



**JACOBS & ASSOCIATES**  
international consultants in regulatory reform

**REFORMING BUSINESS REGISTRATION IN SERBIA**

**FOR FINAL COMMENT**

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## Executive Summary

0.1. There is wide consensus on the need for better business registration in Serbia. Serbia's business registration systems are difficult to implement, costly for new businesses, sometimes corrupt, semi-regulatory in a manner inconsistent with market needs, and ineffective in supporting public policies such as avoiding fraud and improving safety and health. Data produced are too unreliable for the statistical and economic analyses needed to underpin policy-making. Registration costs for companies in Serbia are very high compared to European benchmarks.

0.2. Most countries in the Balkan region have modernized and simplified their business registration systems to help entrepreneurs and investors create new enterprises and new jobs. Serbia and Yugoslavia recently took important preliminary steps to streamline business registration for companies and entrepreneurs, and these reforms are being implemented, but Serbia's business registry reforms continue to lag behind those of its neighbors. Serbia should now aim to implement a business registry that is regarded as among the best in the region in supporting business formation and investment.

0.3. Wider and faster reform of the legal framework to stimulate private sector investment and create jobs is urgent. The pace of future Serbian economic growth will depend on private sector performance, mostly in the SME sector during the transition period when large state-owned companies are restructuring and privatising. As restructuring deepens, new jobs must be created to avoid destabilizing increases in unemployment, and to reduce the risk that poverty will increase in Serbia, as seen in some other countries in the region. However, reforms carried out to date in Serbia have barely changed most regulatory constraints affecting private sector activity. The domestic policy environment is still hostile to private start-ups, investment, and innovation.

0.4. Business registration reform is a high priority among the various reforms needed to provide a supportive framework for the private sector, which include regulatory reform, SOE reform and privatization, financial sector restructuring, land reform, public utilities, competition policy, and corporate governance. Business registration is a critical link in the investment chain, and its improvement will help resolve the non-transparency problems underlying corporate fraud. Simplification of start-ups will help formalize the large informal economy, which now accounts for perhaps one-third of GDP, and employs as many as one million workers. Its reform is low cost, its results are visible to businesses, and it can be done fairly quickly. Its reform advances the step-by-step reform of company law, already underway with bankruptcy and secure transactions reforms. Reform of business registration should:

- stimulate Serbia's domestic private sector, reduce the informal economy, and speed up investment and job creation, by making it easier to start up and expand businesses;
- improve Serbia's international competitiveness by developing one of the region's most supportive business registries and converging with good European registration practices. European countries are in general moving to more efficient administrative, electronic, and accessible registries rather than legalistic and paper-driven forms of registration;
- improve business statistics and information in Serbia to give ministries and other users up-to-date and reliable information on businesses to help them carry out their policy functions, and to assist market participants by improving information on businesses.

0.5. Current constitutional reforms provide an excellent opportunity to move forward with this reform, because they should consolidate legal authority for business registration under Republican authorities and simplify integration of procedures, institutions, and databases.

0.6. This report recommends that the Serbian government launch a comprehensive reform of business registration in Fall 2002 and complete the reform by June 2003. It proposes a structure for a new registration system that converges with good European practices, and sets out six principles of reform:

- ***Create a unified Serbian business register that includes all business activities covered under the current Company Law and Law on Private Entrepreneurs.*** To unify the legal authority, a new Serbian Business Registration Law creating a single registry should replace the Yugoslav Law on Enterprises, the Yugoslav Law on the Procedure for Insertion in the Court Register, and the Republican Law on Private Entrepreneurs.
- ***Administer the new unified registry through an independent administrative agency.*** The organization of Serbia's registration system is high in cost and low in efficiency. Three Serbian organizations with different mandates and capacities – 13 commercial courts, 131 municipalities, and the Republican Statistical Office -- administer business registration under different legal mandates. Institutional consolidation is necessary. Considering Serbia's needs and the capacities of various institutions, the preferred option is the expert registration agency, which is widespread and increasing in Europe. The business registry should be located with the collateral registry in a new Republican *Business Services Agency* created as an independent *zavod* accountable to the Serbian Government. The new Agency should absorb some resources of the current Solvency Center in the National Bank of Yugoslavia.
- ***Allow businesses to start activities immediately after registration.*** While the registration process may take a few days, companies should be permitted to begin activities as soon as they file the required information with the registration authority,
- ***Streamline data requirements for each class of business to European benchmarks.*** Serbia's business registries have been overloaded and have attempted to serve too many regulatory functions.
- ***Expand electronic registration and updating, and ensure easy electronic accessibility to the database.*** The Republican database should be publicly accessible, updated continually, and eventually accessible by Internet. Electronic registration should be incorporated into the design from the beginning. A system should be in place for real-time access to the database by inspectorates and others who need the information, such as tax, customs, pension, and social security authorities. Updating information in the easiest way – electronically, by telephone, or by mail -- is the key to maintaining data quality.
- ***For each business, create a single unique identifying number that serves all government needs.*** The challenge for Serbia is coordination so that pension, social security, customs, and tax systems all use the same identifier

0.7. At the core of the proposed new unified business registry is its administration by a *zavod*, or independent expert agency, called the Republican *Business Services Agency* that is committed to supporting the needs of businesses, and is accountable to the government for delivering information of a timeliness and quality to serve public needs such as inspections. The Business Services Agency would administer both the collateral registry and the business registry, and other registries as appropriate. The Agency registers businesses through a network of service centers

strategically sited around Serbia and through on-line and mail registration. While the decision on the final number of service centers must depend on a thorough cost accounting, 30 Centers located in the largest municipalities and using the ZOP information network would ensure that no place in Serbia would be more than 45 kilometers from the nearest Center.

0.8. Start-up and transition costs are preliminarily estimated at around €1 million, although these estimates should be refined. Once it is fully operational, the new system should be self-financing, and preliminary cost and revenue estimates suggest that it can be self-financing.

0.9. The report proposes 11 major implementation steps and a timetable for implementation in which the Business Services Agency would begin implementing the collateral registry in Jan-Feb 2003, and the business registry by June 2003. The first priority is for the Government to agree on the outlines of the new system, and gain donor agreement on financing support. This schedule presumes that there is a driver of reform at the ministerial level, and a dedicated working team composed of key ministries, the Solvency Center, and the Serbian Statistical Office.

**Proposed steps and timetable for business registration reform**

	Sept-Oct 2002	Nov-Dec 2002	Jan-Feb 2003	Feb-Mar 2003	April- May 2003	June-Jul 2003	Later 2003
1. Political agreement by the Government and donor financing agreement	X						
2. Prepare a detailed implementation plan	X	X					
3. Draft and adopt law setting up the Business Services Agency, identify the Managing Director and Board of Directors		X	Agency takes over collateral registry				
4. Agree on new data elements	X	X					
5. Prepare and adopt draft law on business registration.		X	X				
6. Integrate two existing databases (led by Serbian Statistics Office).		X	X				
7. Develop data access agreements and information strategies		X	X				
8. Put into place human and technical capacities			X	X			
9. Launch publicity and information program for entrepreneurs and investors.			X	X	X	X	X
10. Launch new registry in phases					X	X	Business registry is fully operational
11. On a parallel track, update and correct registry information for the existing 350,000 companies and entrepreneurs			X	X	X	X	X

## I. INTRODUCTION: MODERNIZING BUSINESS REGISTRATION

1. Attracting investment and creating jobs in the private sector are top policy priorities in Serbia, and are particularly urgent in the short to medium term as restructuring and privatisation shed jobs in state-owned and socially-owned enterprises. Yet Serbia's administrative and regulatory environment continues to be hostile to private business start-up and expansion, one of the reasons for the large informal sector. A recent report produced for the Ministry of Economy and Privatization<sup>1</sup> recommends a wide array of reforms, among them development of a modern business registration system that converges with evolving European practices.

2. An effective supply-side strategy is particularly important at this stage of Serbian development. A recent World Bank study of transition experiences in Central European and former Soviet countries emphasizes "the key role of the entry and growth of new firms, particularly small and medium-size enterprises, in generating economic growth and creating employment."<sup>2</sup> In an economy weighted down with a legacy of SOEs and social ownership, Serbia's private entrepreneurial energies are among its greatest assets for economic recovery, and already contribute significantly to growth. The private sector, including the informal sector, by 2001 accounted for two thirds of GDP, although it employed less than 10% percent of capital. Formal SMEs employed about 610,000 workers in Serbia by end 2000, or about 44 percent of all formal employment.<sup>3</sup> A very large informal economy has emerged, accounting for perhaps one-third of GDP, and employing as many as one million workers. By all measures, the private sector is far more efficient and profitable than firms under state, mixed or social ownership.

3. However, the dominant role played by the Serbian private sector in generating wealth is a sign of its great resiliency rather than of a supportive business environment. The domestic policy environment in Serbia continues to be unfriendly to private investment. Serbia's potential economic performance is undermined by severe regulatory problems, including monopolization and state ownership, over-regulation, under-regulation, inefficient and outdated regulation, and overt barriers to market entry and competition. Many such problems in Serbia's regulatory system are transitional issues, but others are structural, and will be resolved only with continued, steadier, more co-ordinated, and more comprehensive reforms. Regulatory reforms and simplification are part of the larger structural adjustment program that is addressed, for example, by the World Bank's current Private and Financial Sector Adjustment Credit.

4. Many reforms, such as a general simplification of the business environment, will need to be pursued over the next several years, but simplifying business registration has been one of the first reforms in many transitional countries to stimulate business formation and entry. Reports in other regions have found that reform of the business registration process has a positive and immediate impact particularly on small and micro enterprises at a crucial stage in their development, and encourages the formalization of informal sectors.<sup>4</sup> In the Balkans, Montenegro, Croatia, Slovenia, and Macedonia have recently completed reforms of their business registries, in each case simplifying data elements, transforming registration from a lengthy legal approval to a

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<sup>1</sup> Jacobs, Scott (June 2002) "Improving the regulatory and administrative environment for private sector development in Serbia," prepared for the Department of SME Development, Ministry of Economy and Privatization, Republic of Serbia

<sup>2</sup> World Bank (2002), op cit.

<sup>3</sup> Source: National Bank of Yugoslavia - Payment Service (ZOP)

<sup>4</sup> Jansson, Tor and Geoffrey Chalmers (July 2001) "The Case for Business Registration Reform in Latin America," Sustainable Development Department Best Practices Series, Inter-American Development Bank, Washington, D. C.

simple notification of business activity, and reducing the cost and time needed for businesses to begin activity. As investment picks up in the Balkan region, the efficiency of business registration will affect the competitiveness of each country. Countries with business registration procedures that have advantages (faster formation, low formation costs, no minimum capital requirement, no permission needed from multiple ministries) will have more SME start-ups and be preferred by investors, compared to registration procedures that are too slow, expensive, complicated, or inflexible. Furthermore, business registration reform can be done relatively quickly and at low cost, and its results will be immediately beneficial to businesses.

5. In June and July 2002, Serbia and Yugoslavia adopted important revisions to the registration procedures for entrepreneurs and companies, which will reduce start-up costs when implemented. These revisions, which will significantly reduce costs for entrepreneurs in particular, are discussed in more detail in Section II below. However, these changes do not fix the major problems of inefficiency, corruption, and poor data quality, and Serbia's business registry reforms continue to lag behind those of its neighbors. Serbia should now aim to implement a business registry that is regarded as among the best in the region in supporting business formation and investment, both domestic and foreign.

6. The business registry is also an important public policy tool. Serbia needs a modern business registration system that not only reduces burdens on businesses, but that also gives the government the tools to enforce labor, consumer, and environmental rules, control criminality, and produce business statistics, while giving market participants the public information they need to gauge risks and commit resources. Enforcing market rules against corporate crime will be an important test of confidence for investors and consumers, which is one reason why the reform of company law, competition law, and corporate governance frameworks should be a high priority for Serbia following business registration reform. In this context of building market confidence, the business registry must be, from the very beginning, a trusted and reliable source of information. This goal is reflected in the recommendations in this report.

7. Currently, Serbia's business registration systems (described in Section II) satisfy neither need. They are difficult to implement, costly for new businesses, sometimes corrupt, semi-regulatory in a manner inconsistent with market needs, and ineffective in supporting legitimate public policies such as tax collection, avoiding fraud, and improving safety and health. The data produced are too unreliable for the statistical and economic analysis needed to underpin policy-making in Serbia. These problems have been detailed in several recent reports.<sup>5</sup> There is broad consensus on the need for reform.

