

Doing Business in the European Union 2018

Fact Sheet: Slovakia



Doing Business in the European Union 2018: Croatia, the Czech Republic, Portugal and Slovakia is the latest in a series that aims to expand the benchmarking to secondary cities in all EU member states with a population above 4 million. This edition covers 25 cities from 4 member states. The focus of the report is on indicator sets that measure the complexity and cost of regulatory processes, as well as the strength of legal institutions, affecting 5 stages in the life of a small to medium-size domestic firm: starting a business, dealing with construction permits, getting electricity, registering property and enforcing contracts. Top performing cities are identified and best regulatory practices are highlighted. The report suggests that reform-minded officials need not look far: the region has good, practical models to draw on.

DOING BUSINESS IN SLOVAKIA

Doing Business in the European Union 2018: Croatia, the Czech Republic, Portugal and Slovakia goes beyond the capital cities—measured by *Doing Business*—to identify good regulatory practices, uncover administrative bottlenecks and recommend reforms based on examples from each country and 186 other economies measured by *Doing Business*.

In Slovakia, the report assesses the business regulatory environment and its impact on local entrepreneurs in **5 cities**: Bratislava, Košice, Prešov, Trnava, and Žilina.



The report was prepared by the World Bank Group, under the auspices of the Ministry of Economy and Ministry of Finance of Slovakia, and funded by the European Commission, Directorate General for Regional and Urban Policy.

MAIN FINDINGS

- **Slovak entrepreneurs face different regulatory hurdles depending on where they establish their businesses.** Implementation of business regulations as well as efficiency of public agencies vary within the country. The largest variations in regulatory performance among the Slovak cities are in the areas of getting electricity, dealing with construction permits and enforcing contracts. For example, establishing a new electricity connection takes 56 days and costs 55.2% of income per capita in Žilina. The same takes a month longer and costs more than four times as much in Bratislava and Trnava. A similar variation emerges when it comes to the time it takes to deal with construction permits. But here Žilina, with 320 days, has the lengthiest process—two months longer than in Prešov and Trnava. Trial time at the court in Košice is just over 15 months, two months faster than in Bratislava—perhaps predictably, given the respective caseloads.
- **Smaller cities in Slovakia are more business-friendly as they vie to compete with the capital.** Except for Bratislava, each of the five cities benchmarked in Slovakia ranks at the top in at least one area. Starting a business is easier in Žilina—where VAT registration takes 5 days, compared to 10 days in

Bratislava. Construction permitting is more efficient in Prešov and getting electricity in Žilina. Trnava stands out for its performance in registering property and Košice outperforms its peers in enforcing contracts.

▪ **Slovak cities outperform the European Union average in property registration and contract enforcement, and all cities except Trnava also do so in getting electricity.**

However, there is still room to improve in starting a business and dealing with construction permits—where all cities benchmarked have processes that are more complex and lengthier than the average amongst EU member states. Even in Prešov, with the fastest permitting process among the five benchmarked cities, a builder needs to wait two and a half months longer than the EU average and six months longer than in the EU member states with the fastest processes (Denmark and Finland).

▪ **Local improvements will not only advance the relative standing of cities vis-à-vis one another in Slovakia, but also can make a significant difference on the global scale.**

Reform-minded local officials can make tangible improvements by replicating measures already successfully implemented in other cities in their country. And because Bratislava represents Slovakia in the *Doing Business* global ranking, improvements in this city would be reflected in the country's ranking. If Bratislava were to adopt all the good practices found across the country, Slovakia would move substantially closer to the global frontier of regulatory best practices. It could mean an improvement of 9 places in the global ranking of 190 economies on the ease of doing business—from 39 to 30. For example, cities could follow the example of Žilina, where the distribution utility introduced a number of measures to increase efficiency: it eliminated the approval of project documentation—and instead provides more detailed technical conditions up front so that there is little ambiguity for project designers. It also replaced the completion report with an affidavit through which the entrepreneur confirms that the external connection has been prepared in accordance with the technical conditions.

▪ **Despite a number of good practices documented in the report, challenges remain.**

Looking beyond Slovakia's borders to EU or even global good practices is another way to boost competitiveness. To make business start-up easier, Slovakia could follow the example of the Czech Republic, where the minimum capital requirement is a symbolic CZK 1. Today Slovak entrepreneurs need to deposit EUR 2,500 as paid-in minimum capital—as a share of income per capita (17.2%), this amount remains among the highest in the EU. Slovakia could also consider consolidating VAT

registration with business and corporate income tax registration at the Trade Licensing Office's one-stop shop. This would follow the example of Hungary, where VAT registration is a simple notification done during the incorporation process. Slovakia could make dealing with construction permits easier by increasing the role of certified private sector professionals in the permit-issuing process, consolidating preconstruction clearances and introducing an electronic permitting system. To make enforcing contracts easier, Slovakia could ease the burden on the courts by encouraging the use of alternative dispute resolution, such as by expanding the types of cases that can be submitted to arbitration and strengthening the validity of arbitration clauses.

ABOUT SUBNATIONAL DOING BUSINESS

Subnational Doing Business studies capture differences in business regulations and their enforcement across locations in a single country. The reports provide data on the ease of doing business in selected areas, rank each location, and recommend reforms to improve performance at the local level.

- **Offers a new diagnostic tool.** Applying the methodology used in the cross-country global *Doing Business* report in a number of locations in the same country or region, the projects create micro-level data on various areas of business regulation. This allows the participating locations to compare their business regulations among themselves and with 189 economies worldwide.
- **Motivates regulatory improvements.** The studies uncover bottlenecks, provide policy recommendations and identify local good practices that can easily be replicated without changing the country's legal and regulatory framework. The studies motivate regulatory improvements, mainly through peer-to-peer learning.

Since 2005, *Subnational Doing Business* has benchmarked more than 400 locations in 65 countries, including Hungary, Italy, Poland, Romania and Spain. *Subnational Doing Business* reports are available at: www.doingbusiness.org/subnational.

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