



Faculty of Economics, University of Niš, 18 October 2013

**International Scientific Conference
THE GLOBAL ECONOMIC CRISIS AND
THE FUTURE OF EUROPEAN INTEGRATION**

**BUSINESS FRIENDLY ENVIRONMENT – THE KEY TASK OF
THE LOCAL SELF-GOVERNMENT**

Jelena Stanković*

Vesna Janković-Milić*

Gorica Bošković*

***Abstract:** The local community is the most convenient form for determining the needs of the citizens and the commitment of human and material resources to meet them. Indispensable role and importance of local government primarily can be perceived through the official statistics, which shows that more than half of all legislation and regulations in the European Union are implementing just at the local level. Starting from this, especially from the indisputable role of local self-government in organizing activities that can satisfy the needs of the business community, the results of the evaluation of local government and their significance in this process from the aspects of the business community is presented in this paper. Positive experiences, shortcomings and weaknesses that still exist in the provision of certain public services were the topics that were pleaded by managers of companies in the city of Nis.*

***Key words:** local self-government, business community, business environment, data analysis.*

1. Introduction

All papers should be written in English. The paper should be 10-15 pages in length and include text, illustrations, tables, references and other. The paper should be formatted according to the following specifications: Page Setup - Margins - Top, Bottom: 5cm, left, right - Favourable climate or environment in which economic activity takes place is one of the factors attracting investment, in terms of the state and in the case of cities and municipalities in the country. At the international level, states are competing for funds and investors are trying to attract as many for initiating or accelerating economic activity.

* University of Nis, Faculty of Economics, Serbia; jelena.stankovic@eknfak.ni.ac.rs,
vesna.jankovic@eknfak.ni.ac.rs, gorica.boskovic@eknfak.ni.ac.rs
UDC 352

Business Friendly Certification is a process which promotes standards of effective and transparent local administration and enables assessment of the quality of services and information that municipalities provide investors and businessmen. Experiences from the previous period in Serbia support the claim that local governments can create the business climate such that the level of competitiveness of the city, county or region is far above the level of competitiveness of the state. Serbia takes 95. place according to the score of *Global Competitiveness Index* (3.87), (*The Global Competitiveness Report 2011-2012, World Economic Forum*).

Local governments are likely the primary policy makers and regulators that entrepreneurs and small businesses encounter. Unfortunately, many local governments do not know the impact of their efforts or what their most effective roles should be. Too often, local regulations can unknowingly create institutional and bureaucratic barriers that impede development and the speed to market for new businesses. Additionally, while most local governments have policies and programs designed to proactively support entrepreneurs and small businesses, these efforts are not necessarily well suited to meet the needs of the types of small businesses most likely to drive economic growth (McFarland, Seeger and Geary, 2010).

One way of improving the competitiveness is process of cities and municipalities certification. Certification is intended for all municipalities and cities, which want to improve business conditions in their communities, attract new investment and stimulate local economic development. The certification process includes 12 criteria and more than 80 sub-criteria by which to evaluate whether and to what extent a municipality met the standards of a favorable business environment:

- The strategic approach to local economic development,
- Organizational capacity to support the economy,
- The involvement of economy in the local government (business advice),
- An effective system for issuing building permits,
- The availability of information relevant to the business,
- Application of marketing in order to promote investments,
- Credit worthiness and financial stability,
- Promotion of Employment and Human Resources,
- Encourage public-private partnerships,
- Adequate infrastructure and reliable public utility services,
- Transparent policy of local taxes, and tax incentives,
- Application of information technology.

Business friendly environments have those municipalities that meet the 75% criteria mentioned above. Nearly a third of all local governments in Serbia improved business environment through this certification program. Certificate of favourable business environment has a total of 19 municipalities and cities.

2. Basic Information About the Research and the Main Hypothesis

By participating in the certification process the City of Nis has achieved results in terms of improving the business climate, but also improving the quality of local government institutions, as well as the services that the city provides. In general, obtaining

Business Friendly Environment –The Key Task of The Local Self-Government

a certificate of a favourable business environment in 2010 was supposed to contribute to improving the business community opinion about the city as a place to do business.

