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ELECTRONIC CONSTRUCTION PERMITS AS A PREREQUISITE OF INVESTMENT GROWTH AND GLOBAL LEADERSHIP OF SERBIA IN THE ISSUANCE OF CONSTRUCTION PERMITS: ANALYSIS OF EFFECTS AND CRITICAL POINTS OF PROGRESS

Elektronske građevinske dozvole kao uslov rasta
investicija i globalno liderstvo Srbije u izdavanju
građevinskih dozvola – analiza efekata i kritične tačke
budućeg napretka

Abstract

To a great extent, economic development depends on the possibilities of a country to attract investments and stimulate a better business climate within the country. One of the substantial and deciding factors that influence the achievement of this strategic goal, given that the infrastructural sector is the largest sector of a country, is a faster and more efficient issuance of construction permits. A long-lasting problem of construction permits issuance, a problem that the Republic of Serbia was faced with, resulted in the deterioration of micro and macroeconomic factors and thus the decrease of GDP, poor business climate and lack of investments. After the reform of the issuance of construction permits and a substantial reduction of the procedure owing to the electronic system introduced, the construction and infrastructure sectors are recovering, investments are increasing and Serbia is becoming a leader in terms of the duration and manner of construction permit issuance.

This paper analyzes the performance, results and the overall impact of the reform of construction permits issuance on the development of the country, and states a clear goal of the Republic of Serbia to pursue further reforms in the sector of infrastructure and to enhance business climate, attract foreign investments, all of which leads to a faster and more efficient growth and development. The paper also reflects on possible bottlenecks in achieving the aforementioned goal, which need to be overcome as a long-term or possibly short-term goal.

Keywords: *construction permits, economic growth, economic environment, electronic issuance of construction permits, investments*

Sažetak

Ekonomski razvoj umnogome zavisi od mogućnosti države da privuče investicije i stimuliše bolju poslovnu klimu unutar države. Jedan od važnih i presudnih faktora koji utiču na ostvarivanje ovog strateškog cilja, imajući u vidu da je sektor infrastrukture najveći sektor jedne države, jeste efikasnije izdavanje građevinskih dozvola. Višedecenijski problem izdavanja građevinskih dozvola sa kojim se suočavala Republika Srbija doveo je do deterioracije mikro i makroekonomskih faktora, a samim tim i do pada BDP-a, loše poslovne klime i nedostatka investicija. Nakon reforme izdavanja građevinskih dozvola i značajnog skraćivanja procedure zahvaljujući elektronskom sistemu izdavanja dozvola, građevinski i infrastrukturni sektor se oporavljaju, investicije rastu, a Srbija postaje lider u smislu trajanja procedure i načina izdavanja dozvola.

U ovom radu se pored analize učinka, rezultata i sveopšteg uticaja reforme građevinskih dozvola i njenog uticaja na razvoj države i jasnog opredeljenja Republike Srbije ka daljim reformama u infrastrukturnom sektoru države, te unapređenju poslovne klime i privlačenju stranih investicija, što sve vodi ka bržem i efikasnijem rastu i razvoju, daju i moguće tačke stagnacije u omogućavanju svega navedenog koje je potrebno prevazići u kraćem ili dužem vremenskom periodu.

Ključne reči: *građevinske dozvole, ekonomski rast, ekonomsko okruženje, elektronsko izdavanje građevinskih dozvola, investicije*

Introduction

Economic development can be put on solid ground through a strategic approach to investments and creating a stimulating business environment attractive to private, domestic and foreign investors [1]. The country needs stable and clear domestic and foreign policies if it is to master its future. Unstable countries, or those in constant crisis, are not attractive for investments, regardless of the type of capital in question or investors' intentions as determined by the speed of making a profit. The quality of a selected policy lies in its ability to determine, in a multitude of tactical decisions, the real, long-term interests of the country, as well as to contain a strategy for their actualization. Therefore, awareness that a lack of investments affects a country's economy in a negative manner is the starting point in defining economic policy. For Serbia, as with all other national economies, there is a clear link between the business environment and investment inflows.

