

# **INVESTMENT CLIMATE REFORM: GOING THE LAST MILE THE BULLDOZER INITIATIVE IN BOSNIA AND HERZEGOVINA**

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## Introduction and Executive Summary

Investment climate reform, designed to unleash the private sector as an engine of economic growth, is a key component of poverty reduction and economic reform strategies. This entails providing a sound legal and regulatory framework that encourages investment and business development, and strengthening the capacity of government to respond efficiently to enterprise needs. In transition economies, structural reforms are necessary, but so is the simple elimination of red tape caused by cumbersome and outdated laws and administrative procedures. While several useful tools are available to diagnose these problems and recommend solutions, implementation is left to the respective government, the primary interlocutor of the international community. This top-down strategy can work well where the government has necessary reserves of political will and sufficient capacity and maintains a healthy dialogue with the private sector. In the absence of these conditions, however, opportunities are lost and strategy papers go unimplemented. The result is not only a failure to reform, but also further disillusionment and disengagement of the key stakeholders – the citizen entrepreneurs.

This note examines the Bulldozer Initiative in Bosnia and Herzegovina, an innovative reform methodology that successfully overcame the lack of political will and capacity at the government level through a bottom-up approach. Using an innovative grassroots and public awareness methodology, the initiative mobilized the local business community to bulldoze barriers by identifying concrete legislative changes and advocating for their adoption and implementation. By delivering fast results – 50 reforms in 150 days -- the initiative won the confidence of entrepreneurs and empowered them to institutionalize permanent grassroots reform committees. The force of this lobby group created political will by putting public pressure on the politicians to do their part to enact the reforms. Most importantly, it carried investment climate reform the last mile by delivering concrete, quantifiable results in all sectors of the economy. Over time, the initiative is establishing a dynamic of reform and public-private partnership that will facilitate the tackling of more complicated structural reforms.

While the Bulldozer Initiative is to some extent unique because of its context, other public/private advisory mechanisms have also been initiated across the world for decades. When targeted at improving the investment climate through concrete recommendations that enlist citizens in a country-wide or sector-wide movement, their intent and process are very closely related to those of the Bulldozer Initiative. Giving concrete examples, the later part of this note describes such approaches as Competitiveness Partnerships. Complementing the systemic approach and framework reform efforts of governments and international agencies, Competitiveness Partnerships mobilize the local business community to catalog concrete problems across the full spectrum of investment climate concerns, pinpoint solutions, campaign for their adoption and follow up on reform implementation. In conclusion, this note attempts to determine the applicability of Competitiveness Partnerships to different settings by modeling the interactions between several key success factors, thus providing a pertinent tool for development professionals, government officials and private sector advocates who wish to establish a renewed implementation dynamic through this kind of results-oriented reform process.

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## 1- Political and economic context

The result of a political compromise to end a terrible war, Bosnia and Herzegovina (BiH) has been on a kind of international community life support. Since 1995, more than 5 billion USD of assistance has poured in, primarily to rebuild destroyed infrastructure and the homes of hundreds of thousands of refugees and displaced people. With much of the post-war reconstruction work complete, the focus is now on rebuilding the economy.

### 1a- Political environment

Bosnia's economic recovery is burdened by the complex and multi-layered political structure created under the Dayton Peace Accords. The political compromise reached in 1995 sought to reconcile three peoples living on the same territory: the Bosniaks, who are Muslims; the Serbs, who are Orthodox; and the Croats, who are Catholic. It led to the establishment of two Entities (the Federation of BiH (FBiH) and the Republika Srpska (RS)), 10 Cantons (all located in the Federation) and a semi-independent Brcko District, all loosely connected under a light state structure.

This enormous administration is headed by no less than 139 ministers and is supported by public expenditure at the excessive level of approximately 60% of GDP. Moreover, it is governed by 14 legal jurisdictions, which must be harmonized in order to achieve a single economic space. Reform efforts face the dual challenge of this cumbersome bureaucracy and the acute political sensitivity to change.

In this context, structural reforms are moving extremely slowly, despite strong oversight from the Office of the High Representative, mandated to supervise implementation of Dayton's civilian provisions, and endowed by the Peace Implementation Council with the power to impose legislation.

### 1b- Economic indicators

Due in part to strong international conditionality, BiH has made significant progress in achieving macro-economic stability. On the monetary side, the BiH Central Bank and Currency Board guarantee the most stable currency in South Eastern Europe, which contributed to the near-zero inflation rate of 0.2% in 2002.

Economic stability is reinforced by a treasury system that is running well and sustained by budgets that are kept within required limits (under the guidance of very tight constraints set by the IMF). The Gross Domestic Product has risen steadily since 1997, and despite unreliable statistical data, it is estimated that the GDP growth rate for 2003 reached 5 percent. Even if this is a considerable slow-down compared to the 25% average of the post-war reconstruction years (1995 – 1997), this rate is now more sustainable and similar to those recorded in neighboring countries.

Nonetheless, eight years into peace building, and despite a heavy reconstruction bill and an IC-led agenda of structural reforms, the economy in Bosnia and Herzegovina is still lagging. With a population of 3.5 million, 20% live below the poverty line and another 30% are on or just above it. Official unemployment is 40%. GDP per capita is now estimated at around US\$1,800, which is one of the lowest in Europe. BiH is burdened with a total debt - external and internal - of approximately 2.5 billion euros. In 2002, the value of BiH's exports equaled 25% of its imports.

**Table 1: BiH Economy**

	2000	2001	2002
GNI, Atlas method (current US\$)	4.3 billion	5.1 billion	5.2 billion
GNI per capita, Atlas method (current US\$)	1,150	1,270	1,270
GDP (current \$)	4.3 billion	4.8 billion	5.2 billion
GDP growth (annual %)	15.6	4.5	3.9

Source: World Development Indicators database, August 2003

With foreign aid drying up, BiH faces a mounting current account deficit, which, without major structural reforms could threaten economic stability in a matter of years.

Foreign direct investment (FDI) has increased steadily over the last several years, but remains extremely low, at \$250 million per annum (roughly \$70 per capita), and is unlikely to grow significantly under current conditions. While many of the country's small enterprises have been privatized, they have yielded virtually no new capital. And privatization of the large and strategic enterprises is at a standstill due to a cumbersome process and political interference.

**Table 2: Levels of FDI in BiH in recent years**

YEAR	Total, USD million
1998	55.8
1999	154.1
2000	147.2
2001	164.0*
2002	241.2

Source: Ministry of Foreign Trade and Economic Relations of BiH

\*Source: Economist Intelligence Unit

### 1c- Investment climate and private sector development

With FDI unlikely to increase significantly in the near term, local investment is critical to unearthing new reserves. However, due to the bureaucratic maze, Bosnia's informal sector continues to thrive, as it still represents an estimated 40% of the economy. And the incentives to leave the "gray economy" and respect the law are still few. When corruption does not stifle honest businesses and drive investment from the region, heavy bureaucracy and the multiplicity of administrative and legal jurisdictions do.

Because under the constitution nearly all economic sectors are decentralized, inter-Entity trade can be more complicated than foreign trade. An entrepreneur wanting to operate in all the territory of BiH will have, for instance, to pay attention to 13 different commercial laws, and multiple rulebooks and by-laws. A business registered in one Entity must officially open at least a branch (if not a fully different registered business) in the other Entity if they want to do business there. And despite efforts by the international community to streamline the process, registering a business still takes about three months, 36 steps, and is done in three different ways throughout the country. Once a company is operating, it has to comply with a host of procedures if it wants to hire an employee from the other Entity. Bank accounts, commercial leases, insurance certificates and official company stamps are just a few of the requirements that routinely turn entrepreneurs away from cross-Entity employment.

**Picture 1: For the investor, the road to investment in Bosnia and Herzegovina is paved with riveted roadblocks.**



Regulations inherited from the socialist era are still found in many laws and rulebooks, sometimes contradicting other legal texts. This creates a confusing environment where each investment is met by numerous fees. Until last year, a compulsory fee of 1% of annual turnover had to be paid to dinosaur-style chambers of commerce providing no sensible service to entrepreneurs. Similarly, any construction of business premises was taxed at a rate of 2% of its value, on the outdated and absurd pretext that the money would be used to maintain atomic bomb shelters.

Other socialist-inherited regulations include a requirement for some SMEs to have an archive room managed by an employee holding an archivist diploma. Fax orders are still not considered as official business documents, so entrepreneurs need to send regular mail to each other and rubberstamp orders in order to close transactions officially. Bus lines can only operate from one Entity to the other if a second company from the other Entity is ready to create another bus line following the same route, but in the opposite direction. In the case of buying a car, the law has it that the sales tax is paid by the buyer in one Entity but by the seller in the other, which means that if the car is traded across the two Entities, it will either be double-taxed or not taxed at all.

Such are a few examples of the many administrative barriers that need to be knocked down in order to unlock local investment.

Led by various international agencies, large-scale reforms have started to overhaul the business environment and stimulate private sector activity. Framework reforms include creating conditions to enable a wider variety of exports, better and faster privatization, implementation of bankruptcy, a more flexible labor market, strengthened domestic credit markets and enhanced corporate governance. BiH is far behind in the establishment of an institutional and regulatory framework to certify the standard of its goods for export. And, while progress has been made, the Single Economic Space<sup>2</sup> has not yet been fully achieved, a critical factor for developing the economy and a must for BiH to become an accession country into the European Union.

Such programs, despite their evident long-term benefits for the country, are mostly moving forward to the extent that the international agencies are supporting them through conditionality, since the political arena is still divided along ethnic lines, and the nationalistic or personal vested interest of politicians often block progress. Nevertheless, some progress is being made on the following framework reforms as outlined in the BiH Development Strategy, approved by all three prime ministers in early December 2003:

- Implementation of indirect tax reforms -- merging the Customs Agencies and introducing VAT -- two developments that will make it easier and fairer to do business in BiH.
- Creation of a single business registration system: The BiH framework law on business registration, which is under consideration by the Council of Ministers will eventually make it easier and quicker for foreign and BiH investors to set up companies and create new jobs, resolving the current expensive, bureaucratic and time-consuming system that discourages economic recovery.
- Implementation of a coherent, comprehensive trade policy: In addition to indirect tax reform, the authorities are pushed to move ahead with judicial reforms, and also with liberalizing the telecom and power sectors. EC certification procedures have to be established to help companies get the required approvals that lets them sell their goods in the EU.
- Improvement of institutions and services to support business and promote exports: The aim is to establish an efficient and responsible, single statistics service to give potential investors an overview of the BiH economy. The Foreign Investor Promotion Agency, the State Veterinary Office, and the Institute for Standardization are finally coming under budgetary financing so that they can help BiH companies compete in the global export market. Establishment of a BiH Investment Guarantee Agency is under consideration.
- Implementation of a domestic debt package is planned, to verify all claims and make arrangements for repayments, also tackling the issue of bonds.
- Restarting of the privatization process, to make it easier to tender and privatize strategic enterprises, through stronger, more efficient and more transparent Entity privatization agencies.
- Enactment of a Civil Procedure Code setting in place the kinds of commercial legislation and dispute-solving mechanisms that will give confidence to businesspeople and investors; and the enactment of basic contract laws.
- Implementation of a Law on Accounting and Auditing that will modernize this core function of business life.

But these are not quick fixes, nor a very gratifying agenda for a young population of high-energy entrepreneurs who need quick results. To the contrary, the population is extremely skeptical of the government's commitment to those reform efforts. They see reform as the responsibility of the International Community, and especially the High Representative who has the power, among other things, to enact or repeal legislation. Further, with the employed population earning an average wage of \$250 a month, the general public is unresponsive to abstract issues such as business environment. The result has been an absence of motivation for strategic reforms.

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<sup>2</sup> The EC Community Assistance for Reconstruction, Development and Stabilization (CARDS) program for BiH includes a sub-program, currently in its second phase, which aims to establish a Single Economic Space in BiH in line with the EU Aquis Communautaire and in order to facilitate the EU integration adoption through the necessary legislative, regulatory and institutional reforms.

Entrepreneurs, for example, prefer to apply their energy on navigating the existing system rather than fixing it.

## **2- The Bulldozer Initiative as a complementary and sustainable reform process**

Active involvement and a sense of ownership by the key stakeholders in Bosnia's economic future – the private sector – is key to building a sustainable constituency for reform as a complement to comprehensive reform processes. The “Bulldozer Initiative” launched in November 2002 by the Office of the High Representative is aimed at doing just that. The initiative is still ongoing, and is currently in the midst of the second of three phases, anticipated to be completed in the fall 2004. Already, though, the initiative has succeeded in securing enactment of 50 reforms, with another 50 under parliamentary consideration. In a matter of months, this Initiative has generated a sense of progress and a new and authentic engagement by the business community, as well as an enhanced sense of responsibility by the government. This perceptible change in attitude – on the part of the authorities and in the business community – was the product of enlightened self-interest; businesspeople were provided with a mechanism through which they could secure reforms that help the economy in the long-term and help their own entrepreneurial efforts in the short and medium term. Politicians were provided with a mechanism whereby they gained credit for enacting reforms after much of the detailed drafting and canvassing had been done by others, in this case businesspeople. It was a win-win situation.

### **2a- Objectives**

The Bulldozer Initiative uses a cutting edge methodology for economic reform and business climate improvement from the bottom up, by engaging core segments of the population and turning them into active constituents for reform and stability.

The reform process was designed with two goals in mind:

- 1) to create a fast track record of reform by “bulldozing” through a complex legal system rife with red-tape and business disincentives;
- 2) to create a sustainable process in which the private sector could engage in a strong dialogue and partnership with the government.

The Bulldozer Initiative does not aim at making framework changes. As a bottom-up initiative, it is designed to identify specific business roadblocks that are exclusively focused on the entrepreneur's experience. As a complementary effort to the large-scale reform efforts already underway, the intent is to amend a few articles in a law, rather than to overhaul the law completely. This methodology is also designed to minimize political opposition: by leaving the overall equilibrium of the system in place, the methodology allows for a very limited room for maneuver among those who could potentially oppose the reform. If entrepreneurs explain pragmatically why an article is problematic and suggest a fix that does not jeopardize the rest of the edifice, then there are few reasons for the governments not to enact it. Still, the reform momentum created by the initiative made it possible to include several wide-reaching reforms as well. And by publicizing the successes broadly, the initiative has created a dynamic that is now facilitating the implementation of large scale structural reforms.

### **2b- A partnership to bulldoze red tape**

The Bulldozer Committee was initiated by the High Representative Paddy Ashdown, who asked four other international agencies to join him in “bulldozing red tape”: the European Commission, the International Monetary Fund, the World Bank and USAID. This core group was coordinated from the Bulldozer Coordination Unit located at the OHR. The Unit was composed of a project director, an assistant and a manager. Hosted within OHR's Economic Department, it worked quite independently, like a small business. It raised funding from the bilateral embassies of, successively, the United States, Switzerland, Norway, Italy and Holland. Funds were used for

salaries of one international and two nationals, travel, equipment and supplies, and most importantly nation-wide public awareness campaigns and public events.

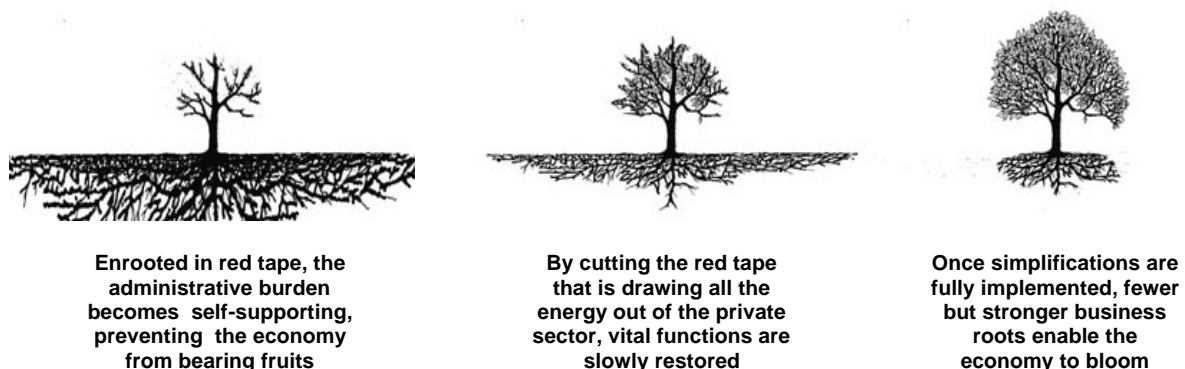
The process was initiated by the International Community. The impetus had to be given by the internationals because of the total distrust by the private sector of the government, and the manifest lack of interest by the government in listening to the private sector. The strategy chosen was iterative: a focus on active private sector participation would be given during a first phase where the government would only have a passive role. In a second phase, once the private sector was engaged and had proved that it could produce high quality reform work, the government would be invited to participate more actively. Finally a third phase would incorporate no International Community component, allowing the private sector and the government to actively interact on their own with only technical support provided to both. The phased approach bore fruit: ownership of the process was handed over to local entrepreneurs after six months, and to the government after eight. The question of its sustainability without the mediation of the international community is to be answered during the ongoing phase III.

**Figure 1: The Bulldozer brand**



As soon as Phase I had started, with the aim of fostering private sector advocacy, the Coordination Unit quickly reached out to local private sector representatives and invited them to participate in the committee by proposing reforms. The role of the High Representative was important in that regard, as it gave people faith that the initiative was worth participating in. Little by little, many private sector advocacy groups became an integral part of the committee and rallied behind the Bulldozer “brand”. Over time, several hundreds of individuals and organizations submitted reform proposals. Thirty local associations, including regional business associations, municipal associations of entrepreneurs, the Employers’ Confederation of both Entities, the Women’s Business Network, the Central Bank, the Foreign Investment Promotion Agency, the Micro-Credit Network, and the Association of Honey and Bee Production, served as members of the Bulldozer Plenary Committee, evaluating and finalizing reforms. The Committee focused the energy of all those private sector advocates toward one single goal: to bulldoze red tape, as a means of improving the business climate.

