

# License to Compete

## Reforming the Regulation of Professions in Croatia



WORLD BANK GROUP

Funded by  
the European Union



Public Disclosure Authorized

Public Disclosure Authorized

Public Disclosure Authorized

Public Disclosure Authorized

# License to Compete

## Reforming the Regulation of Professions in Croatia

© 2020 International Bank for Reconstruction and Development / The World Bank  
1818 H Street NW, Washington, DC 20433  
Telephone: 202-473-1000; Internet: [www.worldbank.org](http://www.worldbank.org)

Some rights reserved

This work is a product of the staff of The World Bank with external contributions. The findings, interpretations, and conclusions expressed in this work do not necessarily reflect the views of The World Bank, its Board of Executive Directors, or the governments they represent. The World Bank does not guarantee the accuracy of the data included in this work. The boundaries, colors, denominations, and other information shown on any map in this work do not imply any judgment on the part of The World Bank concerning the legal status of any territory or the endorsement or acceptance of such boundaries.

Nothing herein shall constitute or be considered to be a limitation upon or waiver of the privileges and immunities of The World Bank, all of which are specifically reserved.

### Rights and Permissions



This work is available under the Creative Commons Attribution 3.0 IGO license (CC BY 3.0 IGO) <http://creativecommons.org/licenses/by/3.0/igo>. Under the Creative Commons Attribution license, you are free to copy, distribute, transmit, and adapt this work, including for commercial purposes, under the following conditions:

**Translations** — If you create a translation of this work, please add the following disclaimer along with the attribution: This translation was not created by The World Bank and should not be considered an official World Bank translation. The World Bank shall not be liable for any content or error in this translation.

**Adaptations** — If you create an adaptation of this work, please add the following disclaimer along with the attribution: This is an adaptation of an original work by The World Bank. Views and opinions expressed in the adaptation are the sole responsibility of the author or authors of the adaptation and are not endorsed by the World Bank.

**Third-party content** — The World Bank does not necessarily own each component of the content contained within the work. The World Bank therefore does not warrant that the use of any third-party-owned individual component or part contained in the work will not infringe on the rights of those third parties. The risk of claims resulting from such infringement rests solely with you. If you wish to re-use a component of the work, it is your responsibility to determine whether permission is needed for that re-use and to obtain permission from the copyright owner. Examples of components can include, but are not limited to, tables, figures, or images.

All queries on rights and licenses should be addressed to World Bank Publications, The World Bank Group, 1818 H Street NW, Washington, DC 20433, USA; e-mail: [pubrights@worldbank.org](mailto:pubrights@worldbank.org).

**Cover design:** Waldemar Koralewski, Warsaw, Poland

**Interior design and typesetting:** Piotr Ruczyński, London, United Kingdom

# Contents

8	_____	<b>Preface</b>
8	_____	<b>Acknowledgements</b>
9	_____	<b>Acronyms</b>
10	_____	<b>Executive summary</b>
10	_____	<b>Services to the rescue</b>
12	_____	<b>Roadmap for reform</b>
14	_____	<b>From recommendations to results</b>
16	_____	References
17	_____	<b>Introduction</b>
17	_____	<b>What are regulated professions?</b>
17	_____	<b>Why regulate professions?</b>
17	_____	<b>Why review the regulation of professions?</b>
20	_____	<b>How to review the regulation of professions?</b>
21	_____	<b>Which professions should be reviewed?</b>
24	_____	References
26	_____	<b>Notaries</b>
26	_____	<b>Market overview</b>
29	_____	<b>Regulated professions</b>
30	_____	<b>Restrictions</b>
38	_____	<b>Recommendations</b>
40	_____	References
42	_____	<b>Attorneys</b>
42	_____	<b>Market overview</b>
44	_____	<b>Regulated professions</b>
45	_____	<b>Restrictions</b>
53	_____	<b>Recommendations</b>
55	_____	References
58	_____	<b>Auditors</b>
58	_____	<b>Market overview</b>
60	_____	<b>Regulated profession</b>
61	_____	<b>Restrictions</b>
66	_____	<b>Recommendations</b>
67	_____	References
68	_____	<b>Tax advisors</b>
68	_____	<b>Market overview</b>
69	_____	<b>Regulated professions</b>
71	_____	<b>Restrictions</b>
76	_____	<b>Recommendations</b>
77	_____	References

80 \_\_\_\_\_ **Architects and construction engineers**

80 \_\_\_\_\_ **Market overview**

82 \_\_\_\_\_ **Regulated professions**

84 \_\_\_\_\_ **Restrictions**

90 \_\_\_\_\_ **Recommendations**

94 \_\_\_\_\_ **References**

98 \_\_\_\_\_ **Maritime pilots**

98 \_\_\_\_\_ **Market overview**

101 \_\_\_\_\_ **Regulated profession**

101 \_\_\_\_\_ **Restrictions**

106 \_\_\_\_\_ **Recommendations**

107 \_\_\_\_\_ **References**

109 \_\_\_\_\_ **Travel agency managers and tourist guides**

109 \_\_\_\_\_ **Market overview**

112 \_\_\_\_\_ **Regulated professions**

113 \_\_\_\_\_ **Restrictions**

124 \_\_\_\_\_ **Recommendations**

126 \_\_\_\_\_ **References**

129 \_\_\_\_\_ **Pharmacists and pharmaceutical technicians**

129 \_\_\_\_\_ **Market overview**

131 \_\_\_\_\_ **Regulated professions**

131 \_\_\_\_\_ **Restrictions**

143 \_\_\_\_\_ **Recommendations**

146 \_\_\_\_\_ **References**

148 \_\_\_\_\_ **Physiotherapists and physiotherapy technicians**

148 \_\_\_\_\_ **Market overview**

149 \_\_\_\_\_ **Regulated professions**

150 \_\_\_\_\_ **Restrictions**

156 \_\_\_\_\_ **Recommendations**

158 \_\_\_\_\_ **References**

## Boxes

- 20 \_\_\_\_\_ 1.1 The impact of occupational licensing on wages and employment
- 32 \_\_\_\_\_ 2.1 The reform of the notary quota in France
- 36 \_\_\_\_\_ 2.2 The liberalization of notary fees in the Netherlands

## Figures

- 10 \_\_\_\_\_ E.1 Total factor productivity in Croatia and Central and Eastern Europe, 2000–2019
- 10 \_\_\_\_\_ E.2 Total factor productivity growth in Croatia relative to 2010
- 11 \_\_\_\_\_ E.3 Total factor productivity gains from services liberalization
- 18 \_\_\_\_\_ 1.1 Restrictiveness of professional services regulation
- 19 \_\_\_\_\_ 1.2 Total factor productivity in Croatia and its peers, 2000–2019
- 19 \_\_\_\_\_ 1.3 Total factor productivity growth in Croatia relative to 2010
- 19 \_\_\_\_\_ 1.4 Total factor productivity gains from services liberalization
- 23 \_\_\_\_\_ 1.5 Restrictiveness of entry regulation in 50 professions in Croatia, 2018
- 26 \_\_\_\_\_ 2.1 Notarial market by type of notarial act, 2018
- 27 \_\_\_\_\_ 2.2 Notaries per 100,000 inhabitants in civil law countries of the EU, 2019
- 28 \_\_\_\_\_ 2.3 Entry and exit of Croatian notaries
- 28 \_\_\_\_\_ 2.4 Notaries per 100,000 inhabitants by court jurisdiction, 2019
- 28 \_\_\_\_\_ 2.5 Croatian population by number of notaries in municipality/town of residence, 2019
- 32 \_\_\_\_\_ 2.6 Notaries per 100,000 inhabitants in Poland and Croatia, 2019
- 42 \_\_\_\_\_ 3.1 Number of attorneys in Croatia
- 43 \_\_\_\_\_ 3.2 Legal services revenue in Croatia
- 44 \_\_\_\_\_ 3.3 Number of attorneys per 100,000 inhabitants, 2018
- 44 \_\_\_\_\_ 3.4 Market churn of legal services firms, 2015–2017
- 59 \_\_\_\_\_ 4.1 Revenues of auditing firms in Croatia
- 59 \_\_\_\_\_ 4.2 Number of auditing companies in Croatia
- 59 \_\_\_\_\_ 4.3 Revenue share of 'Big Four' audit firms in Croatia, 2018
- 60 \_\_\_\_\_ 4.4 Number of registered auditors per 100,000 inhabitants, 2017
- 64 \_\_\_\_\_ 4.5 Education and experience requirements for auditors in 21 EU countries
- 64 \_\_\_\_\_ 4.6 Exam pass rates of auditors in Croatia
- 70 \_\_\_\_\_ 5.1 Number of tax advisors per 100,000 inhabitants, 2018
- 70 \_\_\_\_\_ 5.2 New tax advisors in Croatia
- 73 \_\_\_\_\_ 5.3 Experience requirements for tax advisors in selected EU countries, 2012
- 81 \_\_\_\_\_ 6.1 Construction revenues
- 81 \_\_\_\_\_ 6.2 A/E revenues
- 82 \_\_\_\_\_ 6.3 Participation and success rates in architectural design competitions
- 82 \_\_\_\_\_ 6.4 Number of architects per 100,000 inhabitants
- 86 \_\_\_\_\_ 6.5 Membership in A/E professional bodies in the OECD, 2013
- 90 \_\_\_\_\_ 6.6 Price regulation of A/E services in the OECD, 2013
- 99 \_\_\_\_\_ 7.1 Share of maritime traffic by type of vessels, 2018
- 100 \_\_\_\_\_ 7.2 Average pilotage dues, 2011
- 101 \_\_\_\_\_ 7.3 Revenue of seaports in Croatia, 2010–2018
- 110 \_\_\_\_\_ 8.1 Tourism revenues, 2010–2018
- 110 \_\_\_\_\_ 8.2 Tourist arrivals by type, 2010–2018
- 111 \_\_\_\_\_ 8.3 Net profit margins of travel agencies in EU countries, 2018
- 111 \_\_\_\_\_ 8.4 Average age of travel agencies in EU countries, 2018
- 130 \_\_\_\_\_ 9.1 Pharmacists per 100,000 inhabitants, 2017
- 130 \_\_\_\_\_ 9.2 Pharmacies per 100,000 inhabitants, 2017
- 131 \_\_\_\_\_ 9.3 Age of pharmacies in operation, 2017
- 131 \_\_\_\_\_ 9.4 Non-dispensing services provided by community pharmacies, 2015–2018
- 133 \_\_\_\_\_ 9.5 Pharmacy density in five European countries, 1990–2013
- 149 \_\_\_\_\_ 10.1 Number of physiotherapists per 100,000 inhabitants

## Tables

13	E.1	Key restrictions to competition across 24 regulated professions in Croatia	70	5.2	Key entry requirements for tax advisors, auditors and attorneys in Croatia
13	E.2	Summary of recommendations for reforms in 24 professions	71	5.3	Types of anticompetitive restrictions in tax advisory regulations, 2019
15	E.3	Detailed list of recommendations for reforms in 24 professions	83	6.1	Number of general and specialist A/E license holders, 2017
21	1.1	Application of the MCPAT to the regulation of professions in Croatia	84	6.2	Types of anticompetitive restrictions in construction regulations
22	1.2	Professions selected for regulatory review in Croatia	99	7.1	Pilotage companies in Croatia, 2018
22	1.3	Overview of methodology for prioritizing regulated professions in Croatia	102	7.2	Types of anticompetitive restrictions in pilotage regulations
29	2.1	Number of notarial professionals in Croatia, 2019	113	8.1	Types of anticompetitive restrictions in tourism regulations
30	2.2	Types of anticompetitive restrictions in notary regulations, 2019	116	8.2	Number of licensed tourist guides, 2017
45	3.1	Types of anticompetitive restrictions in attorney regulations, 2019	117	8.3	Guides per 1,000 tourists by language group, 2018 <sup>a</sup>
48	3.2	Registration fees for lawyers who passed the Bar exam	121	8.4	Number of guides with A-G standard licenses, 2020
49	3.3	Bar registration fees in selected EU countries (EUR)	122	8.5	Number of CMA guides stationed in Lika, Rijeka, Sibenik and Zadar, 2020
61	4.1	Types of anticompetitive restrictions in audit regulations	132	9.1	Types of anticompetitive restrictions in pharmacy regulations
62	4.2	Differences between qualification requirements for auditors in Croatian and EU law	136	9.2	Professionals entitled to dispense prescription medicines
68	5.1	Providers of tax advisory services in Croatia, 2019	150	10.1	Types of anticompetitive restrictions in physiotherapy regulations

# Preface

Since 2016, the World Bank has partnered with the European Commission to support regulatory reforms in Croatia under the Structural Reform Support Program (SRSP). The reforms are a cornerstone of the 2019–2024 World Bank Group (WBG) Country Partnership Framework (CPF) for the Republic of Croatia. They are also anchored in the European Semester process, the cycle of economic and fiscal policy coordination within the European Union. Key regulatory reforms under the CPF and SRSP include reforming the regulation of professions, streamlining business registration, and introducing the public credit registry.