Long-standing stagnation after a decade of recession, industrial devastation and disinvestment, and an ongoing two-decades-long political transition, uneven economic development and depopulation resulted in Serbia's isolation and a low rate of economic growth. In the years when GDP growth was negative (-3.1% in 2009), coupled with export growth (-16.1% in 2009) and a high unemployment rate (20% in 2009), Serbia's macroeconomics suffered severe consequences. Disinvestment, along with low levels of private investment inflow, had an even more devastating effect on total public and private investment in all areas of life, from healthcare, energy and transportation infrastructure, to culture and sports.

The goal is to achieve long-term sustainable and risk-resistant growth, not only to address citizens' well-being, but also to support the economic stability of the region. Boosting the degree of attractiveness of the investment climate, i.e. the business environment, potentially reduces the risk of inadequate growth. Every investor seeks to minimize risk. Whether an investor opts to enter a market is determined not only by economic variables, but also by the degree of the country's political stability, legal framework and social developments. Political stability directly correlates with the reduction of corruption and

a higher degree of institutional stability. Stability that attracts investment not only means institutional stability, as reflected in the rule of law and law enforcement, responsible and effective bureaucracy, laws against corruption, but also predictability of the political environment. Political and economic environments are in direct interaction. Regardless of investment amounts, it is necessary to predict the behavior of the power structures and to understand the role and status of state-owned enterprises. A clear vision of the government's position in the existing – and potential – local, regional or international conflicts is an important determinant of the ultimate commitment to invest. Stability is the only safe road in turbulent times and environments, a road leading to job creation, poverty reduction, regional development, state revenue growth and investment in the welfare of the state.

In the 1990s, economists and business people stressed that political instability and a poor investment climate limited investment growth. The basic framework for attracting investments relies on competition, privatization, tax administration, customs, cohesive financial systems, as well as a capable workforce and a high-quality, reliable and safe transportation, energy and communal infrastructure.

The economic environment determines a country's market barriers. The nature of the economic system and its institutions, the duration of bureaucratic and administrative procedures, the degree of market openness, the process of starting a business, obtaining land and premises, the time necessary for obtaining permits and licenses, the amount of fiscal and parafiscal charges, gray economy activity and the level of labor force education and migration all contribute to investment viability. Assessment of all the indicators places a country on the list of those attractive for investment or, unfortunately, on the list of unattractive ones.

The World Bank defines business and investment climate as opportunities and incentives for companies to invest productively, create jobs and expand [8] and [9]. Investments need a predictable and acceptable investment environment, since money is a coward. When determining where to invest, an investor will avoid increased costs, risks and delay. Therefore, the main indicators to measure business conditions in a country, according to the World

Bank's list monitoring business conditions in 190 economies, are those related to starting a business (time and administration, and those related to the reform of the labor market), access to land and premises (obtaining construction permits, connecting to the electrical power distribution system and property registration), access to finance (in obtaining loans and protecting minority shareholders), providing daily operational work (efficient tax and cross-border trade), and operations that ensure the security of the investment environment (execution of the contract and settlement of bankruptcy).

Progress on the Doing Business list means that laws that regulate the business environment are now of higher quality, but more importantly, that they are more efficiently implemented and enforced, which favors the development of domestic economy and foreign investment, which in turn, enables economic growth.

Strengthening the investment environment in Serbia (case study)

The main obstacle to investment growth in Serbia was the decade-long unresolved challenge of construction and exploitation permit issuance. In addition to very complicated, lengthy procedures, disjointed administrative response procedures, there was also the endemic corruption and illegal construction. This resulted not only in 2.3 million illegally erected structures in Serbia, but also in an average time necessary for issuing construction permits being 300

days and, in some extreme cases, seven years or more. This directly retarded GDP growth and contributed to the negative growth rates of Serbia's GDP. When Serbia experienced a negative economic growth rate of -3.1% in 2009, it was ranked as 171st out of 186 countries in terms of the indicator of promptness in issuing construction permits.