**Figure 2: Reducing red tape as a means to improve the business climate**



## **2c- Role of the International Community**

As they were defined and processed, the Bulldozer reforms were designed according to benchmarks and principles that international agencies agreed to, so that they did not contradict or interfere with structural, top-down efforts. In a sense, the five international agencies served as a guarantee to the governments that the entrepreneurs were not going to hijack the process to request non-viable benefits, such as removing all taxes, etc, or that specific entrepreneurs were not going to use the process for their own exclusive benefits.

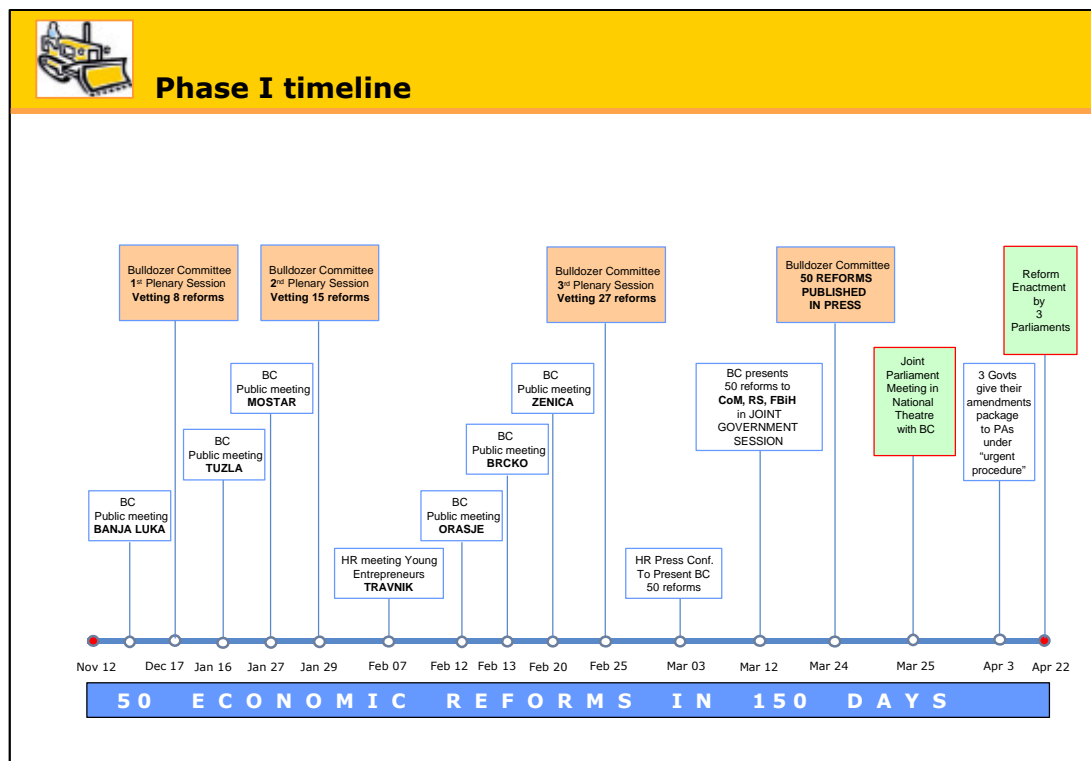
The IMF ensured that all selected reforms complied with sound macroeconomic standards. The World Bank ensured they corresponded to good poverty reduction strategies and that they fitted in the Bank's Business Adjustment Credit. The European Commission guaranteed that each proposed change was compliant with EC standards, so that reforms would remove obstacles to the integration of BiH into the European Union. USAID participated in vetting the reforms against good private sector development principles. Lastly, the OHR ensured that reforms were politically doable in the context of a knotty local and international environment. Hence, Bulldozer reform proposals, once out of the production pipeline, were extremely robust. They bore the legitimacy of local entrepreneurs' demands. They had been vetted by international agencies. They made sense.

## 2d- Engaging the Business Community

Submitting such workable reforms requires a remarkable effort from the entrepreneur. However, under the status-quo, businesspeople are in any case obliged to spend time and energy trying to get around existing rules and regulations. When they do this, they do not go back to find the original source of the problem and advocate for change. In the case of an administrative permit, the resources, time, and (often) money of the entrepreneur may be used in a networking effort to get to know someone working in the specific administrative department and, sometimes, bribing officials to obtain the permit. The Bulldozer Initiative had therefore to demonstrate to BiH entrepreneurs that their resources, time and money would be better spent on understanding where a problem came from, designing a legal solution (for instance an amendment to a law) and lobbying for its adoption.

With that objective in mind, the Bulldozer Coordination Unit publicized early on an extremely tight time frame in which it planned to have reforms enacted. Using the slogan "50 Economic Reforms in 150 Days", it created an impetus as well as an accountability that surprised many in both the local population and the international agencies. Making the timeframe publicly available from the start was part of an open door policy vis-à-vis the entrepreneurs and the media.

Figure 3: The Bulldozer timeline for Phase I

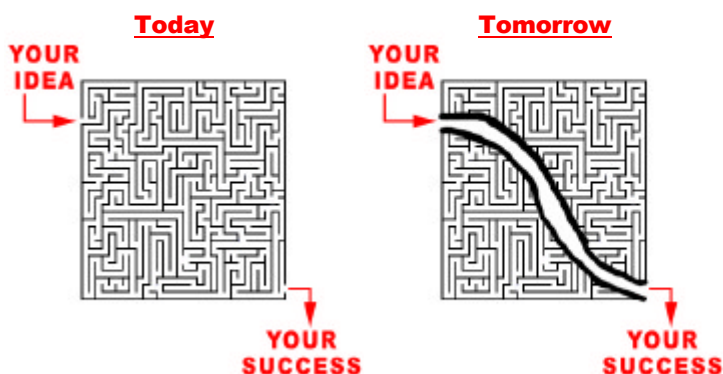


To educate the private sector and rally people to the Bulldozer Initiative, a “road show” was organized, using marketing-like techniques to “sell” the idea to entrepreneurs. Presentations were made in eight public meetings, which gathered more than 500 businesspeople in eight different cities.

During those gatherings a form was distributed, which enabled the audience to submit ideas, either during the meeting, or to mail ideas to the Committee.

The form is extremely simple in its conception. The only logo it carries is the Bulldozer logo. A table enables the submitter to indicate whom he or she represents. This table serves as a statistical tool, but it also demonstrates that the initiative is an inclusive one, working with companies, associations, public institutions, international agencies, etc. The aim of the form is to drive the submitter into a disciplined analysis of the issue. Below the table, four questions are asked: 1- What is the issue at stake? 2- Why is it a business roadblock? 3- What is the Bulldozing solution? and 4- What are the specific action items? (what specific articles need to be amended, whether an instruction needs to be sent by a minister, etc.)

**Figure 4: One of the images used to convince the private sector to engage in the Bulldozer reform process**



## 2e- Processing reforms

Drawing up its first round of reforms, the Committee received about 250 submissions. Issues spanned all sectors of the economy: enterprise law, banking and finance, tax, exports, trade, labor, environment and so on. They included for example compulsory fees for professional associations, double taxation issues, cumbersome administrative procedures, and job-destroying labor practices.

Within the Bulldozer Committee, each proposal was studied in detail by a qualified group of lawyers and economists, who evaluated the proposals, developed legal solutions and assessed the likely consequences for the economic environment. Each reform was subjected to a rigorous cost/benefit analysis, and industry experts were invited to comment on ideas before they were taken to the next stage. This way, the Bulldozer Committee ensured that individual entrepreneurs could not exploit the process in order to serve their own interests and without rendering real economic benefits to a sector of the market.

Once formatted, a Bulldozer reform is a few pages long and indicates the specific laws to amend in each jurisdiction. It includes the text of existing articles, shown side by side with the new text recommended for adoption.

**Figure 5: The Roadblock Submission Form**

(Full-size form is shown in Annex I)

During Phase I of the initiative, the Bulldozer Coordination Unit received all reform proposals and did the filtering work, to present a subset of 70 reforms to all members of the committee. This presentation took place during three “Plenary Sessions” that each constituted an event for the business community. Each Plenary Session was typically attended by 40 to 50 participants, plus sometimes the press. All proposals were publicly discussed, and a vote was held at the end of

the sessions. The five international agencies had a veto power that could be used to prevent a reform from being adopted. The Committee, then composed of about 20 different associations (which each had a vote) in addition to the five international agencies, voted on the best 50 proposals to present to the governing bodies.

**Table 3: The first 50 selected reforms proposed to the government**

<b>Enterprise:</b>
R01 Harmonizing the LLC Minimum Capital Requirement
R02 Eliminating Double Corporate Profit Taxation
R03 Removing Counterproductive Amendments in the RS Law on Privatization of State Capital
R04 Eliminating Investment Barriers through FBiH Law on Business Companies Reform
R05 Clarifying Audit Requirements of Auditor General in RS
R06 Removing Mandatory Fee for Shelter in FBiH
R07 Removing Mandatory Fee for Shelter in the RS
R08 Breaking Monopoly of RS Geodesy and Property-Legal Affairs administration
R09 Easing Law Firms Operation through Amendments to the Law on Lawyer Profession
R10 Easing Barcode Issuing Requirements for Publishing Companies
<b>Environment and Forestry:</b>
R11 Removing Double Taxation of Revenue for FBiH Forest Industry
R12 Introduction of New Water Standards at State level
R13 Protecting the Stock of BiH Fruit & Nut Trees
R14 Promoting Recycling Business and Environmental Protection in FBiH
<b>Tourism:</b>
R15 Rationalization of Tourism Companies' Contributions and Accommodation Tax in FBiH
R16 Improving Mechanism of Tourism and Hospitality Inspection in FBiH
R17 Easing BiH Entry Visas regime for Foreign Nationals
R18 Improving Tourism through Enrollment of BiH in InterRail Pass Program
<b>Labor:</b>
R19 Easing RS Craft Companies Operation and Reducing Red Tape through Amendments to the Craftsmanship Law
R20 Recommending Statewide Amendments to Provisions on Training and Volunteer Labor
R21 Harmonizing Pre-Conditions for Bar Exam Across BiH to Ensure Equal Opportunity in Access to Market
R22 Harmonizing Conditions for Company Activity Registration
<b>Trade:</b>
R23 Establishing Principles on Moving Sales Tax Point of Collection
R24 Easing Export of Drugs and Medicines from BiH
R25 Reducing Import Cost and Delays Relating to Phyto-Sanitary Certificate
R26 Free Trade Zones Operation Under the BiH Law on Free Trade Zones
R27 Harmonizing Vehicle Trade Mechanisms Across BiH
<b>Registration:</b>
R28 Removing Need for Registration of Foreign Representative Office in Both Entities
R29 Simplifying Registration Procedure of Foreign Direct Investments in FBiH
R30 Simplifying Registration Procedure of Foreign Direct Investments in RS
R31 Enabling Company De-Registration in FBiH
R32 Enabling Company De-Registration in RS
R33 Enabling Company De-Registration in Brcko
<b>Chambers:</b>
R34 Transforming FBiH Chambers Membership from Compulsory to Voluntary
R35 Transforming Chambers Membership in RS from Compulsory to Voluntary
R36 Helping Family Businesses by Removing Compulsory FBiH Craft Chamber Membership
R37 Helping Family Businesses by Removing Compulsory RS Craft Chamber Membership
R38 Transforming Cantonal Chambers Membership from Compulsory to Voluntary
<b>Finance:</b>
R39 Defining the Term CAPITAL in Federation Laws and Practice
R40 Enabling Original Use of Bill of Exchange in FBiH
R41 Simplifying Procedures for Conveying Banks Assemblies in FBiH
R42 Execution on Claim on Bank Accounts

R43 Easing Collateral Transferability
R44 Shortening Procedures for Increasing Bank Capital
<b>Transport:</b>
R45 Liberalization of Bus Scheduling in the Federation
R46 Removing the Reciprocity Rule in Inter Entity Transport
R47 Liberalization of Inter Entity Transport Regulations for Helping Refugee Return Transportation
R48 Facilitating the Process of Obtaining CEMT Truck Licenses
R49 Streamlining Regulations for Oversize Truck Loads in BiH
R50 Correcting Unfair competition in RS Oversized Transport Fees Against FBiH companies

Once the package of 50 reforms was completed, a “book of 50 Bulldozer reforms” was produced and formally handed over to the prime ministers in a public event, in the presence of journalists, and followed by a press conference. The book contained the full text of the reform, the reform summary, and a table summarizing action items per jurisdiction

**Table 4: Track-list for Bulldozer Phase I Reform number 20**

#	Reform title	Jurisdiction	Concerned law	Specific articles
20	R20 Statewide Amendments of Provisions on Training and Volunteer Labor	FBiH	Federation Labor Law (Official Gazette FBiH 43/99; 32/00)	Art.26; Art.27; Art.28
		RS	RS Labor Law (Official Gazette RS 38/00; 40/00; 41/00; 47/02)	Art.29; Art.30; Art.31; Art.32
		Brcko District	Brcko District Labor Law (Official Gazette BD 7/02)	Art.21; Add 2 new articles

**Annex 1** shows two detailed reforms from Bulldozer Phase I, as presented in the final package of 50.

## **2f- Lobbying for reform adoption**

Following the hand-over of the reforms, intensive dialogue took place between the Bulldozer Committee and the BiH Council of Ministers, and the RS and FBiH Governments. A coordinator was appointed in each government. These coordinators dispatched their respective proposals to the relevant Ministries, and asked for comments, reactions, and counter-proposals.

Each Ministry formed working groups to look at each reform and formulate a response. The Bulldozer Committee met with all the principal Ministries and discussed the specific reforms and the working-group responses in great detail. In each case, there was complete agreement, or a legal middle ground was negotiated that did not detract from the original intent of the proposal.

In Phase I, the BiH, FBiH, RS and Brcko parliaments adopted all the Bulldozer amendments, just 30 days beyond the original 150-day deadline. Despite this delay, the results were attained within a timeframe that had never been met before, an average of one economic reform every four days. Some of the reforms were dealt with through government decision, while others (consisting of legal amendments to existing laws) were sent to the parliaments.

## **3- Regionalization and Government involvement**

In order to build on Phase I's success, Phase II of the Bulldozer Initiative was launched in June 2003. The aim of Phase II was to select another 50 reforms while continuing to promote the legitimate interests of the business community, local advocacy associations and civil society, and to create a working partnership with elected representatives.

### **3a- Taking it local**

After the first successes of the initiative, the Bulldozer Coordination Unit decided to minimize the role of internationals while giving the lead to local advocates, organized in Regional Bulldozer

Committees. The declining role of the International Community was formalized in a modification of the veto power, which progressively disappeared during Phase II of the initiative.

Each Regional Committee is made up of an average of 12 different associations and a few private entrepreneurs. Each Committee appointed a Coordinator and two co-coordinators who dispatched the work in their region, re-routed information coming from the Bulldozer Coordination Unit, and represented their Regional Committee in the Plenary Sessions organized by the Bulldozer Coordination Unit. Altogether, six Regional Committees were created, as well as a nation-wide specialized Committee on Agriculture, Agribusiness and Natural Resources. Their focus is to identify new reforms at the municipal/cantonal/regional level as well as to oversee the implementation of Phase I reforms at the local level.

**Figure 6: Each regional Bulldozer Committee gathers proposals from both sides of the Inter-Entity Boundary Line (IEBL)**



The seven Bulldozer Committees expanded the dialogue already established by the original Bulldozer Committee with the country's elected representatives by including the trade unions. This helps the Committees identify reform areas that concern BiH society as a whole. By giving responsibility to all three partners (private sector, governing bodies and unions) in developing, bringing forward, and implementing reforms, support for the overall process is enhanced. Each of the three partners has a real interest in reforming the BiH business environment.

Regional Bulldozer Committees are organized on a voluntary basis, and they do not receive financial support from the Bulldozer Coordination Unit. Self-financing appeared in some Regional Committees, where funds were offered by entrepreneurs to conduct local advocacy awareness campaigns. Phase II heavily relied on the Regional Bulldozer Committees to do part of the reform filtering work. They distributed blank forms to enterprises in their regions, organized many public meetings to inform people about the initiative and created public awareness

campaigns. Such campaigns have included a TV spot in one region, newspaper ads in another, and the establishment of a telephone "hotline" in yet another. Each Regional Bulldozer Committee distributes blank forms, collects proposals, organizes Regional Plenary Sessions, and selects a subset of reforms, which are then sent to the Bulldozer Coordination Unit for final selection.

### 3b- The Protocol for Prosperity and the creation of governmental Emergency Reform Units

In an important symbolic event the three Prime Ministers, the six Heads/Speakers of Parliaments, the Mayor of Brčko, and seven Bulldozer local representatives signed an agreement called "The Protocol for Prosperity", which commits them to continuing and deepening their support for the Bulldozer reform process.