8. Current constitutional reforms provide an excellent opportunity to move forward with reform in Serbia, because the laws governing registration have heretofore been divided among federal and Republican levels. Constitutional reform should consolidate legal authority for business registration under Republican authorities and hence simplify the integration of the different procedures, institutions, and databases.

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<sup>5</sup> See, for example, Jacobs, Scott (June 2002) "Improving the regulatory and administrative environment for private sector development in Serbia," prepared for the Department of SME Development, Ministry of Economy and Privatization, Republic of Serbia; "The Cost of Doing Business in Serbia" (May 2002) USAID Commercial Law Project/Booz Allen Hamilton Commercial Court Survey on Company Registration in Serbia, conducted by the G-17, Belgrade; and the USAID Commercial Law Project, especially Jersild, Thomas (March 2002) "Report Regarding The Law on Enterprises of the Federal Republic of Yugoslavia," Belgrade.

9. One of the objectives of reform is to open the Serbian economy to closer integration with Europe by converging with evolving European registration practices, which now focus as much on easy access to registration data as on collecting registration data. At the national level, EU countries have endorsed a wide range of measures to promote entrepreneurship and reduce administrative burdens. The European Charter for Small Enterprises, endorsed at the Feira European Council in June 2000, attempted to make progress toward the objective adopted at the Lisbon summit of making Europe the world's most competitive and dynamic economy by 2010. The Charter requires that the costs of starting up companies should become the most competitive in the world. Countries with the longest delays and most burdensome procedures for approving new companies are encouraged to catch up with the fastest. Online access for registration should be increased.

10. Historical approaches to business registration are highly specific to the national institutions in place, but European countries are in general moving to more efficient administrative, electronic, and accessible registries rather than legalistic and paper-driven forms of registration (see Figure 1). Major reform has taken place recently in the registration processes of many countries, including Finland, Greece, Italy, Netherlands, and Portugal. In all cases, these reforms have lowered the current and expected time needed to register new businesses.<sup>6</sup> This trend is demonstrated in registration practices in Italy and Germany, presented in Annex 1, and various reforms that are discussed in more detail in Section III of this report. A recent study for the European Commission found that "Considerable progress has been made in improving the process of administering business start-ups." In particular, many Member States have:

- Improved the administrative efficiency of current procedures by introducing Single Access Points and statutory response times ("silence is consent" rules);
- Switched from a system based on authorisation to a system based on self-certification; reduced the number of licences or approvals; and reduced the number of procedures;
- Enhanced the involvement of users through the use of the Internet to provide information, improvements in the availability of information for entrepreneurs; the mapping of all procedures and licenses; the provision of information electronically; and consolidation of information into a single source;
- Reduced the scale and complexity of the documents required to establish new businesses by reducing the number of procedures, using single registration numbers, using "off-the-shelf" companies as default options, using notification and self-certification rather than authorisation, removing and reducing mandatory qualifications for all entrepreneurs; simplifying requirements for announcing the formation of new entities; simplifying Business Names legislation;
- Reduced the level of mandatory costs reductions in the level of mandatory costs through removing and reducing taxes; cutting fees; providing financial support; and reducing the level of minimum capital, especially for private limited companies.<sup>7</sup>

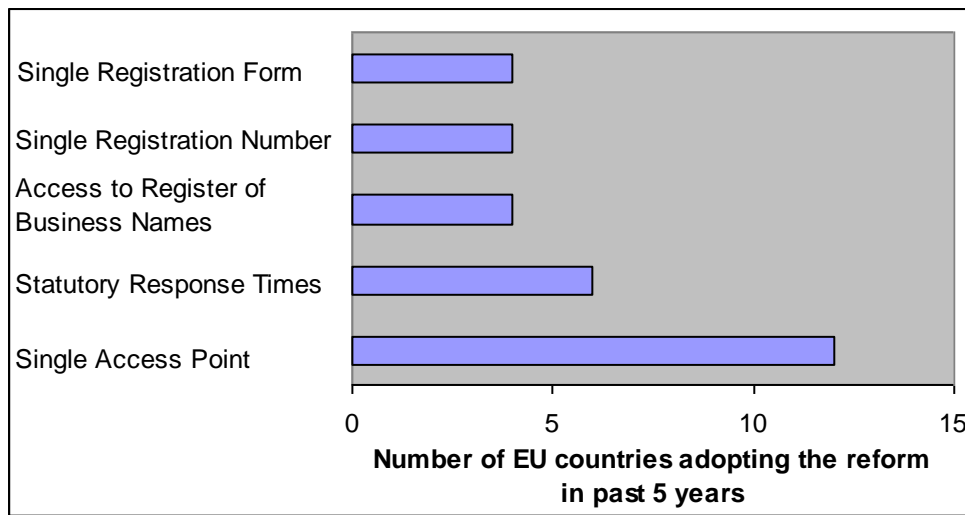
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<sup>6</sup> European Commission, Enterprise Directorate General (January 2002) *Benchmarking the Administration of Business Start-ups, Final Report*. Prepared by the Centre for Strategy and Evaluation Services (CSES), Brussels, p. 25.

<sup>7</sup> European Commission, *Benchmarking the Administration of Business Start-ups, Final Report*. p. 9.



**Figure 1: Simplification of business registration procedures in EU Members**



Source: European Commission (January 2002) *Benchmarking the Administration of Business Start-ups, Final Report*, p. 47.

11. Of particular relevance to Serbia, where business registration has been used as a regulatory control rather than as an information base, this study found:

*a link between the time and cost needed to register a business and the extent to which Member States use business registration as a mechanism for managing the perceived risks to investors, creditors, and customers from entrepreneurship. In some Member States, a complex network of ex ante controls has been established to enable the state to select entrepreneurs and to limit their freedom of action. There is, therefore, a direct conflict between the Lisbon Summit's political objective of creating an entrepreneurial Europe and existing public policy practices designed to control the process of entrepreneurship.*

12. At the European level, the harmonization of Business Registers is foreseen by EU Council Regulation 2186/93 of 22 July 1993 on Community coordination in drawing business registers for statistical purposes.<sup>8</sup> This regulation states that “business registers for statistical purposes are a necessary tool in keeping track of the structural changes in the economy brought about by such operations as joint ventures, partnerships, buy-outs, mergers and takeovers” and requires that Member States “set up for statistical purposes one or more harmonized registers.” The Regulation sets out minimum data elements for legal and local units. The Serbian registry is apparently in compliance with this Regulation, because it already contains information on legal and local units (as defined in EU Council Regulations 696/93), although a detailed assessment of compliance with each data element is needed in defining the new system.

13. Business registries play a major role in corporate disclosure in Europe. The 1st, 2nd, and 12th Company Law Directives on corporate governance provide respectively for disclosure and filing in registration offices of certain company data and capital maintenance requirements. The First Company Directive requires compulsory disclosure by limited liability companies of several

<sup>8</sup> Council Regulation (EEC) No 2186/93 of 22 July 1993 on Community co-ordination in drawing up business registers for statistical purposes

documents and particulars (referencing the European Accounting Directives<sup>9</sup>), and requires that these documents and particulars be filed and kept in a register, and subsequently published in a national gazette. A copy of these documents and particulars must be obtainable from the register.<sup>10</sup> The First Directive does not prevent Member States from requiring or allowing the disclosure of other documents and particulars than those listed, and consequently there is a broad range of information requirements across the EU for business registration. Member States are also free to decide 1) by which persons the disclosure formalities are to be carried out, 2) which controls (on the form and/or content of the disclosures) should be performed, 3) which technical standards should be followed (e.g. use of specific software), and 4) which fees should be charged to companies for paper and/or electronic filing.

14. The rather laborious form of corporate disclosure (registration and publication) required in the Company Law Directives is now being streamlined by the EU, after a conference in 1997 found that the compulsory disclosure system in the First Directive could benefit from the introduction of modern technology to make company information more easily and rapidly accessible.<sup>11</sup> On 6 March 2002, the Commission published proposals to modernize the First Directive to make company information more accessible to interested parties and to simplify the disclosure formalities for companies.<sup>12</sup> These changes are relevant to Serbia in planning the evolution of its registration system,<sup>13</sup> and are reflected in the recommendations below. Under the Commission's proposal:

- Electronic filing: Member States are required to make the filing of company documents and particulars by electronic means<sup>14</sup> possible from 1 January 2005. From that date,

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<sup>9</sup> The European Accounting Directives are significant benchmarks as Serbia amends its Company Law. For example, the "balance sheet and the profit and loss account" has been replaced with by "accounting documents" (i.e. annual accounts – annual report – audit opinion / consolidated accounts – consolidated annual report – audit opinion) that are required to be published in accord with the Accounting Directives.

<sup>10</sup> First Council Directive 68/151/EEC of 9 March 1968: Disclosure and the validity of obligations entered into by, and the nullity of, companies with limited liability. The Directive includes in para 4. "The means of disclosure are threefold: firstly, the opening of a file on every company in an official register; secondly, publication in a national official gazette; and thirdly, an indication, on all business documents, of the legal form and registered place of business of the company and the register in which the file on the company is kept, together with the number of the company in that register."

<sup>11</sup> Acts of the Conference on Company Law and the Single Market, 15 and 16 December 1997, Brussels, European Commission, published by the Office for Official Publications in April 1998. In the context of the fourth phase of the Simplification of the Legislation on the Internal Market process (SLIM) launched by the Commission in October 1998, a Company Law Working Group issued in September 1999 a Report on the simplification of the First and Second Company Law Directives. This report contained detailed recommendations on the areas in which a simplification could be achieved. The main recommendations relating to the First Directive consisted on the one hand of the need to accelerate the filing and disclosure of company documents and particulars by the use of modern technology, and on the other hand of the need to improve the cross-border access to company information by allowing voluntary registration of company documents and particulars in additional languages.

<sup>12</sup> Commission of the European Communities (3.6.2002) Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Council Directive 68/151/EEC, as regards disclosure requirements in respect of certain types of companies Brussels, COM (2002) 279 final

<sup>13</sup> Another issue that the Serbian government (through the new registration body) should monitor is the current discussion between registers in Europe that aim to agree on a common system of number identification for companies and registers.

<sup>14</sup> "By electronic means" is defined to imply the use of a computer at both ends of the communication channel, and therefore does not include means like voice telephony, ordinary faxes and telexes. Member States are not prevented from allowing the use of such means, by companies when they file their

- companies must be able to choose between filing by paper means and filing by electronic means. Where filing takes place by paper after 1 January 2005, Member States will have to ensure that documents and particulars filed are systematically converted by the register to electronic form in order to be kept in the file or entered in the register.
- Electronic retrieval: Applicants can choose between paper means and electronic means, with regard to the application submitted and the delivery of copies of documents and particulars. Member States may decide for practical reasons that documents and particulars filed up to 31 December 2004 will not be obtainable by electronic means if they have been filed by paper means more than 10 years before the date of the application.
  - Fees for copies: Electronic and paper copies must be obtainable at a price not exceeding the administrative cost.
  - Certification: Paper copies are normally certified as “true copies”, but the proposal does not require electronic copies to be systematically certified because such a provision might lead to high costs whereas electronic copies are requested most of the time for information purposes only. Electronic copies supplied shall not be certified as “true copies”. However, if the applicant explicitly requests such a certification, certification of electronic copies will be based on use of an advanced electronic signature, as defined in Article 2 (2) of Directive 1999/93/EC<sup>5</sup>, to guarantee the authenticity of their origin and the integrity of their contents.
  - Electronic publication: The national gazette can be kept in electronic form, although the reference to a publication in the national gazette has not been removed from the Directive. Member States can replace publication in the national gazette with equally effective means, subject to the provision of a central and chronological access to company information, which is the main function performed by a national gazette. This can be done through access to an electronic database.
  - Third languages: To improve cross-border access to company information and make sure that translations can be relied on by third parties, companies can disclose documents and particulars, in addition to the mandatory disclosure made in the languages permitted in their Member State, in any official language(s) of the Community on a voluntary basis. In cases of discrepancy, third parties acting in good faith are duly protected.
  - Penalties: Member States shall provide for appropriate penalties in case of failure to disclose the accounting documents required.

15. European policies on business statistics are also relevant to the Serbian reform. Under a new registration system, the Serbian Statistics Office will more closely reflect the changing role of statistics offices under the Eurostat regime. European regulations on the collection of business statistics<sup>15</sup> require that commercial activities should be classified by reference to the statistical classification of economic activities in the European Union (NACE<sup>16</sup>). The Serbian Statistics Office has already adopted NACE for this purpose. Moreover, national statistics offices are giving up administration of registries as incompatible with their main task: producing statistics.