Table 1: Changes in GDP and ranking in issuing construction permits in Serbia

	GDP	WB ranking
2009	-3.1	171
2010	0.6	174
2012	-1	175
2014	-1.8	182
2015	0.8	186
2016	2.8	139
2017*	2.5	36
2018*	3	10

In addition, the issuance was in paper form, the form that was obtained by the party itself, and required the attachment of extensive documentation, which was never "sufficient". Such procedures were expensive, ineffective and resulted in a direct drop in investors' interest in investing, i.e. a 4.3%, decline in the share of construction in GDP. Serbia held 186th place on the World Bank's list in 2015.

The four countries ranked poorer than Serbia in 2015 were those in which civil war was taking place. The inefficient and arduous process of issuance of permits resulted in a very small number of construction sites in

Figure 1: Changes in the number of construction sites in 2014 and during 2017

the territory of Serbia – 490 sites in 2014, and led to job cuts in the field of construction.

It was necessary to launch a comprehensive reform of the entire construction sector, which implied a new legislative framework for construction permit issuance and the introduction of a consolidated procedure, which was finally introduced and carried out in paper form from March 2015 until January 1st 2016, before the introduction of the electronic issuance procedure. Implementing deep reform processes means not only defining and adopting laws but it also requires full support from both the expert public and the Government.

Since the beginning of 2016, a system for electronic issuance of construction permits has been introduced throughout the territory of Serbia. At the same time, a register of electronic construction permits was established.

Unlike all other previous legal proposals, the Law on Planning and Construction [12], along with 28 by-laws,

was the first draft law proposed to the Parliament of Serbia for adoption. At the same time, a Working Group in the Government of Serbia was established to improve Serbia's position on the World Bank's ranking list of business conditions – Doing Business (hereinafter DB) – that year Serbia was ranked as 93rd on the list. This Governmental group included not only the members of the Government of Serbia, but also the Business Registers Agency, the Building Directorate, the Republic Geodetic Authority, the Public Policy Secretariat, private sector representatives, organizations such as NALED, USAID, GIZ, Bar Association, Employers' Associations, the European Delegation and the World Bank.

In the process of drafting the text of the program, NALED, USAID and the Public Policy Secretariat conducted a survey of the current situation in areas included in the WB methodology and, with a comprehensive consultation process, devised a substantial basis for the preparation of this program with all the stakeholders.

Figure 2: The number of issued permits in Serbia from 2012 until October 2017

Figure 3: Serbia's ranking in the field of construction permit issuance

Since the World Bank's annual Doing Business report is a rating report that allows a 190-country comparison of business conditions across ten categories, it is crucial for Serbia not only to produce results in global terms, but for the results to directly affect the investment inflow and contribute to the reduction of unemployment.

Observed by areas, in 2016 Serbia made steps forward in all areas:

1. Starting a business: when filing a registration application with the Business Registers Agency, the procedure for opening a tax file is simultaneous, which resulted in the reduction of the number of procedures (by one) and the reduction in the number of days (by five), as noted in the DB Report 2017;
2. Obtaining a construction permit: the electronic system for issuing permits has been in use since January 1st 2016, thus reducing the number of procedures (by six), and the number of days (by 116) for the completion of the process;
3. Obtaining a connection to the electrical power distribution system: the connection is obtained within a consolidated procedure and as part of the electronic system for issuing permits, with a reduced number of days for obtaining a connection (by six) and a significantly cheaper procedure than the amount shown in the report for 2016 (from 448% to 235.8% per capita income). Nevertheless, in this area, Serbia has recorded a decline in ranking, and the number of procedures has increased by one in the report for 2018.
4. Registration of property: the Law on State Survey and Cadaster, which came into force in December 2015, stipulates the acceleration of the procedure for registering real estate, thereby reducing the number of days necessary for registering real estate by 33 compared to the number of days stated in the report for 2017.
5. Obtaining loans: although Serbia has improved its ranking, no progress has been made in this area in the 2018 report. Therefore, a priority for improvement is the expansion of the coverage of the information of the credit bureaus; that is, the inclusion of data on utility services and mobile operators, as well as the establishment of a single legal framework regarding the deposit.