Following this commitment, the governments have established four inter-ministerial working groups at the State, Entity and District levels called "Emergency Reform Units". The Emergency Reform Units are now the governmental counterpart of the Bulldozer Committee. Their role is to assess the reforms proposed by the private sector through cost benefit analysis, and to negotiate internally with the

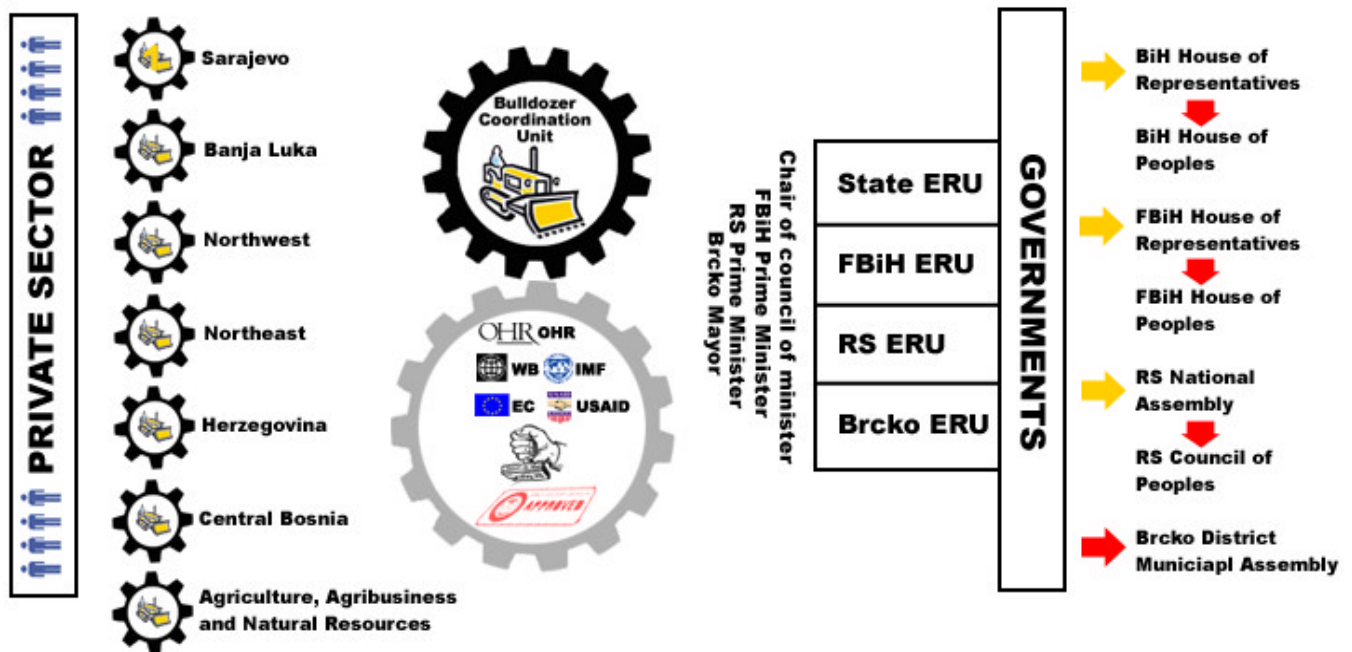
**Picture 2: Signature of the Protocols for Prosperity**



different government departments concerned with the reforms. A copy of the Protocol for Prosperity is provided in **Annex IV**.

The Emergency Reform Units enable a symmetrical processing of reforms between the private sector and the governmental authorities. As such, they permit the creation of a true public-private partnership.

**Figure 7: The Bulldozer reform process in Phase II**



### 3c- 50 new reforms

In Phase II, a new package of 50 reforms was handed over to the governments on October 4<sup>th</sup> 2003 with the goal that they be enacted by Parliaments or by July 2004. Phase III would begin then, characterized by complete localization of the initiative: the Bulldozer Coordination Unit will be disconnected from any international agency and all regional and specialized committees will be linked through a state-level Bulldozer NGO.

The selection process in Phase II demonstrated the thoroughness of the proposed amendments. Approximately 95% of the proposed ideas did not make it through the selection process. This means that the data processing and legwork to obtain 50 reforms was significant. Criteria of ease of implementability were added to the Phase I criteria of macroeconomic stability, EC standard application, sound development practice compliance and political feasibility. Having learned from Phase I, the Regional Bulldozer Committees considered all those factors when pre-selecting reforms and discussing them with their local entrepreneurs.

**Table 5: Selection process for the first Plenary Session of Bulldozer Phase II: 19 proposals selected from 366 suggestions**

<b>BULLDOZER PHASE II – FIRST PLENARY SESSION</b>	Forms distributed by committees	Proposals Received by committees	Proposals pre-selected by committees	Selected Proposals sent to Bulldozer Board	Selected proposals by Bulldozer Board	Proposals vetted by IMF, WB, EC, USAID OHR	Proposals selected in First Plenary Session for inclusion into final book of 50	Proposals on hold for further review
Northwest	500	29	27	8	7	6	6	1
Northeast	700	40	20	10	5	4	4	
Banja Luka Region	600	70	40	10	4	2	2	2
Sarajevo Region	450	132	32	12	9	7	5	3
Herzegovina	200	15	10	4	3	1	1	2
Central Bosnia	1200	80	25	10	3	1	1	4
<b>Total</b>	3650	<b>366</b>	154	54	31	21	<b>19</b>	12
<b>Ratio</b>		<b>→ 100%</b>	<b>42%</b>	<b>15%</b>	<b>8.5%</b>	<b>6%</b>	<b>5%</b>	
<i>Total of which Agriculture, committee participated</i>			6	3	2	2	1	1

The 50 reforms selected in Phase II after three Plenary Sessions demonstrate that once engaged in a reform process, the private sector is quick to expand its reform ideas to the society at large. Issues such as national holidays and the rights of disabled persons that have made it to the final package illustrate the willingness of participants to broaden the scope of their work beyond issues of immediate concern to entrepreneurs.

**Table 6: The second round of 50 reforms proposed to the government**

<b>Administrative requirements</b>
R01 Simplification of invoicing procedures for partnerships and sole proprietor enterprises
R02 Removing staff archivist requirements for SMEs in Tuzla Canton
R03 Abolishing compulsory daily travel orders for use of company vehicles
R04 Abolishing obligatory six-month financial statements for companies
R05 Enabling business transactions through recognition of faxed orders as written documents
R06 Simplifying procedure of publishing official gazettes
<b>Enterprise</b>
R07 Improving BiH IT sector by helping to reduce monopoly through stricter implementation of the Law on Communications
R08 Removing monopoly in marketing campaign business
R09 Abolishing Municipal special fee/tax on taxpayers' total yearly income for financing Special Institutions
R10 Implementation rules for FBiH Law on craft
R11 Harmonizing entity Laws on Profit Tax
<b>Finance</b>
R12 Defining public revenues that belong to municipalities in FBiH
R13 Enabling growth of local non-profit sector through limited tax-relief for donors
R14 Improving access to finance for SMEs via urgent adoption of draft law on Financial Leasing in FBiH and RS
R15 Removing barriers for the sale of stocks by small shareholders in the RS
R16 Improving ability of RS companies to repay debt by harmonizing high daily interest rates with those in FBiH
<b>Forestry / environment / agriculture</b>
R17 Protecting the environment wood industries and forestry stock in BiH through regulating exports of raw logs
R18 Creation of a State Council for Agriculture, Forestry and Rural Development
R19 Enabling development of natural honey business in BiH by establishing required legislation
R20 Establishment of FBiH Veterinary Chamber
R21 Defining competencies between the Federation and Cantons in using natural resources
R22 Harmonization of the entities laws on Veterinary
R23 Improving business environment for food and vegetable processing companies
R24 Harmonization of business conditions in the RS and FBiH for agriculture production

<b>Investment</b>
R25 Equalizing rights of local and foreign investors
R26 Clarifying incentives to foreign direct investment in the Federation Law on Corporate Income Tax
R27 Harmonization of entity regulations on court company registration fees
R28 Sales tax exemption for catalogs and printed brochures that are distributed free of charge
R29 Easing the entry of young lawyers to the profession by harmonization of registration fees between Federation and RS Bar chambers
<b>Labor</b>
R30 Achieving single economic space through a BiH Law on Holidays
R31 Enabling employment of disabled persons by introducing tax relief
R32 Harmonizing entity laws on pensions in order to reduce black market employment of pensioners
R33 Enabling independent contractors to work by amending the RS Law on Physical Planning
R34 Removing discrimination based on entity citizenship in the RS Law on Crafts and FBiH Law on Trade
<b>Trade</b>
R35 Improving product safety and quality compliance through amendments to the BiH Law on Consumers Protection
R36 Reforming the existing regulations on public procurement in BiH
R37 Protecting local production by implementing the Law on Quality Control in BiH
R38 Exempting demining equipment from customs fees
R39 Request governments to enact law on customs offenses at state level
R40 Removing and resolving obstacles to the establishment of the Tourist Organization of BiH
R41 Reducing expansion of black market by authorizing market inspectors to confiscate goods
R42 Improving business environment by changing the base for calculation of membership fees for tourist communities
R43 Facilitating export by simplifying internal processing procedures (the so called import for export)
R44 Harmonization of FBiH and RS trade laws
R45 Repeal of the Law on Allocation of Funds for Regular and Safe Railway Traffic in the RS
R46 Ensuring quality standards of petroleum and fuel imports to BiH through harmonization and clarification of legislation
<b>Utilities and construction</b>
R47 Amendments to the FBiH Law on Physical Planning and Law on Construction
R48 Enhancing municipal competencies for the issue of town planning approvals and construction permits
R49 Harmonizing water supply fees between FBiH and RS
R50 Supporting business development by requesting Governments to urgently perform a pricing review in Elektroprivredas and remove obstacles to the implementation of Power III project

**Annex 2** shows two detailed reforms from Bulldozer Phase II, as presented in the final package of 50.

### 3d- Shifting perceptions and sustaining momentum through media

An important part of the initiative relied on a strong grassroots and public awareness effort since the level of involvement of local businesses was determined by their belief in, or skepticism about, the results, and by their understanding of the lobbying mechanism. They needed to see for themselves that it could be done, and how to achieve concrete results. The media strategy was therefore centered on four approaches.

The first strategy was to create an open-door policy with journalists: Information on the day-to-day Bulldozer process was given out continuously by the Bulldozer Coordination Unit through press releases, interviews or informal breakfasts with journalists. When journalists inquired about the progress of the initiative, all details were provided, including negative ones such as internal disagreements, potential negative short-term impact of

**Picture 3: 84,000 copies of a brochure with a comic strip explaining the 50 reforms to the average citizen**



some reforms, etc.

Second, a strong public awareness campaign was organized. The Bulldozer Committee published a 64 page information brochure detailing the first 50 reforms, including a comic strip, "The Adventures of Max", telling the story of a frustrated entrepreneur who overcomes his problems by joining the Bulldozer effort. 84,000 copies of this Brochure were distributed in local newspapers in three different languages (Bosnian, Serb, Croat). 200,000 copies of a specific brochure on issues related to privatization were similarly distributed. 100,000 copies of a brochure detailing the results of Phase I reforms will be distributed in February 2004.

Thirdly, original press conferences were organized to mark specific achievements, such as:

- Bulldozer Committee holds a public information meeting (press conferences with local media for each local meeting)
- Bulldozer Committee meets in Plenary Session and votes on reforms (televised voting session broadcast on prime time news)
- Committee completes its preliminary work (entrepreneurs unfolding a banner reading "D minus 39 days for the government" in front of journalists)
- Committee hands over reforms to government (in front of a real bulldozer)
- Entrepreneurs enter parliaments to explain reforms

Lastly, specific symbolic events were designed for symbolic locations. The press conference that was organized in front of a real bulldozer became a real turning point in the political life of the country. For the first time, the Chair of the Council of Ministers made a public and formal commitment with businesspeople: together, they would enact 50 reforms in 150 days. And reforms would be judged on their merits instead of on internal politics, as is often the case in BiH.

The picture of the Prime Minister wearing a red construction hat was seen the following day on the front page of all BiH newspapers. The media began to cover entrepreneurs in a positive way. Instead of being portrayed as "crooks trying to benefit from the system", they appeared as "frustrated stakeholders eager to take over the future of their country". One major paper began to run a daily column featuring local entrepreneurs and the changes in legislation they would like to see. It was a true awakening for BiH businesses and it created a real breakthrough in public opinion, with lasting impact.

**Picture 4: A turning point in the campaign: The public image of the Prime Minister standing in front of a bulldozer and behind a banner reading "50 economic reforms in 150 days"**



Another symbolic event took place in the National Theatre, where the initiative succeeded in bringing all the parliaments of State, Entity and District jurisdictions together for the first time since they were brought into existence by the Dayton Peace Accords of 1995, to discuss reforms on their merits with the Bulldozer Committee.

Another event mentioned earlier, the signing of the Protocols for Prosperity, took place at the Botanical Gardens. It was the first document since the peace treaty to bear the signature of all the heads of the executive and parliamentary bodies. To mark the event, each of the 17 signatories planted a rose tree in an area that was named the "Prosperity Garden".

Using this four-point approach enabled the Bulldozer Committee to maintain a high momentum at all times, which was exceptionally beneficial to the dialogue process. Every week the media features issues that are identified as economic roadblocks by the Bulldozer Committee. The press helps sustain a national debate on economic reforms and helps keep small and medium entrepreneurs informed about the specifics of the legislation that has slowed down their

development. Politicians now often talk about doing things “the Bulldozer way” and a variety of commissions and working groups have now been set up in the parliaments under that very impetus.

The success of the Bulldozer initiative attracted attention well beyond BiH. Articles appeared in the New York Times, the London Times, the Financial Times and other international media, for once talking about the originality and effectiveness of a new BiH reform model, rather than the slowness of post-war recovery.

These reports inaugurated a fundamental shift in the image of the country abroad, carrying the message that BiH is now open for business. This in turn has had a profound impact on the society, by demonstrating that businesspeople – meaning the average citizen – can effect change, rather than simply be affected by change.

**Box 1: The Bulldozer makes headline news in world top newspapers**



**The New York Times**

**“Bosnia Charging Business Barricades”**

**FINANCIAL TIMES**

**World business newspaper.**

**“Bosnia Bulldozing Trade Barriers”**

**THE LONDON TIMES**

**“Bosnia harvests fruits of brighter future”**

#### **4- Dangerous curves and safety features**

Under such an impetus, it would have been very easy for the Bulldozer to go “off-road”.

Actually, the Bulldozer did drive through dangerous curves, bordering a few issues usually tackled through more systematic top-down approaches. As such it attracted legitimate criticism. The bottom-up process, when it dealt with contentious issues, also prompted anger among the losing constituents.

Under the kind of pressure that this produced, the success or failure of the initiative could easily have been confused with the government's success or failure in implementing reforms. To allocate responsibilities very clearly and to ensure the legitimacy of the process throughout, a set of benchmarks was developed. These implementation measurement tools were key in assessing and communicating results.

#### **4e- Limits, skeptics and critics**

Despite massive support from the population and a strong media reach, the Bulldozer initiative has had many critics both in Bosnia and abroad. These fall into several categories: criticism by those who feel threatened by the process, natural skepticism that the Bulldozer reforms would not significantly change the economy, and concern that the Bulldozer was overstepping its boundaries and jeopardizing long term reform processes.

Among the critics of the first category were the Chambers of Commerce, which led anti-Bulldozer campaigns through articles and interventions with politicians. They felt directly threatened by the Bulldozer, which not only took over many of the ostensible functions of the Chambers, but which also proposed a reform to eliminate mandatory fees to support the Chambers. Certain political leaders, like Mr. Paravac from the Serb nationalist party, the SDS, who currently serves on the rotating tripartite Presidency of Bosnia and Herzegovina, early on was an outspoken opponent of the initiative, citing the “deregulation and chaos” that the Bulldozer was going to bring to the country's economy, and fearing the dilution of the powers of his Entity, the Republika Srpska. (He later supported the initiative after meeting the six Regional Bulldozer Committee Coordinators). Former Prime Minister and opposition leader Zlatko Lagumdžija on one occasion stood up in a public Bulldozer meeting to call Prime Minister Terzić a comedian for having worn a construction hat in front of a Bulldozer. Within the Ministry of Foreign Trade and Economic Relations, a

Bulldozer reform dealing with delivery of export certificates was met with resentment from the technical staff, who felt the demanded policy change was placing in question the quality of their work. One of the ways the Bulldozer overcame such criticism was through targeted public awareness campaigns, which exposed facts and figures about every issue opposed by the vested interests, hence enrolling the public in the debate.

Natural skeptics from both the local and international communities refused to believe that a bottom-up process could significantly impact the economy, and doubted that 50 economic reforms could be completed in 150 days. They disregarded the process as a true “bottom-up” one because it had been ignited by the OHR, a third party. Once the reforms were actually enacted, they argued that implementation would fail. These critics also argued that the micro nature of the reforms would have no real impact on the economy and was diverting attention from long-term processes. While it is true that the Bulldozer did not intend to make structural reforms, the dynamic for reform that it created must not be underestimated as a major factor that will facilitate such wide-reaching reforms. And while it is true that the High Representative was an unusually powerful matchmaker between the government and the private sector, the process did transform into a locally owned initiative, proving that the energy was present and had only to be unleashed.

Other critics, primarily from international agencies, raised concern when the Bulldozer process started to tackle issues that clearly went out of the scope of the “micro-reforms” it had intended to process. When there were synergies between the development policies of the international agencies and the policy choices of the business community, donors were happy to use the Bulldozer as a platform to voice their concern with the government. In the case of Bulldozer Phase I Reform number 23, which addresses moving the point of collection for excisable tax, the OHR and IMF were happy to have the impetus come from local businesses, although this had long been an IMF policy objective. But this willingness to let the Bulldozer process lead structural policies was limited to the extent it promoted the International Community’s own agenda and priorities. A semi-crisis occurred, for instance, with Bulldozer Phase II Reform number 17, when the Bulldozer Committee on Agriculture decided to request an export ban on raw logs, until a new forestry certification mechanism would enable the export of wood while preserving both the local industry and the BiH ecosystem. Agreeing with the reform goal, which it had identified through consultations with the private sector, the World Bank opposed the approach of an export ban, as it contradicted its longer-term policy choice expressed in a Bank-funded multi-year forestry program. But despite this opposition, entrepreneurs decided to go for the quick solution of the ban and the reform was voted through as the international agencies no longer had veto power in the Plenary Sessions. Whether the government will decide to enact it or not remains to be seen.

