

# Executive Summary

## A Comprehensive Assessment of Regional Business Climate

The Subnational B-READY in the European Union (EU) series is a project led by the World Bank in partnership with the European Commission's Directorate-General for Regional and Urban Policy (DG REGIO) aimed at assessing and enhancing the business environment across different regions within the EU. This year, the Subnational B-READY series cover 40 cities in six EU Member States—Bulgaria, Croatia, Hungary, Portugal, Romania, and the Slovak Republic—covering 36 European regions. This phase builds upon the World Bank's previous Subnational studies conducted in these countries between 2017 and 2022. More broadly, the former Subnational in the EU reports assessed business environments in Bulgaria, Hungary, and Romania (2017); Croatia, the Czech Republic, Portugal, and the Slovak Republic (2018); Greece, Ireland, and Italy (2020); Austria, Belgium, and the Netherlands (2021); and Denmark, Finland, and Sweden (2022), covering 115 locations across 16 EU Member States. These studies have laid the groundwork for identifying regulatory gaps and sharing best practices to strengthen the EU's regional economic cohesion. As part of an ongoing effort, the team is launching the second round of measurements, which will cover over 60 cities from the Czech Republic, Greece, Ireland, Italy, Poland, and Spain. A third round is set to begin in 2025, expanding the assessment to more EU Member States.

### Objective

The primary objective of the Subnational B-READY studies is to identify and address regional disparities in regulatory environments and to promote reforms that foster private sector growth, job creation, and sustainability. The Subnational B-READY series delivers a rigorous, data-driven analysis of business climates at the local level, offering actionable insights for policy makers. By examining key areas of the life cycle of the firm—Business Entry, Business Location (including Building Permitting, Environmental Permitting, and Property Transfer), Utility Services (Electricity, Water, and Internet), Dispute Resolution, and Business Insolvency—this report offers a road

map for improving administrative processes and regulatory frameworks that directly affect businesses at the local level in five Croatian cities: Osijek, Rijeka, Split, Varaždin, and Zagreb.

### Intended Audience

This Subnational B-READY report series targets a wide audience, from national to local government officials, and from private sector stakeholders to development agencies, policy makers, and researchers. The findings are meant to help these groups identify best practices, reduce regulatory bottlenecks, and foster a more unified and efficient business environment across regions. Additionally, the collected data serve as an effective tool for local governments, enabling them to benchmark and track performance over time vis-à-vis not only national standards but also international benchmarks. The comprehensive underlying country-specific datasets provide ample opportunities for further research in the area of private sector development and growth.

### The Importance of Regional Data

An insight into regional dynamics allows an economy to be more inclusive and sustainable in its economic growth. The Subnational B-READY reports offer governments the evidence needed to design targeted reforms, allowing regions to enhance their business climates and bridge performance gaps. It is hoped that the key findings will encourage peer learning across regions by disseminating good practices observed in high-performing cities. It is expected that such a sharing of best practices would lead to cross-regional improvements and eventually spur competitiveness across the EU.

By highlighting both achievements and areas for improvement, these assessments aim to support national and regional policy makers in driving meaningful reforms. In this way, the project exemplifies the shared commitment of the World Bank and DG REGIO to enhancing economic cohesion and resilience within the EU through rigorous analysis and evidence-based policy recommendations.