Table 2: Macroeconomic indicators in Serbia in the period from 2005 to 2016, with forecast for 2017

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017 forecast
Realistic growth GDP % (1)	5.5	4.9	5.9	5.4	-3.1	0.6	1.4	-1	2.6	-1.8	0.8	2.8	2.5
% export growth (2)	19.1	30.4		18.2	-16.1	18.3	17.1	2.9	21.5	3.7	8.2	11.2	17
% unemployment (3)	20.8	20.9	18.1	13.6	16.1	19.2	23	23.9	22.1	19.2	17.7	15.3	11.6
Public debt % GDP (4)	50.2	35.9	29.9	28.3	32.8	41.6	45.4	56.2	59.6	70.4	74.7	71.9	64.6

Table 3: Trends in Serbia's ranking according to the areas under review in the Doing Business report

Area of Doing Business	Ranking DB 2018, published in October 2017	Ranking DB 2017, published in October 2016	Ranking DB 2016, published in October 2015	Change in ranking 2017/20 16	Change in ranking 2018/20 17	Change in ranking 2018/20 16
Starting a business	32	47	65	+ 18	+ 15	+33
Obtaining a construction permit	10	36	1	+ 103	+26	+129
Obtaining a connection to the electrical power distribution system	96	92	63	-27	-4	-33
Property registration	57	56	73	+ 17	-1	+16
Obtaining a loan	55	44	59	+ 15	-9	+4
The protection of minority shareholders	76	70	81	+ 11	-6	+5
Tax payment	82	78	143	+65	-4	+61
Cross-border trade	23	23	23	0	0	0
Execution of contracts	60	61	73	+ 12	+1	+13
Bankruptcy settlement	48	47	50	+ 3	-1	+2
Overall ranking of Serbia	43	47	59	+ 12	+4	+16

Source: Author's own data.

6. Protection of minority shareholders: Serbia has improved its ranking in this area through the change of the methodology employed, although in reality there was virtually no progress in this area. This is one of the areas where the worst results are recorded and Serbia lags behind international practice, as much as 43.5 points behind the leader in this area. Transparency of information in the securities market, transparency and availability of data on the management bodies of the joint stock companies, or more rights for owners is an imperative for further progress;
7. Tax payments: Serbia has improved its rank in this area through the system of electronic tax collection, as stated in the DB report for 2017. The number of payments has been reduced (by nine), as well as the time necessary to make payments (annually by 19 hours).
8. Cross-border trade: Serbia is closest to good international practice in this field, with only 3.5 points behind the leader in this area. A major contribution to this is the application of the new customs transit system (NCTC) from February 1st 2016, with the submission of electronic transit declarations;
9. Execution of contracts: although according to the 2017 report, Serbia had improved its ranking, there was an increase in the costs of court proceedings (from 30% to 40.8% – for different tax fees), but Serbia also increased the quality of court proceedings by two

points. Serbia lags behind international practice, with 38.5 points behind the leader in this field. Without improving the infrastructure of the judicial network and the insistence on compliance with the prescribed deadlines, there will be no further progress in this area.

10. Tackling bankruptcy: Serbia has improved its ranking in this area, but it still lags behind international practice, 40.5 points behind the leader in this area. It is necessary to grant more power to the trustees in the selection of liquidators at the beginning of the bankruptcy procedure, as well as to introduce greater transparency of information on bankruptcy proceedings among all stakeholders. Although amendments to the Law on Bankruptcy were adopted in the Parliament of Serbia in December 2017, the necessary changes were not touched upon.

In the DB report for 2018, Serbia showed continuous progress and holds 43rd place in the world when it comes to ease of doing business, which is the best result in the last 11 years. From 2014 to 2018, Serbia recorded continuous growth for the first time, with a cumulative climb of as many as 50 positions.

When summing up the results at the end of 2017, it is clear that Serbia joined the top ten countries of the world in the field of permit issuance, the best result and the greatest progress being achieved in the respective year.