This document is the main deliverable of World Bank Advisory Services and Analytics (ASA) in support of reforming the regulation of professions. The ASA follows the analytical framework of the World Bank Group Markets and Competition Policy Assessment Tool (MCPAT). The MCPAT has been developed by the WBG Markets and Competition Policy Team based on analytics and advisory in more than 60 countries. While the MCPAT allows to analyze regulatory and non-regulatory barriers to competition, the focus of this work is on regulatory barriers.

The document has been completed in April 2019 (chapters 1, 6, 9–10) and March 2020 (chapters 2–5, 7–8). Unless otherwise indicated, the legal sources cited in the document are current as of December 31, 2018 (chapters 1, 6, 9–10) and December 31, 2019 (chapters 2–5, 7–8).

# Acknowledgements

This document has been written by Maciej Drozd (chapters 1, 4–6, 9–10), Ryan Kuo (chapters 2–3, 6–8), Themis Eftychidou (chapters 2–3, 7), Jarosław Bełdowski (chapters 4–5) and Tatjana Sofijanić (chapter 8), with contributions from Damian Iwanowski. Maciej Drozd and Ryan Kuo edited the work. The authors relied on background analysis by Slavica Banić, Ružica Jajčević, Daša Musulin, Tilsa Ore, Camila Ringeling and Željka Rostaš Blažeković. Dunja Bonacci Skenderović, Ružica Jugović, Vedrana Ligutić, Jamilya Salieva, and Andreja Tonč provided administrative support. Graciela Miralles provided guidance on the application of the MCPAT to professional services. Tania Begazo, Graciela Miralles, Tanja Goodwin, and Georgiana Pop reviewed drafts of this document. Peer reviewers were Josip Funda, Morris Kleiner, and Andreja Marušić. Arup Banerji, Tania Begazo, Elisabetta Capannelli, Paulo Correa, Martha Licetti, Marialisa Motta, Georgiana Pop, Christine Qiang, and Stefka Slavova supervised the work.

The team would like to thank Kaspar Richter, Valentin Ariton and Riikka Torppa from the Structural Reform Support Service and Tinne Heremans from the Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs of the European Commission; Nataša Mikuš Žigman, Ivana Soić, Daniel Hinšt and Iva Dodig from the Ministry of Economy, Entrepreneurship and Crafts; representatives of the Ministry of Construction and Urban Planning; Ministry of Finance; Ministry of Health; Ministry of Justice; Ministry of the Sea, Infrastructure and Transport; Ministry of Tourism; State Geodetic Administration; Tax Administration; and participants of over 30 meetings with service providers, business associations and professional chambers in Zagreb, Split and Rijeka.

# Acronyms

<b>A/E</b>	Architecture and Engineering
<b>ACE</b>	Architects's Council of Europe
<b>ASA</b>	Advisory Services and Analytics
<b>CAGR</b>	Compound Annual Growth Rate
<b>CEE</b>	Central Eastern Europe
<b>CEFR</b>	Common European Framework of Reference for Languages
<b>CIT</b>	Corporate Income Tax
<b>CMA</b>	Croatian Mountaineering Association
<b>CMGA</b>	Croatian Mountain Guide Association
<b>CPF</b>	Country Partnership Framework
<b>DRG</b>	Diagnosis-Related Group
<b>EC</b>	European Commission
<b>ECTS</b>	European Credit Transfer and Accumulation System
<b>EEA</b>	European Economic Area
<b>EU</b>	European Union
<b>FINA</b>	Croatian Financial Agency (hr. Financijska Agencija)
<b>GDP</b>	Gross Domestic Product
<b>HEP</b>	Hrvatska elektroprivreda d.d.
<b>HZZO</b>	Hrvatski zavod za zdravstveno osiguranje
<b>MCPAT</b>	Markets and Competition Policy Assessment Tool
<b>MNC</b>	Multinational Corporation
<b>MoEEC</b>	Ministry of Economy, Entrepreneurship and Crafts
<b>NACE</b>	Nomenclature des Activités Économiques dans la Communauté Européenne
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>PEC</b>	Pilotage Exemption Certificate
<b>PIE</b>	Public Interest Entity
<b>PIT</b>	Personal Income Tax
<b>PMR</b>	Product Market Regulation
<b>SGA</b>	State Geodetic Administration
<b>SMCP</b>	Standard Marine Communication Phrases
<b>SRSP</b>	Structural Reform Support Program
<b>UIAA</b>	International Climbing and Mountaineering Federation
<b>UIMLA</b>	Union of International Mountain Leader Associations
<b>VAT</b>	Value Added Tax
<b>VHF</b>	Very High Frequency

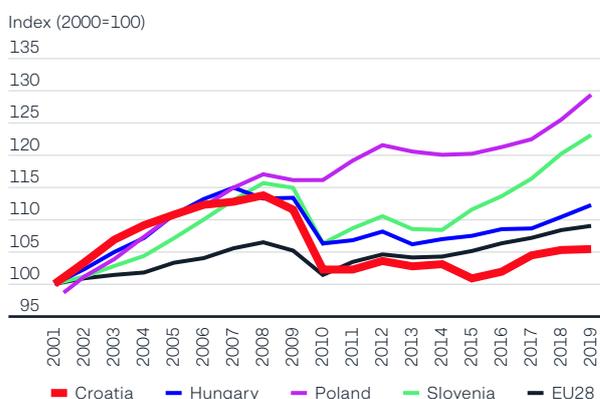
# Executive summary

## Services to the rescue

**Productivity growth, the motor of long-term prosperity, has been slow in Croatia.** Over the past 10 years, the gap between Croatia's per capita income and the rest of EU has widened, largely due to slower productivity growth relative to other countries.<sup>1</sup> In 2004, Croatia's total factor productivity (TFP), a measure of the economy's effectiveness in translating inputs into outputs, was 70 percent of the United States'. By 2014, Croatian TFP had slid back to 60 percent of US TFP.<sup>2</sup> Since then, productivity has been growing, but at a slower pace than in other countries in Central and Eastern Europe (Figure E.1). These differences mean that Croatia's long-term growth prospects were dampened well before the start of the coronavirus crisis.

**Productivity has been held back by weak market competition.** There are two sources of productivity growth: improvements within firms and reallocation of resources between firms. Croatian firms have been slowly improving their internal capabilities since the global financial crisis. However, more productive firms have been struggling to outcompete their less productive rivals. Between 2011 and 2017, more, not less resources have flowed to laggard firms. The losses due to weak market competition almost outweighed the productivity gains that firms made through internal changes (Figure E.2).

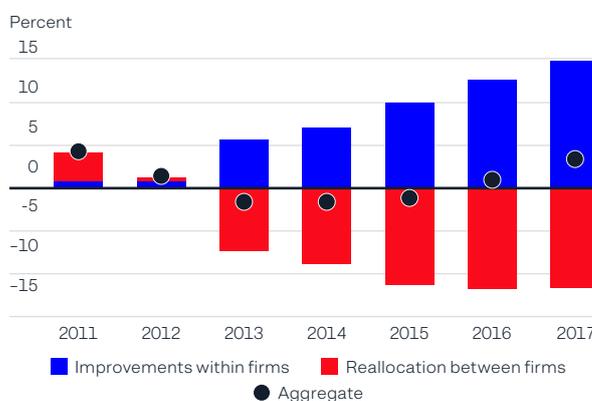
**Figure E.1 Total factor productivity in Croatia and Central and Eastern Europe, 2000 – 2019**



Source: European Commission 2020.

Note: The "reallocation between firms" component is the sum of changes in productivity due to i) firm entry; ii) firm exit; as well as iii) shifts in resources between existing firms. Of these three subcomponents, the changes in resources among existing firms accounted for more than 80% of changes in the "reallocation" component.

**Figure E.2 Total factor productivity growth in Croatia relative to 2010**



Source: World Bank 2019.

**More competition in services can rev up the engine of growth.** In 2018, services accounted for 59 percent of GDP and 67 percent of employment. Increasing the size and productivity of services sectors would thus drive job creation and earnings growth for a large portion of Croatians. Beyond their direct economic impact, services also provide critical inputs for manufacturing. This means that more productive services would translate into broad-based gains in the economy. Fostering market competition can boost productivity by directing resources to their most efficient use and providing incentives for firms to improve their offering.

<sup>1</sup> World Bank 2019.

<sup>2</sup> Ibidem.

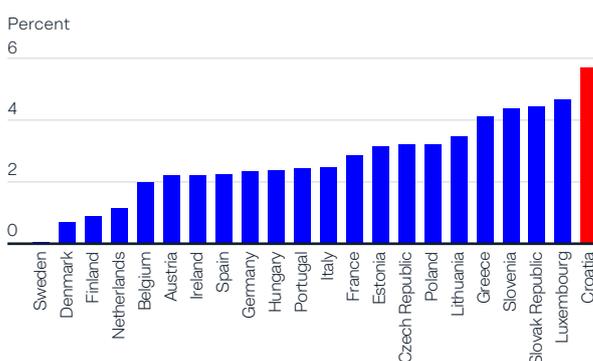
**Specifically, Croatia could remove regulatory barriers in services.** Restrictive regulations exacerbate resource misallocation because they increase administrative burdens and shield less productive firms from competition. According to the OECD Product Market Regulation (PMR) index, Croatia has more restrictive regulations than most other EU member states, and this pattern is especially pronounced in services. World Bank research shows that Croatia would stand to increase productivity the most out of all EU countries if it were to relax services regulation to levels seen in the least restrictive EU countries (Figure E.3).<sup>3</sup>

**Amongst other services reforms, liberalizing the regulation of professions is crucial.** Regulated professions are professions in which individuals need to obtain an authorization and face regulations on how to provide services. There are more than 300 such professions in Croatia compared to around 200 in the EU. 31% of Croatian workers are in regulated professions versus 22% in the EU.<sup>4</sup> Occupational regulation covers sectors which are not regulated in most other EU countries, such as tourism. Croatian regulations tend also to impose more restrictions than regulations in other countries. According to the OECD and the WBG, professionals faced stricter requirements than providers in 53 out of 57 countries with comparable data.<sup>5</sup> According to the European Commission, Croatian requirements are stricter in six out of seven professions.<sup>6</sup>

**Reforming the regulation of professions would improve access, affordability, and quality of services.** Existing studies suggest that regulators have largely erred in the direction of excess restrictions. Evidence from the United States suggests overwhelmingly that more restrictive licensing laws are accompanied by higher prices.<sup>7</sup> Research on EU markets finds that licensing is typically associated with a 4 percent increase in wages, suggesting also higher prices paid to providers.<sup>8</sup> Relaxing the most restrictive regulations, such as quotas for notaries or pharmacists, has been followed by increases in the number of providers of up to 30%.<sup>9</sup> At the same time, studies on the benefits of licensing often find limited or no links between regulations and quality,<sup>10</sup> especially given the rise of alternatives such as online review aggregators.<sup>11</sup> Increased competition among service providers would thus allow buyers to buy more and better services at lower prices.

**Reforming the regulation of professions would also increase opportunities for workers.** Restrictive licensing requirements shrink the pool of service providers by limiting who is eligible to operate and deterring firm entry and growth. Recent research in the US confirms negative effects on labor supply and employment,<sup>12</sup> and research in the EU suggests that licensing

**Figure E.3 Total factor productivity gains from services liberalization**



Source: Van der Marel, Erik et al. 2016.