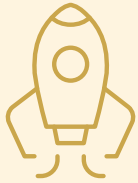
# Key Findings

- ▶ Each Croatian city has room for improvement on most of the measured topics. For example, Varaždin is a top performer on the Business Location topic, but it lags behind other cities in Dispute Resolution. Split receives a higher score on Business Insolvency, which is in contrast to its weaker performance on Business Location.
- ▶ On the Business Entry topic, company incorporation is implemented with equal effectiveness across the measured cities. In addition, all cities achieved an Operational Efficiency score of 99.5 points out of 100. Incorporating a company is fast and inexpensive.
- ▶ Varaždin has the biggest gap between its best (Business Entry) and worst (Dispute Resolution) topic scores. Data obtained through Enterprise Surveys reveal that senior management of companies perceive courts as an important obstacle to business operations more in Varaždin than in the other measured cities.
- ▶ The process of obtaining of a building permit is most efficient in Varaždin, where it takes four months, due to the city's efficiency in providing the required municipal permits. Conversely, the process is slowest in Split, where it takes almost a year.
- ▶ At the national level, 8 percent of Croatian firms reported access to land as an obstacle—significantly lower than in some peer countries, such as the Slovak Republic, Romania, and Portugal. The lowest percentage in Croatia was recorded in Zagreb (4 percent).
- ▶ The time required for the electricity-connection process varies. The differences stem primarily from the waiting period for receiving an excavation permit from the municipality and from the completion of external works. Obtaining a new connection is fastest in Osijek (83 days) and slowest in Split (99 days).
- ▶ In the area of Utility Services, Zagreb's score is significantly lower than that of the other cities mainly because the water-connection process takes longer—95 days in Zagreb, compared to 31 days in Osijek and 37 days in Rijeka.
- ▶ Court automation, training, and specialization represent key drivers in increasing Operational Efficiency of the Business Insolvency process. Courts where respondents noted limited broadband or lack of IT equipment are generally the ones reporting higher times for the finalization of cases.
- ▶ Cities such as Split are excelling on both liquidation and reorganization times, while Zagreb does better with reorganization than with liquidation, thanks to the more specialized expertise of local judges on law and economics issues. Zagreb lags behind in terms of court Operational Efficiency, mainly because of the time it takes to go through the liquidation process: 40 months, which is four months slower than Rijeka, the second slowest city.
- ▶ In general, Pillar III, which measures the Operational Efficiency of the Regulatory Framework, is the driver of most variations across the cities, especially on the Business Insolvency topic.



# Areas of Improvement

## Business Entry



The multiplicity of channels for company registration in Croatia has produced a fragmented registration process. Modernizing Croatia's business registration regime and aligning it with EU practices and directives will require inte-

grating the disparate databases, closing parallel online and physical channels for registration services, and digitalizing and integrating all registration procedures for all legal entity types onto one platform. Similarly, reviewing the rules to approve company names by a more transparent process could help Croatian entrepreneurs. The authorities could also explore the approach followed by Portugal, where a preapproved list of names is available for entrepreneurs to choose from before registration.

Other areas for improvement for Business Entry in Croatia include eliminating the start-up capital requirement for limited liability companies. The removal of the minimum capital requirement aligns with trends in other EU Member States, including Belgium, Finland, Ireland, and the Netherlands. Other EU Member States, such as Bulgaria, Greece, and Portugal, have reduced the capital requirement to less than 0.1 percent of income per capita.

## Business Location



Recently introduced reforms and digital transformation have enhanced public services and transparency of information for Building Permitting. For example, the e-Conference module in the ePermit system has reduced the number of steps re-

quired to obtain these permits. Despite these efforts, developers still need to wait about five months from the initial request for a building permit until receipt, and about two months, on average, from the initial request for an occupancy permit until obtainment, mostly due to backlogs in the municipality. For this reason, Croatia could consider introducing a fast-track procedure for an extra fee. New regulations could establish different levels of examination—and therefore different time frames—for different levels of complexity. The Austrian capital, Vienna, implemented a simplified, fast-track building-permit

process for common low-risk construction. This process allows a developer to begin construction one month after submitting the application if the building authority has not indicated that the standard permit-processing procedures apply.

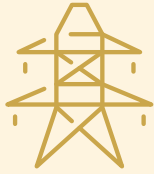
Another solution to increase efficiency would be to invest in improving workflow methodology and internal IT processes to determine the reallocation and hiring of staff to handle the applications. Improving the building-permitting process is possible by hiring a greater number of new skilled professionals, who will specialize in working on specific steps in the permit-issuance process. Other areas of improvement include enhancing Croatia's spatial planning with ePlans-Editor and e-Regimes integration. The ePlans-Editor features for drawing official maps of spatial plans would enhance planning decisions, provide standardized and automated data import control according to preestablished rules, and report errors that need to be corrected. The e-Regimes module would make it possible to create real-time plans for all infrastructure under and above ground, enabling the introduction of the "one dig" policy for utilities. These developments could improve the efficiency and standardization of the permitting process while moving toward complete digitalization.