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documents and particulars and/or by interested parties when they seek to obtain a copy, in addition to electronic means.

<sup>15</sup> COUNCIL REGULATION (EEC) No 696/93 of 15 March 1993 on the statistical units for the observation and analysis of the production system in the Community

<sup>16</sup> Units are classified in terms of their activities. If one activity accounts for over 50% of the value added this determines the classification of the unit. Classification is carried out in stages from the highest level of aggregation which is the section (one letter), down to the class (four digits) via the division (two digits) and the group (three digits). NACE itself is linked to the United Nations International Standard Industrial Classification (ISIC Rev. 3) and the United Nations System of National Accounts documents.

The recommendations below are compatible with this trend, but recognize that the Serbian Statistics Office will continue to be an important consumer of the information contained in the business registry.

## II. SERBIA'S CURRENT BUSINESS REGISTRATION SYSTEMS

16. Serbia's business registries (which in some respects resemble Austrian and German approaches) served well during the socialist era, in which businesses ("companies") were state and socially owned, stable, and almost all large. The private sector was composed of individuals who operated sole proprietorships ("entrepreneurs"), mostly shops, which had no separate legal standing. Reflecting that distinction, two separate business registration systems were used and are still used in Serbia today:

- the Yugoslav Company Law requires registration of legal companies (state-owned and private), which is carried out through the Republic's 13 Commercial Courts. Around 150,000 companies are registered in Serbia, but around half have shown no activity for several years and can reasonably be considered defunct;
- the Republic Law on Private Entrepreneurs requires registration of sole proprietors, which is carried out by 131 municipalities. Around 210,000 entrepreneurs are now registered (estimate of August 2002).

17. The distinction between these two registration systems is mostly based on differences in treatment of liability. Entrepreneurs are personally liable, since there is no legal commercial entity, while companies enjoy various degrees of limited liability. Distinctions between personal liability and limited liability firms are made in all market economies, yet the Serbian approach in assigning them to two registries under two legal regimes with differing philosophies is incompatible with an economy that is becoming more flexible, innovative, and dynamic.

18. Already in Serbia, many entrepreneurs resemble companies in that they hire employees and build up assets, while many limited liability companies have only one shareholder. The move to a single registry is the first step in the larger reform of Serbian company law that is needed to give greater flexibility to Serbian companies to design and structure their businesses. This greater flexibility is likely to prove a competitive advantage in a period of increasing change in technology, markets and business practice.<sup>17</sup> In future, the overwhelming majority of Serbian companies will be small, private and largely owner-managed firms, and these firms will be the source of much economic growth and employment. It is crucial that the law provide an optimal framework for the establishment, efficient operation and development and growth of these companies. The rewriting of Serbia's Company Law will be the opportunity to revisit the construction of company forms.<sup>18</sup>

19. The Serbian and Yugoslav governments began the reform of the business registration system in June and July 2002, respectively, with adoption of deregulatory proposals by their

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<sup>17</sup> See UK DTI (June 2001) "Modern Company Law for a Competitive Economy, Final Report" The Company Law Review Steering Group, London.

<sup>18</sup> The 12th Directive might be of particular interest to Serbia as it launches the revision of its Company Law constituting the legal status of entrepreneurs. The 12th Directive permits the formation of single-member private limited companies and requires that the companies concerned must be recognised as soon as they are formed, the Member States being left free to decide on their own arrangements.

parliaments. Article 18 of the federal Company Law posed a particularly heavy burden because it required 5-7 preliminary inspections in areas such as health and safety, fire, and trading capacity for each business, for which the business was charged €250 to €500. These inspections confused registration with compliance, and in any case did not appear to contribute to higher compliance, since they are in addition to normal inspections.

- The revisions to Article 18 of the Company Law eliminated the requirement for pre-inspections of most companies before they begin activities. To ensure that risks are appropriately controlled, firms in activities with particular risks to consumers, workers, or the environment are still pre-inspected by the relevant inspectorates according to the regulations promulgated by those inspectorates. This change significantly reduces the cost and delays of business start-ups and, once the inspectorates adapt their targeting, frees up inspection resources to focus on the most serious health, safety, and environmental risks. Serbian citizens should enjoy a cleaner and safer quality of life as a result.
- The same revision was made for the same reason to the Republican Law on Entrepreneurs. Other revisions to the Law on Entrepreneurs reduced start-up and operating burdens on entrepreneurs, and expanded operating and managerial flexibility in investing, expanding, finding new premises, and creating jobs. For example, the revisions eliminate the need to prove a legal basis for using business premises.

20. Despite these reforms, the current registration systems still function as regulatory and control systems suited to a command economy, rather than as a streamlined information system compatible with a market economy. This is in part due to an outdated understanding of the purpose of business registration, which does not distinguish sufficiently between the rules needed to create an enterprise and the rules needed to operate an enterprise. Business registration in Serbia is sometimes justified as a means for the state to provide sufficient information to the public so that a firm's potential partners and clients can judge the firm's reliability, stability, and financial strength.<sup>19</sup> Business registration, in other words, is often seen as a system of consumer and investor protection that requires the government to screen new business applicants. According to Booz Allan Hamilton experts, some have also commented that the present system is based on an outdated concept that starting a business is not a right but a “privilege” to be “granted” only after extensive investigation and “approval” by the government and courts.<sup>20</sup>

21. Such market information is far better provided by a diligent private sector itself. In fact, no one in Serbia actually relies on the business registration system as an indicator of company quality. In a market, such information is far better obtained through company filings (this calls attention to the need for better corporate governance rules in Serbia) and investor research, and is backed up by efficient contract law and dispute resolution. Risks for poor information should fall on investors, not on the public sector.

22. While the 2002 reforms reduced burdens and have been welcomed by businesses in Serbia, a complete solution must be designed to address the many severe problems inherent in this current system:

- The large body of data collected in both databases is not reliable. Estimates of the proportion of data that is incorrect or outdated in the Commercial Courts' databases range

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<sup>19</sup> According to interviews conducted by Booz-Allen and Hamilton. October 2001.

<sup>20</sup> Unpublished communications.

from 60 percent to 80 percent. A recent review by the Ministry of Economy and Privatization of 30 registrations carried out by one municipality found mistakes and errors in all 30, some so serious as to nullify the registration. Updates are onerous and incomplete. Companies have 15 days to report any changes, but this is widely ignored since there are no sanctions. Some municipalities do not submit updates on entrepreneurs to the Serbian statistical office for a year or more after receiving the information. A key problem is institutional: too many institutions are involved, data collection and transfer is too complex, incentives are not always geared toward rapid and accurate collection of data, and coordination and compilation is difficult.

- Due to various standards and practices, various databases are impossible to reconcile. For example, while the Serbian statistical office has nearly 150,000 enterprises in its register, less than half submitted balance sheets to ZOP.
- The databases are expensive for the government to maintain. In the commercial courts, 25 judges work fulltime on business registration. Each of the 131 municipalities keeps its own registration staff.
- Standards of confidentiality differ depending on who holds the information. Identical information made public by municipalities must be held confidential by the statistical office.
- The process of registration is time-consuming and uncertain for companies.

23. The relative performance of the Serbian system against selected European benchmarks is indicated below. The costs of the Serbian registration systems were higher than in most European countries before its recent reforms, but Serbia's rankings substantially improved after the reforms eliminated paperwork and inspection costs for most companies. Registration costs for companies in Serbia are still very high compared to European benchmarks, but Serbian entrepreneurs enjoy a simpler and faster system that does not impose significantly higher burdens than many European countries.

**Table 1. Benchmarks on business registration in the EU compared to Serbia**

EU COUNTRIES	SERBIA
<b><i>For individual enterprises:</i></b>	
The average time needed to complete all necessary mandatory procedures was 12 days. The fastest country completed this process in one day; the slowest took 35 days. Nine countries completed all pre-registration and registration procedures within 15 days. Only three countries took more than 20 days. The benchmark time is one (minimum) to three (average) days.	With the recent changes to the Entrepreneur's Law that removed previous requirements for several pre-inspections, Serbia is not far from the European benchmark. Registration is completed in three days if the activity does not need premises, and 7 days if there are premises. If the decision does not come in 3 or 7 days, the entrepreneur can start activity without approval.
The average mandatory financial cost for entrepreneurs of complying with all mandatory procedures was € 250. In the least expensive countries there was no cost. In contrast, an entrepreneur incurred costs in excess of € 1,570 in the most expensive country. Three countries did not	The financial cost for registering in Serbia was greatly reduced by the recent changes to the Law on Entrepreneurs that eliminated the requirement for 5-7 mandatory inspections costing € 250 - € 500, placing Serbia in the upper range in Europe. Now, entrepreneurs pay only a minor registration fee that

<p>charge. Only five countries charged more than € 100. The benchmark typical cost is zero.</p>	<p>differs from municipality to municipality, but is quite low, generally from € 4 to € 7.</p>
<p>Forms and documents. The average number of official forms and supporting documents that an entrepreneur has to provide is four. Within the EU, there is wide variation between Member States: six countries require only one or two forms, three countries require seven or more forms and one requires 13. The benchmark number of forms and documents is one.</p>	<p>Recent reforms to the Law on Entrepreneurs have reduced registration documentation. Now, entrepreneurs supply one application form and up to two supporting documents: a form attesting to physical health, and a form on labor conditions. Previously, forms showing acquisition of suitable premises were also required.</p>
<p><b><i>For public limited companies:</i></b></p>	
<p>The average time needed to complete all necessary mandatory procedures was 29 days. The fastest country completed this process in 8 days; the slowest took 60 days. The benchmark time is 4 (minimum) to 24 (average) days.</p>	<p>Serbia ranks badly here – worse than the slowest European country for companies that do not bribe officials. In official procedures, the process of registration with the business court should last up to 30 days, under the law. The application to the City Bureau of Statistics, for the purpose of obtaining a code of activity and the company identification number, takes another 2 days. This brings Serbia to a little more than the European average. Real times, however, could be lower or higher. The G17 survey estimated that the average time needed for registration is 105 days. The companies that resort to bribery are the fastest in completing registration. Excluding the upper and lower ranges, they need 16.7 days on the average to complete the registration process, while the companies that do not pay bribes need 77.5 days on the average to complete registration. The longest registration procedure lasted 5,540 days.</p>
<p>The average mandatory financial cost for entrepreneurs of complying with all mandatory procedures was € 1 360. In the least expensive countries there was no cost. In contrast, a public limited company incurred costs in excess of € 4 800 in the most expensive country. The benchmark cost is € 252.</p>	<p>Officially, Serbia ranks well here, but real costs seem to be higher than official costs. The G17 survey estimated that official costs of registering a company are around € 237, or a little less than the European benchmark, but that bribes add another € 83 on average. If upper and lower ranges are included, the average costs of registering a company are € 693.97, or three times the European benchmark. The most expensive registration was € 28,427.</p>
<p>The average number of official forms and supporting documents that a public limited company has to provide is nine, with the number ranging from 19 to 4 in various countries. The benchmark number of forms and documents is 4.</p>	<p>The number varies in Serbia according to the kind of company, and companies complain about being asked to submit additional documents, but the minimum number is around 10 forms and supporting documents, or about the European average, but more than twice the benchmark level.</p>

*Sources:* For European benchmarks, the European Commission (January 2002) *Benchmarking the Administration of Business Start-ups, Final Report*. For Serbian benchmarks, various sources, including “*The Cost of Doing Business in Serbia*” (May 2002) USAID Commercial Law Project/Booz Allen Hamilton Commercial Court Survey on Company Registration in Serbia, conducted by the G-17, Belgrade

### III. PRINCIPLES AND RECOMMENDATIONS FOR SERBIA'S BUSINESS REGISTRATION REFORM

24. The new business registration system should be effective and operational, low-cost, accountable to the government, easy to access, and transparent. The reforms to date have reduced some burdens mostly for entrepreneurs, but to resolve the most serious problems, a re-engineering of the whole registration system is needed. Drawing on good practices in Europe, Serbia's registration system should be designed around the following 6 principles. These principles relate to the form of the registry (unified), the content of the registry (simplified), the purpose of the registry (collect basic data rather than regulate companies), and the registration process (reduce contact points and administer by an independent administrative agency). These principles are similar to the experiences of European countries (see above) as they have improved registration in recent years through institutional reforms, and through simplification in the structure, number, and complexity of administrative processes.