Note: Some EU countries are excluded because of lack of data or because they have the least restrictive regulations.

<sup>3</sup> World Bank 2016. For more details see Van der Marel, Erik et al. 2016.

<sup>4</sup> Koumenta and Pagliero 2016.

<sup>5</sup> World Bank staff analysis of 2013 PMR data collected by the OECD and the WBG.

<sup>6</sup> European Commission 2017.

<sup>7</sup> US Department of Treasury 2015.

<sup>8</sup> Koumenta and Pagliero 2016.

<sup>9</sup> Vogler, Habimana, and Arts 2014, Opinion 18-A-08 of the Competition Authority of France.

<sup>10</sup> US Department of Treasury 2015.

<sup>11</sup> Farronato et al. 2020.

<sup>12</sup> Blair and Chung 2019, Kleiner and Soltas 2019.

is associated with employment reductions of 3–9 percent in regulated professions.<sup>13</sup> Achieving better balance between addressing market failures and promoting competition would therefore lead to employment growth in professions targeted by reforms. From a normative standpoint, lifting excessive licensing and conduct requirements would also ensure fairer access to professions and promote the rights to work and conduct business.

## Roadmap for reform

**This report focuses on reforms for 24 high-impact occupations.** These professions were selected for review by the Government of Croatia and the World Bank based on their economic relevance, the restrictiveness of regulations, and the feasibility of reforms. Together, the 24 occupations are practiced by over 40,000 professionals accounting for around US\$1 billion in gross value added<sup>14</sup> and 6% of all inputs into the economy.<sup>15</sup> Their economic significance reaches far beyond this immediate impact. Some covered professions, such as attorneys, notaries, auditors, and tax advisors, are core to the functioning of Croatia's economy as their work touches upon nearly all businesses and significant transactions in the country. Others, such as architects and civil engineers, play key roles in improving physical infrastructure. Finally, while some covered professions do not provide inputs into other economic activity, they are vital for large sectors of the economy, such as tourism and retail.

**The World Bank found in all reviewed professions unnecessary restrictions to competition.** The World Bank identified 42 restrictions that are most harmful to competition based on market effects. The most common restrictions were rules that limit entry or reinforce dominance and rules that facilitate collusion or increase costs to compete (Table E.1). The World Bank analyzed these restrictions in relation to policy objectives and proposed alternative pro-competition solutions to achieve these objectives.

**The World Bank's recommendations range from full liberalization to partial deregulation:**

- **Full liberalization.** The report prioritizes two professions — travel agency managers and tourist guides — for full liberalization,<sup>16</sup> following the deregulation of tourist escorts that took place in 2018. Mandatory licensing of tourist guides and travel agency managers is unnecessary because low-quality service, while not desirable, does not have serious repercussions for tourists. Tourist guides' quality is also partly observable via reputation-based systems such as review websites, limiting the need to address information asymmetry via licensing. The current regulatory regime for tourist guides thus achieves limited practical benefits while reducing entry and competition, disincentivizing innovation and stifling market growth.
- **Partial deregulation.** In the remaining 21 professions, some degree of regulation remains justified, but partial deregulation would improve competitive outcomes without compromising policy objectives. For these professions, the majority of recommendations focus on improving or eliminating anti-competitive rules, such as quotas, price controls, chamber membership, and bans for foreign providers (Table E.2).

---

<sup>13</sup> Koumenta and Pagliero 2016.

<sup>14</sup> World Bank staff estimate based on Eurostat data.

<sup>15</sup> World Bank staff estimate based on the 2010 input-output table published by the Croatian Bureau of Statistics.

<sup>16</sup> Some business regulations, such as the requirement that travel agencies purchase insurance, will continue to apply following the deregulation of tourism professions. These rules are mandated by the Package Travel Directive (2015/2302/EU).

**Table E.1** Key restrictions to competition across 24 regulated professions in Croatia

Main types of rules based on market effect	Specific types	Examples	Notaries 1 profession	Attorneys 1 profession	Tax advisors 2 professions	Auditors 1 profession	Architects and engineers 10 professions	Port navigators 1 profession	Pharmacists 2 professions	Physical therapists 3 professions	Tourism professions 3 professions
Rules that limit entry or reinforce dominance	1.1. Monopoly rights and absolute ban for entry	Territorial exclusivity	○	○	○	○	○	●	○	○	○
	1.2. Relative ban for entry and expansion of activities	Quota	●	○	○	○	○	○	●	○	○
	1.3. Incumbents participate in entry/exit decisions	Mandatory chamber membership	●	●	●	●	●	○	●	●	○
	1.4. Requirements for registry (licenses and permits)	Excessive qualification requirements	●	●	●	●	●	●	●	●	●
Rules that facilitate collusion or increase costs to compete	2.1. Rules that facilitate agreements/reduce firms' choice of strategic variables	Mandatory chamber membership	●	●	●	●	●	○	●	●	●
	2.2. Restrictions on type of products and services/format and location	Advertising restrictions	●	●	●	○	●	○	●	●	○
	2.3. Price control	Minimum prices	●	●	○	○	●	○	●	●	○
Rules that discriminate and protect vested interests	3.1. Discriminatory application of rules and standards	Preference for domestic providers	○	●	○	○	○	●	○	●	○
	3.2. Discretionary application of rules	Arbitrary appeals process	○	○	●	○	○	○	○	○	○

Source: World Bank staff analysis based on the Markets and Competition Assessment Tool (MCPAT). See Annex A for more information on the MCPAT.

Note: Some restrictions have been attributed to and counted as several types. State aid and gaps in competitive neutrality have not been identified.

**Table E.2** Summary of recommendations for reforms in 24 professions

<b>Reform rules that limit entry or reinforce dominance</b>	<b>Make chamber membership voluntary.</b> Croatian law requires that professionals in 18 out of the 24 reviewed professions be members of their respective professional chambers (e.g., the Chamber of Geodetic Engineers). The report recommends the switch from mandatory to voluntary chamber membership. Mandatory chamber membership creates anticompetitive conflicts of interest as it entails incumbents screening potential entrants and chambers being simultaneously responsible for professional oversight and promotion of members' interests.
	<b>Streamline qualification requirements.</b> Eliminating excessive qualification and licensing requirements would increase entry and competition into 8 out of the 24 of the reviewed professions without compromising policy objectives related to quality of service. For example, professionals without university degrees in law, economics or taxes are currently barred from becoming licensed tax advisors, even if they possess relevant work experience to perform the needed tasks and pass the professional exam.
	<b>Remove geographical restrictions.</b> Croatian law currently restricts the territories in which individual pharmacists and notaries may operate. Lifting geographic quotas and other restrictions on location would alleviate supply-demand mismatches in many areas, leading to lower prices and higher quality.
	<b>Limit exclusive rights.</b> Across all reviewed professions, many activities can only be performed by regulated professionals. While many such limitations are justified to ensure that service providers are adequately qualified, this report identifies five restrictions across five professions which may be lifted without compromising quality. For example, the report recommends allowing tax advisors to represent their clients in tax matters before administrative courts – currently the sole purview of attorneys.

<b>Reform rules that facilitate collusion or increase costs to compete</b>	<p><b>Relax price controls.</b> The report identifies six instances of price controls and recommendations spanning 18 professions. Such restrictions range from fixing prices outright (e.g., for notary services) to providing recommendations on workhours and manpower (e.g., for engineering services), but they all limit price competition and market growth.</p> <p><b>Lift advertising restrictions.</b> Some degree of restrictions on advertising exist for seven of the 24 reviewed professions. For instance, attorneys cannot publish prices and their websites are verified by the Bar Association. Lifting such restrictions would promote increased competition with minimal consequences for quality as general laws on false advertising and consumer protection would still apply.</p>
<b>Reform rules that discriminate or protect vested interests</b>	<p><b>Level the playing field.</b> The regulations governing reviewed professions are inherently discriminatory towards certain groups of professionals (e.g., residency requirements for architects, preferences for domestic pilotage companies). Others give incumbents wide discretion (e.g., the Chamber of Commerce decides which types of adventure tourism are licensed, the Bar Association certifies attorneys' legal specializations), raising the possibility of unequal treatment. Improving such discriminatory or discretionary rules via lifting the restrictions and/or making regulations clearer would thus level the playing field amongst prospective providers.</p>

## From recommendations to results

**The Government of Croatia has already committed to lift barriers in regulated professions.** Its 2017, 2018 and 2019 National Reform Programs all mention reforming regulated professions. The need to reduce administrative burdens and implement other business environment reforms also features in the World Bank Group's Country Partnership Framework and Croatia's Partnership Agreement with the European Commission.

**However, reforms have been fragmented and implementation challenging.** The main reason for these difficulties are vested interests of market incumbents. The Government of Croatia can overcome this opposition by bundling changes in individual regulations into economy-wide reforms. Integrating regulatory actions into government-wide proposals would allow to communicate the cross-cutting nature of reforms and achieve cumulative gains across policy areas. This approach has been successfully applied between 2012 and 2015 in the review of regulated professions in Poland, which resulted in the removal of licenses in 71 professions and other barriers in 179 professions.<sup>17</sup>

**In the short to medium term, the World Bank recommends the adoption of an omnibus bill<sup>18</sup> covering 45 measures across 24 professions.** The recommended measures require changes in 19 laws and 52 by-laws under the responsibility of seven ministries and constitute reforms with high potential to bring productivity gains. Taken together, these changes should result in better deals for businesses and consumers. While the omnibus bill would ideally cover all recommended measures, the World Bank has also identified 22 high-priority changes based on three criteria: (a) market size; (b) evidence of limited competition; (c) relevance of restrictions (Table E.3). Focusing the implementation on high-priority changes could help to reduce coordination costs while still achieving significant benefits for the Croatian economy.

**In the long term, the scale of restrictions for professional service providers in Croatia merits systematic review of regulations.** Given evidence of widespread restrictive regulation and the importance of reforms for economic growth and job creation, the Croatian government should systematically update its list of regulated professions and scrutinize requirements for all providers of services. This scrutiny can follow the new EU-wide proportionality test but should be applied to both existing and planned requirements.<sup>19</sup>

<sup>17</sup> These reforms affected 6 per cent of the labor force (about 1 million people), including 3 per cent of the labor force in the sectors subject to complete deregulation. The reforms have been supported by the World Bank in 2015 through a US\$1 billion development policy operation.

<sup>18</sup> The Government of Croatia can also opt to adopt as a first step a horizontal action plan on regulated professions and let line ministries table amendments to individual laws and by-laws on the basis of the action plan.

<sup>19</sup> Directive 2018/958/EU of the European Parliament and of the Council of 28 June 2018 on a proportionality test before adoption of new regulation of professions.