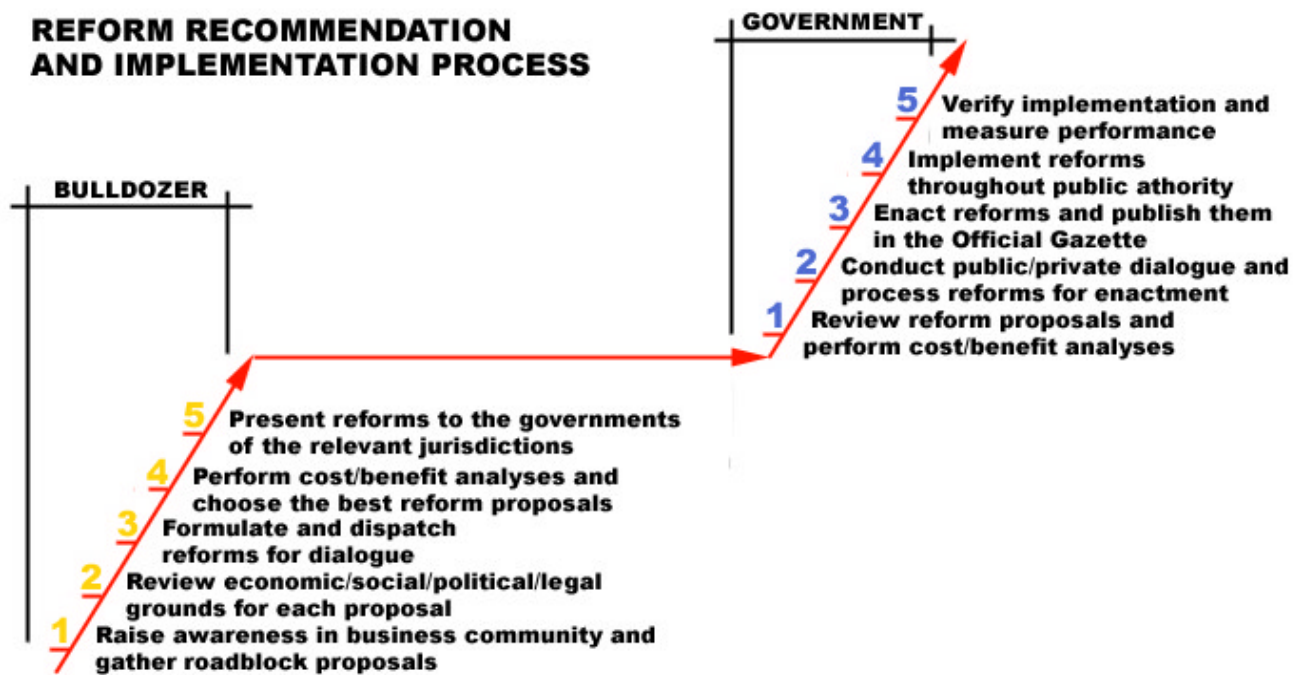
This example illustrates the limits of the Bulldozer process. Even if it is sponsored by international agencies, such a process will always remain private sector driven in its approach and in the recommendations it makes. Whether the international agencies can live with the results is another question. But it must be borne in mind that such disagreements are the sign of a healthy democratic process. After all, one cannot wish to have a vibrant private sector advocacy process and at the same time expect it to remain on the sidelines, applauding politely every move made by internationals.

#### **4b- Benchmarks and implementation measurement tools**

Whatever solutions citizens and entrepreneurs propose to change things, ultimate responsibility still lies within the government. The Bulldozer Committee initiates and lobbies for reforms. The government is accountable for enacting them. And once the reforms have been published in the Official Gazette, responsibility for implementing them falls to the governments. Still, Committee members monitor implementation and discuss individual reforms with Ministers and departmental working groups.

Designing and implementing Bulldozer reforms is a process that can usefully be divided into 10 steps -- five are the responsibility of the Bulldozer Committee, and five are the responsibility of the government.

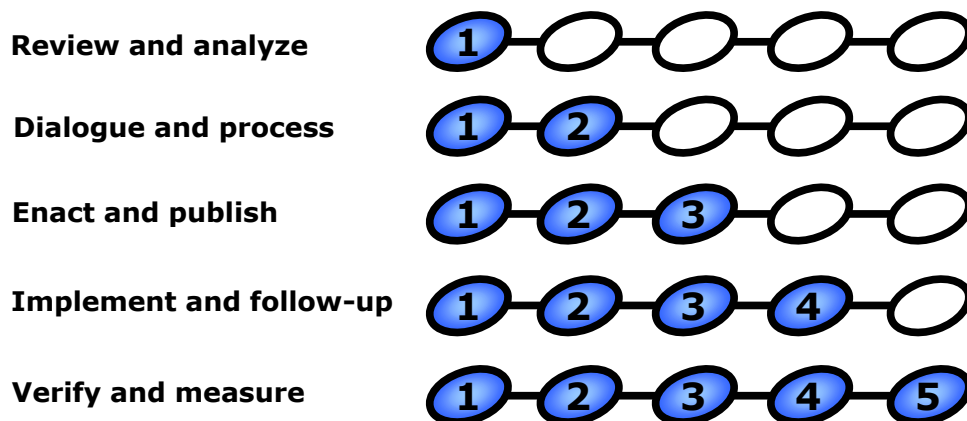
Figure 8: Ten steps from conception to implementation



Each step must be taken before the next one is attempted. This means that once a reform package has been handed over to the authorities, it is relatively easy to measure the government implementation performance on a scale of one to five.

The score from 1 to 5 indicates how far the government got in the review and implementation process.

Figure 9: Scoring the government implementation performance



Once reforms have been designed, the Bulldozer Committee's role becomes that of a reform implementation watchdog. A bi-annual Bulldozer publication informs the public in this regard. The relevant government body receives a score for each reform that was proposed during the initiative. The message sent to the population – and the government itself – is that simply enacting a reform is not enough – the process must be taken through to full implementation if it is to deliver practical benefits.

This process has to be moved forward in a deliberate and systematic way. The Emergency Reform Units, located in the Prime Ministers' offices, make sure that reforms are properly discussed, enacted in a timely fashion and implemented efficiently.

**Box 2: A “slow result” reform:  
Creating a State Drug Agency**

Reform **number 24** of Bulldozer Phase I was finalized by a commitment of the State authorities to create a State Drug Agency. This commitment was published in the BiH Official Gazette, but it was only a first step. Following that, legislation had to be drafted in cooperation with government and industry representatives. Next, the legislation will have to be finalized and adopted. Then, the Ministry of Health will have to create the Statute of the Agency. Its financing will have to be included in the annual BiH budget. Following that, the first employees of the Agency will be hired. Only after a full year of phased implementation, will it be possible to register medicines at this single point for the whole of BiH, thus ensuring the safety of citizens, enabling exports and ensuring implementation of a single BiH economic space for the industry.

A reform can be considered fully implemented only when citizens and entrepreneurs begin to benefit from it. But the speed at which reforms are implemented also depends on the types of reform themselves. Some reforms have an immediate impact. These “fast result” reforms start to deliver benefits almost as soon as they are published in the Official Gazette. Some other reforms take effect little by little. The impact of these “slow results” reforms is more difficult to assess since as much as two years might pass between adoption of the reform and its full implementation.

**Box 3: A “fast result”  
reform: The bomb shelter  
fee.**

Reform **number 07** of Bulldozer Phase I demanded cancellation of article 179 of the FBiH Law on Defense, which required two percent of the value of commercial construction to go to municipalities for the maintenance of a bomb shelter. The Official Gazette decree was applicable immediately. This is a Fast Result reform because from the day of its publication, nothing else was needed but to show the municipal clerk the copy of the official gazette to register a building permit without being charged the two-percent fee.

However sometimes, results can begin to show right away. For instance investors, knowing that a reform is in the pipeline, may decide to speed up investment in order to be operational when the reform is fully implemented.

## 5- Assessment of impact

In its ongoing reform efforts, the Bulldozer Committee seeks optimal paths to stimulate growth while reducing poverty. In that regard, impact assessment is a key means of setting future reform priorities, improving the dialogue process and increasing both the quality and the “implementability” of the proposed reforms. Through indicators and benchmarks developed during Phase II, teams involved with the initiative assessed results of Phase I while planning and managing the consequences of reform choices. Key questions they had to answer were: Did the reform reach their goals? Did the ultimate beneficiary benefit from the reform? How do Bulldozer reforms facilitate sustainable development? What is the reform's influence on civil society at large? Do the reforms correspond to the country's own reform process, and do they help align the country's reform process with the agenda of international agencies?

### 5a- Impact on investment climate

All reforms processed through the Bulldozer Committee aim at improving the business climate of the country, according to at least one of six “business climate improvement indicators”, which the Bulldozer Committee defines as follows:

- ☒ Create more jobs
- ☒ Bring more tax revenue to the authorities
- ☒ Free up capital for investment
- ☒ Boost exports
- ☒ Reduce the administrative burden
- ☒ Reduce the gray economy

For every reform it is important to measure and quantify the results in each of these categories. If there is a quantifiable result for at least one category, then it can be said that the reform has been beneficial. However, the reforms being relatively recent, the data are not yet readily available for

all of them. Such results measurement was attempted for the 50 economic reforms achieved under Bulldozer Phase I and is to be published in early March 2004 in a public information brochure. **Annex 3** shows how quantifiable results for three different reforms of Bulldozer Phase I are communicated to the public.

Overall, some Bulldozer reforms can be said to have achieved their goal: they have had a positive impact on the economy. But it is early to tell, and no systematic data gathering campaign has been so far organized to measure the impact. The reforms themselves have, in their respective sectors, improved business conditions, as shown in the 12 examples in Table 7. This assessment can only be made for Phase I reforms, which were enacted in April 2003.

**Table 7: Impact on investment climate of selected Phase I reforms**

<p><i>"R01 Harmonization of LLC Minimum Capital Requirement"</i></p> <p>has lowered the amount needed to create a limited liability company from as much as 10,000 KM to 2,000 KM in all jurisdictions. Subsequently, numbers of companies being registered have increased in many locations, especially regarding conversion of home-based activities to limited liability companies. The reform also lowered the minimum share from as much as 2,000 KM to 100 KM, now enabling up to 20 small investors with 100 KM each to start up a business. In Tuzla Canton, registration of LLC have increased 27% after the reform as compared to the previous year.</p>	POTENTIAL OUTCOME ↕	<input checked="" type="checkbox"/> Create more jobs <input checked="" type="checkbox"/> Bring more tax revenue to the authorities <input checked="" type="checkbox"/> Free up capital for investment <input type="checkbox"/> Boost exports <input type="checkbox"/> Reduce the administrative burden <input checked="" type="checkbox"/> Reduce the gray economy
<p><i>"R06 Removing mandatory fee for shelter in FBiH"</i></p> <p>has deleted a clause in the FBiH Defense Law that obliged investors to pay a 2% fee on the value of the construction of business premises to maintain municipal bomb shelters that were virtually inexistent. The reform has enabled investors to increase their return on investment on commercial construction of 2%. It also deleted the incentive for investors not to declare constructions, thus reducing the gray market. For a mid-size Canton, if an average of 50 commercial building permits are delivered per month for an average construction value of 30,000 KM, the reform has potentially liberated a capital of 360,000 KM per year that can be directly invested by entrepreneurs.</p>	POTENTIAL OUTCOME ↕	<input type="checkbox"/> Create more jobs <input type="checkbox"/> Bring more tax revenue to the authorities <input checked="" type="checkbox"/> Free up capital for investment <input type="checkbox"/> Boost exports <input type="checkbox"/> Reduce the administrative burden <input checked="" type="checkbox"/> Reduce the gray economy
<p><i>"R20 Statewide amendments to provisions on training and volunteer labor"</i></p> <p>has enabled internships to take place in the public service by amending articles in the Labor Laws of three jurisdictions, thus providing a new large pre-job market for the youth population and encouraging their interest in government work. No numerical impact has been measured yet, but universities have started to inform students about the change.</p>	POTENTIAL OUTCOME ↕	<input checked="" type="checkbox"/> Create more jobs <input type="checkbox"/> Bring more tax revenue to the authorities <input type="checkbox"/> Free up capital for investment <input type="checkbox"/> Boost exports <input type="checkbox"/> Reduce the administrative burden <input type="checkbox"/> Reduce the gray economy
<p><i>"R21 Harmonize pre-conditions for Bar exam across BiH to ensure equal opportunity in access to market"</i></p> <p>has brought down from 4 to 2 years the period young lawyers have to train before being able to open their own law firm. The 2 year period was already in use in one jurisdiction. The other one was requesting 4 years of training, while the Bars of the jurisdictions are reciprocal. The reform has enabled half the lawyers of BiH to gain 2 years in their time-to-market after passing the Bar. The numerical impact on the GDP cannot be measured yet but still, accessing the job market two years earlier means being able to be employed, paying tax or even opening new firms 2 years earlier, translating into more tax and more jobs.</p>	POTENTIAL OUTCOME ↕	<input checked="" type="checkbox"/> Create more jobs <input checked="" type="checkbox"/> Bring more tax revenue to the authorities <input checked="" type="checkbox"/> Free up capital for investment <input type="checkbox"/> Boost exports <input type="checkbox"/> Reduce the administrative burden <input type="checkbox"/> Reduce the gray economy

<p><i>"R23 Principles on Moving Sales Tax Point of Collection"</i></p> <p>has moved the point of collection of sales tax for excisable goods from point of sales to point of import or production. Full implementation started on August 1<sup>st</sup> 2003, only three months after the adoption of the bulldozer reform by all jurisdictions. Increase in tax revenues jumped immediately following the change. In the RS, revenue collection went from an average 6.8 million KM per month before the reform to an average 12.9 million KM per month after (a 89% increase). In the Federation, the increase, slightly lower due to cantonal discrepancies, still represents a 45% increase in tax revenues for the Entity's budget.</p>	POTENTIAL OUTCOME ↕ ↕	<input type="checkbox"/> Create more jobs <input checked="" type="checkbox"/> Bring more tax revenue to the authorities <input type="checkbox"/> Free up capital for investment <input type="checkbox"/> Boost exports <input checked="" type="checkbox"/> Reduce the administrative burden <input checked="" type="checkbox"/> Reduce the gray economy
<p><i>"R25 Reducing import cost and delays relating to phyto-sanitary certificate"</i></p> <p>has reduced the number of days the cotton imported from the EU is held at the BiH border crossing for administrative verification from 5 days to 1. Cotton is needed to process thread, which is then exported back to the EU with an important added value. Depending on the volume of cotton each day lost at the border can have a cost of 10,000 to 50,000 KM. The reform created as much savings for those textile companies. They can also respond faster on large orders, thus ensuring sound relationships with their clients and sustaining export levels.</p>	POTENTIAL OUTCOME ↕ ↕	<input type="checkbox"/> Create more jobs <input type="checkbox"/> Bring more tax revenue to the authorities <input checked="" type="checkbox"/> Free up capital for investment <input checked="" type="checkbox"/> Boost exports <input checked="" type="checkbox"/> Reduce the administrative burden <input type="checkbox"/> Reduce the gray economy
<p><i>"R28 Removing need for registration of foreign representative office in both entities"</i></p> <p>has enabled international companies to set up their preliminary office in BiH by registering in a single location instead of three, thus greatly reducing the barrier of entry as well as giving a positive image of a unified country. Such result is not measurable with numbers. However in terms of time, the savings represents approximately 10 days per registration.</p>	POTENTIAL OUTCOME ↕ ↕	<input type="checkbox"/> Create more jobs <input type="checkbox"/> Bring more tax revenue to the authorities <input type="checkbox"/> Free up capital for investment <input type="checkbox"/> Boost exports <input checked="" type="checkbox"/> Reduce the administrative burden <input type="checkbox"/> Reduce the gray economy
<p><i>"R30 Simplifying registration procedure of foreign direct investments in RS"</i></p> <p>has reduced the number of steps required to register foreign direct investment by half. Now instead of the foreign investor to register his investment in different places, as required by law, the burden is passed on to one Ministry only, which in turn internally reroutes the registration to other ones. Without fundamentally changing the registration system, it allows much better conditions for FDI. However it is unlikely that the reform by itself will increase FDI. But still, it facilitates its entry into BiH.</p>	POTENTIAL OUTCOME ↕ ↕	<input type="checkbox"/> Create more jobs <input checked="" type="checkbox"/> Bring more tax revenue to the authorities <input checked="" type="checkbox"/> Free up capital for investment <input type="checkbox"/> Boost exports <input checked="" type="checkbox"/> Reduce the administrative burden <input type="checkbox"/> Reduce the gray economy
<p><i>"R34 Transform FBiH Chambers Membership from Compulsory to Voluntary"</i></p> <p>has replaced the obligatory membership fee to Chambers with a voluntary one. Some Chambers requested as much as 1% of the yearly turnover of companies in their jurisdiction. The reform has enabled investors to free up that important capital for internal investments rather than funding outdated Chambers providing poor (if any) business services. The voluntary fee has sent a clear signal to Chambers who have now started to reform themselves to attract companies to pay the voluntary fee.</p>	POTENTIAL OUTCOME ↕ ↕	<input type="checkbox"/> Create more jobs <input type="checkbox"/> Bring more tax revenue to the authorities <input checked="" type="checkbox"/> Free up capital for investment <input type="checkbox"/> Boost exports <input checked="" type="checkbox"/> Reduce the administrative burden <input type="checkbox"/> Reduce the gray economy

<p><i>"R33 Enabling company de-registration in Brcko"</i></p> <p>has permitted judges to de-register fictitious companies without the signature of the initial registrant (which obviously cannot be obtained since the companies are fictitious), thus significantly helping reduce the gray economy.</p>	<p>POTENTIAL OUTCOME</p> <p>→</p> <p>→</p>	<p><input type="checkbox"/> Create more jobs</p> <p><input type="checkbox"/> Bring more tax revenue to the authorities</p> <p><input type="checkbox"/> Free up capital for investment</p> <p><input type="checkbox"/> Boost exports</p> <p><input type="checkbox"/> Reduce the administrative burden</p> <p><input checked="" type="checkbox"/> Reduce the gray economy</p>
<p><i>"R43 Easing collateral transferability"</i></p> <p>has given the opportunity to banks to resell packages of loans to other banks. So far since the implementation of this reform, 327 commercial and consumer loans with a total face value of approximately KM 90 million have been sold in BiH, involving at least four commercial banks in the process.</p>	<p>POTENTIAL OUTCOME</p> <p>→</p> <p>→</p>	<p><input type="checkbox"/> Create more jobs</p> <p><input checked="" type="checkbox"/> Bring more tax revenue to the authorities</p> <p><input checked="" type="checkbox"/> Free up capital for investment</p> <p><input type="checkbox"/> Boost exports</p> <p><input type="checkbox"/> Reduce the administrative burden</p> <p><input type="checkbox"/> Reduce the gray economy</p>
<p><i>"R47 Liberalization of Inter Entity Transport Regulations for Helping Refugee Return Transportation"</i></p> <p>has permitted a number of refugees in hard-to-reach communities to create bus services with 8+1 passenger vans, thus enabling other refugees to reach urban areas while developing a new public transportation activity. While at least five such companies are known to have registered in one area, a systematic survey is now taking place to quantify the result throughout the jurisdictions.</p>	<p>POTENTIAL OUTCOME</p> <p>→</p> <p>→</p>	<p><input checked="" type="checkbox"/> Create more jobs</p> <p><input checked="" type="checkbox"/> Bring more tax revenue to the authorities</p> <p><input type="checkbox"/> Free up capital for investment</p> <p><input type="checkbox"/> Boost exports</p> <p><input type="checkbox"/> Reduce the administrative burden</p> <p><input checked="" type="checkbox"/> Reduce the gray economy</p>

But more than the specific result achieved by each individual reform, the largest impact on the investment climate is the fact that those reforms were passed as a package, pushed by the private sector itself, and that they received a positive response from the government, thus creating a constructive dialogue between the private and the public sectors.