25. It is important to emphasize that, since the business registry reflects and implements the company law, particularly company forms and disclosure requirements, reform of the business registration should be planned as one step in a co-ordinated reform of company law and corporate governance. In addition, business registration reform will have greater benefits if accompanied by administrative reforms such as creation of a one-stop shop for licenses for new businesses, as is being done in many European countries such as Italy and Germany.

***Principle 1. Create a unified Serbian business register that includes all business activities covered under the current Company Law and Law on Private Entrepreneurs.***

26. There is wide consensus that maintaining two business databases under different legal authorities is not in Serbia's best interest from the viewpoint of cost and data quality. Almost all European countries have a single business registry. A unified registry is consistent with recommended European practices. A recent report for the European Commission stated that, "...countries with a plurality of different Registers (Germany)...are considered not to represent best practices or not even to fully reflect the indications of the First European Directive."<sup>21</sup>

27. Both technical and legal issues should be addressed in unifying the separate databases. To unify the legal authority, a new Serbian Business Registration Law creating a single registry should replace the Yugoslav Law on Enterprises, the Yugoslav Law on the Procedure for Insertion in the Court Register, and the Republican Law on Private Entrepreneurs. Technical unification does not appear to be a major difficulty, thanks to the foresight of the Serbian Statistical Office, which has been harmonizing the two databases in preparation for eventual unification. Both the companies and entrepreneurs databases already use the same ID system, in which each unit is given a unique 8-digit number, and both are moving to NACE, the European industrial classification system. As part of the unification, the authorities must complete the job of reclassifying existing enterprises under NACE.

28. A question that should be addressed is the scope of coverage of the unified database. The single registry should include, at minimum, all business forms included in the Company Law and Law on Private Entrepreneurs (pending the development of a new Company Law for Serbia). The Yugoslav Company Law already covers socially owned companies and state-owned companies,

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<sup>21</sup> European Commission, Enterprise Directorate General, *Benchmarking the Administration of Business Start-ups, Final Report*.



consistent with European regulations,<sup>22</sup> and these enterprises should also be included in the unified database. Foreign businesses working in Serbia would be included in the new business registry, since their activities are covered under the Company Law, although the new law might need to clarify aspects of their registration, which has reputedly caused some confusion, since the federal law on the Register of the Classified Units does not include foreign organized units. For example, the new registry should replace the register of companies whose founders are foreign legal entities or physical persons that is kept by the Federal Ministry of Foreign Economic Relations.<sup>23</sup>

29. Should the new business registry include social organizations (such as athletic clubs), nonprofits, and other NGOs (such as charitable activities) that carry out commercial activity? All such organizations are already registered in a registry held by the Serbian Statistical Bureau, under the federal law on the Register of the Classified Units. This law is a legacy from the era (1970s) in which all social organizations, even churches, were registered in a huge state database. Clearly, many of these organizations are not commercial activities, but some probably do perform significant commercial activities. By comparison, the new Montenegro business registry does include NGOs if they perform a business activity, in which case they enjoy limited liability. At the outset, to simplify the transition, it would be preferable NOT to include NGOs in the new business registry, since they are not covered under the Yugoslav Company Law nor the Law on Private Entrepreneurs. They could, however, be included at a later date if a suitable legal framework for their activities is adopted and if the commercial nature of their activities is deemed sufficiently important.

***Principle 2. Administer the new unified registry through an independent administrative agency***

30. Just as the database should be unified, the administrative task of registering should also be unified. It is critical to the success of the new registration system that an appropriate implementing institution be designed with credibility, technical capacity, and the right incentives to maintain an efficient registry. A recent study for the European Commission found that key drivers of good registration are improvements in internal efficiency in public bodies through better management techniques and performance measures, accountability, and user consultation, which implies a client-orientation focussed on business needs. The study found that reductions in the involvement of courts, notaries and other legal bodies were associated with substantial efficiency improvements.<sup>24</sup>

31. The current organization of Serbia's registration system is high in cost and low in efficiency. It has low credibility among businesses, and its incentives for efficient service delivery are not strong. As noted, three Serbian organizations with different mandates and capacities – 13 commercial courts, 131 municipalities, and the Republic Statistical Office -- administer business registration under several different legal mandates. Many of the problems in the current registration system arise from this organizational complexity, the high costs of transferring quality data from one organization to another, and the different philosophies of the

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<sup>22</sup> This is consistent with European policy, which states in Council Regulation (EEC) No 2186/93, "Whereas the important role played by public undertakings in the national economies of the Member States has been acknowledged, particularly in Commission Directive 80/723/EEC, Article 2 of which also defines such undertakings; whereas they should therefore be identified in business registers..."

<sup>23</sup> Under the law, this procedure lasts 30 days, and the dues are 5,510 Dinars. "The Cost of Doing Business in Serbia," *op cit*.

<sup>24</sup> European Commission, Enterprise Directorate General, *op cit*.

purpose of business registration. The Commercial Courts, for example, tend to view legal controls as essential to ensuring legality and supporting anti-fraud activities. On the other hand, the Serbian Statistical Office needs high-quality data on the population of businesses and trends in business formation, and administering registration is essentially a distraction. The municipalities need administrative data to support inspections and other municipal activities, and the inspectorates in the Serbian line ministries have come to depend on business registration as a control to enforce safety, health, and environmental regulations. These various views of the purpose of business registration introduce uncertainty and divergent practices into the system. Institutional consolidation is necessary.

32. There are several options for location of the business registry. The three main models used by European countries are the commercial courts, the Chambers of Commerce, and, increasingly, an expert registration administrative agency, sometimes stand-alone and sometimes associated with the commercial courts, Ministry of Justice, tax authorities, or trade authorities. The benefits and costs of each of these options for Serbia suggest that the latter option is preferable. The trend in Europe is toward administrative management of registries, and away from legal process involving courts and notaries. Italy has recently eliminated the role of the courts altogether, and enjoyed substantial efficiencies as a result (see below). Like Serbia, a few countries – Germany is one – use municipalities for some kinds of registration, but as noted this results in multiple registries and is not consistent with European trends. Furthermore, Serbia does not need and cannot afford to maintain 131 municipal registration centres at the requisite level of service quality. Under any new system, a more cost-efficient service delivery structure is needed.

33. Considering Serbia's needs and the capacities of various institutions, the preferred option is to move registration out of the Commercial Courts and municipalities to an expert registration agency of the type that is widespread and increasing in Europe. Examples include Finland's Business Service Points located in 15 regional Employment and Economic Development Centres, Spain's *Ventanillas Unicas Empresariales*, Ireland's Companies Registration Office (CRO), and Norway's Register of Business Enterprises. France has used the "administrative formality centres" (CFE) since the 1970s as the obligatory interface between enterprises and the bodies to which they submit compulsory legal statements. In Serbia, consolidation of the administration of registration into a Republican agency will establish a common understanding of the purpose of business registration, reduce transactions costs, free up scarce judicial resources, and improve consistency, data accuracy, and coordination among government bodies using the data (the administrative register will, however, be the main source of information for the statistics office, which must define its own data needs more precisely to meet the evolving demand for economic data in Serbia's new economy).

34. There are many possible locations and designs of the new registration agency. This report recommends that the business registry be located in a new Serbian independent agency – to be called the "Republican Business Services Agency" -- that is fully accountable to the Government for its performance. A possible legal model for this already exists in Serbia – the *zavod*, a type of independent administrative agency not necessarily attached to a specific ministry (another possible model is the *direkcija*, but it may be less desirable because it is more closely attached to an individual ministry). Nine *zavod* exist, including the Serbian Statistical Office and the Office of Standards. The governance of the *zavod* is flexible and can be adapted to the accountability needs of the business registry. Setting up a new agency should be done with a new law, and appears to be the easiest and fastest approach to setting up a new institution. Over time, as discussed below, the administrative office could be largely self-financing through a small fee on new registrations.

35. Administration by the Business Services Agency of both the business and collateral registries will reduce costs by exploiting synergies of efficiency for registration activities (shared technical services, sites, and IT) and for businesses (one-stop registration shop). The planned creation of a new collateral registry in the Solvency Center offers a good opportunity to reduce the costs of business registration reform. The Solvency Center, created in early 2002, was chosen as the location of the new collateral registry because, in comparison with the Commercial Courts and the Chambers of Commerce, it offers several advantages. Many of these advantages are also relevant to the business registry (see below). Hence, the Business Services Agency should be created using in part the resources of the current Solvency Center in the National Bank of Yugoslavia.

<b>Factors</b>	<b>Advantages of the Solvency Center as the basis for the Business Services Agency</b>
<b>Existing Structure and Purpose, and Experience with Data Management and Security</b>	Its mission is to be a national register of business information, with specialized capacities for data management. Indeed, it already has experience with the collection, organization, security, and distribution of business data. Hence, there is clarity in mandates.
<b>Existing Registration Infrastructure – IT and personnel</b>	It has access to the information and infrastructure assets of ZOP, which will be owned by the National Bank of Yugoslavia. Specifically, the ZOP information system provides a Serbia-wide information network that can be used to connect registration centers around the country with the central server. Personnel experienced with computerized data management, automation, programming and software maintenance, hardware operation, and customer service with respect to information retrieval and presentation. These can be augmented by leasing technical capacity from the National Bank and from the Serbian Statistics Office.
<b>Web-based Registry Capabilities</b>	The existing infrastructure already makes significant use of internet web-based capabilities, as 90% of customer orders are currently placed through the website.
<b>Cost and Timing</b>	Significant reduction of set-up and implementation costs due to existing system and personnel.

Source: AID Commercial Law Project/Booz Allen Hamilton, and the USAID EPEE Project/PwC.

36. In creating the new Agency, the sequence of legal and institutional reforms must be carefully coordinated. With the ongoing reform of ZOP, the Solvency Center will not remain in the Bank; indeed, under the recent Law on Clearing and Payment Systems, it must assume a new form outside of the Bank by the end of 2003 or before. The recommended sequence is for the law to be developed by the Serbian government setting up the Business Services Agency, and any needed resources of the Solvency Center to be shifted to the Agency through an MOU between the National Bank and the Serbian government.

37. Supervision and quality control need to be performed in any system. Currently, the Serbian Ministry of Economy and Privatization is responsible for supervising the process and monitoring the legality of registrations under the Law on Private Entrepreneurs. It has the authority to withdraw decisions if mistakes were made by the municipalities within 1 year after

registration, or 5 years if the entrepreneur has given false information. The Ministry currently has the expertise and the staff (3 people) for this supervisory function. In the new system, the Ministry should continue to perform an oversight function and should report to the Government on the performance of the new agency.

38. It is worth considering in more detail why effective reform requires that registration be moved out of the Commercial Courts and the municipalities. The 13 Commercial Courts in Serbia currently handle all registrations under the federal Company Law, that is, business enterprises not classified as sole proprietors under the Republican Law on Private Entrepreneurs. Registration should be shifted out of the courts for several reasons: the high opportunity costs of expending almost 8 percent of judicial resources on registration (25 out of 187 judges) amid a growing demand for judicial services in a market economy; the need to move to administrative rather than legal registries in accord with European trends; the marginal opportunities for efficiency gains in the courts compared to other options; and the credibility problems of the courts in the business community.

39. Business registration has become one of the most costly activities of the Commercial Courts. Registration in Serbia's Commercial Courts appears superficially to be similar to court registration in some other European countries, but in reality the Serbian court process is different in nature and much more costly for both the courts and businesses. In most countries, while registration is formally under the court, it is actually an administrative process carried out by a registration unit. In only one EU country (Austria) does the Commercial Court actually approve the documents as a legal matter, and this takes an average of 7 days.<sup>25</sup>

40. By contrast, in Serbia these registries are handled directly by (often senior) judges through a highly legalistic process. Even at the current level of registration activity (which will increase as economic activity picks up), registration requires almost 8 percent of the total time of judges in the Republic's commercial courts (Table 2). The opportunity cost of registration is high and increasing, since it takes judicial resources away from the urgent task of enforcing a growing volume of commercial law disputes. Court resources are strained at current workloads, and are insufficient to deliver an adequate level of justice. A recent report by the American Bar Association found,

*The money the courts do receive is generally insufficient to cover their expenses, and as a result, most courts have significant debts...Courts deal with this problem by postponing the payment of court appointed attorneys and experts as much as possible...this practice makes it difficult for courts to obtain the services of qualified experts, with obvious implications for judicial proceedings...The promised salary increase for judges and the judicial reorganization mandated by the new court laws will require substantially higher funding levels.<sup>26</sup>*

41. Shifting registration out of the Commercial Courts would, at a stroke, release important judicial resources vital for the emerging market economy, and could contribute to modernization of the court system. A similar conclusion about adjusting priorities was reached in recent

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<sup>25</sup> European Commission, Enterprise Directorate General (January 2002), *op cit*. In the region, too, the model of separating business registration from judicial processes is being followed. Montenegro's new business registration system maintained the registry in the courts, but removed it from the judges, making it possible for anyone to become a registrar as an administrative officer.