**Table E.3** Detailed list of recommendations for reforms in 24 professions

<b>Notaries</b> 1 profession	<b>Remove quota and other geographical restrictions.</b>
	<b>Review the need for mandatory professional chamber membership.</b>
	<b>Shorten the qualification process from 6.5 years to 3 – 4 years and merge professional exams.</b>
	<b>Abolish fixed prices of notarial services.</b>
<b>Attorneys</b> 1 profession	<b>Abolish advertising restrictions.</b>
	Review the need for mandatory membership in the Bar Association.
	Lower the registration fee for new attorneys.
	<b>Abolish tariffs for legal services.</b>
<b>Auditors</b> 1 profession	<b>Allow advertising and use of website with no limitations.</b>
	Allow free claim of specialization.
	<b>Fully harmonize qualification requirements with the EU Audit Directive.</b>
<b>Tax Advisors</b> 2 professions	Abolish mandatory professional chamber membership.
	<b>Admit more candidates to the professional exam by widening eligibility criteria.</b>
	Transfer the organization of the professional exam to the Ministry of Finance.
	<b>Abolish mandatory professional chamber membership.</b>
<b>Architects and Engineers</b> 10 professions	Allow tax advisors employed in law or audit firms to provide full-range tax advice.
	Authorize tax advisors to represent clients in tax matters before administrative courts.
	<b>Abolish compulsory professional chamber membership.</b>
	Streamline requirements for conducting state cadastral surveys.
	<b>Limit exclusive rights of architects and engineers vis-à-vis the lead designer.</b>
<b>Port Navigators</b> 1 profession	<b>Limit the exclusive rights of architects and engineers vis-à-vis the lead supervisor.</b>
	Abolish Chamber guidance on workhours and fees.
	Abolish requirements of residency and no pending criminal investigation.
	Adapt to local conditions the length of the exclusive authorization for pilotage companies.
<b>Pharmacists</b> 2 professions	Remove preferences for domestic providers.
	Allow shipmasters of large vessels to obtain pilotage exemption certificates.
	<b>Abolish location rules for pharmacies.</b>
	<b>Abolish compulsory professional chamber membership.</b>
	Abolish redundant requirements for pharmacy premises.
	Limit exclusive rights of pharmacists and pharmaceutical technicians.
	Integrate traineeship and exam with training of pharmaceutical technicians.
<b>Authorize online sales of pharmaceutical products.</b>	
<b>Physiotherapists</b> 3 professions	<b>Remove advertising restrictions for pharmacies.</b>
	<b>Abolish the right of the Chamber of Pharmacists to regulate prices.</b>
	<b>Abolish compulsory professional chamber membership.</b>
	Integrate traineeship and exam with training of physiotherapists and technicians.
<b>Tourism professions</b> 3 professions	<b>Abolish the right of the Chamber of Physiotherapists to regulate prices.</b>
	<b>Remove advertising restrictions for physiotherapy.</b>
	<b>Introduce competitive bidding for public contracts.</b>
	<b>Abolish the licensing of travel agency managers.</b>
	<b>Abolish national/regional licenses for tourist guides and encourage voluntary certification.</b>
	Transfer the authority to license adventure tourism to the Ministry of Tourism.
	Streamline the licensing process for mountain guides.
	Simplify licensing requirements for caving/potholing guides.
	Abolish nationality requirements.

Source: World Bank staff analysis.

Note: Priority recommendations are highlighted in bold. The prioritization is based on market size, evidence of limited competition, and relevance of restrictions. In general, reforms were prioritized if market turnover was higher than US\$25 million and there was evidence that regulations strongly constrain market dynamics.

## References

- Blair, Peter Q., and Bobby W. Chung. 2019. "How Much of Barrier to Entry is Occupational Licensing?" *British Journal of Industrial Relations* 57 (4): 919–943.
- European Commission. 2020. "European Semester Country Report Croatia." Staff Working Document No. 510. <https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1584545612721&uri=CELEX%3A52020SC0510>
- European Commission. 2017. "Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on Reform Recommendations for Regulation in Professional Services." <https://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX:52016DC0820>.
- Farronato, Chiara, Andrey Fradkin, Bradley Larsen, and Erik Brynjolfsson. 2020. "Consumer Protection in an Online World: An Analysis of Occupational Licensing." NBER Working Paper 26601, The National Bureau of Economic Research, Cambridge, MA. <https://www.nber.org/papers/w26601.pdf>
- Kleiner, Morris M., and Evan J. Soltas. 2019. "A Welfare Analysis of Occupational Licensing in US States." NBER Working Paper 26383, The National Bureau of Economic Research, Cambridge, MA.
- Koumenta, Maria, and Mario Pagliero. 2016. "Measuring Prevalence and Labour Market Impacts of Occupational Regulation in the EU." Report for the Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs of the European Commission. [https://ec.europa.eu/growth/content/measuring-prevalence-and-labour-market-impacts-occupational-regulation-eu-o\\_en](https://ec.europa.eu/growth/content/measuring-prevalence-and-labour-market-impacts-occupational-regulation-eu-o_en).
- United States Department of the Treasury, the Council of Economic Advisers, and the Department of Labor. 2015. "Occupational Licensing: A Framework for Policymakers." [https://obamawhitehouse.archives.gov/sites/default/files/docs/licensing\\_report\\_final\\_nonembargo.pdf](https://obamawhitehouse.archives.gov/sites/default/files/docs/licensing_report_final_nonembargo.pdf).
- Van der Marel, Erik, Janez Kren, and Mariana Iooty. 2016. "Services in the European Union: what kinds of regulatory policies enhance productivity?" Policy Research Working Paper 7919, World Bank, Washington, DC.
- Vogler, Sabine, Katharina Habimana, and Danielle Arts. 2014. "Does Deregulation in Community Pharmacy Impact Accessibility of Medicines, Quality of Pharmacy Services and Costs? Evidence from Nine European Countries." *Health Policy* 117 (3): 311–327.
- World Bank. 2016. "World Bank EU Regular Economic Report: Growth, Jobs and Integration: Services to the Rescue." Washington, DC: World Bank. <http://pubdocs.worldbank.org/en/930531475587494592/EU-RER-3-Services-to-the-Rescue.pdf>.
- World Bank. 2019. "Growth, Competitiveness and Innovation in Croatia." Policy Note for the Ministry of Regional Development and European Funds of the Republic of Croatia. Zagreb: World Bank.

# Introduction

## 1.1 What are regulated professions?

**Regulated professions are professions that cannot be practiced freely.** Regulated professions are subject to mandatory entry and/or conduct requirements. Examples of entry requirements include requirements on the level of education, length of professional experience, and membership in professional bodies. Examples of conduct requirements include requirements on prices, insurance, advertising, and others. There are more than 300 such professions in Croatia and at least 3 out of 10 workers are employed in them.<sup>1</sup>

## 1.2 Why regulate professions?

**Occupational regulation is often designed to protect health and safety.** This is in particular the case when low-quality service poses a risk to human life. Qualification requirements for doctors and other health care professionals, for instance, help prevent medical errors. Architects and engineers are required to assess the stability of load-bearing structures to ensure that construction is safe. Drivers, train operators, mariners, and pilots practice and pass exams before they take responsibility for goods and passengers. The health and safety benefits and costs accrue not only to the users of the services but can also spill over onto other parties. Minimum standards and other requirements can help address these externalities.

**Professions are also regulated to promote higher-quality services.** The main characteristic of professional services is inherent information asymmetry. The ability of buyers to assess the quality of services is limited. Generally, buyers do not have specialized knowledge about the services they obtain, the quality of these services is not apparent, and they may not be able to compare providers. These difficulties are faced, for instance, by patients or clients of attorneys. If consumers are unable to distinguish between high- and low-quality providers, low-quality providers can remain in the market, diminish the average quality of services, and reduce incentives to invest in quality improvements.<sup>2</sup> Uncertainty about the quality of services can depress demand and diminish welfare. Regulation can help address this market failure if it allows buyers to screen providers more effectively.

## 1.3 Why review the regulation of professions?

**While regulation can address market failures, it may also inadvertently hamper market functioning.** One of the conditions for the smooth functioning of markets is competition between market participants. Without competition, markets do not deliver the expected benefits to its participants — and societal welfare decreases. Competition can be limited by structural,<sup>3</sup>

---

<sup>1</sup> World Bank analysis based on data from Koumenta and Pagliero (2016) and the EU Regulated Professions Database.

<sup>2</sup> Akerlof 1970.

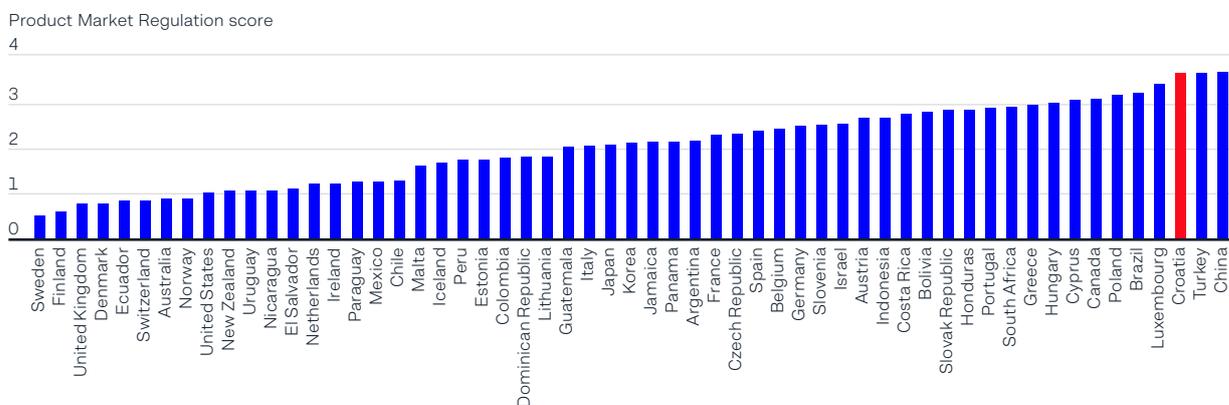
<sup>3</sup> Structural barriers generally describe barriers that result from product characteristics, for example, supply- and demand-side economies of scale.

strategic,<sup>4</sup> and regulatory barriers (or other types of government intervention). While the first two sets of barriers are generally natural to markets, regulatory barriers are imposed and can be removed or replaced by less distortive interventions. Since regulation can both help and hamper markets, regulatory changes should be preceded by a careful analysis of their impact on competition and the weighing of potential anticompetitive effects against the public interest that these interventions are designed to serve. Regulation should also be analyzed alongside other policy options, including in particular the provision of information. In certain cases, the utility of licenses as signals of quality may be lower given the rise of online review platforms.<sup>5</sup>

**In Croatia, the regulation of professions is more prevalent than in other countries of the European Union (EU).** In 2015, 31 percent of Croatian workers required certification, licenses, or an exam to practice their profession — compared to an average of 22 percent for all EU countries.<sup>6</sup> The World Bank estimates the number of regulated professions to be above 300 in Croatia while the European Commission’s regulated professions database records on average 200 regulated professions in EU countries.<sup>7</sup> Croatian regulations cover professions, which are not regulated in the majority of EU countries.<sup>8</sup>

**The regulation of professions is also more restrictive than in other countries.** Overall, there are more barriers to provide architecture, engineering, accounting, and legal services in Croatia than in 53 out of 57 countries covered by internationally comparable indicators (see Figure 1.1).<sup>9</sup> The Croatian regulations in these four professions have been found to be the most restrictive in the EU. In addition, the European Commission found tighter requirements for providers than

**Figure 1.1 Restrictiveness of professional services regulation**



Source: OECD and OECD-WB Product Market Regulation indicators.

Note: The indicators range from 0 (no restrictions) to 6 (highly restrictive). The indicators cover four professional services: legal, accounting, engineering, and architecture. Most recent data are shown: 2014–2016 for countries in Latin America and the Caribbean (except for Chile, Mexico, and Honduras) and 2013 for the remaining countries. Indicators are generally produced in five-year intervals. Data for China are preliminary.

<sup>4</sup> Strategic barriers generally describe barriers that result from strategic firm behavior, for example, patent filing.

<sup>5</sup> Farronato et al. 2020. The government can support online platforms, for instance, by creating an enabling regulatory environment and by releasing to the public information about the performance of service providers in public procurement contracts.

<sup>6</sup> Koumenta and Pagliero 2016. Throughout this report, “license” refers to an authorization which all service providers are required to obtain, whereas “certificate” refers to a credential obtained voluntarily. See Kleiner and Krueger 2013 for more information about these definitions.

<sup>7</sup> See Annex B for a list of regulated professions in Croatia compiled by the World Bank.

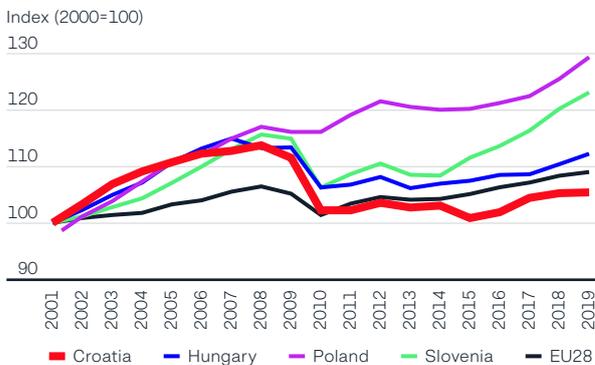
<sup>8</sup> For instance, the EU Regulated Professions database indicates that Croatia is 1 of 3 EU countries in which tourist agency managers are regulated, one of two EU countries in which tourist escorts are regulated, and one of thirteen EU countries in which tourist guides are regulated.