In this regard, in 2011, the survey was conducted among employers of Nis in the aim to collect information about the opinion of economic sector on a range of issues related to the problems and prospects of their business, but as well to the role of local institutions in creating a favourable business environment. The same survey was conducted in 2009 and it is possible to perform a comparative analysis of the results. The survey included a total of 120 companies and entrepreneurs, or 100 companies, of whom 7 are in the reconstruction and 20 entrepreneurial stores. From the standpoint of branch all enterprises and entrepreneurs were divided into four categories:

- (1) Construction companies,
- (2) Production companies,
- (3) Service companies and
- (4) Companies in the field of recycling and ecology.

The main hypotheses in this research are the following:

H1: The certification process led to increased satisfaction of the business community with institutions and with public services in the City.

H2: The level of public services and quality of institutions influences creation of opinions about the city as a place for business as well as about the quality of life in the city.

Relevant data analysis methods, especially descriptive statistics, methods of statistical inference and the method of comparative analysis of data collected by surveys from 2009 and 2011 were used for the purpose of testing these hypotheses. Methodologically speaking, respondents evaluated the institutions and certain services under the jurisdiction of local governments, and expressed their opinion about the quality of life in the city and about the city as a place to do business with scores on a scale with five levels of evaluation: (1) exceptional, (2) good, (3) satisfying (4) bad, and (5) no opinion. Questionnaire contained open and closed questions, as well as some specific questions related to general information about the business enterprise and planned investments.

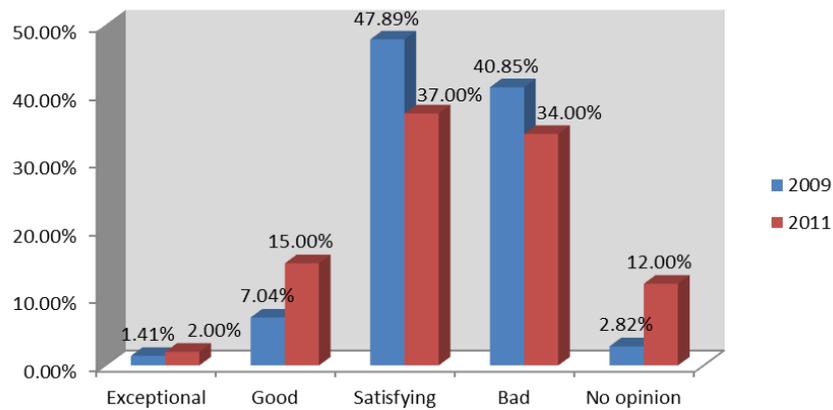
3. Assessment of the Role of Local Government in Creating an Favourable Business Environment - Research Results

In order to create a the image of how the business community of the city, business conditions in it, and the role of local government in creating these conditions, respondents answered to five groups of questions: (1) the city as a place to do business, (2) the quality of life in the city , (3) the public service in the city, (4) the quality of national institutions and local government institutions, and (5) the key topics to the Strategic Development Plan of the City should contain.

Opinion about the city as a place of business is satisfactory, that largest number of respondents, 37% considered it. Comparing the results from 2009 and 2011 it can be seen a slight increasing trend of the category "exceptional", namely from 1.41% to 2% of all respondents. There is a noticeable and significant increase in the category "good" from 7.04% to 15%. In 2011 there is no category of "bad", which can be seen as a positive trend, too. On the other hand, significantly increased the number of respondents who did not want

to answer, which is considered as a negative trend because it shows the indifference of a significant number of members of the business community (12%) according to the business environment. The results of comparative analysis of opinions about the city as a place of business are presented in Figure 1.