<sup>26</sup> American Bar Association (May 2002) Judicial Reform Index for Serbia, American Bar Association and Central and East European Law Initiative, Washington, DC.

proposals to locate the new collateral registry outside of the Commercial Court since its primary function should be to efficiently adjudicate cases and solve disputes, rather than to manage administrative databases. Given the demand for more commercial justice, shifting registration out of the Courts would not reduce the workload of the Courts, but would change the character and value of its work. Even if the Courts did not administer business registration, they would play an important role in related matters such as resolving ambiguities and conflicts about the status of companies.

**Table 2. Judges dedicated to company registration in Serbian Commercial Courts**

Commercial Court <sup>27</sup>	Number of Judges Dedicated to Registry Matters (FTE)	Total Judges
Belgrade	9 <sup>28</sup>	75
Niš	2	15
Kragujevac	1	7
Požarevac	1	7
Užice	1	8
Kraljevo	1	8
Valjevo	1	10
Leskovac	2 <sup>29</sup>	9
Novi Sad	2	11
Sombor	1	6
Subotica	1	8
Sremska Mitrovica	1	8
Pančevo	1	7
Zaječar	1	8
<b>Total</b>	<b>25</b>	<b>187</b>

Source: Figures are from the USAID Commercial Law Project/Booz Allen Hamilton Commercial Court Survey on Company Registration in Serbia, conducted by the G-17 Institute (May 2002)

42. A second issue important to understanding the Court's role is the philosophy of legal control versus administrative registration. The reform of the business registration system is founded on the concept of business registration as an administrative database. However, as noted in Section 1, the registration process under the Court still functions as a regulatory and control system suited for a command economy, rather than as a streamlined information system compatible with a market economy. In a control economy, *ex ante* controls may have been appropriate, but in a market economy, general rules backed up by credible and case-specific *ex post* controls are the preferred approach.

43. The third set of issues supporting a move out of the courts involves efficiency and credibility. The Commercial Courts have been repeatedly criticized for the delays and uncertainties of the company registration process, shown in Table 1 above.<sup>30</sup> The process is

<sup>27</sup> Not included here are the Commercial Court of Pristina (in Kosovo) and the High Commercial Court, which handles appeals. There are 38 judges on the HCC, which sits only in Belgrade.

<sup>28</sup> Recently increased from six (summer 2002).

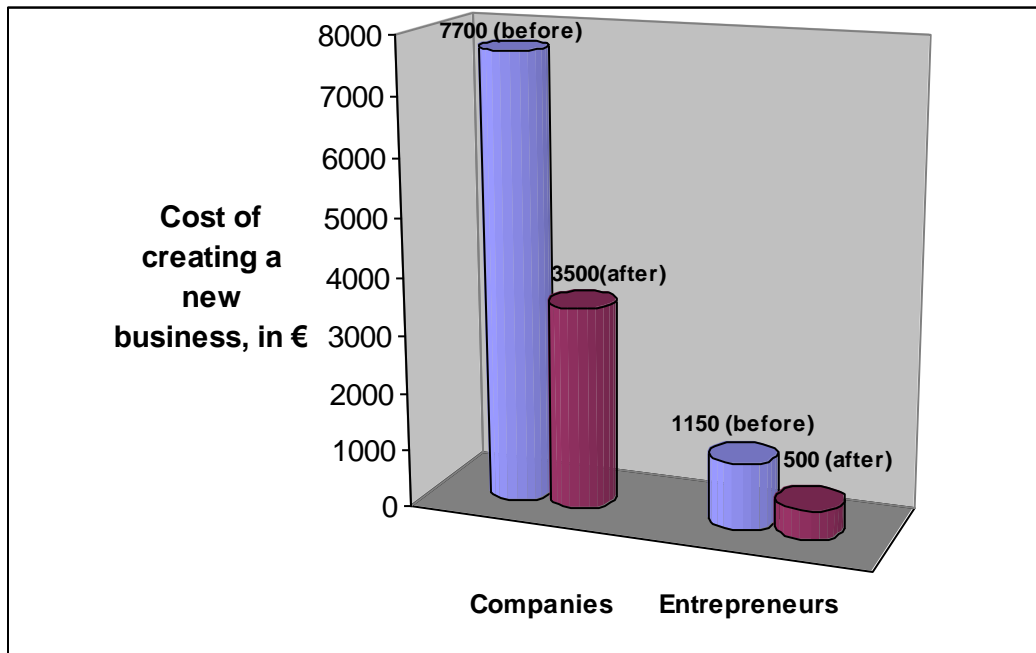
<sup>29</sup> The Leskovac court may not dedicate particular judges, but their response to the survey indicated about two judges "worth" of time invested.

<sup>30</sup> See, for example, Jacobs, Scott (June 2002) "Improving the regulatory and administrative environment for private sector development in Serbia," prepared for the Department of SME Development, Ministry of

highly discretionary. Some forms are standardized, but numerous documents have no standard form. The Commercial Courts have no instructional booklet or manual available for the public. The Company Registry lacks organization and effective management, and the data are not organized so that they are accessible to the public. Potential efficiency improvements in the Courts seem marginal at best, given the slow pace of reform in the court system. Despite plans for a much-needed Serbian Jurisdictional Information System (SJIS), a key weakness is the lack of familiarity with the IT needed to implement the new registry. The Commercial Courts have some computer resources, but they are not uniform across courts. Computer literacy is low, and the courts do not have a Serbia-wide telecommunications network.

44. These problems are not unique to Serbia. Several countries in Europe are moving business registration out of courts into administrative bodies, a reform resulting in significant efficiency gains. Italy carried out this reform in the late 1990s, and by 2001 had seen dramatic changes in the costs of setting up new corporations, which had previously been handled by the commercial courts. Italian officials attributed much of this cost reduction to the move out of the courts, whose registration procedures had been particularly costly. Greece recently carried out the same reform.

**Figure 2: Costs of the creation of a new business in Italy (in €), 1999 (before reform) and 2001 (after reform)**



Source: OECD (2001) *Regulatory Reform in Italy*, Paris.

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Economy and Privatization, Republic of Serbia; “The Cost of Doing Business in Serbia” (May 2002) USAID Commercial Law Project/Booz Allen Hamilton Commercial Court Survey on Company Registration in Serbia, conducted by the G-17, Belgrade; and the USAID Commercial Law Project, especially Jersild, Thomas (March 2002) “Report Regarding The Law on Enterprises of the Federal Republic of Yugoslavia,” Belgrade.

45. Continuing and repeated reports of corruption in the courts are alarming. The ABA report cited above noted that several of its respondents “suggested that the influence of private interests was most significant at the commercial courts, because of the high stakes involved.” The G17 survey found that the percent of companies that paid bribes in the registration process was 21.14% (and presumed that the actual percentage is higher), and that bribing significantly speeded up the process (Table 1). The effect of bribes on the level of corporate fraud in the registration process was not assessed. Even if corruption could be brought under control immediately, the damage to the credibility of the Commercial Courts among market participants will be long lasting. Placing the new registry in the Commercial Courts would seriously undermine market confidence in its neutrality and professionalism.

46. Another institution used in some European countries, including Italy (Annex 1), is the Chamber of Commerce, which normally has a good network of centres. Yet the Serbian Chamber of Commerce does not seem an appropriate location for business registration, in part due to its mandatory membership, which is a form of regulation unsuited to a market economy, and in part to its lack of self-reform to improve the transparency and accountability of its activities. It seems unprepared to take on a major public responsibility such as business registration, and the risks of inefficiency and abuse seem high.

47. Another approach that has been mentioned in Serbia is a variant on the French and German crafts registration, in which professional associations or crafts register their members. Some associations in Serbia – the pharmaceutical association and the doctors association – have requested that their organizations register their members. This seems like a risky approach, because it would once again fragment data collection, result in multiple databases, and repeat some of the weaknesses of the current system. In addition, in the absence of strong competition policy oversight in Serbia, such market entry controls in the hands of the private sector could become a costly market barrier.

***Principle 3. Allow businesses to start activities immediately after registration.***

48. While the registration process may take a few days, companies should be permitted to begin activities as soon as they file the required information with the registration authority, as in Germany and Italy. For example, a start-up business should be able to proceed immediately, with limited liability, to rent office space, buy equipment, borrow money, and take other steps necessary for starting a business.<sup>31</sup> If other permits are necessary, as for dangerous businesses, they should be obtained outside of the registration process, and the business activity should comply with the conditions of those permits.

49. In effect, this changes registration into a notification rather than an approval. Registration should be immediate when basic identifying information about the firm and other necessary documents (such as company articles of association) have been submitted. A final determination should be made within the statutory time limit, signalled by receipt of the official certificate.

50. This reform – widely underway in many countries – preserves the legitimate capacity of the ministries to ensure compliance with important rules such as those on worker safety and other requirements, but eliminates *ex ante* barriers to start-ups. This reform should improve public health and safety, as well. If ministries use the new database – which gives them up-to-date

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<sup>31</sup> Jersild, *op cit.*

information – to target their inspectors at the most dangerous businesses, it will increase their effectiveness in achieving their missions.

51. Entry of the company into the registry may be denied only if the filed documents are incomplete or the information is on its face false, mistaken or contradictory, and a written explanation is received within a specified number of days. European registries experience several legitimate causes for delaying entries into the register:

- Incomplete information: A large percentage of potential entrepreneurs fail to complete all parts of the documentation, principally because it is too complex.
- Duplicate names: A large percentage of potential entrepreneurs try to register a name that is similar to one that has already been registered (by someone else).
- Erroneous information: A number of potential entrepreneurs make mistakes while completing the documentation, principally because it is too complex.
- No fees: A number of potential entrepreneurs fail to attach the necessary payment.

***Principle 4. Streamline data requirements for each class of business to European benchmarks***

52. Data requirements will differ according to the complexity and type of enterprise, but data for all enterprises should be streamlined to meet European benchmarks and requirements. Streamlining is particularly needed for registration under the Company Law. The registering authority should have no authority to request any other information than the data elements identified in the law. Data requirements aimed at ensuring the quality of the firm or determining its compliance with other regulations – such as requirements for training, physical fitness, certification, and suitability of physical location – should be eliminated from the registration process. The data elements required for companies should include only information needed to:

- Assign business liability,
- Clarify corporate governance arrangements if different from the *de fault* options,
- Code accurately under NACE,
- Determine a company's registered office for legal purposes,
- Inform ministries that a business has been created, allowing them to schedule any needed inspections, and to meet the needs of the ZOP or other tax system.
- Collect other information such as addresses of local units that may be required by Council Regulation No 2186/93.

53. As noted, Serbia's business registries have been overloaded and have attempted to serve too many regulatory functions. Regulatory inspectorates, such as the health, safety, and labor inspectorates, are already anxious about how simplification of the registry will affect their ability to inspect new enterprises. In many cases, the unified registry will better serve their needs in identifying and locating businesses for inspection, because the data will be more reliable and more timely. If the inspectorates react constructively to this reform, Serbian citizens should enjoy a higher standard of regulatory protection. Reform of the registries will, however, requires that the ministries using the registry information should assess the information needs for their programs. In some cases, it is likely that inspectorates will need to create their own databases targeted to their needs. In the context of reforms to ZOP, there should be discussion of how the business registry can be coordinated with tax collection strategies.



54. The principle calls for a rigorous dedication to simplicity. For entrepreneurs, data elements might include:

- Name of the entrepreneur and personal data (data of birth, place of birth, nationality, address, personal ID number);
- Kind of activity;
- Legal address and place of the firm;
- tax number;
- Is pre-inspection required? Yes/no

55. A recent report for the USAID Commercial Law Project<sup>32</sup> recommended that registration requirements for joint stock companies includes an organization document with 10-12 basic facts, such as:

- company name
- address
- names and addresses of founders
- names and addresses of directors
- initial capital,
- par value and number of common shares
- rights, terms, and preferences of preferred stock
- names and addresses of representatives.