<sup>9</sup> The restrictiveness of entry and conduct regulation in four professional services is covered by the product market regulation indicators collected by the Organisation for Economic Co-operation and Development (OECD) and the World Bank. The product market regulation indicators measure the degree to which policies promote or inhibit competition.

in other EU member states in six out of seven reviewed professions.<sup>10</sup> The World Bank identified restrictive regulations in all the 50 regulated professions for which it collected data. The review of other regulated professions could reveal more restrictions for professional service providers.

**Liberalizing services can help to address to Croatia’s lagging productivity growth.** Over the last decade, productivity growth in Croatia has been significantly slower than in peer countries (Figure 1.2). World Bank research points towards resource misallocation as the main reason for this underperformance (Figure 1.3). Less productive incumbents hold on to their market position, while more productive competitors struggle to gain market share. Since services are less tradeable, these inefficiencies are likely to be passed on through overcharges and under-supply to businesses and consumers. In sum, Croatia’s economy could grow faster if more efficient service firms could appropriate resources more easily.

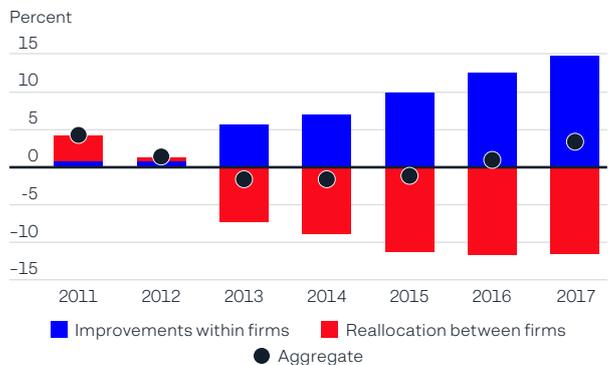
**Figure 1.2 Total factor productivity in Croatia and its peers, 2000 – 2019**



Source: European Commission 2020.

Note: The “reallocation between firms” component is the sum of changes in productivity due to i) firm entry; ii) firm exit; as well as iii) shifts in resources between existing firms. Of these three subcomponents, the changes in resources among existing firms accounted for more than 80% of changes in the “reallocation” component.

**Figure 1.3 Total factor productivity growth in Croatia relative to 2010**

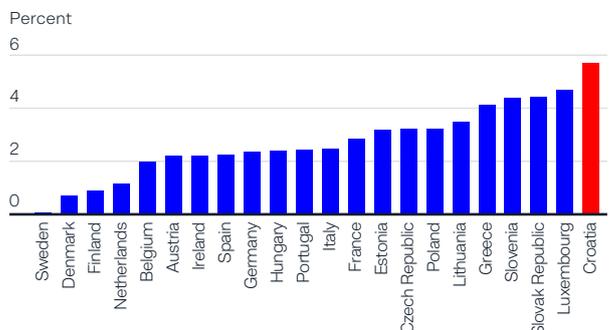


Source: World Bank 2019.

**Croatia is the country with the highest payoff to reforms among EU member states.<sup>11</sup>**

According to World Bank research, if regulations on services were relaxed to levels seen in the least restrictive EU countries, total factor productivity could increase on average by 5.7% (Figure 1.4). This is because restrictive regulation exacerbates resource misallocation and shields less productive firms from competition. Allocative, productive, and dynamic inefficiencies in services are also transmitted to other sectors, resulting in worse access, higher prices and subdued output in the general economy.<sup>12</sup>

**Figure 1.4 Total factor productivity gains from services liberalization**



Source: Van der Marel, Kren, and Iooty 2016.

Note: Some EU countries are excluded because of lack of data or because they have the least restrictive regulations.

**Reforming the regulation of professions can also create more jobs.** More jobs, and more productive ones, are essential to reduce poverty and inequality in Croatia. Job creation should be one of the key objectives of reforms given Croatia’s relatively high unemployment rates of 11.1 percent of the labor force and 18.8 percent of the active population ages 15–24 in 2017 (according to Eurostat). Restrictive licensure and overly tight conduct regulation

<sup>10</sup> European Commission 2017. See charts 2-5 and 7-8.

<sup>11</sup> World Bank 2016. For more details see Van der Marel, Kren, and Iooty 2016.

<sup>12</sup> Barone and Cingano 2011; Canton, Ciriaci and Solera 2014; Thum-Thyssen and Canton 2015.

limit output and create economic rents. As a result, there is less work available, the work is split between fewer professionals, and wages are higher (Box 1.1). Once unnecessary requirements are removed, service providers can compete on merits and not on privilege and thus attempt to increase their incomes in a more sustainable way. Adjusting education programs, in particular curricula and admission criteria, to changes in labor demand can reinforce the positive effects of reforming the regulation of professions.

---

**Box 1.1 The impact of occupational licensing on wages and employment**

The research on the impact of occupational licensing on wages and employment can be divided into two types: cross-sectional and profession-specific. Cross-sectional research relies mainly on labor force survey data and uses econometric techniques to test for and estimate the effects of licensing professions. Kleiner and Krueger (2013) estimate for the United States that wages in licensed occupations are generally 18% higher than wages in occupations that are not licensed. Blair and Chung (2019) find that licensing reduces labor supply by 17–27%. Kleiner and Soltas (2019) associate licensing with a wage premium of 18% and a decrease in employment of 28%. Koumenta and Pagliero (2016) observe a wage differential of 4% in the European Union and a reduction in employment of 3–9% in licensed professions.

The second type of research focuses on specific professions for which regulations vary between jurisdictions. A study commissioned by the US Government (2015) summarizes this research in detail. Kleiner and Kudrle (2000) demonstrate, for instance, that in the case of dentists the level of regulation is associated with higher prices but no discernible changes in quality. Similarly, Kleiner et al. (2016) find that lowering regulations governing the types of professionals who may perform certain medical services decreases prices for deregulated services. Higher prices are likely to translate into higher wages and lower employment. Thornton and Timmons (2010, 2013) find that licensed barbers earn 11–22% more, while the wages of licensed masseurs are 14% higher. Federman et al. (2006) find a negative relationship between the level of regulation and the number of beauty professionals, while Kuo (2013) confirms the same relationship for nurse practitioners. There is less research on the labor market effects of licensing professions that are widely regulated, such as attorneys and auditors.

---

**The Government of Croatia has committed to lift unnecessary restrictions in regulated professions.** The reform of regulated professions is mentioned in the 2017, 2018 and 2019 National Reform Programs. The need to reduce administrative burden and implement other business environment reforms also features in the World Bank's CPF and Croatia's Partnership Agreement with the European Commission. However, progress in the implementation of reforms has been limited and the World Bank has been requested to assist the authorities in identifying and removing unnecessary restrictions for providers of professional services.

## 1.4 How to review the regulation of professions?

**Reviewing the regulation of professions in Croatia is methodologically challenging.** The review of regulations usually entails the review of their legality, necessity, and proportionality. In principle, illegal requirements are requirements that are not based on the law and unnecessary requirements are requirements that do not correspond to a market failure or some other policy objective. In practice, the requirements faced by professional services providers in Croatia are based on the law and they can be broadly linked to market failures and policy objectives. The key to the review of the regulation of professions is therefore proportionality. A proportional regulation is a regulation which has no better alternative.

**The Markets and Competition Policy Assessment Tool (MCPAT) can guide the review of the regulation of professions in Croatia.** The MCPAT is a framework of analysis developed by the World Bank to assess government interventions by analyzing their effects in specific markets.<sup>13</sup> According to the MCPAT, a more proportional regulation is a regulation that is less distortive without being less effective in achieving the stated policy objective. This review applies the MCPAT to the regulation of professions by (a) identifying priority sectors and professions subject

---

<sup>13</sup> See Annex A for an overview of the MCPAT.

to review, (b) identifying rules that distort markets and competition in a significant way, and (c) challenging these rules by searching for less distortive and potentially more effective alternatives. Table 1.1 summarizes the application of the MCPAT to the regulation of professions in Croatia.

**Table 1.1** Application of the MCPAT to the regulation of professions in Croatia

MCPAT stage and question	Application	Report pages
What are the priorities for analysis?	Selection of priority sectors and professions	Chapter 1, pages 17–24 Annex B
What are the competition conditions in the affected markets?	Overview of markets served by priority professions	Chapter 2, pages 26–28 Chapter 3, pages 42–44 Chapter 4, pages 58–60 Chapter 5, pages 68–69 Chapter 6, pages 80–82 Chapter 7, pages 98–101 Chapter 8, pages 109–112 Chapter 9, pages 129–131 Chapter 10, pages 148–149
What is the rationale for regulation?		Chapter 2, pages 29–40 Chapter 3, pages 44–55 Chapter 4, pages 60–67 Chapter 5, pages 69–77
What is the harm to competition?	Statement of policy objective and analysis of harm to competition and less distortive alternatives for key restrictions	Chapter 6, pages 82–93 Chapter 7, pages 101–107 Chapter 8, pages 112–125 Chapter 9, pages 131–146
Are there better alternatives?		Chapter 10, pages 149–158

Source: World Bank Group staff analysis.

**The process of reviewing the regulation of professions should be broad based and participatory.** The process should involve not only incumbent service providers but also recent and potential market entrants. While identifying entrants is more challenging, it is informative as it can reveal market barriers which would otherwise go unnoticed. In Croatia, the World Bank held over 20 meetings with service providers, business associations, and professional chambers to collect and validate information on market dynamics, regulations, and practices.

## 1.5 Which professions should be reviewed?

**The World Bank identified more than 300 regulated professions in Croatia.** This number is higher than the number of professions reported by the European Commission (261) and the Ministry of Labor and Pension System (288).<sup>14</sup> The additional professions found to be regulated are important to the Croatian economy, such as the maritime pilot, the ship broker, the notary, the bankruptcy trustee, the bailiff, the credit broker, the investment adviser, or the actuary. Several of these professions have not been reported by line ministries to the Ministry of Labor and Pension System and the European Commission even though they are covered by existing reporting requirements.

**Together with the Government of Croatia, the World Bank prioritized 24 professions for review on the basis of three criteria.** The selected professions are presented in Table 1.2. This prioritization followed the methodology detailed in the World Bank MCPAT. The application of the MCPAT to regulated professions in Croatia relied on the three criteria of economic relevance, restrictiveness of regulations, and reform feasibility. It proceeded in four stages and in each of the stages available information on the three criteria was combined to identify the most promising sectors and professions for reform (Table 1.3).<sup>15</sup>

<sup>14</sup> See Annex B for a list of regulated professions in Croatia compiled by the World Bank.

<sup>15</sup> See Annex B for more details on the methodology for prioritizing regulated professions in Croatia.

**Table 1.2** Professions selected for regulatory review in Croatia

	English designation of profession	Croatian designation of profession
1	Accountant	Računovođa
2	Architect	Ovlašteni arhitekt
3	Attorney at law	Odvjetnik
4	Auditor	Ovlašteni revizor
5	Civil engineer	Ovlašteni inženjer građevinarstva
6	Design auditor	Revident
7	Electrical engineer	Ovlašteni inženjer elektrotehnike
8	Geodetic engineer	Ovlašteni inženjer geodezije
9	Geodetic engineering associate	Stručni suradnik ovlaštenog inženjera geodezije/Suradnik ovlaštenog inženjera geodezije
10	Maritime pilot	Peļjar
11	Mechanical engineer	Ovlašteni inženjer strojarstva
12	Notary	Javni bilježnik
13	Pharmaceutical technician	Farmaceutski tehničar
14	Pharmacist	Magistar farmacije/ljekarnik
15	Physiotherapist I	Fizioterapeut (diplomirani fizioterapeut ili magistar fizioterapije)
16	Physiotherapist II	Prvostupnik fizioterapije
17	Physiotherapist III	Fizioterapeutski tehničar
18	Project manager	Voditelj projekta
19	Site manager	Ovlašteni voditelj građenja
20	Tax adviser	Porezni savjetnik
21	Tourist escort	Voditelj putovanja
22	Tourist guide	Turistički vodič
23	Travel agency manager	Voditelj poslova turističke agencije
24	Works manager	Ovlašteni voditelj radova

Note: The professions are listed in alphabetical order.