Croatia could consider developing and deploying a comprehensive online platform that would modernize and streamline the environmental-permitting process. The new digital system could be designed to replace the current paper-based application method and introduce efficiencies in permit processing. Drawing on successful models, Croatia could benefit from adopting a fully integrated online Environmental Permitting platform similar to Portugal's SILiAmb system, which includes a full suite of online functionalities that streamline the permitting process and enhance stakeholder engagement. Furthermore, the country could undertake a dual strategy to increase the efficiency of Environmental Permitting procedures by enhancing the clarity of legal norms and capacity building of government officials through continuous training programs.

To further enhance land administration and Property Transfer in Croatia, a distinct dedicated compensation mechanism could be set up at the Land Registry. Additionally, its offices, hampered by case backlogs, may contemplate sharing some of the workload with a less burdened Land Registry office.

Finally, relevant authorities could increase transparency of the land administration system by publishing and committing to service standards at both the Land Registry and Cadaster, as well as developing statistics on property-related disputes and the time it took to solve them.

### Utility Services



To enhance the provision of electricity service in Croatian cities, one potential improvement could be replacing the requirement for an internal wiring certificate with a system of self-certification of compliance. While ensuring the safety

and quality of electrical installations is paramount, it is possible to achieve this without imposing additional hurdles for obtaining new connections. In other EU Member States, such as Denmark and Germany, regulations allow the contractor responsible for internal installation to submit a self-certificate, ensuring quality and safety without the need for third-party inspection. Additionally, the effectiveness of the online application platform utilized in Croatian cities could be improved. Although an online application portal exists, many users opt for email or paper-based methods due to their unfamiliarity with the platform. In the short term, HEP (*Hrvatska Elektroprivreda*), the national electrical power company, could enhance efficiency by appointing a single point of contact to assist customers throughout the connection process, minimizing confusion and facilitating smooth communication. In the longer term, Croatian cities could emulate the approach taken by the Netherlands, where a single centralized platform enables developers and citizens across the country to request various utility connections. This centralized system would streamline permitting processes, align local and national laws, and promote efficiency.

Croatian cities could enhance the efficiency and transparency of acquiring excavation permits by integrating local water utilities' systems with the national e-Construction Permit platform. This measure would benefit cities such as Zagreb, where obtaining a municipality excavation permit currently entails a monthlong process. Technological solutions, when coupled with user-awareness campaigns and real-time troubleshooting mechanisms, prove highly effective in mitigating delays. Furthermore, these solutions could facilitate data collection to identify the root causes of delays. Implementing a tracking system for applications would be equally pivotal in streamlining the process. Cities in Croatia could follow the example of Rijeka, where obtaining an excavation permit for a water connection re-

quires only 10 days. In Rijeka, the efficiency is attributed to regular meetings known as "Coordination of Activities and Operations on Roads and Public Areas," where representatives from the local municipality, electricity and water utilities, and other stakeholders convene. To improve efficiency, cities could also pursue the digitalization of processes such as online applications for water connections. Additionally, the country could enhance its regulatory framework by implementing both financial and nonfinancial incentives to encourage the adoption of demand-side water-management practices.

### Dispute Resolution



Improving the Croatian dispute-resolution framework requires addressing several key areas. Firstly, publishing all first instance and appellate court decisions online within a searchable database would enhance transparency and improve public trust. Secondly, promoting alternative dispute-resolution mechanisms could reduce judges' caseloads and alleviate the backlog of cases. Finally, while Croatia has made progress in digitalizing its judicial system, it could further strengthen the digital capacity of all its courts to implement the already available digitalized platform for publishing the court schedules online.

### Business Insolvency



Several key areas have been identified for enhancing the insolvency framework of Croatia. Firstly, to improve the efficiency of the proceedings, tailored and continuous educational training could be provided to both judges and insolvency practitioners.

This would ensure better decision-making throughout the insolvency proceedings. Secondly, enforcing audits and evaluations for the performance of insolvency administrators would enhance their accountability, efficiency, and professionalism. Finally, incorporating special proceedings for micro-, small, and medium-sized enterprises into the regulatory framework would provide more streamlined and improved second chances for local businesses.