***Principle 5. Expand electronic registration and updating, and ensure easy electronic accessibility to the database***

56. The new registry should exploit IT tools to reduce costs and improve access to the information database. The Republican database should be publicly accessible, updated continually, and eventually accessible by Internet. It is critical that a system be in place for real-time access to the database by inspectorates and others who need the information, such as tax, customs, pension, and social security authorities (they are currently informed of changes by mail or courier services). Electronic accessibility is key, although a mix of traditional and electronic forms of communication will be necessary for the next several years until Internet penetration reaches a high enough level throughout Serbia.

57. Electronic registration, both in regional offices and eventually through the Internet, should be incorporated into the design from the beginning. According to a recent study prepared for the European Commission,<sup>33</sup> many EU countries have made some progress toward on-line registration, mostly electronic filing of business documents. A few countries (such as Sweden) are examining the possibility of performing all registration activities, including notification of tax authorities, on-line through a single access point. On-line registration offers governments an opportunity to reduce documents; reduce the number of contact points; and facilitate efficiency within public and private bodies responsible for registration and screening of new entities. Progress is, however, limited. Specifically:

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<sup>32</sup> Jersild, op. cit. p. 10.

<sup>33</sup> European Commission, Enterprise Directorate General (January 2002), op cit.

- On-line Registration: It is possible to set up a new business entity using the Internet in only three countries, Italy, Denmark and the United Kingdom. Other countries are examining ways to achieve this. In Sweden, for example, the Kontakt-N project is looking at on-line completion of all registrations (including taxes) through a single access point. A similar program has been set up in Denmark. The single most important obstacle is that electronic signatures are not accepted legally for business registration. However, a number of Member States have recently introduced legislation to permit such filing. Other obstacles encountered include the number of forms and supporting documents needed, the number of official bodies involved, and lack of investment.
- Progress towards On-line Registration: Some progress has been made in setting up on-line registration processes in all countries where it is not possible to use the Internet to set up a new business entity. In two-thirds of these countries, for example, most information is available on-line and it is possible to file some completed documents on-line. In Ireland, for example, the innovative CRODisk system combines paper and electronic filing to speed up registration. Nearly all countries allow entrepreneurs to submit registration documents by hand or by mail. In contrast, only one-third of countries permit registration by electronic mail (examples include Austria, Denmark, Italy, Ireland and the UK).

58. In France, the Internet is being used to set up, during the first half of 2002, an electronic procedure called "CFE on-line" to be used to make all compulsory declarations in one declaration. Enterprises will also be able to use this service to carry out formalities necessary for changes in status or cessation of activity.

59. Updating is one of the major weaknesses of the current Serbian system. Lack of timely updating of critical information has been a major problem in Serbia, leading to rapid deterioration of the registries over time. Changed data are not being reported, and when they are, are not being passed through in a timely manner to the statistical office that maintains the databases. This is one of the major reasons why a large proportion of the data is incorrect. The European standards on updating are not very stringent. According to Council Regulation 2186/93, most information shall be updated at least once a year, including entries to, and removals from, the register. Serbia should aim to update its register daily, which should not be difficult with an electronic database and data collection system.

60. Updating information in the easiest possible way – electronically, by telephone, or by mail -- is the key to maintaining data quality. Currently, to update company registrations, a certificate is needed stating that the documentation is in order, although the business can continue without waiting for the decision. All company updates are made at the business court (change of the head office, name, activity, person authorized to be the representative, legal forms). The costs of these changes include the costs of an advertisement, which are up to 2,000 Dinars, and the court fee, which is around 200 Dinars. If several changes are carried out, another 80 Dinars are paid for each next change. Changes of the activity code registered at the commercial court are also changed at the Republican Statistical Office.<sup>34</sup> The new registry should make updating free or for a nominal charge, and should be able to accept changes through multiple channels.

61. Thought should be given to incentives for updating. Perhaps updated data that is confirmed periodically could be given "confirmed" status in the registry, which could be required for benefits such as exports and loan guarantees. Perhaps a small annual tax could be applied to

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<sup>34</sup> G17 (2002) "The Cost of Doing Business in Serbia"

“unconfirmed” companies. Certainly, stronger incentives are needed to overcome the current widespread non-compliance with updating requirements.

***Principle 6. For each business, create a single unique identifying number that serves all government needs***

62. **Commentary:** Serbia is close to this already, since each business is assigned an 8-digit identifier that could be universally used. The key challenge for Serbia is coordination so that pension, social security, customs, and tax systems all use the same identifier. Such a single-number system may take some time to achieve, since recoding and confirmation of large databases may be necessary.

63. This is increasingly the practice in Europe. Italy has a unique number since March 2001; Germany is moving to adopt a unique number. In Belgium, businesses are to be assigned a single company number. This single number, together with the central social security database for businesses and the portal site, will permit swifter on-line registration.

#### **IV. MAIN ELEMENTS OF THE PROPOSED UNIFIED REGISTRATION SYSTEM**

64. The preceding section examined the benefits and costs of various approaches and reached general conclusions about the optimal form of the new registration system. This section clarifies the structure of the proposed registration system: an independent expert agency managing a unified database and registering businesses through a network of service centers strategically sited around Serbia and through on-line and mail registration. This new system will make it easier for businesses to register; will improve the accuracy, completeness and timeliness of registrations; will harmonize how generic business information is recorded across government; and will improve access to accurate business information for government officials and for market participants.

65. The specific elements of this new system are proposed in Figure 3 below. At the core of the proposed new unified business registry is its administration by an independent expert agency, the Republican Business Services Agency, that is committed to supporting the needs of businesses, and at the same time is accountable to the government for delivering information of a timeliness and quality to serve public policy needs such as inspections. The Business Services Agency would administer both the collateral registry and the business registry, and has the capacity to take on other registries as appropriate. Its governance is flexible under both the *direkcija* and the *zavods* (such as the Serbian Statistical Office) legal forms. It could be governed by a Managing Director appointed by the Government, whose performance is supervised by a Board of Directors comprised of key ministers.

66. The logic of combining registries is that some costs will be shared, reducing the overall costs of registration and making financial self-reliance more feasible. Figure 3 shows which aspects of the registration system would be shared pro rata (probably divided on a workload basis) by the registries or allocated to an individual registry.

67. The Managing Director will supervise the Heads of each registry office. Each registry will be authorized by a separate law and will have a separate legal identify, and hence an identifiable unit is needed for each registry. Each Head will probably have one or two dedicated

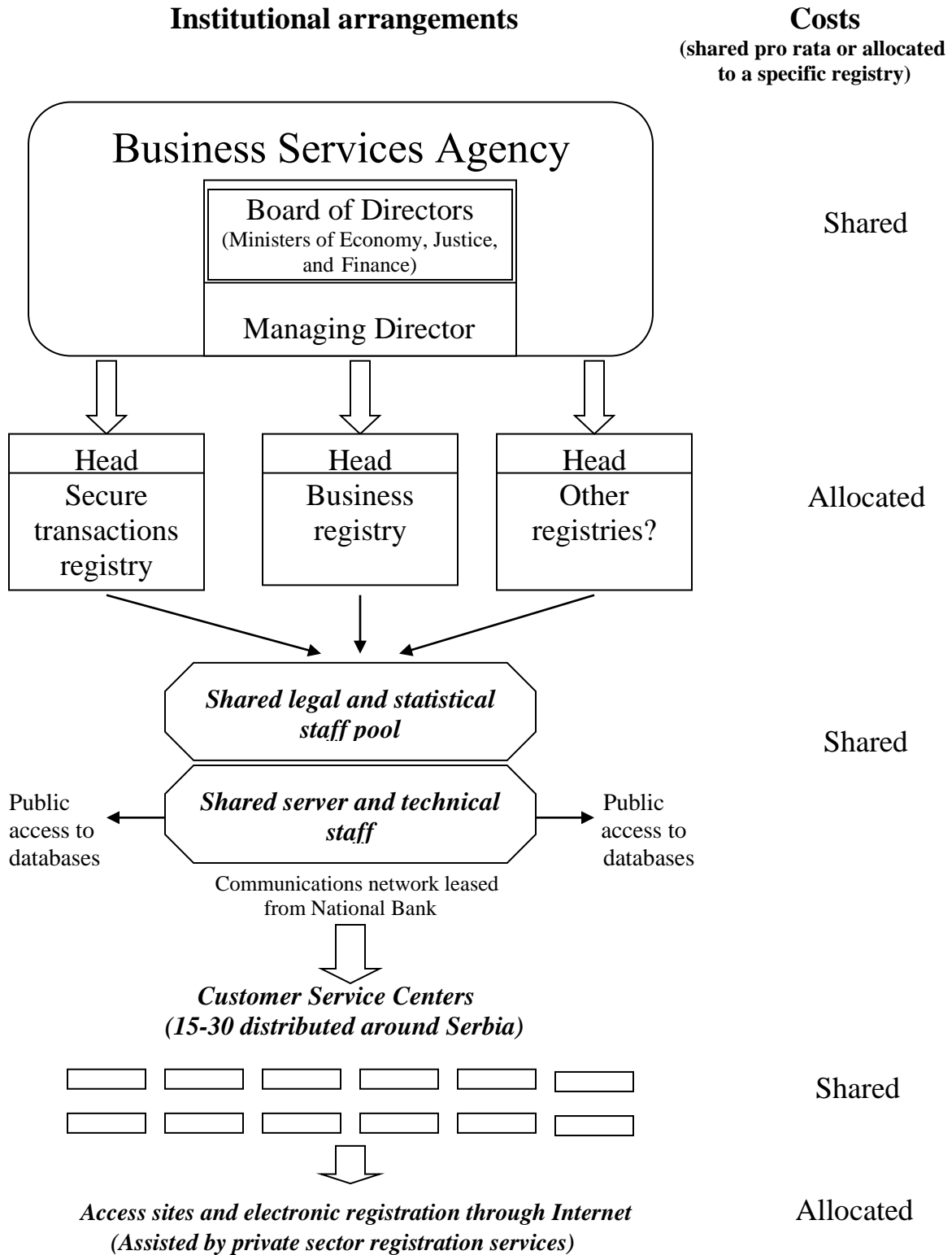
lawyers to assist in ensuring that legal requirements are maintained. The Agency as a whole will have a pool of experts – lawyers, statisticians, and technical experts, as well as administrative staff – who service both registries. Both registries will share the server and its maintenance and technical support. This will result in substantial cost savings. It is important that the personnel of the Agency are well qualified, and it is possible that the Agency should be exempted from the civil service pay schedules.

68. A question with implications for access and cost is the number and siting of regional registration centers, called Customer Service Centers, throughout Serbia. The new registration system must be accessible to new businesses, such as entrepreneurs in small towns throughout Serbia. ZOP now has 60 locations across Serbia. While the decision on the final number must depend on a thorough cost accounting, a distribution of 30 Centers located in the largest municipalities would blanket Serbia, and ensure that no place in Serbia would be more than 45 kilometers from the nearest Center. Staff in each center would be based on the workload, which is highly variable across Serbia. One municipality in the city of Belgrade, for example, has 47,000 entrepreneurs, or almost one-fourth of the national total, while a small Belgrade suburb has 1025 entrepreneurs. Each Center would have 1-7 staff, with most Centers having 1. A possible source of Agency staff for the customer service centres could be the experienced registration staff now employed in the larger municipalities such as Belgrade and Novy Sad (indeed, in three municipalities, such as Starigrad, staff already input registration data directly into a computer to upload into the main database held by the Serbian Statistical Office. This operation could be easily transformed into a Customer Service Center).

69. The Centers would be connected by leasing capacity from the current ZOP information network that will be future be owned by the National Bank. The Centers would be sited in offices leased from the National Bank. This existing infrastructure of cables and offices will reduce the costs of setting up the new system.

70. Even 30 Centers may not provide the necessary ease of access to entrepreneurs throughout Serbia, compared to the 131 municipal services now offered. The next level of registration access is electronic and mail registration. Mail registration using standard forms could be easily adopted. Electronic registration could be easily accomplished through the Internet, with signed affidavits and payments mailed as needed. On-line registration is not likely to be a universal solution to the access problem, though, because Internet penetration is very low in Serbia and familiarity with on-line screens is poor among entrepreneurs. There is an opportunity for the private sector to develop registration assistance programs in the municipalities. Entrepreneurs could pay a small sum for these services to handle all the formalities and interact with the nearest Center. Already, SME services are being established in Serbia that could develop these kinds of services.