The initiative succeeded in shifting the mindset of many entrepreneurs. For instance "Horizonte", one of the main Austrian investment funds, had decided to stop investing in BiH because of the intensely bureaucratic behavior of the authorities and problems linked to corruption. After two years of dormant operations, they decided to reopen the fund because they considered the Bulldozer a positive indicator of improvement of the business climate.

The Austrian bank HVB, which participated in the Bulldozer Initiative by submitting two of the selected first 50 reforms, decided to carry out the acquisition of National Profit Banka, more than doubling its presence in BiH by doing so. In his first speech marking the acquisition, the head of HVB mentioned the important role of the Bulldozer process in forming the Austrian headquarters' view of the business environment of BiH.

At the South East Europe Investment Conference, the BiH Foreign Investment Promotion Agency (FIPA) listed the Bulldozer Initiative as the number one factor of economic stability, noting that it helped create the "fastest improvement of business climate in Southeastern Europe"<sup>3</sup>.

Such examples, among many others, demonstrate a sure, if not measurable, improvement of the perception people now have of the country, and show how Bulldozer was key in shifting mindsets. But its reach, in fact, goes well beyond investment climate per se.

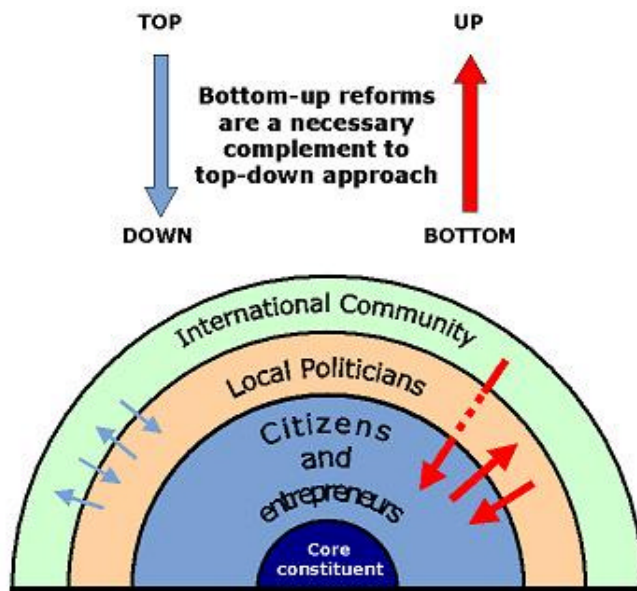
<sup>3</sup> FIPA presentation, Zurich, September 4 2003

## 5b- Impact on civil society: bridging the constituency gap

According to the International Crisis Group, the Bulldozer Initiative has “create[d] an alternative constituency for reform, [which does] not rely just upon the national parties”.<sup>4</sup>

In post-conflict situations, international institutions or third party countries often take the lead in establishing macroeconomic stability, promoting the rule of law, developing the private sector and building institutional capacity. The natural partner of the internationals for these activities is the local political leadership. This political layer often faces great legitimacy challenges, being either inherited from former systems, or facing strong skepticism by local constituents. Fighting for their own survival, local politicians quickly understand the give-and-take relationship with donors and financial institutions, who are in turn satisfied with the consensual agreement and “good will” of the local political layer. Clearly forgotten, the constituencies are not taken into account in the dialogue for reform, and fail to understand the benefits of structural (and therefore painful) changes that the country needs to go through on its way to economic recovery and political stability. If not cared for, the “constituency gap” can promptly lead to social unrest, or at least lack of support for reform and disillusion with the benefits of peace. In Bosnia and Herzegovina, the Bulldozer Initiative has succeeded not only in introducing important reforms but also in bridging the constituency gap by empowering and training local groups to advocate change, and in establishing sustainable democratic mechanisms for civic participation in government. By breaking through political and ethnic barriers, it has created a coherent and sustainable link through a new democratic dynamic.

**Figure 10: Bridging the constituency gap by reaching directly to the core constituent**



## 5c- Alignment of the reform process with international framework efforts

It is very important to put the reforms pushed by the Bulldozer Initiative in the perspective of framework efforts that continue to achieve more systemic improvements.

Because the filtering mechanism during the reform selection process involved the International Community and because of the governmental scrutiny through the Emergency Reform Units, the Bulldozer changes have been mainly aligned with the reforms promoted in the country's development strategy (expressed through the World Bank-sponsored Poverty Reduction Strategy Plan for BiH) and in the International Community's agenda (as expressed by the Peace Implementation Council Steering Board of the OHR). In fact, the Bulldozer Initiative is mentioned in the strategy documents of the government and several international institutions.

In its Development Strategy for BiH, the PRSP highlights the positive role that the Bulldozer Initiative has played. In the section Enhancing Business Climate to Attract Domestic and Foreign Investment, the document reads that “despite the fact that the Bulldozer committee owes its existence to a situation in which the private sector is able to influence governments, the work of the committee has given good results and led to improvement of the business climate in some

<sup>4</sup> Agence France Presse (AFP), Friday, July 04, 2003

sectors. Activities of the Bulldozer Committee go along with the PRSP agenda and are a support to preparation of midterm Developmental Strategy BiH – PRSP.”<sup>5</sup>

Illustrating the growing private sector influence on governments the Development Strategy BiH – PRSP points to “the Bulldozer Committee, which has had the biggest influence on the governments so far. Even before the creation of the Bulldozer Committee, the private sector had asked for the adoption of the same reform measures that have eventually been instigated by this Committee. However, it was only due to the OHR’s creation of the Bulldozer Committee that governments have been pressured to take suggested measures into consideration.”<sup>6</sup>

The World Bank Foreign Investment Advisory Service (FIAS) produced a report on BiH in 2001. According to Jacqueline Coolidge, who led the reporting effort, the Bulldozer “managed to actually implement some of the reforms recommended in the FIAS report, that would have otherwise been left unattended by the governments”<sup>7</sup>. FIAS contributed to the Bulldozer initiative by recommending a stronger involvement of the public sector, which later on translated into the creation of the Emergency Reform Units at the government level. A good cooperation with the World Bank ensured also that the Bulldozer reforms fitted into the Bank’s Business Adjustment Credit that aimed at improving the business environment through structural reforms.

Mr. Javier Solana, EU High Representative for the Common Foreign and Security Policy (CFSP), noted the goodwill that the Bulldozer Initiative created within the government by declaring that “Prime Minister Terzić’s government has played an important role in pushing through the 50 “Bulldozer” microeconomic reforms earlier this year – reforms that will make it easier for entrepreneurs and investors to create new jobs”.<sup>8</sup>

The European Bank for Reconstruction and Development (EBRD) underlined in its 2003 Strategy Paper for Bosnia and Herzegovina that the key issue for the authorities was to push for a single economic space, and that “the bulldozer committee, represent[ed] a significant progress in that regard”.<sup>9</sup>

In its Stabilization and Association Report of 2003, the European Commission noted that “the [Bulldozer] initiative is welcome on several counts: it concentrates on practical concerns and should thus raise less political opposition and it has arguably built civil society by encouraging citizens to lobby in favor of issues which concern them.”<sup>10</sup> As such, it has been one of the factors taken into account in the Commission’s approval of Bosnia and Herzegovina’s Feasibility Study in November 2003.

Lastly, the Organization for Economic Co-Operation and Development (OECD) in its Enterprise Policy Performance Assessment of 2003 for Bosnia and Herzegovina, described the Bulldozer reform process, noting that it represented a turning point for policy reform for the country.<sup>11</sup>

These citations by representatives or from reports of international agencies illustrate how alignment of the process was recognized. Indeed, the Bulldozer process took place in the context of many other initiatives led by various agencies, and it was *aligned* with their agendas. Alignment is an important factor to consider, as such initiative is not meant to take place in a vacuum or replace all other reform efforts but rather to give a supplementary impetus to larger agendas.

## 6- Applicability of the process to different settings

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<sup>5</sup> Development Strategy BiH – PRSP Second Draft for Public Discussion, December 2003

<sup>6</sup> Development Strategy BiH – PRSP Second Draft for Public Discussion, December 2003

<sup>7</sup> Meeting between FIAS and Bulldozer members, 2003

<sup>8</sup> Interview with Javier Solana published by Dnevni Avaz (BiH), 24/09/2003

<sup>9</sup> The European Bank for Reconstruction and Development (EBRD), Strategy for Bosnia and Herzegovina, 29 April 2003.

<sup>10</sup> European Commission Stabilization and Association Report for Bosnia and Herzegovina, 26 March 2003

<sup>11</sup> Stability Pact; South East Europe Compact For Reform, Investment, Integrity And Growth; Bosnia And Herzegovina Enterprise Policy Performance Assessment; Prepared by the Organisation for Economic Co-Operation and Development and the European Bank for Reconstruction and Development; September 2003

The Bulldozer method obtained positive results in Bosnia Herzegovina, but can it be replicated elsewhere? The situation of BiH is surely unique due to the presence of a High Representative. However, Bosnia is not the only country where such an initiative has taken place.

### **6a- The Bulldozer and other “Competitiveness Partnerships”**

Similar processes have been started in Nigeria, with the “Better Business Initiative”, in Turkey, with the “Reform Program for the Improvement of the Investment Environment” and in Vietnam, with the “Vietnam Business Forum”. These initiatives are described in more detail below.

Many public/private advisory mechanisms have also been initiated through NGOs across the world for decades. When targeted at improving the investment climate through concrete recommendations that enlist citizens in a country-wide or sector-wide movement, their intent and process are very closely related to those of the Bulldozer Initiative.

Such may also be the case of Ghana’s Investors’ Advisory Council (GIAC) started in May 2002, followed by Tanzania’s Investors’ Round Table (IRT) in July and Senegal’s Presidential Investors’ Council (PIC) in November. The role of these councils is to promote dialogue between the government and senior executives of local and international companies on ways to improve the investment climate. As envisaged, the councils will identify obstacles to investment and focus on a limited number of issues, to generate concrete recommendations for action and/or further analysis. It is hoped that the councils will reinforce implementation of ongoing policy reforms, by providing feedback and an international investors’ perspective on a country’s efforts to become a sought-after location for investment. Benin, Burkina Faso, Cameroon, Madagascar, and Uganda are also among other African countries that have expressed interest in launching their own investor councils.<sup>12</sup>

Such initiatives, that successfully overcome the lack of political will and/or capacity at the government level or within the private sector through a similar approach, could be described as “Competitiveness Partnerships”.

Complementing the systemic approach and framework reform efforts of governments and international agencies, Competitiveness Partnerships mobilize the local business community to identify concrete legislative changes, advocate for their adoption and follow-up on reform implementation. By going the last mile in delivering concrete, quantifiable results across the full spectrum of private sector development indicators, Competitiveness Partnerships are establishing a renewed reform dynamic through government-backed public-private partnerships.

### **6b- It takes three to tango**

A Competitiveness Partnership could be applied in a country with three key actors in place: the private sector, a potentially responsive government, and last but not least, a sponsor. Assessing the applicability of Competitiveness Partnerships amounts to assessing the readiness of those actors to interact.

#### The private sector

- The private sector needs to feel a *basic sense of security*, and *have a stake in reform*. Entrepreneurs who face threats to life or limb are unlikely to start voicing their business concerns, either because it is not a vital priority for them and their families, or because doing so could put them in great danger. However, if the security situation is stabilized, then they will have a greater interest in improving the conditions in which they do business.
- It needs to be somehow *organized*, with some entrepreneurs able to provide *leadership*. A country with no business advocates whatsoever will be hard to mobilize. But if the country is already hosting, even disparately, some entrepreneur networks, business

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<sup>12</sup> Investor councils examples are cited from Jacqueline Irving’s “Investors Councils: Status report as of April 2003”, IMF, 2003

associations, sector representatives, chambers of commerce, etc. then Competitiveness Partnerships will be able to gather and redirect that existing energy. The presence of highly regarded entrepreneurs will also facilitate the process.

#### The government

- Once the process has been initiated by the entrepreneurs, it will collapse if there is no *political will* to engage in dialogue. Therefore a *responsive government* is key to the success or failure of Competitiveness Partnerships. Political will is likely to grow with time, as the benefits of engaging in dialogue with constituencies becomes evident to local politicians. It will, however, need to be jump-started in some cases by the sponsor.
- *Capacity* is key, as lack of capacity will result in failure of reform implementation. In countries with zero capacity in government, Competitiveness Partnerships would be inappropriate, since entrepreneurs would be quickly disappointed by the fact that none of the reforms they propose are implementable.
- Lastly, government *leadership* is essential. Strong leadership from a strategic visionary head of the executive will often make up for other shortcomings, such as low capacity or general lack of free thinking in the administration.

#### The sponsor

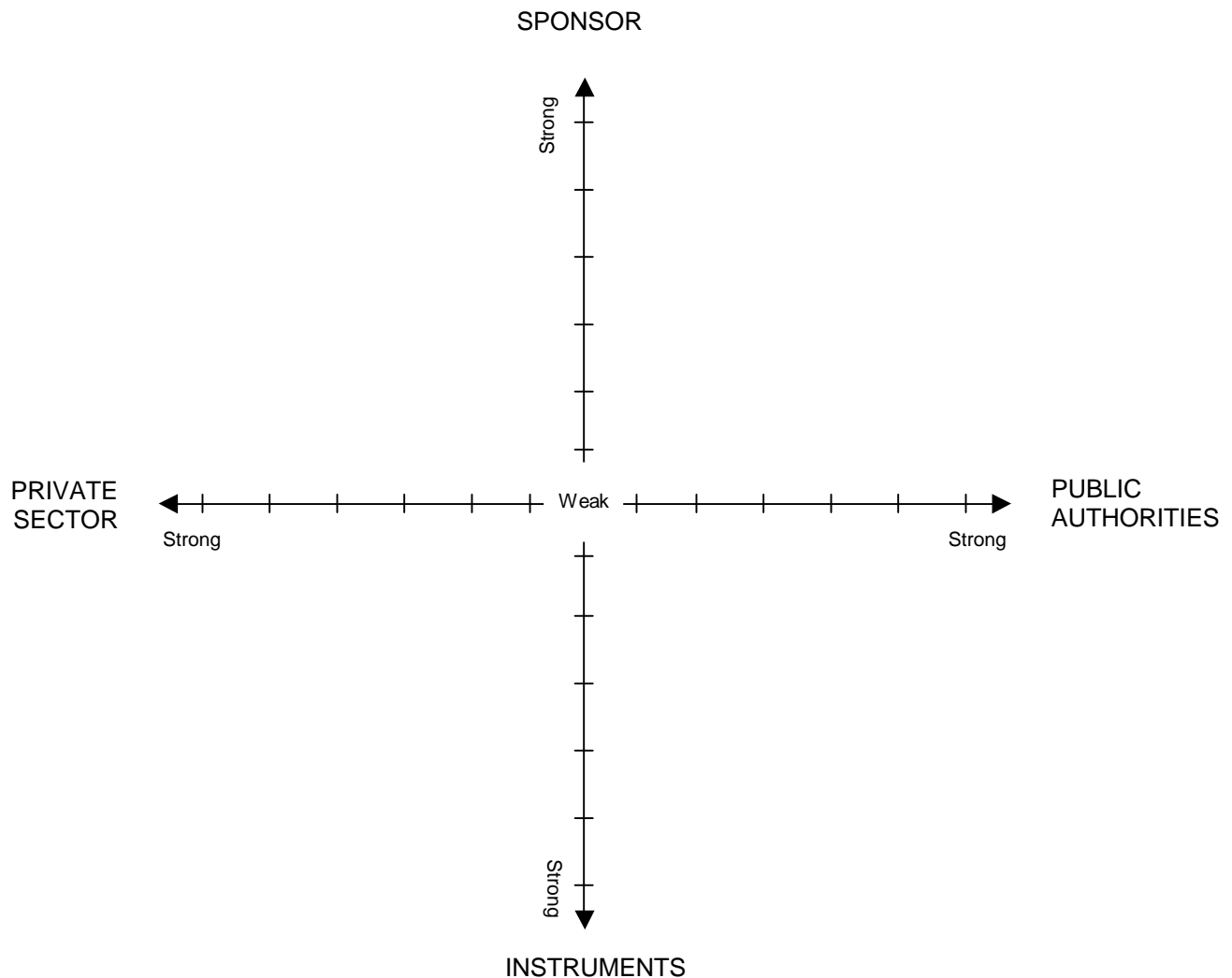
- The sponsor needs to be able to act as a middleman between the two first actors. Therefore the most important sponsor's criteria is *strong credibility* with both actors. In the case of Bosnia, the High Representative played this role. In other countries the credibility could come from the fact that the sponsor represents an alternative to the existing or former system. The International Community could play this role through its agencies. A mentor country, such as France in some francophone African countries or the UK in the commonwealth, could also be a Competitiveness Partnership sponsor. In Central and Eastern Europe, the EC should also be able to play this role. Credibility comes often from either a “carrot” such as donations and loans to the government’s budget, or a “stick” such as the power to influence local politics or control foreign direct investments in a specific economy. But the sponsor can also be a well-respected personality by both the private sector and the government, such as in the case of the “Competitiveness Initiative” in Nigeria.
- An important condition that the sponsor needs to fill is to have the appropriate *expertise*. Indeed, bottom-up economic reforms need to be coordinated with framework efforts, and the sponsor needs to have the appropriate experts and contacts at hand to oversee the process at first. Only with that expertise will the sponsor be able to *move the lobbying process forward*.
- The sponsor needs to be able to *get media attention* and be complemented by instruments provided either by the sponsor or by others. These instruments can be *logistical facilities*, *seed funds* for starting the initiative until further funding becomes available, *budget allocation* from bilateral embassies, *programmatic loans*, etc..

