obtain a building permit, as for the construction of a warehouse in Zagreb, it would take to visit 21 address and the whole procedure would last for 188 days;
- If this warehouse was built in Denmark, it would take going through seven steps and the time of 64 days, while in Germany it would take one day more and 96 days;
- Upon the report of the World Bank for 2014, out of 189 countries in the world in terms of obtaining construction permits, Bosnia and Herzegovina ranked 182nd.

Effects:

having lower costs to get to higher incomes and more jobs

The land rent and planning costs are the budget revenue of local communities and the most cautious ones will run after increasing this charge expecting higher revenues. The legislator has left the possibility for each local administration to assess their situation about the needs, dynamics and interests of the investor, as well as the existing and missing infrastructure, and also to determine the elements to define the amount of these charges. Banja Luka is, undoubtedly, the Republic's administrative center and it should also be its economic one. When it comes to the adoption of the amount of these costs, no attention was paid to incentivizing investments that directly affect the economic development and degree of employment, thereby affecting the budgetary revenues from salary tax, increased VAT revenue, etc. but the focus was instead exclusively on the need to build infrastructure. In this way, the initial investments get significantly increased, which directly cause a decrease of investments, which, again, leads to the following consequences:

- A lower number of employees,
- Lower revenue into the budget from the VAT for consumption,
- Lower revenue from the VAT for equipping,
- Lower revenue from the VAT for turnover in construction material and equipment,
- Lower revenue from the VAT for services,
- Lower revenue based on the profit tax,
- Lower revenue both in the Republic and state budget,
- Lower revenues of the funds.

If we assume that the amount of costs, with previously elaborated process simplifications and accelerations, directly affect the number of constructed square meters, then, the budget revenues of the City, the Republic and the funds should look like this:

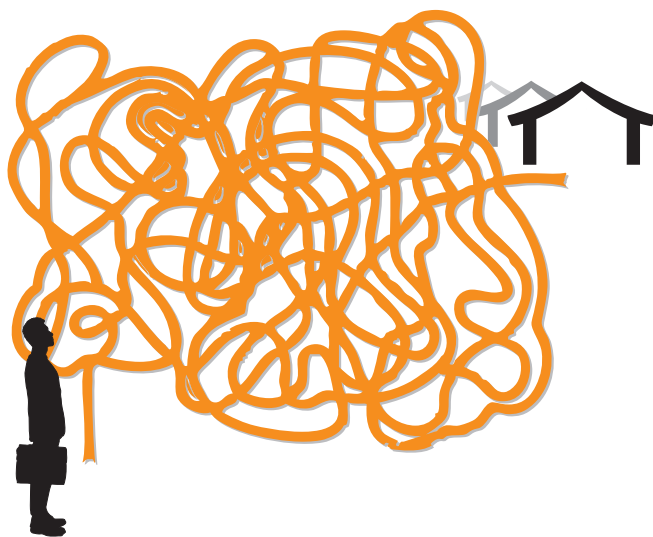
PLANNING COST AMOUNTS*	NET m ²	PLANNING COSTS*	CITY REVENUE*	RS REVENUE*	FUNDS' REVENUE*	TOTAL REVENUES*	NUMBER OF EMPLOYEES
131.42	50,000	6,580,000.00	9,700,000.00	5,800,000.00	5,600,000.00	21,100,000.00	1,600
105.00	60,000	6,300,000.00	10,100,000.00	7,100,000.00	6,700,000.00	23,900,000.00	1,900
78.00	72,000	5,700,000.00	10,200,000.00	8,700,000.00	8,100,000.00	27,000,000.00	2,300
63.00	86,400	5,400,000.00	11,000,000.00	10,600,000.00	9,700,000.00	31,300,000.00	2,700
50.00	103,700	5,200,000.00	11,900,000.00	12,900,000.00	11,600,000.00	36,400,000.00	3,300

(*Amounts given in KM)

In lieu of a conclusion: where are we with the changes in Banja Luka

This initiative has brought to partial positive changes. The procedures have been simplified, the number of the necessary steps and necessary days have been decreased. When it comes to the costs, they are somewhat decreased; however, this is insufficient to present an incentive for investors. The attempt to use the full amount of payments to make incentives will also not give the expected results, as the foreseen discount of 20% does not seem incentivizing enough for the investor to take loans to pay for this obligation. I am under the impression that the City Administration, as the proposing party behind these documents, accepted the suggestions offering solutions, however, they did not understand the essence nor had courage to act in accordance with the findings and recommendations of the previously elaborated analysis.

What I am to do is to continue insisting on changes in this area, both with the City Administration and with the competent Ministries, for as long as it takes, to satisfy the investors and make the City and the Republic budgets and funds fuller, which will provide for the satisfaction of all the more increasing needs of the citizens. Namely: until the time, when more serious investments start, accompanied with everything else, and with bureaucracy that has stopped disturbing them every step of the way.



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