**Figure 3: Proposed arrangements to register a business in Serbia**



Source: Scott Jacobs, 2002

## V. PRELIMINARY IMPLEMENTATION PLAN, TIMELINE, AND COST ESTIMATES

71. This section proposes 11 major implementation steps and an ambitious timetable for implementation in which the new Business Services Agency would begin implementing the collateral registry in Jan-Feb 2003, and the business registry in April-May 2003. It presents preliminary cost and revenue estimates. The transition phase is estimated to cost between €700,000 to €1 million. The estimates reach positive results with respect to the goal of self-financing. If European benchmark fees are used, and reasonable assumptions are made about the level of filing and new company start-up, revenues and costs are estimated at:

### **Preliminary estimates of costs and revenues for the proposed business registry**

	<b>Annual operating costs</b>	<b>Annual revenues</b>
2003:	€ 807,600 to € 1,235,100	€ 1,754,000
2004:	€ 807,600 to € 1,235,100	€ 1,906,500

#### ***A. Implementation steps***

72. The reform of the business registration and its transition with the collateral registry to the Business Services Agency could be accomplished in 11 steps in the following sequence.

1. Political agreement by the Government on the timing, principles, and main elements of the structure of new institutional arrangements, as described in Section III above, in parallel with agreement with donors of financing arrangements. Consultation with the business community should begin at this stage, perhaps through the standing SME Advisory Group.
2. Preparation of a detailed implementation plan for i) the transition period in shifting the registries from the courts and municipalities to the Business Services Agency, and ii) the governance/financing arrangements for continuing operation and registration of new businesses. This stage will include planning for the procurement of the hardware and software necessary for the establishment of the registry (including development of an MOU with the National Bank shifting resources to the new Agency), and institutional development of the collateral registry, business registry, and the Customer Service Centers, including siting decisions. A skills and training needs analysis will be necessary before recruitment can begin. Further consultation with the business community will be needed.
3. Drafting of law setting up the Republican Business Services Agency, identification of Managing Director and Board of Directors. The Agency can begin implementation of the collateral registry as soon as it becomes operational and any needed resources of the Solvency Center are shifted from the National Bank.
4. Agreement on new data elements for various enterprise forms for the unified business registry (simplified and based on European standards). This will require a discussion of the data needs of the government, such as customs and tax authorities. It will be necessary to review and assess the content and structure of the register and its degree of harmonization with the requirements of EU regulations. The discussion could be held through an inter-ministerial working group led by the Serbian Statistical Office. Agreement on data elements should include both the original data to be collected, and those few data elements to be updated, such as legal address. This work should include development of the user forms for various registry functions and kinds of enterprises. Some 15-20 new forms will be needed.
5. Preparation and adoption of draft law on business registration.

6. Integration of two existing databases (led by Serbian Statistics Office). This will require the updating, upgrading and harmonization of existing registers to achieve interchangeability of data. Shifting of registry from the federal mainframe to the Serbian mainframe.
7. Development of internal data access agreements and information strategies and links so that ministries, courts, municipalities, and the public have the information they need.
8. Putting into place human and technical capacities by hiring and training staff, procuring and installing equipment, customizing software and a website, leasing office space, etc.
9. Launch of publicity and information program for entrepreneurs and investors. A Republic-wide information campaign is needed to increase the business awareness, with the organization of training sessions, seminars and workshops. The awareness campaign can be carried out through different media, publication of articles and advertisements in newspapers and economic journals at national and local levels, printing and distribution of leaflets etc.
10. Launch the new registry in phases. One option is to register companies first, and shift to entrepreneurs over one-two months. From the beginning, implement the mechanism for regular update of registry information.
11. On a parallel track, update and correct registry information for the existing 350,000 companies and entrepreneurs. This will take several months and will require careful design of the update strategy to reduce costs. A policy decision should be made up front to simply delete companies with inactive balance sheets for five years or more. This should reduce the number of companies from 150,000 to 80,000 or so. As with regular updating, companies and entrepreneurs will need some incentive to ensure that their information is correct. A few years ago, all Serbian companies were ordered to update their registrations by 2001, but few complied.

### ***B. Implementation Schedule***

73. Due to the use of existing assets from the Solvency Center, the reform of the registry could proceed fairly quickly once the political decisions are made and the financing is arranged. This ambitious schedule presumes that there is a driver of reform at the ministerial level, and a dedicated working team composed of key ministries, the Solvency Center, and the Serbia Statistics Office.

**Table 3: Proposed timetable for business registration reform**

	Sept-Oct 2002	Nov-Dec 2002	Jan-Feb 2003	Feb-Mar 2003	April-May 2003	June-July 2003	Later 2003
1. Political agreement by the Government and donor financing agreement	X						
2. Prepare a detailed implementation plan	X	X					
3. Draft and adopt law setting up the Business Services		X	Agency takes over				

Agency, identify the Managing Director and Board of Directors			collateral registry				
4. Agree on new data elements	X	X					
5. Prepare and adopt draft law on business registration.		X	X				
6. Integrate two existing databases (led by Serbian Statistics Office).		X	X				
7. Develop data access agreements and information strategies		X	X				
8. Put into place human and technical capacities		X	X	X			
9. Launch publicity and information program for entrepreneurs and investors.			X	X	X	X	X
10. Launch new registry in phases					X	X	Business registry fully operational
11. On a parallel track, update and correct registry information for the existing 350,000 companies and entrepreneurs			X	X	X	X	X

### ***C. Costs of the reform and the new registration system***

74. Costs of the reform are divided into two parts: the set-up and transition costs, which should be financed as a one-time investment, and ongoing operational costs of the new system. The cost estimates presented below are preliminary, and should be verified through more extensive research. They suggest that the business registry, if fully financed without cost-sharing with the collateral registry, would cost between € 1,359,000 to € 1,539,000 in start-up costs, depending on how many Customer Service Centers are established, and € 1,076,800 - € 1,646,800 in annual operating costs.

75. This is an over-estimate, because cost sharing between the collateral and business registries will reduce some costs. Cost sharing would affect the hardware costs (not software costs, though), the costs of the Customer Service Centers, and central staffing costs. For example, if the workload estimates show that the business registry accounts for 75 percent of the workload, and the collateral registry 25 percent, the estimated start-up cost of the business registry falls to € 1,166,750 to € 1,301,750, and the annual operating costs to € 807,600 to € 1,235,100.



76. The transition and operational costs include:

**Table 4: Estimated transition costs of business registry**

<i>Cost item</i>	<i>Estimated costs</i>
Hardware and software costs, estimated in more detail in Table 6 below.	€ 734,000
Initial staffing and training costs, including the first 3 months of staffing costs to cover start-up and training period. It is estimated that the policy and support staff in the central office will be around 25, and the staff in the Customer Service Centers will average 2. Oversight staff in the Ministry of Privatization and Economy will be 4. With 15 Customer Service Centers, estimated staff would be around 60. With 30 Customer Service Centers, estimated staff would be around 90. Staff costs are estimated at €12,000/year/fulltime person (these are admittedly very high estimates due to the need for technicians and other expert staff who would need market rates. In contrast, the highest paid civil servants in Serbia are now paid an annual salary of € 4,200). Training costs are estimated at €500/person. (These staff numbers assume important productivity improvements compared to the existing system, in which companies are registered by 22 judges and 84 other staff, and entrepreneurs by an estimated 150 municipal staff, for a total of 256 staff. These productivity improvements will be achieved by simplification of requirements and automation of the whole system.)	€210,000 – €315,000
Initial costs of setting up Customer Service Centers, including office furnishings. Estimated for 15 and 30 Centers at € 5000/Center.	€75,000 - €150,000
Publicity and information campaign	€100,000
Updating existing databases for 350,000 companies and entrepreneurs. Estimated at a team of 20 people working for one year at €12,000/person-year.	€240,000
<b>Estimated total transition cost</b>	<b>€ 1,359,000 - € 1,539,000</b>
<b>Estimated transition cost, including cost-sharing with collateral registry</b> (workload of business registration estimated at 75 percent of total combined workload; the cost-sharing affects costs of hardware, staffing and training, and Customer Service Centers)	<b>€ 1,166,750 - € 1,301,750.</b>

**Table 5: Estimated annual operational costs of business registry**

<i>Cost item</i>	<i>Estimated costs</i>
Hardware and software maintenance (estimated at 20 percent of procurement costs)	€ 146,800
Staffing costs. It is estimated that the policy and support staff in the central office will be around 25, and the staff in the Customer Service Centers will average 2. Oversight staff in the Ministry of Privatization and Economy will be 4. With 15 Customer Service Centers, estimated staff would be around 60. With 30 Customer Service Centers, estimated staff would be around 90. Staff costs are estimated at €12,000/year/fulltime person. (These staff numbers assume important productivity improvements compared to the existing system, in which companies are registered by 22 judges and 84 other staff, and entrepreneurs by an estimated 150 municipal staff, for a total of 256 staff. These productivity improvements will be achieved by simplification of requirements and automation of the whole	€ 720,000 - € 1,080,000

system.)	
Costs of leasing and operating Customer Service Centers, including office furnishings. Estimate is that negotiated leases from the National Bank costs €12,000/year/office, for 15 and 30 Centers, plus €2000/year travel and other costs per Center.	€210,000 - €420,000
<b>Estimated total operating cost</b>	<b>€ 1,076,800 - € 1,646,800</b>
<b>Estimated operating cost, including cost-sharing with collateral registry</b> (workload of business registration estimated at 75 percent of total combined workload; the cost-sharing affects costs of hardware, staffing and training, and Customer Service Centers)	<b>€ 807,600 - € 1,235,100</b>

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**Table 6: Preliminary Estimates of Start-up Costs for Business Registry Hardware and Software (€)**

	<i>Main</i>	<i>Backup</i>	<i>Total</i>	<i>Cost/Unit €</i>	<i>Total €</i>
Database Server	1	1	2	15,000	30,000
Application Server	1	1	2	15,000	30,000
Networking Servers	2	2	4	8000	32,000
NAS Storage	1	1	2	3500	7000
L3 Switch	1	1	2	2500	5000
Data Center Workstation	2	2	4	1500	6000
Processing Center Workstation			90	1500	135,000
End-User Workstation			90	1500	135,000
Processing Center Printers, Peripherals, etc.			30	2000	60,000
Total					440,000
Allowance for Non-US pricing	10%				44,000
Hardware Total					<b>484,000</b>
Software Licenses -- SQL Server, etc.					150,000
Application Software Development					100,000
<b>Estimated Total Hardware and Software</b>					<b>734,000</b>

Assumptions:

Dell equipment configurations suggested by Solvency Center for servers; prices estimated from DELL-USA website

All data centers and processing centers are located in NBY buildings with existing cabling and Platnet connections

Any end-user workstations in remote locations will access Internet via dial-up modem connections through existing telephone lines

Sufficient connectivity between Data Centers and Internet already exists

Climate Control, Security, office furnishings, etc. are not included

Source: PwC/EPEE, Belgrade

*D. Projected revenues of the new registration system*

77. The registration system should become self-financing at some point. The feasibility of this goal will require more accurate estimates of workload and costs, but these first estimates suggest that self-financing should be possible. Workload estimates are as follows:

- New entrepreneurs are now being registered at around 1000 per month. As the economy becomes more dynamic and as reforms take hold, this could rise to 2000 per month in 2003 and 3000 per month in 2004 (a total of 60,000 new enterprises in 2003 and 2004). Currently, entrepreneurs pay €4 to €7 for registering. Fees should be held as low as possible for entrepreneurs. If the fee is set at €6 (rather than the European benchmark cost of zero), and updates are free of charge, then the revenues would be:

2003: € 144,000

2004: € 216,000

- New company registrations and updates now run to around 40,000 filings per year, generating between € 500,000 to € 1 million (see Annex 2; these are estimates, since actual revenues are unknown). If the number of new registrations is estimated at 5000 per year, and updates at 35,000, in 2003, with a 5 percent increase in 2004, and if we use the European benchmark cost of € 252 for new registrations (see Table 1 above) and a minimal cost (€10) for updates, then projected revenues would be:

2003: € 1,610,000

2004: € 1,690,500

78. Total revenues under these assumptions are as follows:

2003: € 1,754,000

2004: € 1,906,500

79. These estimates do not include fees for government and public access to the databases, because it is assumed here that access will be free of charge, given the public character and purpose of the databases.