From 2015 to the end of 2017, Serbia “skipped” as many as 173 countries and moved from the bottom to the

Figure 4: Serbia's ranking on the Ease of Doing Business list

very top of the world list. Progress is especially evident in the field of establishing business entities, which now takes only 5.5 days in Serbia. An equally positive result was recorded in the area of cross-border trade (23rd place); according to the WB, it now takes six hours to go through the export customs procedure and seven hours for import.

Compared to the countries in the region, it is ahead of Bosnia and Herzegovina (86), Albania (65), Croatia (51), Hungary (48) and Romania (45), but it has not yet reached the ranking of Montenegro (42), Slovenia (37) and Macedonia (11).

How to proceed?

All of the above does not suffice to say that Serbia is one of the best countries to invest in. Problems with connecting to the electrical power distribution system, which takes 125 days, land Serbia in 96th place, and the 225.5 hours that investors spent annually on paying taxes led to 82nd place ranking. Additionally, Serbia holds 76th place in terms of protection of minority shareholders. It is unreasonable to expect investors to feel safe when it takes 635 days to execute a contract, and resolving bankruptcy takes 2–2.5 years.

There is room for progress, from the establishment of business entities through electronic registration in the Business Registers Agency and, with the abolition of seals, the simplification of the process of opening a bank account, to the issuance of construction permits,

where the e-licensing system will connect with notaries, tax administration and cadaster.

The introduction of the e-cadaster will enable real-time updates and online submissions of applications for registration. The priority today is to reduce the costs and deadlines for connecting to the electrical power distribution system and to abolish all overlapping procedures. In addition, there will be an increase of volume of information available to the credit bureau, electronic registration for property tax and introduction of a service for a one-time payment of this tax.

It is necessary to note that, from 2007 to 2014, Serbia moved in its ranking both up and down the list, advancing one year and declining in others. With the establishment of the joint Working Group of the Government of Serbia and clear political will from 2014 to 2017, Serbia recorded a continuous growth trend, with a cumulative advancement of as many as 48 positions, thus creating a predictable investment environment.

In 2015, construction industry growth contributed with 0.5% to GDP growth (in the 2nd quarter of 2015, GDP growth of 1% was recorded as a result of the growth of the construction industry by 12.6%). At that time, the number of employees in the field of construction increased by 3.8%, the number of hours worked by 5.8%, the number of issued construction permits by 2.3%, cement production by 12.4%, the value of construction works delivered by 22.5%, while the value of newly contracted works increased by 0.7%. In November 2015, the number of issued construction

Figure 5: Serbia compared to the region on the 2018 Ease of Doing Business list

permits increased by 45% compared to the same month of the previous year. Since the establishment of the unified procedure (March 1st - November 2015), the number of construction permits was 30% higher than in the same period of the previous year, and 35% higher in relation to the March-November in the 2010-2014 period. The predicted value of construction in the period of January-November 2015 was 84% higher compared to the same period in 2014!

The result is especially reflected in the increase of the construction sector's share in GDP, from 4.5% in 2014 to 5.1% in the second quarter of 2015.

The implementation of such an important reform process was driven by political support, clear enforcement and implementation of legislative solutions, and a broad consensus, especially on the level of local self-government units – the main actors in taking such demanding steps.

Electronic issuance of construction permits was introduced on January 1st 2016, and, accordingly, all units of local self-government entered their user accounts into the systems for issuing e-construction permits, at which moment Serbia began full licensing. For example, since March 2016, the total number of requests submitted was 2,423, while the total number of the resolved ones was 1,235 (out of which 532 were positive, and 793 negative). A positive trend was reflected in the reduced proportion of the number of positively and negatively addressed requests. There were 40% positively resolved requests and 60% negative.

The implemented reform process resulted in growth of the construction share in GDP in 2015 of 11.1% compared to 2014. In terms of gross value added, share of

construction grew from 6.5% in 2014 to 6.9% in 2015. At the end of 2015, it was noted that the number of issued construction permits increased by 45% compared to 2014.