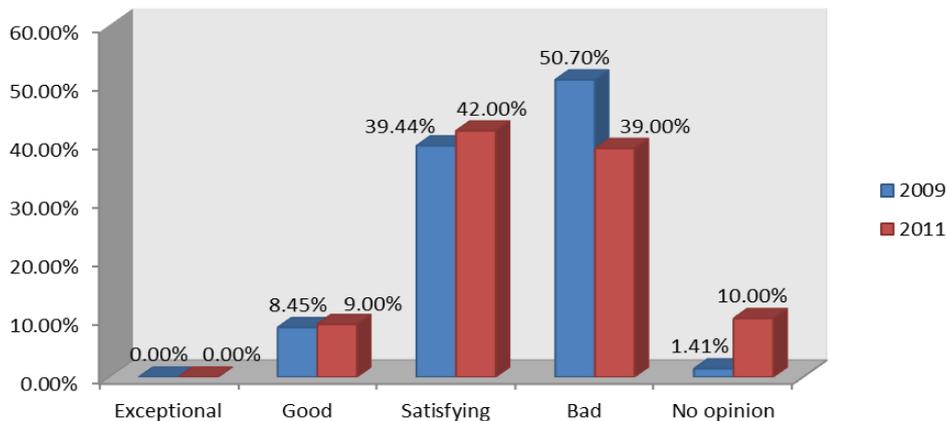
Figure 1. Comparative view of qualitative assessment of the city as a place to do business



Source: Author's Preview

Similarly, *the opinion of the quality of life in the city* can be rated as "satisfactory", as it is precisely this category selected largest number of respondents, 42% of them. Reducing the number of responses in the category of "bad" was observed in this case, as well as increasing of negative responses in the "no opinion", as shown in Figure 2.

Figure 2. Comparative view of qualitative assessment about the quality of life in the city



Source: Author's Preview

Business Friendly Environment –The Key Task of The Local Self-Government

Quantification of qualitative results was performed by each assigning marks of 1 to 5 for each qualitative category. Where 5 represents the highest level of preference - extremely, and 1 the lowest preference - no opinion. Results obtained in this way are presented in Table 1.

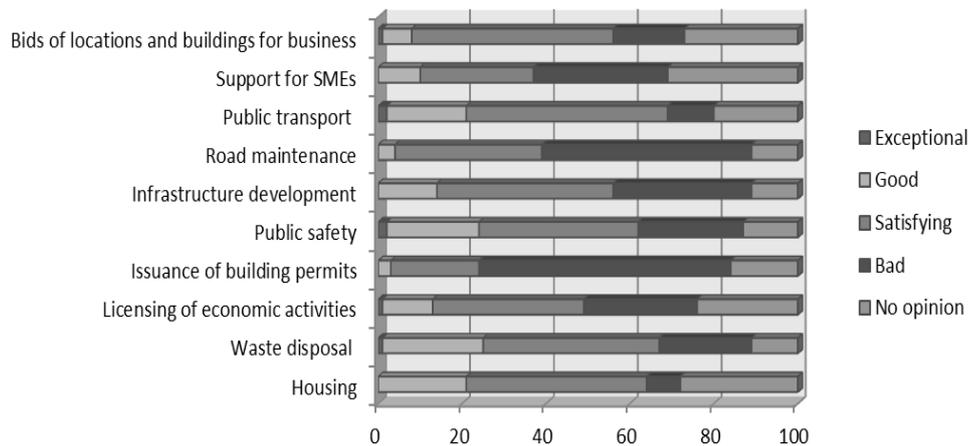
Table 1. Comparative analysis of average marks about the city as a place to do business and about the quality of life in the city

Evaluated category	Average mark	
	2009	2011
The city as a place to do business	2.68	2.83
The quality of life in the city	2.57	2.67

Source: Author's calculation

These general assessments, which constitute a specific image of the city, have been supplemented with specific assessments of public services and institutions, which are actually responsible for creating the the image of life and work in the city. Specifically, in addition to general opinions about the city as a place for business and quality of life in it, the respondents evaluated *quality of public services* through the assessment of the following services: (1) bids of locations and buildings for business, (2) support for SMEs, (3) public transport (4) road maintenance, (5) the development of infrastructure (gas, water, sewer, electricity), (6) public safety, (7) the issuance of building permits, (8) the licensing of economic activities, (9) waste disposal and (10) housing. The structure of qualitative evaluation is presented in Figure 3.

Figure 3. The structure of qualitative assessments of public services quality



Source: Author's Preview

Quantification of qualitative evaluation has been made by the same methodology as in the case of the city as a place of business and the quality of life in the city. Quantitative assessments in 2011, as well as their comparison with estimates from 2009 are presented in Table 2.