### **6-c Assessing Competitiveness Partnerships applicability**

The three actors, together with the instruments, can be mapped out for each context in order to start an assessment of the pertinence of Competitiveness Partnerships for a specific country. This exercise is not intended to be exhaustive. Rather it aims to provide a tool that will start a debate on the selection of the best possible reform process for a given case.

Each of the four Competitiveness Partnerships dimensions is represented in the diagram below. For a given country, the sponsor, the public authorities, the private sector, and the availability of instruments are evaluated from weak to strong. By joining the four dots together, a polygon is obtained, which illustrates strengths and weaknesses of a specific context.

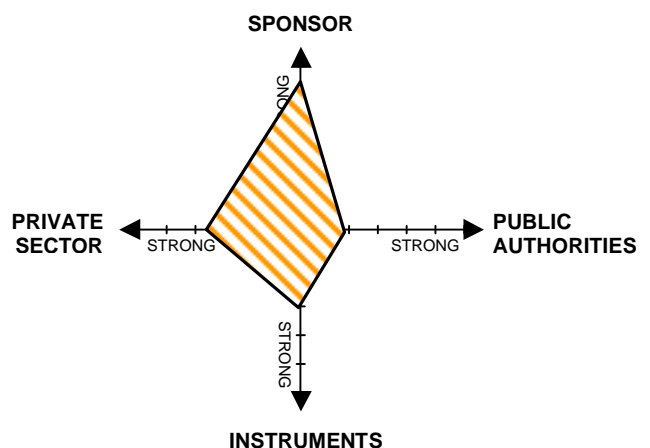
**Figure 11: The four dimensions of Competitiveness Partnerships**



The weakness of one of the dimensions has to be counterbalanced by corresponding strength in at least one of the others for Competitiveness Partnerships to apply. If all four dimensions are weak, there is a poor chance of applicability. Two dimensions at the minimum need to be strong, as shown in the four examples below.

In the Bosnian case, the Office of the High Representative was a strong sponsor, together with the IMF, the World Bank, USAID and the EC. Each of these organizations play a crucial role in the country, and counterbalanced a weak political will and a low-capacity government. Instruments were provided by the OHR (hosting of the Bulldozer Coordination Unit and seed funding) and by bilateral embassies (financing).

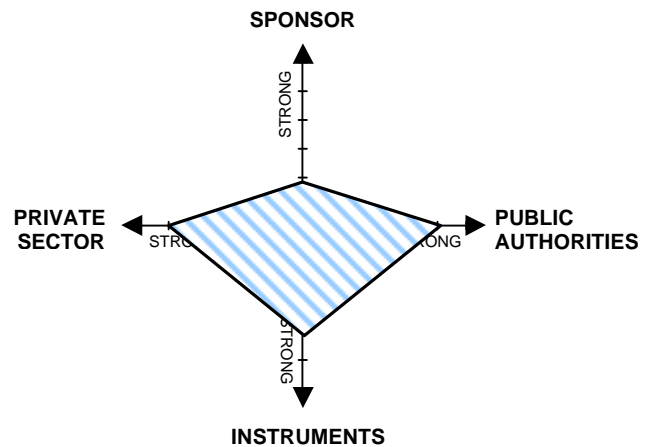
**Figure 12: Comp. Partnership in BOSNIA AND HERZEGOVINA**



In Turkey, the “Reform Program for the Improvement of the Investment Environment” is driven by a strong political will from the government and by a responsive and vibrant private sector. The World Bank serves as a partner rather than a sponsor.

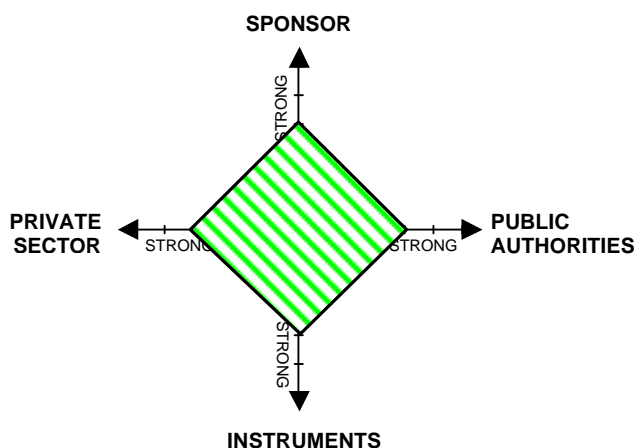
Launched in 2001, the process aims at changing the existing business environment in a comprehensive fashion<sup>13</sup>. The government recognized early on that a productive collaboration between the public and the private sector was key in this process to ensure that policy reforms truly reflected and addressed private sector concerns. Intensive and direct involvement of companies and investors in this process has been realized through the Coordination Committee for the Improvement of the Investment Environment (CCIIE), which has been set up as a partnership between government bureaus and private sector representatives. Through 11 technical committees, it defines the reform program, executes it, and determines the business program calendar and final completion deadlines. Driven by a strong political will, this process ensures a firm linkage between the “micro” needs of the entrepreneurs and the “macro” policy of the government. The World Bank plays an important role as the reform program directly derives from the FIAS recommendations, thus ensuring a connection between diagnosis and implementation. By reaching out to the direct beneficiaries (the private sector) and involving the highest government officials, this government-driven Competitiveness Partnership overcame the absence of a constituent with a strong and clear mandate that could carry out effective investment promotion functions such as investor servicing, investment generation and policy advocacy.

**Figure 13: Competitiveness Partnership in TURKEY**



In Vietnam, the “Vietnam Business Forum” is now a well balanced process. The IFC and the World Bank have served as sponsors and have provided instruments such as technical assistance and hosting. The public authorities are responsive and the private sector is now well engaged in advocacy.

**Figure 14: Competitiveness Partnership in VIETNAM**



Launched in 1998, the forum aim is to “improve the business environment, to stimulate economic development in Vietnam and to increase employment and improve people’s lives”<sup>14</sup>. Entering its sixth year of operation, the Forum has succeeded in creating a formal dialogue between the government and the private sector, both foreign and domestic. Its achievements in domains such as tax, licensing, labor and administrative reforms have derived from a strong partnership and direct

<sup>13</sup> Information on the “Reform Program for the Improvement of the Investment Environment” is derived from presentations and reports issued in 2003 by the Coordination Council for the Improvement of the Investment Environment CCIIE and by Gokhan Akinci who coordinated the program for the World Bank.

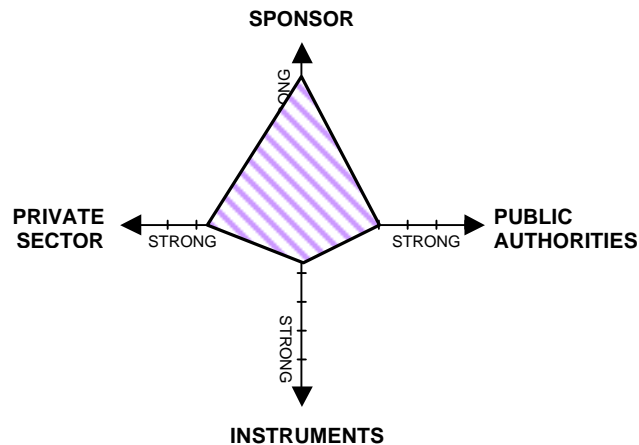
<sup>14</sup> This quote and other information on the Vietnam Business Forum originate from the VBF activity report 2003, the VBF Website at [www.vietnambusinessforum.org](http://www.vietnambusinessforum.org) and the Socio-Economic Situation In 2003 and tasks for 2004, Government report, Presented by Deputy Prime Minister Nguyen Tan Dung at the Fourth Session of the Eleventh Vietnam National Assembly Legislature on October 21, 2003.

linkage between four main parties that are the Vietnamese and international private sector, the donor countries, multilateral institutions such as the World Bank, who played the most important role as a facilitator, and the Vietnamese Government through the Ministry of Planning and Investment. It functions through an Executive Committee, composed of the IFC the World Bank, and private sector representatives. Business Groups and Working Groups tackle specific areas and make recommendations or provide assistance to the government for policy setting or specific reform targets.

In Nigeria, the “Better Business Initiative” functions in the context of a lack of political will and a dual-speed private sector (divided between struggling small enterprises and well-off financial and energy companies).

Launched in 2002, its key factor was the sponsorship of a well-regarded academic that could bridge the trust divide between the government and the private sector<sup>15</sup>. The World Bank, which was not in a position of sponsoring such an initiative due to a lack of confidence among the local population in international organizations, provided the necessary technical and financial support in the background. With the other donors (USAID and DFID), the Bank keeps a low profile while the Better Business Initiative is hosted by a local think-tank, the African Institute for Applied Economics. Five Working Groups are focusing on priority issues such as infrastructure, macro and trade policy instabilities, SME access to services, agriculture, legal and regulatory reform. Each Working Group is led by a local stakeholder, and a Steering Committee is comprised of sponsors, Working Group chairs and a senior Federal Representative. Only in its beginning stages, this initiative is supposed to deliver its first round of policy issues in October 2004 for discussion with the government. But with a fragile equilibrium and only the goodwill of the sponsor to carry things through, the success of the Nigerian initiative will probably depend on the continuing availability of instruments such as funding, technical support and staffing from the World Bank and other donors. Indeed, it has already been observed that when the World Bank support declines, the initiative slows down, meaning that the initial sponsor does need to be complemented by strong instruments for the initiative really to succeed.

**Figure 15: Competitiveness Partnership in NIGERIA**



#### 6d- Potential applications

Following this model, it appears that investment climate improvement derived from the Bulldozer or other similar Competitiveness Partnerships could be beneficial to transitional, low or middle income countries burdened by regulations and the heavy cost of doing business. If the business community is fairly organized, or ready to be organized, and if the government is disposed to listen to its concerns, then the process could be applied. Potential countries for this process might be the Democratic Republic of Congo, Azerbaijan, Guatemala, Cambodia or even Sierra Leone. Wealthier countries could benefit from such programs at the sub-national level. Such is the case in Mexico, where a targeted dialogue between the private sector and municipal officials could help reduce the high number of local formalities (“*tramites*”), while ensuring a better integration with Federal policies aimed at improving the regulatory environment.

Because of its considerable contribution to the growth of civil society, the process could also have unique benefits for post-conflict countries in particular. A Competitiveness Partnership program

<sup>15</sup> Information of the Nigeria Competitiveness Forum (renamed in February 2004 the “Better Business Initiative” sourced in 2003 reports and presentation of Peter Mousley from the World Bank Group, who launched and coordinates the initiative.

could be designed for example in Afghanistan to bring previously repressed segments of society into the political culture by engaging them in the identification of administrative and economic reforms relevant to their daily lives. Through this process, small farmers and women could develop a sense of ownership and pride and increase their power as constituents.

In Kosovo, the Bulldozer methodology is actually being applied since July 2004. The Kosovo Bulldozer Committee is sponsored by USAID and UNMIK and involves a dialogue between the Alliance of Kosovar Businesses and the Provisional Institutions of Self-Government, with an aim of identifying regulatory burdens that slow investment down and hinder business operations. This Competitiveness Partnership effort was launched as it was recognized that “not just economic growth but political stability”<sup>16</sup> depend on the success of such undertaking.

In Iraq, appealing to small entrepreneurs for reforming administrative procedures and rewriting commercial rules and legislation could help in reconstruction of a legal framework. In addition to filling in the gaping holes in private sector regulation and boosting a business-oriented middle class, this process would provide much needed legitimacy, coming from the Iraqi private sector rather than from the immediate corporate interest of reconstruction contractors.

In the Palestinian Authority, following decades of economic deprivation, a Competitiveness Partnership process – with, of course, a name other than Bulldozer – might provide an alternative focus for the entrepreneurial-minded and could strengthen the legitimacy of the new government.

## **Conclusion**

The Bulldozer methodology, through its impact and its potential applications, could modify the way investment climate reforms are conducted in transitional economies.

By being results-oriented, by promoting concrete, palpable results and by transforming the private sector into a real constituency for reform, Competitiveness Partnerships do more than just complement structural top-down approaches. They create a strong and lasting civic society that builds itself on the foundations of a new elite. In the case of Bosnia and Herzegovina, the Bulldozer turned the street entrepreneur into a new hero as well as an engine for growth and democracy.

The insight derived from such Competitiveness Partnership provides a new and complementary path for development professionals. Together with government officials and private sector representatives, they now have access to a reform process that goes the last mile in improving a country’s investment climate – and eventually people’s lives.

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<sup>16</sup> Statement of Dale Pfeiffer, USAID Kosovo Mission Director, in July 1, 2004 press release.

## ANNEX I: Two detailed reforms from Bulldozer Phase I



### BULLDOZER EFFORT PHASE I

#### ROADBLOCK SUBMISSION FORM

Submitted by

Private Business	Government Agency	Local Independent Agency	International Agency	Bulldozer committee
<input type="checkbox"/> > 100 employees*	<input type="checkbox"/> PRSP	<input type="checkbox"/> FIPA	<input type="checkbox"/> SEED	<input type="checkbox"/> W.B.
<input type="checkbox"/> 50-100 employees*	<input type="checkbox"/> Entity*	<input type="checkbox"/> RDA*	<input type="checkbox"/> QIF	<input type="checkbox"/> E.C.
<input type="checkbox"/> 20-50 employees*	<input type="checkbox"/> Canton*	<input checked="" type="checkbox"/> Business Association*	<input type="checkbox"/> CHF	<input type="checkbox"/> US AID
<input type="checkbox"/> 5-20 employees*	<input type="checkbox"/> Municip.*	<input type="checkbox"/> Association*	<input type="checkbox"/> UNDP	<input type="checkbox"/> I.M.F.
<input type="checkbox"/> < 5 employees*	<input type="checkbox"/> Other*	<input type="checkbox"/> Other*	<input type="checkbox"/> Other*	<input type="checkbox"/> O.H.R.

Submitter: TALDI (Tuzla Agency for Local Development Initiatives)  
Dr. Mevlida Kunosic-Vlajic, Direktor

Reviewed and revised by: Bulldozer Committee Working Group

Roadblock title	R 01 Harmonization of LLC Minimum Capital Requirement
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#### Issue at stake:

1. Limited Liability Company (LLC) is the most popular form of business in Bosnia. One or more physical or legal persons can form a limited liability company by a founding act.
  - In the Federation, the minimum statutory capital requirement is 2000 KM for a single proprietor and 10,000 KM if for an establishment with multiple partners.
  - In R.S., the minimum statutory capital requirement is 5000 KM for all LLCs.
  - In the Brcko District, the minimum statutory capital requirement is 5000 KM for all LLCs.
2. The statutory capital is divided between the founders, who each have a minimum share. This minimum share defines the maximum number of people that can start a company.
  - In the Federation, the minimum share is 2000 KM (meaning that founders of a company are limited to 5 persons).
  - In R.S., the minimum share is 500 KM (meaning that founders of a company are limited to 10 persons).
  - In the Brcko District, the minimum share is 100 KM (meaning that founders of a company are limited to 50 persons).

#### Why is this a roadblock?

1. Unfair advantage in FBiH for single proprietors, unfair advantage in RS/Brcko for multiple partners.
2. It may entice entrepreneurs to locate in the entity that presents the most advantage to them.
3. Harmonized fees are one step further towards a single economic space. Foreign investors generally refuse to deal with 3 different regulations for the same country.

4. Single capital for both entities will facilitate the registration of a company in multiple entities.
5. It is too expensive. Lowering the investment will result in more people starting businesses. Additionally, lowering the cost of the minimum stake (share amount or price) will result in enabling small business to start with more partners (e.g. a small group could reach the proposed threshold of 2000 KM by having some individuals bring contributions as small as 100 KM to start the business).

#### **Bulldozing solution:**

Make the minimal statutory capital requirement 2000 KM in all cases (single proprietor or multiple partners) and in all instances, and lower the minimum share price to 100 KM.

#### **Action item:**

Modify: Art. 314 in the Law on Business Companies (Federation); Art. 331 in the Law on Enterprises (R.S.), and Art. 343 in the Law on Enterprises (Brcko). (see Annex)

### **FEDERATION OF BOSNIA AND HERZEGOVINA**

#### **Law on Business Companies**

(Official Gazette of the Federation of Bosnia and Herzegovina, No. 23/99, 45/00 and 2/02)

#### **Current Text:**

##### **Article 314**

- (1) Statutory capital of limited liability company with several founders shall be no less than 10.000 (ten thousand) KM, and if there is only one founder 2.000 (two thousand) KM, unless otherwise provided by other laws.
- (2) Value of an individual share may not be less than 2.000 (two thousand) KM.
- (3) Contributions in money may not in total be less than the amount provided by paragraph 1. of this article.
- (4) Contributions in items and rights shall be in total be invested in company until the day of submission of application for entry of company establishment into the court register, so that the company may permanently and freely dispose of them.
- (5) Until the day of submission of application for entry of company establishment into the court registry at least half of the contribution in money shall be paid in, and it shall be no less than the amount provided by paragraph 1 of this article.