**Table 1.3** Overview of methodology for prioritizing regulated professions in Croatia

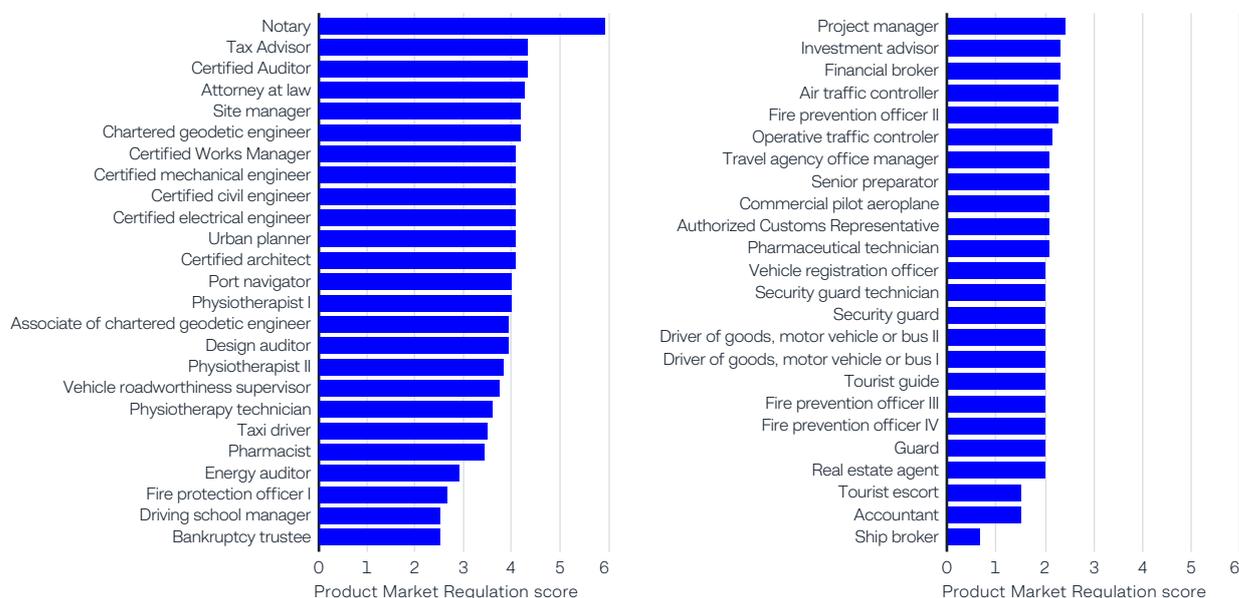
Stage	Economic relevance	Restrictiveness	Reform feasibility	Result
0. Identifying regulated professions				Over 300 regulated professions identified
1. Selecting sectors	Prioritization of sectors with high contribution to value added, employment, and consumption expenditures as well as strong forward links to other sectors	Exclusion of sectors with no regulated professions	Consultation of the Ministry of Economy, Entrepreneurship and Crafts (MoEEC) with line ministries	10 out of 20 sectors longlisted (50%)
2. Longlisting professions in selected sectors	Exclusion of professions predominantly exercised by employees of public sector institutions (for example, teachers)	Selection of professions with evidence of restrictive regulations (quotas, mandatory registration, and territorial limitation) Selection of professions previously not reported to the Ministry of Labor Exclusion of crafts professions as they can be practiced freely outside the crafts system		60 out of over 300 professions longlisted (around 20%)

Stage	Economic relevance	Restrictiveness	Reform feasibility	Result
3. Selecting professions in selected sectors	Selection of professions covered by the OECD product market regulation indicators and related professions due to strong forward links and comparability	Questionnaire on 20 entry and conduct requirements to regulators and selection of professions with largest regulatory gap to other EU member states	Consultation of the MoEEC with line ministries: exclusion of professions in which entry and conduct rules have been recently reformed (for example, taxi drivers) and addition of physiotherapists based on MoEEC request Sequencing of professions into two sets of 12 professions to for review in 2018 and 2019	24 out of 60 professions selected (40%) and sequenced

Source: World Bank Group staff analysis.

**As part of the prioritization, restrictions in 50 regulated professions have been identified.** During the last stage of the selection of professions, the World Bank administered a questionnaire on entry and conduct requirements in 60 regulated professions. It obtained replies for 50 professions and validated the received information. In all the 50 professions, restrictive regulations have been identified (see Annex B). The most common entry requirements were professional exams, exclusive rights, and compulsory membership in professional bodies and the most common conduct regulation was price controls. The three most restrictive professions in Croatia are the notary, the tax adviser, and the auditor (see Figure 1.5). In the case of 47 out of 50 professions, the entry regulation ranked restrictive or more restrictive than the average restrictiveness score for professional services in OECD member states.<sup>16</sup>

**Figure 1.5 Restrictiveness of entry regulation in 50 professions in Croatia, 2018**



Source: World Bank staff analysis (see Annex C for source data).

Note: Restrictiveness was scored from 0 (least restrictive) to 6 (most restrictive) in line with the 2013 methodology adopted for the World Bank-OECD product market regulation indicators.

<sup>16</sup> The OECD collects information on four professional services as part of its product market regulation indicators: architects, engineers, accountants, and lawyers. Due to the specialized character of the services offered by these professionals, the regulations for these professions are generally more detailed and far-reaching than the regulations for other professional services that require lower skills (for example, guard). As a result, the restrictiveness score for the four professional services can be interpreted as the upper bound comparator of the restrictiveness score for 50 professions covered by the World Bank dataset.

**In general, no regulated profession and no requirement should be precluded from scrutiny.** Several professions have been excluded from the review by the World Bank even though their regulation may be cumbersome and restrictive. Service providers that are licensed as crafts, for instance, face 60 separate vocational licenses. The Croatian government should therefore continue to track and review requirements in professions that have not been analyzed by the World Bank. Specifically, the Croatian Government should update its list of regulated professions and apply the EU-wide proportionality test<sup>17</sup> to screen both new and existing requirements for service providers.

## References

- Akerlof, George A. 1970. "The Market for Lemons: Quality Uncertainty and the Market Mechanism." *Quarterly Journal of Economics* 84 (3): 488–500.
- Barone, Giuglielmo, and Federico Cingano. 2011. "Service Regulation and Growth: Evidence from OECD Countries." *Economic Journal* 121 (555): 931–957.
- Blair, Peter Q., and Bobby W. Chung. 2019. "How Much of Barrier to Entry is Occupational Licensing?" *British Journal of Industrial Relations* 57 (4): 919–943.
- Canton, Erik, Daria Ciriaci, and Irune Solera. 2014. "The Economic Impact of Professional Services Liberalization." European Commission's Directorate General Economic and Financial Affairs European Economic Papers 533.
- European Commission. 2017. "Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on Reform Recommendations for Regulation in Professional Services." <https://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX:52016DC0820>.
- Farronato, Chiara, Andrey Fradkin, Bradley Larsen, and Erik Brynjolfsson. 2020. "Consumer Protection in an Online World: An Analysis of Occupational Licensing." NBER Working Paper 26601, The National Bureau of Economic Research, Cambridge, MA. <https://www.nber.org/papers/w26601.pdf>.
- Federman, Maya N., David E. Harrington, and Kathy J. Krynski. 2006. "The Impact of State Licensing Regulations on Low-Skilled Immigrants: The Case of Vietnamese Manicurists." *American Economic Review* 96 (2): 237–241.
- Department of the Treasury, the Council of Economic Advisers, and the Department of Labor. 2015. "Occupational Licensing: A Framework for Policymakers." [https://obamawhitehouse.archives.gov/sites/default/files/docs/licensing\\_report\\_final\\_nonembargo.pdf](https://obamawhitehouse.archives.gov/sites/default/files/docs/licensing_report_final_nonembargo.pdf)
- Iooty, Mariana, Paulo Correa, Sonja Radas, and Bruno Škrinjarić. 2014. "Stylized Facts on Productivity Growth: Evidence from Firm-level Data in Croatia." Policy Research Working Paper 6990, World Bank, Washington, DC.
- Kleiner, Morris M. 2000. "Occupational Licensing." *Journal of Economic Perspectives* 14 (4): 189–202.
- Kleiner, Morris M., and Robert T. Kudrle. 2000. "Does Regulation Affect Economic Outcomes? The Case of Dentistry." *Journal of Law and Economics* 43 (2): 547–582.
- Kleiner, Morris M., and Alan B. Krueger. 2013. "Analyzing the Extent and Influence of Occupational Licensing on the Labor Market." *Journal of Labor Economics* 31 (2): 173–202.
- Kleiner, Morris M., Allison Marier, Kyoung Won Park, and Coady Wing. 2016. "Relaxing Occupational Licensing Requirements: Analyzing Wages and Prices for a Medical Service." *Journal of Law and Economics* 59 (2): 261–291.
- Kleiner, Morris M., and Evan J. Soltas. 2019. "A Welfare Analysis of Occupational Licensing in US States." NBER Working Paper 26383, The National Bureau of Economic Research, Cambridge, MA.
- Koumenta, Maria, and Mario Pagliero. 2016. "Measuring Prevalence and Labour Market Impacts of Occupational Regulation in the EU." Report for the Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs of the European Commission. [https://ec.europa.eu/growth/content/measuring-prevalence-and-labour-market-impacts-occupational-regulation-eu-o\\_en](https://ec.europa.eu/growth/content/measuring-prevalence-and-labour-market-impacts-occupational-regulation-eu-o_en).
- Kuo, Yong-Fang, et al. 2013. "States with the Least Restrictive Regulations Experienced the Largest Increase in Patients Seen By Nurse Practitioners." *Health Affairs* 32 (7): 1236–1243.
- Thornton, Robert J., and Edward J. Timmons. 2010. "The Licensing of Barbers in the USA." *British Journal of Industrial Relations* 48 (4): 740–757.
- Thornton, Robert J., and Edward J. Timmons. 2013. "Licensing One of the World's Oldest Professions: Massage." *Journal of Law and Economics* 56 (2): 371–388.
- Thum-Thysen, Anna, and Erik Canton. 2015. "Estimation of Service Sector Mark-ups Determined by Structural Reform Indicators." European Commission's Directorate General Economic and Financial Affairs European Economic Papers 547. doi:10.2765/575573.
- Van der Marel, Erik, Janez Kren, and Mariana Iooty. 2016. "Services in the European Union: what kinds of regulatory policies enhance productivity?" Policy Research Working Paper 7919, World Bank, Washington, DC.
- World Bank. 2016. "World Bank EU Regular Economic Report: Growth, Jobs and Integration: Services to the Rescue." Washington, DC: World Bank. <http://pubdocs.worldbank.org/en/930531475587494592/EU-RER-3-Services-to-the-Rescue.pdf>.
- . 2019. Growth, Competitiveness and Innovation in Croatia. Policy Note for the Ministry of Regional Development and European Funds of the Republic of Croatia. Zagreb: World Bank.

<sup>17</sup> Directive 2018/958/EU of the European Parliament and of the Council of 28 June 2018 on a proportionality test before adoption of new regulation of professions.



# **Legal professions**

# Notaries

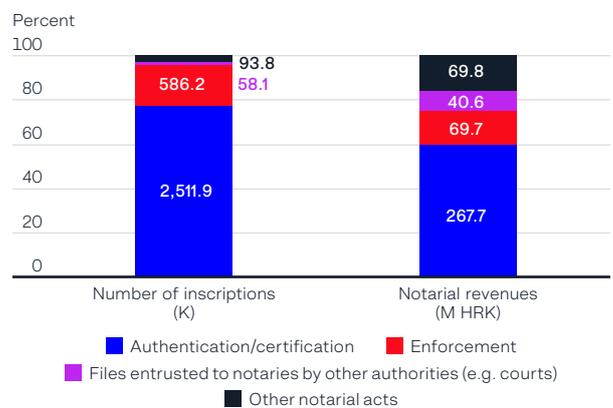
In line with other civil law countries in the European Union (EU), notaries are highly regulated in Croatia. The number of notary offices and prices for notarial services are fixed by law, and notaries need at least 6.5 years of work experience, two exams, and a law degree to practice. Qualified notaries generally wait for existing notaries to retire before they can open their offices. Once established, they are restricted in their ability to attract customers because they cannot advertise their services. While some regulation is required to promote quality, the requirements in Croatia go beyond the necessary minimum and end up limiting supply and increasing prices. Major business centers in the country, such as Split, have fewer notaries per capita than small market towns. Civil law countries which have allowed for more competition, such as the Netherlands and Poland, have more notaries per capita and lower prices than Croatia (as percent of GDP per capita). By removing barriers to competition among notaries, Croatia could join Europe's reform leaders and improve access and affordability of notary services for both businesses and citizens.