Table 1. Summary of Potential Opportunities for Regulatory Improvement in Croatia

Topic	Areas of Improvement	Relevant Stakeholders
<b>Business Entry</b>	Move toward a single window for business registration	<ul style="list-style-type: none"> <li>Ministry of Economy</li> <li>Ministry of Justice, Public Administration and Digital Transformation</li> </ul>
	Eliminate the start-up capital requirement for limited liability companies	<ul style="list-style-type: none"> <li>Ministry of Justice, Public Administration and Digital Transformation</li> </ul>
	Increase certainty in company name verification	
<b>Business Location</b>	<b>Building Permitting</b>	
	Reduce the waiting time for processing municipal permits	<ul style="list-style-type: none"> <li>Ministry of Physical Planning, Construction and State Assets</li> </ul>
	Enhance Croatia's spatial planning with ePlans-Editor and e-Regimes integration	
	<b>Environmental Permitting</b>	
	Develop and deploy an integrated online environmental permitting platform	<ul style="list-style-type: none"> <li>Ministry of Economy</li> <li>Environmental Protection and Energy Efficiency Fund</li> </ul>
	Simplify the regulatory framework and strengthen capacity building for government officials	<ul style="list-style-type: none"> <li>Environmental Protection and Energy Efficiency Fund</li> </ul>
	<b>Property Transfer</b>	
	Complete the integrations between the Land Registry's and the Cadaster's records	<ul style="list-style-type: none"> <li>Ministry of Justice, Public Administration and Digital Transformation</li> <li>State Geodetic Authority</li> </ul>
	Complete registration of all private properties in the country	<ul style="list-style-type: none"> <li>Ministry of Justice, Public Administration and Digital Transformation</li> </ul>
	Conclude sharing workloads agreements	<ul style="list-style-type: none"> <li>Municipal courts</li> </ul>
	Set up a distinct compensation mechanism at the Land Registry	<ul style="list-style-type: none"> <li>Ministry of Justice, Public Administration and Digital Transformation</li> </ul>
Increase transparency of the land administration system	<ul style="list-style-type: none"> <li>Ministry of Justice, Public Administration and Digital Transformation</li> <li>State Geodetic Authority</li> </ul>	
<b>Utility Services</b>	<b>Electricity</b>	
	Improve the reliability of the electricity supply	<ul style="list-style-type: none"> <li>Croatian Energy Regulatory Agency (HERA)</li> <li>National electrical power company (HEP)</li> <li>Ministry of Economy</li> </ul>
	Replace the internal certificate with self-certification of compliance	
	Strengthen the online application platform	
	<b>Water</b>	
	Streamline the excavation permit process	<ul style="list-style-type: none"> <li>Ministry of Physical Planning, Construction and State Assets</li> <li>Municipalities</li> <li>Water utilities</li> </ul>
	Review the excavation permit process	<ul style="list-style-type: none"> <li>Croatian Roads Agency</li> <li>Municipalities</li> <li>Water utilities</li> </ul>
	Improve digitalization	<ul style="list-style-type: none"> <li>Water utilities</li> </ul>
Incentivize water-saving practices	<ul style="list-style-type: none"> <li>Ministry of Economy</li> <li>National regulator (<i>Vijeće za vodne usluge</i>, or Council for Water Services)</li> </ul>	

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Topic	Areas of Improvement	Relevant Stakeholders
<b>Dispute Resolution</b>	Expand the publication of court judgments	<ul style="list-style-type: none"> <li>Ministry of Justice, Public Administration and Digital Transformation</li> </ul>
	Promote alternative dispute resolution mechanisms	
	Improve the digitalization of courts	
<b>Business Insolvency</b>	Adopt tailored training programs for judges who are dealing with insolvency proceedings	<ul style="list-style-type: none"> <li>Ministry of Justice, Public Administration and Digital Transformation</li> </ul>
	Implement continuous training programs for insolvency administrators	
	Enforce audits and evaluations of insolvency administrators' performance	
	Implement special rules for micro-, small, and medium-sized enterprises	

Source: Subnational Business Ready