#### **Suggested Text:**

##### **Article 314**

- (1) Statutory capital of a limited liability company ***with one or several founders shall be no less than 2.000 (two thousand) KM, unless otherwise provided by other laws.***
- (2) ***Value of an individual share may not be less than 100 (one hundred) KM.***
- (3) Contributions in money may not in total be less than the amount provided by paragraph 1. of this article.
- (4) Contributions in items and rights shall be in total be invested in company until the day of submission of application for entry of company establishment into the court register, so that the company may permanently and freely dispose of them.
- (5) Until the day of submission of application for entry of company establishment into the court registry at least half of the contribution in money shall be paid in, and it shall be no less than the amount provided by paragraph 1 of this article.

REPUBLIKA SRPSKA

Law on Enterprises  
(Official Gazette of the Republika Srpska, No. 24/98, 62/02)

Current Text:

**Article 331.**

- (1) Statutory capital of a limited liability company may not be less than 5.000 Convertible Marks.
- (2) A ready-money founding deposit of a particular member may not be less than 500 convertible marks in dinar countervalue according to the exchange rate on the day of purchase.

Exceptionally from provisions of paragraph 2 of this article, if members of a limited liability company are entities who purchase preferred shares, in accordance with special regulations, a ready - money deposit of a particular member may be less than specified.

Suggested Text:

**Article 331.**

- (1) Statutory capital of a limited liability company may not be less than 2.000 Convertible Marks.**
- (2) A ready-money founding deposit of a particular member may not be less than 100 convertible marks.**

Exceptionally from provisions of paragraph 2 of this article, if members of a limited liability company are entities who purchase preferred shares, in accordance with special regulations, a ready - money deposit of a particular member may be less than specified.

BRCKO DISTRICT

Law on Enterprises  
(Official Gazette of the Brcko District, No. 11/01, 10/02)

Current Text:

**Article 343**

- (1) The capital stock shall amount to at least 5.000 KM, and each founding share amounting to at least 100 KM. The least amount of capital stock and the least amount of members' founding share shall be paid prior to the entry in the Register.
- (2) The capital stock may be funded with monetary contributions or contributions in things and rights. Contributions in things and rights shall be subject to the appropriate application of the provisions of Article 153 of this Law.
- (3) Non-monetary contributions may consist of movable and immovable property, rights, and enterprises or parts of enterprises.
- (4) Non-monetary contributions shall be delivered to the company in full prior to the notification for entry in the Register. If the value of a member's non-monetary contribution does not reach the value of his assumed founding share, the member shall pay the difference in money.
- (5) The founding shares shall be delivered to the company in such a manner as allows the management to make free use of them.
- (6) Monetary contributions shall be paid to the company's bank account.

**Suggested Text:**

***Article 343***

- (1) ***The capital stock shall amount to at least 2.000 KM,*** and each founding share amounting to at least 100 KM. The least amount of capital stock and the least amount of members' founding share shall be paid prior to the entry in the Register.
- (2) The capital stock may be funded with monetary contributions or contributions in things and rights. Contributions in things and rights shall be subject to the appropriate application of the provisions of Article 153 of this Law.
- (3) Non-monetary contributions may consist of movable and immovable property, rights, and enterprises or parts of enterprises.
- (4) Non-monetary contributions shall be delivered to the company in full prior to the notification for entry in the Register. If the value of a member's non-monetary contribution does not reach the value of his assumed founding share, the member shall pay the difference in money.
- (5) The founding shares shall be delivered to the company in such a manner as allows the management to make free use of them.
- (6) Monetary contributions shall be paid to the company's bank account.



**BULLDOZER EFFORT  
PHASE I**

ROADBLOCK SUBMISSION FORM

Submitted by

Private Business	Government Agency	Local Independent Agency	International Agency	Bulldozer committee
<input type="checkbox"/> > 100 employees*	<input type="checkbox"/> PRSP	<input type="checkbox"/> FIPA	<input type="checkbox"/> SEED	<input type="checkbox"/> W.B.
<input type="checkbox"/> 50-100 employees*	<input type="checkbox"/> Entity*	<input type="checkbox"/> RDA*	<input type="checkbox"/> QIF	<input type="checkbox"/> E.C.
<input type="checkbox"/> 20-50 employees*	<input type="checkbox"/> Canton*	<input type="checkbox"/> Business Association*	<input type="checkbox"/> CHF	<input type="checkbox"/> US AID
X 5-20 employees*	<input type="checkbox"/> Municip.*	<input type="checkbox"/> Association*	<input type="checkbox"/> UNDP	<input type="checkbox"/> I.M.F.
<input type="checkbox"/> < 5 employees*	<input type="checkbox"/> Other*	<input type="checkbox"/> Other*	<input type="checkbox"/> Other*	<input type="checkbox"/> O.H.R.

Submitter:

Rukotvorine, d.o.o.,

Reviewed and revised by:

Bulldozer Committee Working Group

Roadblock title	R 06 Removing mandatory fee for shelter in F BiH
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**Issue at stake:**

Mandatory fees that companies have to pay for the construction of bomb shelters although such shelters often do not exist.

**Why is this a roadblock?**

The fee hinders investments in production facilities as it increases the construction costs by two percent. For instance, to build a factory of 2000 m<sup>2</sup>, one has to pay 2% of the estimated construction value per every square meter. This is approximately 2000 m<sup>2</sup> x 800 KM x 2% = 32.000 KM. This amount is equal to the net annual salaries of 6 workers if they are to earn the Federation average salary.

**Bulldozing solution:**

Change Article 179 of the FBiH Law on Defense (Official Gazette F BiH n.15/96) to remove the mandatory bomb shelter fee that currently amounts to 2% of the total investment in buildings.

**Action item:**

<b>FEDERATION OF BOSNIA AND HERZEGOVINA</b>
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**Law on Defense  
(Official Gazette of the Federation of Bosnia and Herzegovina, No. 15/96)**

**Current Text:**

**Article 179 (Unofficial Translation)**

“During the construction of buildings in cities and business centers and other inhabited places,

which, according to the assessments on dangers from war activities, could be the target of attacks in war, the investor is obliged, in accordance with the space or urban plan, to secure the construction of shelters or other protection facilities for people and material goods.

Space or urban plan must include the measures for protection and rescue, the construction of new, and the adjustment of the existing shelters and other protection facilities for the protection and sheltering of people and material goods.

Investors are responsible to build shelters in accordance with the plan from paragraph 2 of this Article, or pay a fee for the construction of public shelters to the Ministry of Defense in the amount of 2% of the total value of buildings– if the investor is not building his own shelter.

Public administrator in charge of issuing a building permit, or a usage permit for a certain building, for which a shelter is to be built, cannot issue that permit if the conditions for the construction or usage of the shelter have not been met.”

**Suggested Text:**

***Remove Article 179 from the FBiH Law on Defense (Official Gazette F BiH n.15/96).***

## ANNEX II: Two detailed reforms from Bulldozer Phase II



### BULLDOZER EFFORT PHASE II

#### ROADBLOCK SUBMISSION FORM

Submitted by: Sarajevo Region Bulldozer Committee

Private Business	Government Agency	Local Independent Agency	International Agency	Bulldozer committee
<input type="checkbox"/> > 100 employees*	<input type="checkbox"/> PRSP	<input type="checkbox"/> FIPA	<input type="checkbox"/> SEED	<input type="checkbox"/> W.B.
<input type="checkbox"/> 50-100 employees*	<input type="checkbox"/> Entity*	<input type="checkbox"/> RDA*	<input type="checkbox"/> QIF	<input type="checkbox"/> E.C.
<input type="checkbox"/> 20-50 employees*	<input type="checkbox"/> Canton*	<input type="checkbox"/> Business Association*	<input type="checkbox"/> CHF	<input type="checkbox"/> US AID
<input checked="" type="checkbox"/> 5-20 employees*	<input type="checkbox"/> Municip.*	<input type="checkbox"/> Association*	<input type="checkbox"/> UNDP	<input type="checkbox"/> I.M.F.
<input type="checkbox"/> < 5 employees*	<input type="checkbox"/> Other*	<input type="checkbox"/> Other*	<input type="checkbox"/> Other*	<input type="checkbox"/> O.H.R.

\* Please precise: VELUX BiH d.o.o.Sarajevo

Contact person: Tomas Chrasticky, VELUX BiH d.o.o. Sarajevo  
Contact information: 626-493/494

Roadblock title	R05 Enabling business transactions through recognition of faxed orders as written documents
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#### Issue at stake:

- 1- When a buyer wants to purchase goods and/or services from a seller, the FBiH Law on Sales Tax Application to Products and Services (OG FBiH No.49/02) requires the buyer to issue a written purchase order.
- 2- In terms of the said Law, written orders sent via facsimile are not considered to be written orders by the Tax Authority.
- 3- The issue could be regulated by the FBiH Law on Obligation, but the FBiH Law on Obligation is silent on the issue whether a faxed document can be considered as a written document or not.
- 4- A university professor in his recent book on business transaction, on the basis of a number of court cases, infers that a faxed document is not a written document (Prof. Dr Mirko Vasiljevic, *Ugovori u Privredi*, Banja Luka 2002, page 3).
- 5- In RS, the RS Law on Sales and Excise Taxes in Republika Srpska (OG RS No.25/02 and 30/02) indicates in article 66 among others that written documents are not a prerequisite to close a business transaction or enforce proper financial control by the authorities. Hence, in the RS, a Fax document can be used in the context of a purchase order, as the essence of the document is not an issue for the relevant RS Laws.

### Why is this a roadblock?

- 1- An RS or a foreign buyer can fully process his orders through Facsimile. However, in the case that goods or services were purchased to an FBiH seller, the fax copy of the purchase order will not be sufficient for the FBiH seller, in order for him to comply with the relevant FBiH taxation obligations.
- 2- According to the legislation in force and its interpretation by the Tax Authority, the business friendly and safe process of ordering by fax is not good enough for the financial control / taxation purposes in the Federation. However, Fax transactions are recognized as bona-fide documents in all modern market economies.
- 3- Business transactions cannot be closed until sellers collect the original(s) buyer order(s). In real life, it translates into asking a customer to post each faxed order via regular post after a business case has been already closed (ordered, delivered, paid, invoiced).
- 4- If Bosnia based selling companies aim to sell all over the country (and even export), they deliver on the basis of thousands of orders per year. Urging customers to post additional document after a business transaction is actually closed to satisfaction of all involved, is an expensive and nonproductive activity that implies a significant technical burden for business.
- 5- A faxed document is mostly considered to be a written document on the global market. A faxed document, being a kind of hard copy itself, already displays all necessary elements of an order in a safe manner.

### Bulldozing solution:

Amend FBiH Law on Sales Tax Applicable to Products and Services (OG FBiH 49/02) with the view that a written document includes faxed document.

Propose to the Working Group currently reforming Law on Obligations (a harmonized text for Federation of the Bosnia and Herzegovina and Republika Srpska) to determine faxed documents as written documents.

### Action item:

## FEDERATION OF BOSNIA AND HERZEGOVINA

### **LAW ON SALES TAX ON THE TURNOVER OF GOODS AND SERVICES (OG FBiH, No. 49/02 – consolidated text)**

#### Current text:

#### Article 8

**Point 2)** *that the products are sold based on a written order from the buyer for each single delivery, while issuing of an invoice is obligatory and the payment is not a cash form (payment order from the buyer's bank account to the seller's bank account, compensation, cession and the like).*

**Suggested text:**

**Article 8**

**Point 2)** *that the products are sold based on a written **(including faxed)** order from the buyer for each single delivery, while issuing of an invoice is obligatory and the payment is not a cash form (payment order from the buyer's bank account to the seller's bank account, compensation, cession and the like).*

**FEDERATION OF BOSNIA AND HERZEGOVINA and REPUBLIKA SRPSKA**

**MIRROR**

**LAW ON OBLIGATIONS**

**DRAFT DATED 16 JUNE 2003**

**Acceptance of immediate offer**

**Article 38**  
**(Art 40 ZOO)**

An offer made to a person present shall be considered rejected if not accepted immediately, unless the circumstances of the case indicate that the offeree was entitled to a certain time for considering the offer.

- (2) An offer made by telephone, direct radio communication or video conference or equal means of communications shall be considered as offer made to a person who is present.

A paragraph 3 should be added to this provision. It shall read:

***“An order made via fax shall be considered as an offer in writing”***



## BULLDOZER EFFORT PHASE II

### ROADBLOCK SUBMISSION FORM

Submitted by: Central Bosnia Regional Bulldozer Committee

Private Business	Government Agency	Local Independent Agency	International Agency	Bulldozer committee
<input type="checkbox"/> > 100 employees*	<input type="checkbox"/> PRSP	<input type="checkbox"/> FIPA	<input type="checkbox"/> SEED	<input type="checkbox"/> W.B.
<input type="checkbox"/> 50-100 employees*	<input type="checkbox"/> Entity*	<input type="checkbox"/> RDA*	<input type="checkbox"/> QIF	<input type="checkbox"/> E.C.
<input type="checkbox"/> 20-50 employees*	<input type="checkbox"/> Canton*	<input checked="" type="checkbox"/> Business Association*	<input type="checkbox"/> CHF	<input type="checkbox"/> US AID
<input type="checkbox"/> 5-20 employees*	<input type="checkbox"/> Municip.*	<input type="checkbox"/> Association*	<input type="checkbox"/> UNDP	<input type="checkbox"/> I.M.F.
<input type="checkbox"/> < 5 employees*	<input type="checkbox"/> Other*	<input type="checkbox"/> Other*	<input type="checkbox"/> Other*	<input type="checkbox"/> O.H.R.

For RS:

Contact person: Stojan Prešić, STZR "PFC Presic" - Dobo  
Contact information: 053 241 352; 065 808 399

For FBiH:

Contact person: Sead Nalic, engineer, Head of Department for Economy and Finance, Maglaj Municipality  
Contact information: 032 603 424

Roadblock title	R34 Removing discrimination based on entity citizenship in the RS Law on Crafts and in the FBiH Law on Trade
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#### Issue at stake:

- 1- In RS, Article 14, paragraph 1, item 2 of the RS Craft Law (RS Official gazette No. 16/02), regulates that an entrepreneur can open a shop provided that he meets the listed conditions, and one of the requirements is that the entrepreneur should be an « *RS citizen i.e. citizen of Bosnia and Herzegovina* ».
- 2- In FBiH, the FBiH Law on Trade (FBiH Official Gazette No. 2/95), in article 8b, paragraph 1, item 1 of the Law on amendments to the Law on trade (FBiH Official Gazette 19/96) regulates that « *Permission for opening of a trade shop is issued to a person who meets the following requirements: 1) That he/she is citizen of BiH Federation and citizen of Bosnia and Herzegovina* »

#### Why is this a roadblock?

- 1- In RS, current situation in the Law on crafts leads to different interpretation of the word "i.e." in the mentioned item and competent bodies often reject applications for opening of a shop from FBiH because the law defines that the founder has to be the RS citizen i.e. BiH citizen. Due to this provision, there is discrimination of FBiH citizens, and uniformity of BiH market is disturbed. In practice it limits the possibility to open a trade shop for citizens of FBiH, only because they do not have the RS citizenship.
- 2- In FBiH, this is a roadblock because it limits the possibility to open trade shops for RS citizens only because their place of residence is not in the Federation. Current situation in the Law on Trade puts the competent bodies into a situation where they cannot issue

decision on opening of a trade shop to RS citizens, because the law defines that the founder has to be FBiH citizen.

- 3- In both cases, the current legislation is a clear roadblock to a single economic space in BiH. Citizens from the other Entity are discriminated against. It disturbs the uniformity of the BiH market and it especially affects returnees in marginal areas of both entities. A BiH citizen should be able to open his trade or craft legal entity wherever he or she deems appropriate.

**Bulldozing solution:**

- 1- For RS : We propose amendments of the above-mentioned article in a way to delete the part of the text from item 2 of the above-mentioned article that reads: "should be an RS citizen" so that the requirement will be limited to being a citizen of Bosnia and Herzegovina.
- 2- For FBiH : We propose amendments to the above-mentioned article in a way to modify item 1 of of the above-mentioned article that reads: "that he is citizen of FBiH" into "That he is citizen of Bosnia and Herzegovina".

**Action item:**

Modify :

- Article 14, paragraph 1, item 2 of the RS Law on crafts (RS Official Gazette No. 16/02).
- FBiH Law on trade (FBiH Official Gazette No. 2/95), article 8b. paragraph 1, item 1 of the Law on amendments to the Law on trade (F BiH Official Gazette 19/96).

**REPUBLIKA SRPSKA**

**LAW ON CRAFTS  
(RS Official Gazette No. 16/02)**

**Existing text:**

**Article 14.**

An entrepreneur can open a shop or have a craft business if he meets the following requirements:

1. To be of age and capable for business,
2. To be citizen of Republika Srpska i.e. citizen of Bosnia and Herzegovina,
3. That a competent body did not prohibit him to perform this activity,
4. That he is not a full time employee,
5. That he meets general health requirements and special health requirements if defined so by the law for certain business,
6. That he has the equipment i.e. means for work, staff and adequate premises, unless the nature of business i.e. work does not require that.

Competent minister defines for which activities business premises are not required.

If the law defines adequate level of education for certain business, apart from requirements in the previous paragraph, applicant is to submit proof of adequate level of education or to hire a person with adequate education level.

**Proposed text:**

**Article 14**

An entrepreneur can open a shop or have a craft business if he meets the following requirements:

1. To be of age and capable for business,
- 2. To be citizen of Bosnia and Herzegovina,**
3. That a competent body did not prohibit him to perform this activity,
4. That he is not a full time employee,
5. That he meet general health requirements and special health requirements if defined so by the law for certain business,
6. That he has the equipment i.e. means for work, staff and adequate premises, unless the nature of business i.e. work does not require that.

Competent minister defines for which activities business premises are not required.