## 2.1 Market overview

**Croatian notaries confer legal authenticity on deeds and contracts for matters related to private law.** Notaries draft authentic legal documents themselves or authenticate documents and signatures presented to them by clients. Croatian notaries have also exclusive rights to initiate contract enforcement procedures; perform inheritance procedures; perform procedures pursuant to court orders (for example, judicial auctions); represent clients before courts and administrative bodies in procedures related to their documents (if there is no dispute); deliver and take custody of documents and valuables (for example, for escrow purposes); and advise clients on issues related to their documents.

**Authentication and solemnization of documents account for most notarial activity in Croatia.** In 2018, notaries issued 3.2 million deeds, generating HRK 448 million (around US\$67 million, 0.1 percent of GDP) in revenues.<sup>1</sup> Authentication and solemnization cover 77 percent of notarial actions and 60 percent of revenue (see Figure 2.1).<sup>2</sup> Corporate clients typically use notaries for incorporating

**Figure 2.1** Notarial market by type of notarial act, 2018



Source: Croatian Chamber of Notaries.

<sup>1</sup> Data from the Croatian Chamber of Notaries.

<sup>2</sup> Authentication and solemnization are related but distinct actions. Authentication refers to verifying the signatures of involved parties, whereas solemnization extends to cover notaries' verification of a private document's legal validity and parties' understanding the document in question.

or modifying enterprises and authentication of documents (for example, debenture notes). Individual clients typically employ notaries to authenticate loan documents and settle matters related to their estates (for example, wills). Both individual and corporate clients use notaries for real estate issues, including sales contracts and solemnization of final agreements and loans.<sup>3</sup>

**Civil law notaries (also known as Latin notaries) have been traditionally a highly regulated profession due to the consequential nature of their services.** Latin notaries authenticate instruments which become fully enforceable under the law. As a result, notaries in civil law countries are considered public officials and subject to a high level of regulation, both from the government and through self-regulation. Regulations usually cover exclusive rights to perform certain services, qualification requirements, and cooperation with other professionals, among other issues. Latin notaries are also subject to ethical rules, including obligations to maintain neutrality, impartiality, and confidentiality.<sup>4</sup>

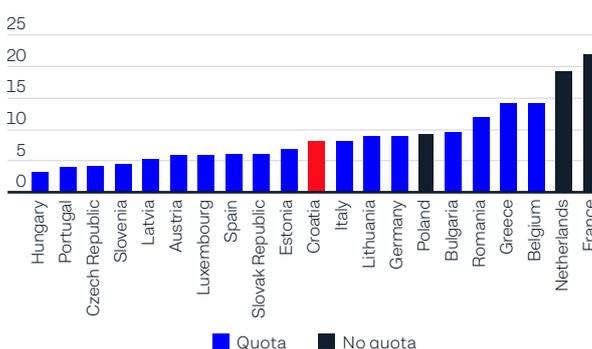
**Croatian regulations establish in detail the conditions under which notaries operate.**

Notarial services are covered by one act, one statute, one conduct code, and two main ordinances: (a) the Notary Public Act, (b) the Statute of the Croatian Notary Chamber, (c) the Chamber's Code of Ethics, (d) the Ordinance on official seats of public notaries, and (e) the Ordinance on temporary notary public tariffs. The second and third regulations are issued by the Chamber of Notaries, while the fourth and fifth are issued by the Ministry of Justice. The Notary Public Act defines services provided solely by notaries and minimum requirements, while the Statute of the Croatian Notary Chamber defines the role of the Chamber in regulating and representing the profession. The Chamber's Code of Ethics outlines further rules for notaries to follow when providing services. The Ordinance on official seats of public notaries regulates the number of notarial seats across the country, and the Ordinance on temporary notary public tariffs sets the prices that notaries charge for different services (these prices are fixed, and notaries cannot charge above or below the statutory level). These ordinances are issued by the Ministry of Justice, following mandatory consultations with the Chamber. Given the tightly regulated and highly visible nature of the profession, it is virtually impossible for providers to circumvent such regulations in practice, and they rarely ever do so.

**The supply of notaries in Croatia is limited given the ministerial quota and lifetime appointments.**

Currently, the number of notarial seats is fixed at 334 by the Ministry of Justice, up slightly from 327 in 2008. The number of notaries per capita in Croatia is close to the average for civil law countries in the EU, but below the average for countries with no notary quota (Figure 2.2). Entry and exit of notaries are limited because notary appointments are for life (that is, changes in who occupies notarial seats only happen with retirement). The existing notaries have held their positions for an average of 15.4 years.<sup>5</sup> Figure 2.3 displays the number of notary retirements and new notary appointments from 2009 to 2018. While retirements and appointments fluctuated considerably, on average only eight new notaries (less than 3 percent of the total number of notaries) were appointed per year during that period.

**Figure 2.2** Notaries per 100,000 inhabitants in civil law countries of the EU, 2019



Source: Council of the Notariats of the EU and World Bank staff calculations.

Note: The comparison is indicative because of differences in exclusive rights between countries.

<sup>3</sup> Although data are not publicly available, market participants report that solemnization and authentication related to loans account for a relatively large portion of the market. Real estate-related acts (excluding mortgages) constitute a relatively smaller portion of the market in Croatia than in other EU markets.

<sup>4</sup> Van den Bergh and Montangie 2006.

<sup>5</sup> This number is expected to decrease somewhat over the next few years as the large wave of notaries originally appointed in 1994 — the year in which notaries were reintroduced as a profession — retires. Nevertheless, it is likely to begin increasing again as newly appointed notaries stay in their seats.

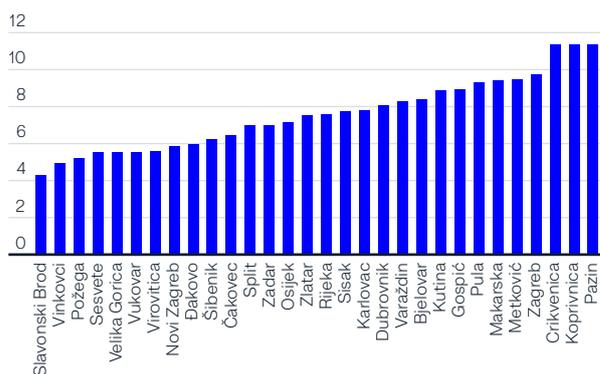
**Given regulations on notary offices and pricing, there is no price competition between notaries, and quality competition is limited by advertising restrictions.**

Price competition is prohibited because notarial fees are fixed by law (that is, notaries cannot charge more or less than the regulated price). Notaries can compete on quality (for example, turnaround time and quality of advice) as well as personal relationships with clients. However, notaries are not allowed to advertise, and clients' only means of observing notaries' quality is through word of mouth or using multiple notaries.<sup>6</sup> The average notary office is profitable, earning 26.1 percent net profit margins on average, roughly in line with profitability for law firms in Croatia (26.8 percent) and legal and notary firms across the EU (28.2 percent) but well above the average for all firms in Croatia and the rest of the EU (3–4 percent).<sup>7</sup>

**Relatedly, clients who do not wish to travel long distances are limited in their choice of notaries.**

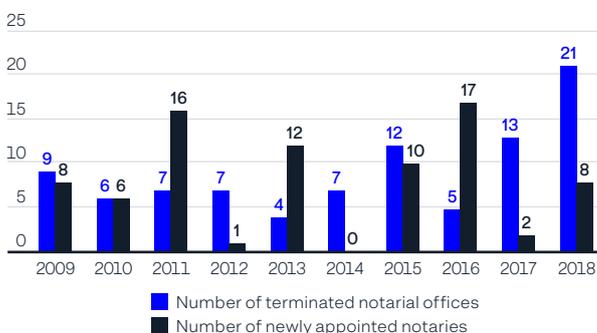
The fixed assignment of notaries to jurisdictions produces local mismatches between supply and demand. For instance, there are 60 percent more notaries per capita in the market town of Koprivnica, which has 30,000 inhabitants, than in Split, Croatia's second-largest city with 180,000 inhabitants (Figure 2.4). Some municipalities and towns are served by relatively few notaries. Roughly two-thirds of the population live in locations with 5 or fewer notaries, 8 percent live in locations with two notaries, 14 percent in locations with one notary, and 30 percent in locations with no notaries (Figure 2.5).<sup>8</sup> Outside of inheritance cases, which are assigned to specific notaries by courts, clients are technically free to choose their notaries. However, the market is in part local, as not all clients are willing to travel to engage notaries.<sup>9</sup>

**Figure 2.4** Notaries per 100,000 inhabitants by court jurisdiction, 2019



Source: Croatian Bureau of Statistics, Croatian Chamber of Notaries, and World Bank staff calculations.

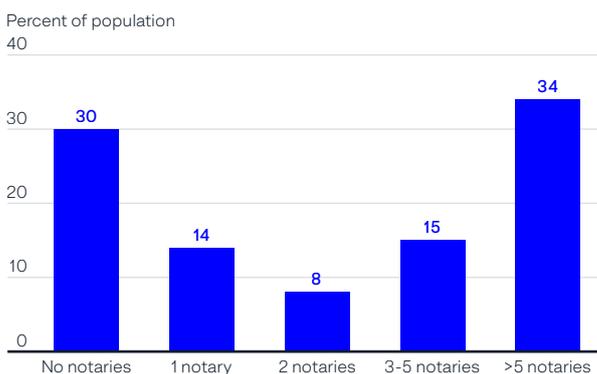
**Figure 2.3** Entry and exit of Croatian notaries



Source: Croatian Chamber of Notaries.

Note: The discrepancy between the number of terminated and newly appointed notarial offices exists due to the status of acting notaries and a small number of vacant notarial seats where no acting notary has been appointed and the notarial archive is temporarily being administered by the competent municipal court. Similarly, there may also be discrepancies between the total growth in notarial seats and the number of appointed notaries given vacancies not currently filled by appointed notaries.

**Figure 2.5** Croatian population by number of notaries in municipality/town of residence, 2019



Source: Croatian Bureau of Statistics, Croatian Chamber of Notaries, and World Bank staff calculations.

<sup>6</sup> Indeed, for many notary services tied to lending (for example, solemnization of mortgage documents), individual notaries have long-term relationships with financial services firms, limiting clients' ability to vet different notaries.

<sup>7</sup> The average net profit margins of Croatian firms were calculated using firm-level data from Bisnode.

<sup>8</sup> Notary services are less sparse at the level of court jurisdictions, which combine several municipalities or towns. Roughly 15 percent of the population lives in jurisdictions served by five or fewer notaries.

<sup>9</sup> According to surveys conducted in the Netherlands, the location and the permanent relation with a notary are the most important factors for consumers. This research is cited by Nahuys and Noailly (2005) and featured in the final report of the Committee for Monitoring the Notary Profession established by the Dutch Ministry of Justice in 1999.

## 2.2 Regulated professions

**Notaries have the exclusive right to perform most notarial services in Croatia, although some rights are shared with other professions.** Notaries are the only professionals that can draft and execute deeds in the form of formal notary acts, solemnize private deeds, certify the copy of a document, and provide authentic certification of signatures.<sup>10</sup> Over time, Croatia has made some progress in relaxing notaries' exclusive rights in comparison to other civil law countries in the EU. For instance, a 2019 reform allowed the incorporation of a limited liability company to be done remotely using an electronic signature without the presence of a notary.<sup>11</sup> Other rights are shared with other professions. For example, attorneys and the interested parties themselves can draft a purchase agreement for real estate property.