The reform processes must never stop. Therefore, new amendments to the laws adopted in December 2017 abolished the parafiscal charge for issuing a permit. An example of a warehouse (used by the World Bank for the Doing Business report) shows that the fee was reduced from more than 53,000 dinars to 9,000 dinars. In this way, the calculation based on the estimated cost of a building was replaced with the calculation according to the estimated cost of the competent authority, which is based on the average time required to process the application for the issuance of an exploitation permit for the respective category of facility. A particular benefit of this reduction is that it enables citizens to obtain exploitation permits and register their property rights, which many had previously failed to do because of the high costs.

The extent to which the system of electronic issuance of construction permits enabled an increase in investments is also shown in the data published by the Statistical Office of the Republic of Serbia on the number of issued permits for August 2017. This was the highest monthly number of issued permits since statistics started being collected in 2007. With 1,878 issued building permits, August 2017 was by 48.7% better than August 2016. The number of construction permits issued in the first eight months of 2017 was 58.3% higher than in the same period of the previous year, while the projected value of construction works increased by 51.2%. The largest construction activity was recorded in the regions of Belgrade, Srem and South Bačka.

Figure 6: Time of resolving applications in the system of e-permit by the Republic Geodetic Authority

Another significant fact is that industries that rely on construction, such as cement production, grew by more than 10% in the first quarter compared to the first quarter of last year.

The need for further reforms is especially pressing for the cadaster, since the procedure for registering property remains extensive, with frequent non-compliance with legal deadlines (from lengthy decision-making on appeal in the second instance procedure, inconsistency, to the incompetence of the cadaster staff).

The new legal solution stipulates a special procedure in the cadaster, which shortens the deadlines for registering property – without the examination of the documents that a public notary and other holders of public authorizations already declared eligible for the registration process. The ultimate goal is to make documentation submittal easier and simpler.

Today, anyone who buys a real estate is obliged to certify the contract with the notary, i.e. to compile a notary record. In order to do this, the purchaser should obtain an extract from the cadaster and present it to the notary, after which the purchaser submits the same contract to the Republic Geodetic Authority for the purpose of registration, and then to the Tax Administration in order to determine the amount of tax on the transfer of absolute rights. In addition, the purchaser is obliged to submit a certified contract to the local tax administration for registration of property tax.

It is clear that a tour of at least five offices/institutions slows down the real estate registration process, increases the time necessary to complete it and opens up a huge space for corruption. According to the latest WB report, the period of reaching a decision on registration in the real estate register is 15 days.

The new draft law on registration with the cadaster achieves the goal that a notary public, instead of the

entity purchasing the real estate, inspects the real estate cadaster, authenticates the purchase agreement and then digitizes it, authenticates it with electronic signature and sends it to the cadaster electronically, ex officio. Thereby, registration is completed. When the contract is received from a notary, the cadaster forwards it ex officio to the Tax Administration and the local tax administration.

In this way, the obligatory tour of the five institutional offices is reduced to one visit to the notary public. The duration of the period for reaching a registration decision is reduced to 10 days, and the number of procedures is reduced from six to two.

Instead of a conclusion – The way forward for Serbia to become the most desirable destination for investment

Not only is the continuation of the reforms, particularly structural reforms, an imperative of economic development, but continuing the reform of legislative frameworks and the simplification of administrative bureaucratic procedures advances the goal of progressive investment growth in Serbia.

Certainly, economic policy indicators can be interpreted from different theoretical and ideological political perspectives. History and practice have unambiguously demonstrated the correlation between the industrial and economic development of countries and democracy itself. Therefore, the ability of countries to develop economically over longer periods of time is important for their ability to create and maintain free societies.

The results of the implementation of laws should put Serbia in the top five when it comes to construction permits issuance and in the top twenty ranking overall in the world. By intensifying work to accelerate the bankruptcy process, eliminating the obligation to create seals, by increasing

Table 4: Assessment of the situation and possible advancement on the WB list when registering real estate with the cadaster

	The number of procedures	The number of days	Ranking
Current DB ranking 2018	6	21	57
Ranking expected in October 2018-DB 2019	3	15	32
When the overall reform is accepted	2	10	17

Source: [8], Ministry analyses.

the protection of minority shareholders, in particular by regulating electronic archiving, and by further reducing parafiscal charges, Serbia will become the most desirable destination for investment.

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