**If the law defines adequate level of education for certain business, apart from requirements in the previous paragraph, applicant is to submit proof of adequate level of education or to hire a person with adequate education level.**

## **RS AMENDMENT**

### **LAW ON AMENDMENTS TO THE LAW ON CRAFTS**

#### **Article 1**

In the Law on crafts (RS Official Gazette No. 16/02) in the article 14, paragraph 1, item 2 is to be amended and read "to be citizen of Bosnia and Herzegovina. "

#### **Article 2**

This law becomes effective on the eighth (8) day from the day of publishing in the RS Official Gazette.

No:

Chair

## **FEDERATION OF BOSNIA AND HERZEGOVINA**

### *LAW ON TRADE* **(FBiH Official Gazette, No. 2/95,19/96)**

#### **Existing text:**

#### **Article 8b**

Person who meets the following requirements will get permit for opening of a trade shop:

- 1- That he is citizen of the Federation and citizen of Bosnia and Herzegovina,
- 2- That he is capable to work,
- 3- That he meets health requirements if health is defined as a special requirement for retail trading with certain products in trade shops,
- 4- That he has business premises that meet general and special requirements,
- 5- That he does not work or already have a trade shop founded,
- 6- That he was not prohibited to work in this business by a legally effective decision on introducing a protective measure,

- 7- That he settled all obligations for general social and common needs, and
- 8- That he meets other requirements defined by the law or other regulations.

**Proposed text:**

**Article 8b**

Person who meets the following requirements will get permit for opening of a trade shop:

- 1- That he is citizen of Bosnia and Herzegovina,**
- 2- That he is capable to work,
- 3- That he meets health requirements if health is defined as a special requirement for retail trading of certain products in trade shops,
- 4- That he has business premises that meet general and special requirements,
- 5- That he does not work or already have a trade shop open,
- 6- That he was not prohibited to work in this business by a legally effective decision on introducing a protective measure,
- 7- That he settled all obligations for general social and common needs, and
- 8- That he meets other requirements defined by the law or other regulations.

**FBiH AMENDMENT**

Based on chapter III. article 1 item d of FBiH Constitution (FBiH Official Gazette No.: 1/94, 13/97, 16/02, 22/02, 52/02) FBiH House of Representative at \_\_\_\_\_ session on \_\_\_\_\_ 2003 passed the:

**LAW  
ON AMENDMENTS TO THE LAW ON TRADE**

**Article 1**

In the Law on trade (FBiH Official Gazette No. 2/95, 19/96) article 8b, paragraph 1, item 1 is to be amended and read as follows: "That he is citizen of Bosnia and Herzegovina "

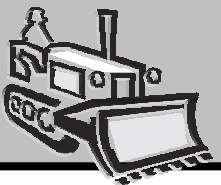
**Article 2**

This law becomes effective on the eighth (8) day from the day of its publishing in the FBiH Official Gazette.

No. :

Chair

**ANNEX III: Quantifiable results for three different reforms of Bulldozer  
Phase I as communicated to the public**



## Harmonization of LLC minimum capital requirement

### REFORM SUMMARY

Before the Bulldozer reforms there was a marked discrepancy between the minimum statutory capital requirements in the FBiH, RS and the Brčko District when registering a Limited Liability Company (d.o.o.), the most popular form of business in BiH. In the Federation, the minimum statutory capital requirement was 2,000 KM for a single proprietor and 10,000 KM for a company with multiple partners. In the RS and in Brčko District, the minimum statutory capital requirement was 5,000 KM for all LLCs. The minimum share also defined the maximum number of people wanting to participate in one company. In the Federation, the minimum share was 2,000 KM, which limited the founders of the company to five persons, in the RS, with a minimum share of 500 KM founders were limited to 10 persons and, in the Brčko District, with a minimum share of 100 KM up to 50 persons could be involved in the creation of a company. To consolidate the single economic space and prevent investors from having to deal with three different regulations in the same country, BiH harmonized this fee, and reduced the start-up cost in order to attract more people to start new businesses.



Almir Plavric  
Director  
Extra d.o.o.

### WHY DID THE REFORM HELP YOU EXPAND YOUR BUSINESS?

"We did not have enough revenues to gather the 10,000 KM required under the old law to register as a d.o.o. So we could not really expand as a home based business. It was a vicious circle. With the new law, requiring 2000KM only, we could register. We did, and then could expand our business through loans and investments".

### HOW WAS IT USED?

The Palavric brothers are living proof that Bulldozer number 01 has worked. Nermin and Almir Palavric run a sanitary-paper production business that Nermin started when he was 18. Their business was originally registered as "Extra", a home-based cottage industry (domaca radinost). As time went by, demand for their product grew and exceeded their supply capabilities by a factor of ten. Consequently, they resolved to expand their business. In order to secure bigger premises, purchase better machinery and employ more workers, they had to register their business as an LLC. Registering an LLC at the time would have required them to gather 10,000 KM. That was a very high threshold, that they could not reach that easily. When the Bulldozer reform number 01 was published in the Official Gazette, the Palavric brothers could finally afford to register their business as an LLC. 2000 KM are much more easy to gather than 10,000 KM, for such a small business: it is 8,000 KM less! Once registered, they could invest in expanding their premises and buying better machinery. They even created a job for one additional person.



FBiH Official Gazette 30/06/03;  
Issue 29, Page 1375

#### Average in Tuzla Canton:

Before: 33 d.o.o. per month  
After: 41 d.o.o. per month

#### Result:

# 26%

Monthly increase of d.o.o. registration in Tuzla canton since the Bulldozer reform.

### WHAT WERE THE BENEFITS?

The reform has harmonized and reduced LLC registration expenses throughout BiH (the Federation, the RS, and Brčko District), and by doing this it has contributed towards the consolidation of the single economic space. By lowering the financial threshold, it has enabled small businesses to start with more partners, and with less start-up capital. Lowering the barrier of entry for a company to operate unlocked capital from small entrepreneurs, that now can be invested in production and job creation.

### Business Climate Improvement Indicator:

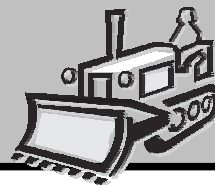
- ☒ Created more jobs
- ☒ Brought more tax revenue to authorities
- ☒ Freed up capital for investment
- ☐ Boosted exports
- ☐ Reduced administrative burden
- ☒ Reduced gray economy

### Government Implementation Performance:



## THE ADVENTURES OF MAX





Marinko Sulic  
General Manager  
Bobita Co. d.o.o.

### How would you rate the impact on your business?

"I would say that the effects have been very beneficial to our firm since all of our business is focused on the import and production of alcoholic drinks – an excisable product. Our administration has become much more streamlined and noticeably simpler and we no longer have to fear if we are inadvertently breaking the law every time we sell our goods to a new customer, since our prices are inclusive of tax. This has been a step in the right direction."

Tax Administrations have been struggling to collect sales tax on excisable goods at the retail level – the system has helped fictitious companies develop a complicated and almost untraceable chain of sales from one "wholesaler" to another. This has resulted in sub-optimal collection of revenues for all levels of government in BiH. The concomitant overreaction by the BiH authorities has also meant that legitimate businesses have found it harder to conduct their regular operations. The Bulldozer Committee suggested changing the point of collection of the sales tax on excisable goods back to the import or production level.

REFORM  
SUMMARY



RS Official Gazette 23/07/03;  
Issue 60-II, Page 1, Item 637

#### RS revenue collection:

- 6.8 million KM / month before
- 12.9 million KM / month after
- 89% INCREASE

#### Result:

6,1 Million  
KM / month

Average monthly increase in excisable tax revenue collection in RS since reform implementation as compared to previous year

BOBITA CO. from Čitluk in Herzegovina has noted an improvement in business conditions since the reform began to be fully implemented for all excisable goods on August 1<sup>st</sup> 2003. The company's administrative requirements have become simpler, as it now settles its tax obligations immediately upon import or production of goods. This means that the company can sell goods to any wholesaler without exhaustive checks regarding the buyer's legal status, as the goods are sold with the tax already included in the price. This reduces the company's business risk since, according to the old system, it would have had to assume tax obligations for all goods sold to any rogue or fictitious companies.

HOW WAS IT  
USED?

### Business Climate Improvement Indicator:

- ☐ Created more jobs
- ☒ Brought more tax revenue to authorities
- ☐ Freed up capital for investment
- ☐ Boosted exports
- ☒ Reduced administrative burden
- ☒ Reduced gray economy

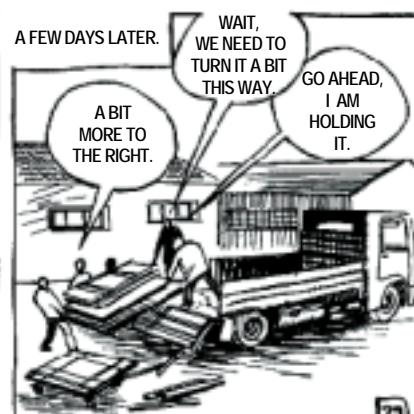
### Government Implementation Performance:

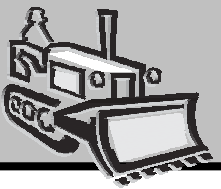


The smaller administrative burden has meant that BOBITA CO. can concentrate on importing and producing alcoholic beverages instead of undertaking various checks of their customers' corporate provenance. The new system has significantly reduced company paperwork; this is welcomed by businesses since it means lower operating costs. Retailers do not have to mingle with the tax on excisable items anymore. All the goods they buy are now tax included. In turn, the new system creates a fairer market from the consumer point of view, as pricing becomes consistent throughout one market. On its end, the governments of BiH is seeing benefits in terms of speedier and more efficient collection of revenues, as the new system has reduced opportunities for tax evasion. As a result, the governments need to spend less time and money on regulation and frequent audits of suspicious firms.

WHAT WERE  
THE BENEFITS?

## THE ADVENTURES OF MAX





## Removing need for registration of Foreign representative office in both Entities

### REFORM SUMMARY

Until the Bulldozer reform, it was impossible to register a foreign representative office for the whole territory of BiH with the state Ministry of Foreign Trade and Economic Relations without registering in the Entities also. This was unnecessary in view of the fact that the activities of a representative office are limited to market research, advertising, public information, and identifying investment/market potential, as well as general representation.



Sead Basic  
Director  
Unilever BiH

### What concrete benefits this reform brings to firms like yours?

"My company is already here. I know first hand what it took to register. This reform will really help companies that come to BiH in the future. They will not have to put up with the pointless inconvenience and expense of having to register more than once like we did."

### HOW WAS IT USED?

Judges and lawyers can now use shorter procedures to register a foreign representative office. However, the reform is not that easy to use because the authorities did not simplify the corresponding by-laws. For instance, health and pension benefits are still payable separately and employees who spend time at offices of the same company in the Entity other than the one in which they are registered for benefits run the danger of being refused medical treatment even though they work for a company that has received a permit to operate on the whole territory of BiH. Thus, more must be done to follow up on this reform.



BiH Official Gazette 05/06/03;  
Issue 15, Page 315, Item 150

### Number of personal appearances for registration:

Before: 9 in 3 Jurisdiction  
After: 3 in 1 jurisdiction

### Result:

# 66%

Percentage reduction of administrative steps for obtaining the certificate of registration of a foreign representative office wishing to operate across BiH since the reform.

### WHAT WERE THE BENEFITS?

A foreign company wishing to set up a representative office is no longer required to fill out three sets of forms, to make a personal appearance at three different locations or to pay three sets of fees. Since representative offices are often used as a first step by foreign investors, this reform will help attract foreign investment. Similarly, this whole exercise is one further step towards the consolidation of the Single Economic Space, something that is absolutely essential for the development of the BiH economy.

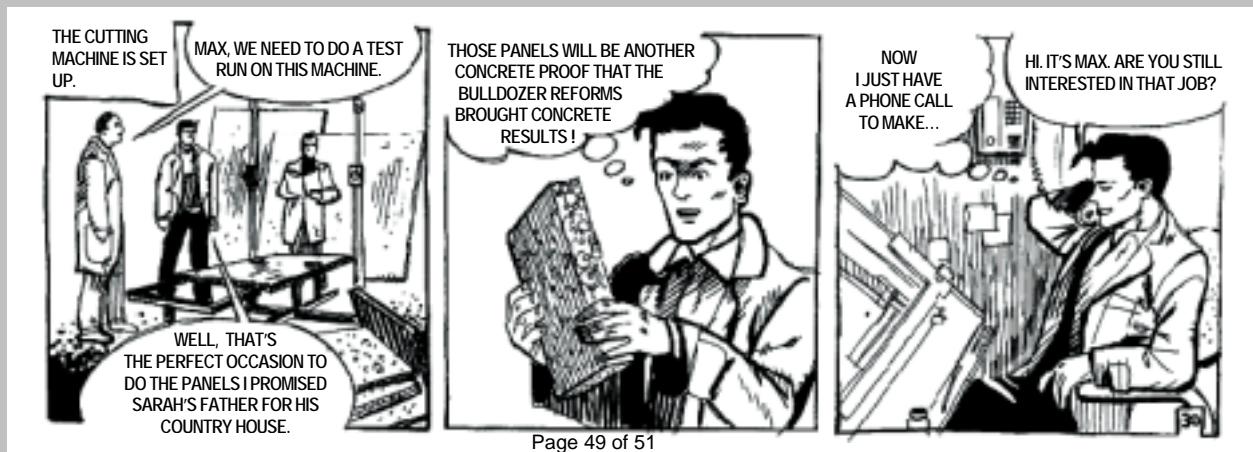
### Business Climate Improvement Indicator:

- ☐ Created more jobs
- ☐ Brought more tax revenue to authorities
- ☐ Freed up capital for investment
- ☐ Boosted exports
- ☒ Reduced administrative burden
- ☐ Reduced gray economy

### Government Implementation Performance:



## THE ADVENTURES OF MAX



## **ANNEX IV: Copy of the “Protocol for Prosperity”.**

## Bosnia and Herzegovina



### Protocols for Prosperity

Recognizing that economic progress is essential in the process of developing a stable and cohesive Bosnia and Herzegovina.

Observing in particular that the economic challenges facing Bosnia and Herzegovina can only be overcome through reform,

Aware of the difficulties experienced by workers, employers and entrepreneurs because of legislation that is not harmonized and because existing standards currently applied in BiH do not yet conform to relevant Directives of the European Council,

Recognizing the importance of incorporating modern principles of international law as an integral part of the law of Bosnia and Herzegovina,

Conscious that the Bulldozer Initiative was launched on 12 November 2002 with the sole purpose of identifying problems faced by entrepreneurs and to enact, within 150 days, 50 economic reforms comprising legal amendments and administrative decisions that provide a modern, coherent and efficient regulatory regime supporting free-market standards and economic development,

And supporting that initiative while remaining mindful of the urgency of developing a legislative framework and structural conditions under which to build a progressive economic environment,

We the undersigned confirm the following:

#### Clause 1

We have begun a dialogue under the auspices of the Bulldozer Initiative, which has resulted in the emergence of a stronger civic society, recognizing that civic society has acted as a responsible and viable partner in the productive and open dialogue with the political representatives of Bosnia and Herzegovina.

#### Clause 2

Working to a timeframe target of 150 days, private sector representatives and political and regulatory bodies have taken part in this dialogue, which has led to the successful enactment of 50 economic reforms at an average rate of one reform every four days.

#### Clause 3

The reforms of the Bulldozer initiative, which we are committed to implement, have materially improved the business environment of Bosnia and Herzegovina and this success has prompted us to engage in a second phase of reforms, called "Bulldozer Phase II".

#### Clause 4

Through Bulldozer Phase II, we agree to continue this dialogue and make it more inclusive, incorporating representatives of the trades union and other civic organizations. This trilateral dialogue – with the participation of government, businesses and unions – will facilitate the design and implementation of reforms that address the requirements of a modern democracy.

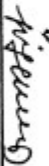
#### Clause 5

We are resolved to create the necessary conditions for a open and welcoming business environment in BiH: by identifying and eliminating pointless bureaucratic obstacles, by promoting exports through the introduction of harmonized, EU-compatible regulations, and by unlocking domestic resources through reforms at the local level, which will benefit every citizen in every municipality in BiH.

#### Clause 6

We commit ourselves to ensure proper implementation of all these reforms. Furthermore, we will do everything possible to ensure that "Bulldozer Phase II" is as successful as Phase I and that the Bulldozer process as a whole delivers tangible improvements which BiH businesspeople and citizens are entitled to expect, so that the economic environment in which they evolve sets positive prerequisites for a better future and for sustainable prosperity.

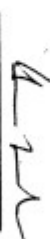
Signed in Sarajevo, on the 4<sup>th</sup> of June 2003.



Mr. Sefik Džaferović  
Chair, BiH Parliament House of Representatives



Mr. Adam Terzić  
Chair, BiH Council of Ministers



Mr. Albert Hristić  
Prime Minister, Federation of Bosnia and Herzegovina



Mr. Slobodan Milošević  
Chair, FBiH Parliament House of People



Mr. Kemal Kadrić  
Chair, RS Council of People



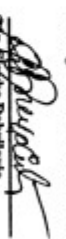
Mr. Mirilica Karamić  
Northeast Bulldozer Committee representative



Mr. Mirilica Milek  
Banja Luka Bulldozer Committee representative



Mr. Srećko Burić  
Herzegovina Bulldozer Committee representative



Mr. Mirko Džurđević  
Agriculture and Natural Resources Bulldozer Committee representative



Mr. Velimir Jakić  
Chair, BiH Parliament House of People



Mr. Dragan Vokobrat  
Prime Minister, Republika Srpska



Mr. Mehmed Ibrahimović  
Chair, FBiH Parliament House of Representatives



Dr. Dragana Kojan  
Speaker, RS National Assembly



Mr. Slobodan Karić  
Mayor, Brčko District



Mr. Ead Biserić  
Sarajevo Bulldozer Committee representative



Mrs. Anđela Miličević  
Central Bosnia Bulldozer Committee representative



Mr. Asim Felić  
Northwest Bulldozer Committee representative