Table 2. Comparative analysis of public services quality assessment

Service	2009	2011	Absolute change	Relative change
Bids of locations and buildings for business	1.23	2.48	1.25	+101.63%
Support for SMEs	1.29	2.43	1.14	+88.37%
Public transport	2.02	3	0.98	+48.51%
Road maintenance	1.44	2.43	0.99	+68.75%
Infrastructure development	1.45	2.71	1.26	+86.90%
Public safety	2.5	2.94	0.44	+17.60%
Issuance of building permits	1.2	2.21	1.01	+84.17%
Licensing of economic activities	2	2.6	0.6	+30.00%
Waste disposal	1.98	3	1.02	+51.52%
Housing	2.41	2.82	0.41	+17.01%
Total average score	1.75	2.66	0.91	+52.00%

Source: Author's calculation

Overall score of services provided by local governments in the 2009th was 1.75, while the 2011th the total average score is 2.66. The lowest average marks have the issuance of building permits (2.21), road maintenance (2.43) and the support of SMEs (2.43).

The highest average scores have received public transportation (3), waste disposal (3) and public safety (2,94). Interestingly, the categories that are among the lowest ranked in the 2011th year, actually recorded the highest increase in ratings compared to 2009. First of all, this relates to the development of infrastructure, which the average score increased from 1.45 to 2.71(+86.90%). The same goes for the average marks for bids of locations and buildings for business where the score increased from 1.23 to 2.48 (+101.63%), and for support for SMEs (the average mark is increased by 88.37%). To the question what services the local government should improve first, the respondents cited the issuance of building permits, support for SMEs and road maintenance. Improving the issuance of building permits is a service which was considered as a priority for improvement in 2009 also.

Unlike the research carried out in 2009, in the research realized in 2011 the business community of the city of Nis evaluated major national and local institutions. Applying the same qualitative evaluation methodology, respondents expressed their opinion about the state institutions and the institutions of local self-government. The list of the evaluated institutions and the structure of qualitative assessments of these institutions is given in Table 3.

Table 3. The structure of qualitative assessments of the republic institutions and local self-government institutions

	Exceptional	Good	Satisfying	Bad	No opinion
The Mayor	9.0%	17.0%	8.0%	5.0%	61.0%
The Deputy Mayor	5.0%	7.0%	2.0%	5.0%	81.0%
The City Hall/ Council	1.0%	5.0%	9.0%	4.0%	81.0%
Local Economic Development Office	6.0%	10.0%	4.0%	6.0%	74.0%
Department for Economy and Sustainable development	0.0%	5.0%	6.0%	4.0%	85.0%
Department of City Development	3.0%	15.0%	10.0%	5.0%	67.0%

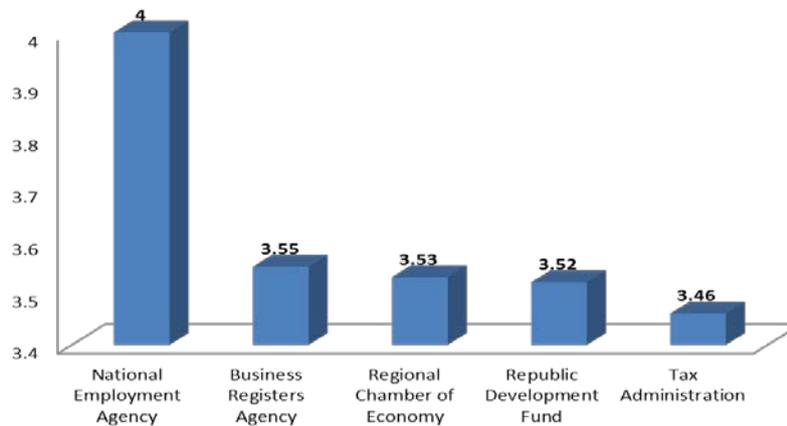
Business Friendly Environment –The Key Task of The Local Self-Government