### Annex 1

#### Overview of business registries in Italy and Germany\*

Issue	Italy	Germany
When and where does a new firm register?	<p>All businesses must be registered in the Trade Registry (<i>Registro delle imprese</i>), managed by the <i>Ufficio del Registro imprese</i>, an office of the provincial Chamber of Commerce.</p> <p>Businesses in Italy must register before beginning business, and also must notify within 30 days after activity is effectively started.</p> <p>For certain kinds of businesses requiring more complex forms of financing or credit, such as stock companies, it is possible to start a business without prior registration if a certificate of a notary is obtained. Registration within 30 days of starting the business provides legal status to activities already started.</p>	<p>Businesses in Germany are divided into two main categories for registration:</p> <p>-- All firms (trades, industry and commercial activities) are covered under the business law and must notify the Local Business Notification Unit (an office of the municipality) for entry into the Business Registry (<i>Gewerberegister</i>). Business notification is done before activities begin.</p> <p>-- All legal persons and trade companies under the German Trade Code (<i>Handelsgesetzbuch</i>) must also be registered in the Trade Register (<i>Handelsregister</i>). Offices of the Trade registry are located at the local Court (<i>Amtsgericht</i>). Trade registration is done before or after activities begin, with different consequences for liability. The later the registration, the more liability the business owner accepts.</p> <p>-- Some activities (lawyers, doctors, architects, tax consultants, artists) register at special councils or the Chamber of Handicrafts.</p>
What other registrations are needed for a business to start up?	<ul style="list-style-type: none"> <li>• A tax number is required from the Inland Revenue office (<i>Partita IVA</i> from the <i>Ufficio IVA</i>). This number can be requested during the registration procedure for the Trade Registry.</li> <li>• For some kinds of firms, such as stock companies, a certificate and statute of the notary is required.</li> <li>• All business activities must also provide information to the Administrative and Business registry (REA, within the Chamber of Commerce), which includes other administrative, economic and statistical data and information not necessary for the main registry.</li> <li>• For certain regulated activities</li> </ul>	<ul style="list-style-type: none"> <li>• Depending on the kind of activity:</li> <li>• Notification to the Chamber of Handicrafts</li> <li>• Specific licenses, depending on the kind of activity (handicrafts, transport, bars and restaurants)</li> <li>• Registration at the insurance office (<i>Berufsgenossenschaft</i>) for workplace accident</li> <li>• Tax number issued by the Inland Revenue Office</li> </ul>

	<p>(i.e., selling food and drinks or tourism activities such as hotels, guesthouses, campsites), registration is also required in a Business Registry (REC) also managed by the Chamber of Commerce).</p> <ul style="list-style-type: none"> <li>• Notification when the activity has effectively started.</li> <li>• For some activities, using dangerous tools and machines, registration at the <i>INAIL</i> (office for assistance and insurance for work accidents). This is done by the Chamber of Commerce.</li> </ul>	
Who is responsible for accepting the information, putting it in the database, etc?	The Director of the office of the provincial Chamber of Commerce is responsible for accepting data and putting it in the database. National database is in unified national REA database.	Public servants responsible for the procedure.
Does anyone verify the accuracy of the information?	The notary in the case of stock companies and public servants receiving the forms mostly check for completeness rather than accuracy.	Controls are made by the accountable officer for the accuracy of information and data.
Are different parts of government involved? If so, how do they work together?	Forms and information received by the Trade office are given also to the pension authority ( <i>INPS</i> ). The Trade office is under control of a judge of the local Court ( <i>Giudice del registro</i> ) to whom it is possible to apply if the registration is denied.	The Local Business Notification Unit sends information to other public authorities (Chamber of commerce or handicrafts, Import office, Insurance office, Inland Revenue office, Environment office, Labor office, Statistical office, etc).
Can private services register businesses?	Private services help new firms with administrative procedures.	Private services help new firms with administrative procedures.
Can registration be done electronically? From where?	Data and forms are given to the office manually or by mail, but data can be written on a floppy disk. Electronic procedures are used for putting information in the database and to place forms on file. In the near future, registration will be possible also by internet.	No, registration has to be done by the entrepreneur, whose original signature is needed.
Who issues the registration number for the business? How is it issued? (Certificate of registration, by	The Registry office immediately gives a receipt that allows the business to start its activities, but it takes 5/7 days to obtain the certificate of registration.	Once notification is done and papers are accepted, the business can start up immediately. No number or certificate is issued from the Local Business Notification Unit. The Trade office issues an “activity license” and a registration number, both by certificate.

letter, by email).		
Cost of registration? How is registration financed?	Registration costs between € 20 and € 144 (costs are lower if forms are filled electronically). There are public initiatives to finance new start-ups, especially if entrepreneurs are young people or women.	A notification costs about € 30, depending on the business and the legal form. Cost elements are taxes and administrative fees.
Is there a unique national number for each firm, or are there multiple numbers? For example, an employers number, a tax number, etc.	From March 2001, for all new firms, there is one unique national number. The tax number is the same as the registration number and the business number. Existing firms maintain several different numbers.	There are several numbers. Every office gives a different number (trade, tax, social security). A law project has begun for a unique enterprise number. In 2002, the Ministry for economics and technologies will launch a test to explore if a unique number for enterprises is possible (only one authority responsible for issuing the number, identification of the enterprise by each authority, electronic transfer of information between authorities while safeguarding data security,). If the test is successful, a unique number will be introduced in 2005.
8. Does the registration process include the protection of business names, or is that a separate process?	In part: the name of the firm (but only the name, not trademark or logo) cannot be used by anyone else.	Different administrative procedures apply under the trademark law. Officers of the Business registry, however, check to see if the proposed new name is the same of an existing name. If so, they ask for a change.
Content of registration (list all data elements).	<ul style="list-style-type: none"> <li>• Name of the entrepreneur and personal data (data of birth, place of birth, nationality, address, tax number); Object of the activity;</li> <li>• address and place of the firm;</li> <li>• capital;</li> <li>• kind of firm (kind of company);</li> <li>• name of partners and their personal data (data of birth, place of birth, nationality, address, tax number); business management; time of life;</li> <li>• tax number;</li> <li>• name of the notary and his tax number (if necessary);</li> <li>• other licences (if necessary).</li> </ul>	<ul style="list-style-type: none"> <li>• Personal data of the business person (date of birth, name, hometown, town of birth, etc.).</li> <li>• Details of the kind of business (kind of firm, capital,</li> <li>• Address, owner, name of partners, business management</li> </ul>
Are there requirements for a minimum amount of start-up capital?	Depends on kind of company. For entrepreneurs, no minimum standards. For a stock company, € xxx	For a limited company (GmbH), € 25,000 .
Confidentiality: What information	All information (for a fee)	Usually, registries are fully open, especially for stock companies. In practice, only

<p>does the general public have access to?</p>		<p>information on enterprises registered in the trade register (~20%) is really accessible.</p>
<p>When is the business re-registered, if at all? Must the registration be renewed? When is the information updated?</p>	<p>Information must be updated when there are changes during the life of the firm in the activity, partners, address, capital, business management, statute, kind of firm, within 30 days from the change.</p>	<p>Registration lasts during the life of the firm. New administrative procedures are needed to update data, such as change of place, change of object of the activity, change of capital, end of activity, etc.</p>
<p>Is a time limit set for when the government must issue a number? How long does it take to process an application for business registration?</p>	<p>The time limit is 10/5 days, (depending on if the registration form is on paper or floppy disk). The Registry office takes usually 3/7 days. If a notary certificate is also needed, the procedure lasts about 20 days.</p>	<p>There is no time limit, but usually there are also no delays for the registration (business activity is a fundamental right, and cannot be limited). The average time needed for business notification is 5 minutes; for trade registration: 4 weeks</p>
<p>What kind of checks is done, if any, before a firm is registered?</p>	<p>The notary and the Chambers of Commerce make formal checks on the accuracy of information and data. The Trade office verifies if the entrepreneur has been bankrupt in the past and still has debts to creditors.</p>	<p>Checks depend on the business. For example, if the entrepreneur is not from EU, the Court checks his right to be in Germany.</p>
<p>Is business registration linked to getting other necessary business licenses and inspections, such as food handling or toxic chemicals, or are these handled separately? Are safety and other inspections coordinated with registration? Do tax authorities use business registrations? Do statistics authorities use business registrations? How?</p>	<p>Registration is not linked to any other licenses, even if they are required for specific activities (i.e., registration at the <i>REC</i>); often those licenses are obtained by “self-certification” and “silence is consent” mechanisms.</p> <p>Safety and health inspections are not coordinated with registration. For example, businesses that sell food or drink require a specific food license and an approval from the health office.</p> <p>Registration data are used by “Pension authorities” and statistics offices. They exchange information (the Chamber of Commerce gives them its data and registration forms).</p>	<p>For certain activities, other licenses are needed but they are not coordinated (apart from transport activities).</p> <p>Certain businesses require special licenses for regular inspections. For example, dangerous business like chemical plant and houses for prostitutes need specific approvals.</p>

Is registration simply a notification, or is it an approval?	It is substantially a notification, even if the accuracy of forms is checked.	It's usually simply a notification; some activities need specific approval. There are also checks on the accuracy of information and data.
Can a government withdraw a business registration as a penalty?	No, but the Court can withdraw the registration if the entrepreneur did not have right to obtain it.	The Government can withdraw the registration if necessary, such as if the business is connected to illegal activities.
Are business registrations connected at all with one-stop shops or other SME support services?	“One-stop shops” support new firms when registering, and also coordinate the whole process of starting the activity (integrating different procedures for different licenses in just one operation). Chambers of Commerce support SMEs with info-points, web sites and specific assistance.	The Local Business Notification Unit is almost like a one-stop shop.

*\* Source: © Scott Jacobs and Mario D'Adamo for Jacobs and Associates, 2002*



**Annex 2**

**ESTIMATED WORKLOAD AND REVENUES IN THE SERBIAN COMMERCIAL COURTS DUE TO COMPANY REGISTRATION ACTIVITIES**

A	B	C	D	E	F
<b>Commercial Courts in Serbia</b>	<b>Number of Registry Judges on Registration (FTE)</b>	<b>Number of other Employees in the Registry</b>	<b>Number of Filings to the Registry in 2000</b>	<b>D multiplied by the highest fee (initial registration fee) – 1500 YUM / 25 USD</b>	<b>D multiplied by the lower fee (fee prescribed for additional changes) – 800 YUM / 13,3 USD</b>
<b>Belgrade</b>	9	36	17,363	26,044,500 YUM 434,075 USD	13,890,400 YUM 231,506 USD
<b>Novi Sad</b>	2	11	4235	6,352,500 YUM 105,875 USD	3,388,000 YUM 56,460 USD
<b>Subotica</b>	1	4	1360	2,040,000 YUM 34,000 USD	1,088,000 YUM 18,133 USD
<b>Sombor</b>	1	4	1157	1,735,500 YUM 28,925 USD	925,600 YUM 15,426 USD
<b>Sremska Mitrovica</b>	1	3	1145	1,717,500 YUM 28,625 USD	916,000 YUM 15,266 USD
<b>Pancevo</b>	1	4	197	295,500 YUM 4,925 USD	157,600 YUM 2,626 USD
<b>Valjevo</b>	1	3	1846	2,769,000 YUM 46,150 USD	1,476,800 YUM 24,613 USD
<b>Uzice</b>	1	2	1114	1,769,000 YUM 29,483 USD	891,200 YUM 14,853 USD
<b>Pozarevac</b>	1	3	1086	1,629,000 YUM 27,150 USD	868,800 YUM 14,480 USD

**REFORMING BUSINESS REGISTRATION IN SERBIA – 24 August 2002 – Prepared for the Department of SME Development, Ministry of Economy and Privatization, Republic of Serbia by Scott Jacobs. Managing Director, Jacobs and Associates**

<b>Kragujevac</b>	1	4	1749	2,623,500 YUM 43,725 USD	1,399,200 YUM 23,320 USD
<b>Kraljevo</b>	1	4	2916	4,374,000 YUM 72,900 USD	2,332,800 YUM 38,880 USD
<b>Nis</b>	2	2	2144	3,216,000 YUM 53,600 USD	1,715,200 YUM 28,586 USD
<b>Zajecar</b>	1	2	670	1,005,000 YUM 16,750 USD	536,000 YUM 8,933 USD
<b>Leskovac</b>	2	1	1398	2,097,000 YUM 34,950 USD	1,118,400 YUM 18,640 USD
<b>TOTALS:</b>			<b>39 899</b>	<b>57,667,980 YUM 961,133 USD</b>	<b>30,703,320 YUM 511,722 USD</b>

NOTES:

Numbers of judges and employees are based on the G17 Survey in Commercial Courts, conducted in December 2001 - February 2002.

Fees are based on the Law on Court Fees, Official Gazette of RS No. 28/94, last amended on February 2002.

Additional 2,500 YUM (41,6 USD) have to be paid to the Official Gazette for publishing.

Amounts in USD are calculated at the rate of 1 USD = 60 YUM