	Exceptional	Good	Satisfying	Bad	No opinion
Business Registers Agency	8.0%	31.0%	21.0%	9.0%	31.0%
The Agency for SMEs	2.0%	7.0%	8.0%	3.0%	80.0%
SIEPA	8.0%	10.0%	9.0%	5.0%	68.0%
State government	4.0%	5.0%	10.0%	7.0%	74.0%
National Employment Agency	21.0%	23.0%	11.0%	5.0%	40.0%
Regional Chamber of Economy	8.0%	20.0%	20.0%	7.0%	45.0%
Business associations	7.0%	16.0%	14.0%	3.0%	60.0%
Tax Administration	5.0%	31.0%	18.0%	11.0%	35.0%
Republic Development Fund	6.0%	19.0%	20.0%	5.0%	50.0%
Republic Guarantee Fund	1.0%	2.0%	5.0%	5.0%	87.0%
The Customs Administration	4.0%	18.0%	21.0%	4.0%	53.0%

Source: *Source:* Author's calculation

It can be seen that a large number of respondents had an indifferent attitude according to republic and local self-government institutions - only 3 institutions was rated by more than 50% of respondents. Evident is a negative phenomenon that a large number of respondents did not express an opinion on the efficiency of these institutions. For this reason, the authors have taken as a relevant only review of those institutions which was rated more than 50% of respondents. Applying the same method of quantifying and translating qualitative assessments on a scale of 1 to 5 the obtained results indicate that the best rated institution are National Employment Agency (NES) with an average score of 4, the Business Registers Agency with a score of 3.55 and Tax Administration (3.46). The biggest problems in working with these institutions are: the failure to address the problem, lack of interest, complex procedures, and poor organization and so on. The average marks of top five the best evaluated institutions are presented on Figure 4.

Figure 4. The best evaluated institutions

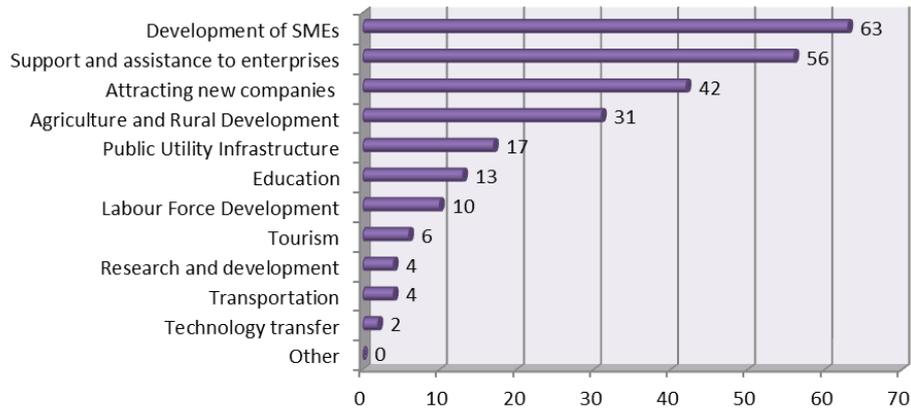


Source: Author's Preview

Finally, in order to achieve and maintain a favourable business climate, one of the prerequisites is to harmonize the development of strategies to the requirements of enterprises and entrepreneurs in the city. Most companies believe that local government

should be actively engaged in attracting investment, tax incentives, financial assistance to businesses, which is almost identical to the perception from the 2009. Figure 5 shows the topics that have the priority for inclusion in the Strategic Plan for economic development of the City.

Figure 5. Priority topics in Strategic plan for economic development of the City



Source: Author's Preview

As it can be seen from the Figure 6, the surveyed companies believe that the Strategic plan for economic development of the City should pay maximum attention to the development of small and medium-sized enterprises, support and assistance to businesses and attract new companies (foreign), the development of community infrastructure and so on.

4. Conclusion

Certification program is a kind of recognition of the quality of the functioning of cities and municipalities in order to attract direct investment - both foreign and domestic. In order to succeed in its attempt to obtain a certificate "friendly mood toward investors" local government must know what information and conditions potential investors will look for, or have to perceive their territory from the perspective of potential investors. This approach, which should result in certification of cities and municipalities, enables job creation, balanced growth and prosperity of local governments, which, finally, leads to a balanced development of the country. By participating in the certification process the City of Nis has achieved results in terms of improving the business climate, but also improves the quality of local government institutions, as well as the services that the city provides.

Based on presented results, it can be concluded that, after obtaining the certificate of a favourable business environment in 2010, the opinion of the business community about the city of Nis as a place for doing business has improved (average score increased from 2.68 in 2009 to 2.83 in 2011.). Also, there is a perception of a higher level of quality of life in the city, as the average score increased from 2.57 in 2009 to 2.67 in 2011.

Business Friendly Environment –The Key Task of The Local Self-Government

Certification process includes more stringent requirements regarding the quality of public services (e.g. reducing the time required for issuing construction permits and licenses for business activities, maintenance of infrastructure, including higher level of utility services). In accordance with the fulfilment of these requirements, an evaluation of all public services in the city increased in 2011 compared to 2009.

Unlike the assessment of public services where there was a positive attitude towards change, in estimating national institutions and local government institutions, the business community was quite indifferent in the evaluation. The majority of institutions are rated with category of "no opinion", which cannot be considered as a good tendency.

From the aforementioned reasons it can be concluded that due to the process of certification city of Nis has improved the business climate. There are still a number of flaws whose correction could improve business conditions and competitive position on the direct investment market.

References

1. FDI Intelligence (2012) *European Cities and Regions of the Future 2012/13*, <http://www.fdiintelligence.com/Rankings/European-Cities-and-Regions-of-the-Future-2012-13> (02.04.2012).
2. International Labour Office (2010) *Women in labour markets: Measuring progress and indentifying challenges* (Geneva), http://www.ilo.org/wcmsp5/groups/public/edemp/empelm/trends/documents/publication/wcms_123835.pdf (02.03.2012).
3. Kanbur, P. and A. Vanables (2005) *Spatial Inequality and Development*, Oxford University Press, Oxford.
4. McFarland, C., Seeger, K. and Geary, C. (2010) *The Role of Local Elected Officials in Economic Development: Ten Things You Should Know*. Washington, D.C.: National League of Cities.
5. Mijačić, Dragiša i Blagoje Paunović (2012) Regionalne razlike u Srbiji. *Ekonomika preduzeća*, 60 (1-2): 379-389.
6. OECD (2011) *OECD Regions at a Glance 2011*, Organisation of Economic Co-Operation and Development.
7. Republički zavod za statistiku (2011) Statistički godišnjak Republike Srbije, Beograd, from <http://webrzs.stat.gov.rs/WebSite/Public/PublicationView.aspx?pKey=41&pubType=1> (08.12.2011.)
8. Republički zavod za statistiku (2012) Opštine i regioni u Srbiji u 2011, Beograd, http://webrzs.stat.gov.rs/WebSite/repository/documents/00/00/54/08/Opstinski_godisnjak_Republike_Srbije_2011.zip (28.02.2012.)
9. World Economic Forum (2011) *The Global Competitiveness Report 2011-2012*, http://www3.weforum.org/docs/WEF_GCR_Report_2011-12.pdf (28.01.2012).
10. <http://www.fdiintelligence.com/>
11. <http://www.naled-serbia.org/>

POVOLJNO POSLOVNO OKRUŽENJE – KLJUČNI ZADATAK LOKALNIH SAMOUPRAVA

Rezime: Lokalna zajednica je najpogodniji oblik organizacije koji ima za cilj određivanje potreba građana i posvećenosti ljudskih i materijalnih resursa njihovom zadovoljavanju. Nezamenljiva uloga i značaj lokalne samouprave može se posmatrati prvenstveno kroz zvanične statistike, koje ukazuju na to da se više od polovine svih zakona i propisa u Evropskoj uniji sprovodi samo na lokalnom nivou. Polazeći od toga, posebno od nesporne uloge lokalne samouprave u organizovanju aktivnosti koje mogu da zadovolje potrebe poslovne zajednice, u ovom radu su predstavljeni rezultati stavova i ocena lokalne vlasti dobijeni od strane poslovne zajednice. Pozitivna iskustva, nedostaci i slabosti koje i dalje postoje u pružanje određenih javnih usluga bile su teme o kojima su svoje stavove iskazali anketirani menadžeri preduzeća i preduzetnici iz grada Niša.

Ključne reči: lokalna samouprava, privrednici, poslovno okruženje, analiza podataka.