**There are four types of staff in notary offices, each with different rights: (a) notaries, (b) candidate notaries, (c) notarial advisors and trainees, and (d) support staff.** Notaries are holders of professional licenses with the right to occupy a notary seat and operate a notary office. Each of the offices is assigned to one notary only who can employ other notarial staff. Joint services provided by more than one notary and ownership of multiple offices by one notary are not allowed without prior approval by the Ministry of Justice.<sup>12</sup> Candidate notaries can perform all actions on behalf of notaries but cannot open their own office.<sup>13</sup> Notarial trainees and advisors are staff who are in the process of completing the qualification requirements to become notary candidates. They prepare drafts of notarial deeds and handle other duties under the supervision of notaries. As of August 2019, notary offices in Croatia employed 771 notarial professionals, including 330 notaries or acting/deputy notaries, 277 candidate notaries, and 164 advisors and trainees (Table 2.1).<sup>14</sup> There are no other providers of notary services in Croatia.

**Table 2.1** Number of notarial professionals in Croatia, 2019

Notary / Acting notary	329
Deputy notary	1
Candidate notary	277
Notarial legal advisor	81
Notarial legal trainee	83
Total	771

Source: Croatian Chamber of Notaries.

**Notaries can provide services independently if they meet the qualification requirements and get selected by the Ministry of Justice.** Candidate notaries are required to have a law degree, complete a traineeship of 18 months before the Bar exam, pass the Bar exam, acquire five years of experience in a notary office after the Bar exam, and pass the notary exam. However, candidate notaries cannot open their own notary office unless they are awarded a notary seat by the Ministry of Justice. The assignment of notary seats to candidate notaries takes place when an existing notary dies or retires, or when the ministry creates a new notary seat. Notary seats are assigned through a public selection procedure. The Ministry of Justice selects notaries based on the exam results and work experience of applicants.

<sup>10</sup> Only in exceptional cases (remote areas where there is no notary) can the certification of signatures be provided by State Offices.

<sup>11</sup> Article 31 and 35 of the Act on Amendments of the Act on Court Register (Official Gazette 40/19).

<sup>12</sup> Articles 38 and 29 of the Public Notary Act respectively (Official Gazette No. 78/93, 29/94, 16/07) and Ordinance of official seats of public notaries (Official Gazette 51/15).

<sup>13</sup> Candidate notaries may take also over as acting or deputy notaries in case of absences by the notary in a given seat.

<sup>14</sup> Discrepancies between the number of notaries and acting notaries (329) and the number of seats (334) exist due to vacancies.

## 2.3 Restrictions

**In total, five key restrictions to competition were identified in the market for notarial services.** The review entailed four laws and 15 bylaws regulating the provision of notarial services (see Annex C for a complete list of restrictions). The majority of identified restrictions pertain to rules that are conducive to collusive behavior. For example, Croatian regulations prevent notaries from competing on prices or advertising their services. Many restrictions that reinforce dominance or restrict entry also exist. For example, there are geographical quotas for notaries, and all notaries in Croatia must be members of the Chamber of Notaries, giving incumbents power over screening new notaries. In contrast, this report identified no restrictions related to discrimination or protection of vested interests. For each of the key restrictions, the (a) harm to competition caused by these restrictions; (b) the stated policy rationale for restrictions; and (c) alternative solutions that are either less distortive, more effective, or both.

**Table 2.2** Types of anticompetitive restrictions in notary regulations, 2019

Main types of rules based on market effect	Specific types	Frequency	Examples of restrictions
Rules that limit entry or reinforce dominance	1.1 Monopoly rights and absolute ban for entry	9	Fixed number of notaries (quota) and geographical restrictions, excessive qualification requirements
	1.2 Relative ban for entry and expansion of activities	4	
	1.3 Incumbents participate in entry/exit decisions	1	
	1.4 Requirements for registry (licenses and permits)	2	
Rules that facilitate collusion or increase costs to compete	2.1 Rules that facilitate agreements/reduce firms' choice of strategic variables	0	Price control, ban on advertising, mandatory chamber membership
	2.2 Restrictions on type of products and services/format and location	8	
	2.3 Price control	14	
Rules that discriminate and protect vested interests	3.1 Discriminatory application of rules and standards	0	N/A
	3.2 Discretionary application of rules	0	
	3.3 Lack of competitive neutrality vis-à-vis government entities	0	
	3.4 State aid/incentives distorting level playing field	0	

Source: World Bank staff analysis based on the Markets and Competition Policy Assessment Tool (MCPAT). The MCPAT methodology is presented in Annex A.

Note: Some restrictions have been attributed to and counted as several types. For instance, a license that is allocated in a discriminatory way has been counted as two types of restrictions: requirement for registry (licenses and permits) and discriminatory application of rules and standards.

### 2.3.1 Quota and geographical restrictions

**The total number of notaries in each court district is fixed.** The Ministry of Justice, in consultation with the Chamber of Notaries, determines the number and location of notarial seats.<sup>15</sup> As a general rule, there should be 1 notary office per 15,000 residents in each court

<sup>15</sup> Article 16 of the Public Notary Act (Official Gazette No. 78/93, 29/94, 16/07) and Ordinance of official seats of public notaries (Official Gazette 51/15).

district. Additional notary offices may be established in districts with a commercial court or in which the number of legal entities exceed 200. The Ministry of Justice may also increase the number of offices based on additional factors that could drive demand for notarial services. Notaries offer their services within the boundaries of the specific area where they are appointed and can have only one notarial office. In addition, notaries cannot actively seek clients in other districts.<sup>16</sup>

## Harm to competition

**The notary quota and geographical restrictions harm competition by restricting entry, making it harder for notaries to expand and differentiate, and discriminating against qualified individuals.** First, the restrictions limit the entry of new providers and reinforce the dominance of incumbents. Between 2009 and 2018, the Ministry of Justice appointed, on average, eight new notaries per year. This translates to a firm birth rate of less than 2.5 percent per year over this period, below the average of 3.3 percent for legal services firms (law firms and notary offices) in Croatia over 2014–2017.<sup>17</sup> In turn, the existing notaries gain market power because of lower entry. Second, the restrictions make it harder for the existing providers to expand and differentiate their services. Notaries cannot switch locations or open new offices and solicit clients outside their jurisdiction. As a result, they have limited incentives to innovate and improve the quality of services. Finally, the restrictions discriminate against notaries who may be qualified to provide services independently. Even if candidate notaries have met the education, exam, and experience requirements to practice, they are not entitled to provide services independently until they are awarded a notary seat by the Ministry of Justice.

## Policy objective

**The notary quota is designed to ensure access to services.** According to the Ministry of Justice, the main objective of the quota and geographical restrictions is to promote continuous access to notary services, particularly in remote areas. Due to lower demand, the provision of services in these areas may be less financially attractive for notaries in the absence of protections. The quota aims to compensate for this shortfall by stabilizing revenues and profits.

## Alternatives

**Quotas are not necessary to achieve the objective of geographic coverage in Croatia.** There is generally no evidence of market failure in the direct provision of notarial services in Croatia and thus no basis for government intervention in regulating supply.<sup>18</sup> Vacant offices are filled on a regular basis. Between 2009 and 2018, 80 out of 91 terminated notary offices have been filled by the Ministry of Justice. This suggests that the number of potential providers is either equal to or above the regulated number of providers.

---

<sup>16</sup> According to article 30 of the Notary Public Act (Official Gazette No. 78/93, 29/1994, 16/07), the official area where a notary can provide services is the area of the seat to which the notary is assigned. Notaries can serve clients located in other areas provided they do not leave the area in which they are seated.

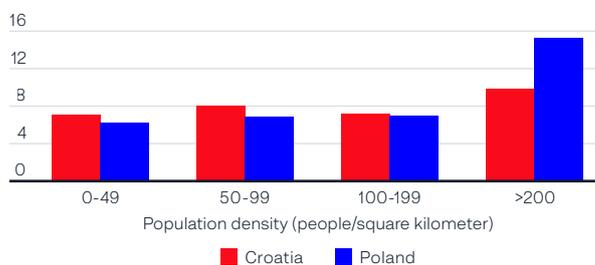
<sup>17</sup> World Bank staff calculations based on data from Eurostat. Comparable data are only available for 2014–2017. The figure cited in the report mostly covers law firms, which make up most legal services firms.

<sup>18</sup> Such a market failure may occur on islands or very remote areas inhabited by small communities. Where this is the case, government intervention is justified, but should be implemented in a way that allows for market competition.

### Croatia could achieve better coverage without a quota.

There are three civil law countries in the EU which do not cap the number of notary offices: the Netherlands, Poland, and France.<sup>19</sup> These countries all have more notaries per capita than Croatia (see Figure 2.2). In the Netherlands and France, there are more than twice as many notaries per capita than in Croatia. In Poland, notary density is 19 percent higher (9.3 notaries per 100,000 inhabitants) than in Croatia (7.8 notaries per 100,000 inhabitants). More importantly, none of the three countries without caps have experienced shortages in the supply of notary services in remote areas. For instance, in Poland, clients in large cities have better access to notary services, while clients in sparsely populated areas do not experience significantly worse access (Figure 2.6). The number of notaries has also increased across French regions after the country relaxed geographical quotas for notaries (Box 2.1).<sup>20</sup>

**Figure 2.6** Notaries per 100,000 inhabitants in Poland and Croatia, 2019



Source: World Bank staff calculations based on Eurostat, Croatian Bureau of Statistics, Croatian Chamber of Notaries, Polish Central Statistical Office, and Polish Chamber of Notaries.

Note: The data cover 21 regions in Croatia and 74 regions in Poland at NUTS3 level, the referencing standard for the subdivisions of countries for statistical purposes used by Eurostat. NUTS3 areas are inhabited by 150,000 to 800,000 people.

### Box 2.1 The reform of the notary quota in France

The so-called 'Macron Law' (Law 2015-990 of August 6, 2015) aimed to open entry into the notary profession and align territorial coverage of notary services with the needs of the economy. Every two years since 2016, the French Competition Authority proposes to the government a map that identifies areas where the establishment of new notaries is encouraged ('green areas') and areas where the establishment of notaries is regulated ('orange areas').

Following the Authority's proposal, the joint decree of September 16, 2016, established 247 green areas (out of a total of 307 areas) in which 1,650 new private notaries were to establish offices between September 2016 and September 2018. For 2018-2020, the Authority has recommended the establishment of 700 new notaries in 230 green areas in accordance with locally identified needs. The reduction in the number of green areas (230 versus 247) is a sign of the rebalancing of the supply of notarial offices to the needs of the economy.

Before formulating new recommendations for 2018-2020, the Authority took stock of the number and location of notarial offices. As in its previous opinion, it noted the following:

1. There was strong territorial coverage in rural areas but a shortage of supply in densely populated areas, even though such areas had the most notaries in absolute terms.
2. Notaries performed well financially, even in areas with less demand. Revenues of the median notary were forecasted to be €550,000 in 2018, down from a yearly average of €669,000 between 2012 and 2016. Around 80 percent of the offices had a margin higher than 19 percent and for 50 percent of the offices' margins exceeded 27 percent.
3. There was significant heterogeneity in profitability across notary offices. There was a strong disparity between offices that were highly profitable, usually located in green areas, and offices that were less profitable, usually located in orange areas.
4. The number of notary offices increased by 30 percent over 2016-2018 compared with 10 years of near stagnation.
5. From a qualitative point of view, the arrival of new professionals has had a beneficial effect on the supply of notaries, choice for clients, proximity of service providers, and professional opportunities for qualified notaries who had heretofore worked as salaried notaries or assistants under other notaries.

Source: French Competition Authority.

### 2.3.2 Qualification requirements

**Croatia applies rigorous qualification requirements for notaries.** To become eligible for appointment, candidate notaries must pass two exams organized by the Bar Association and the Chamber of Notaries. Both exams cost approximately HRK 3,590 (around US\$530) in 2019.<sup>21</sup> They must

<sup>19</sup> OECD (Organization for Economic Co-operation and Development) PMR (Product Market Regulation) 2018, Eurostat.

<sup>20</sup> Press release of July 31, 2018, of the French Competition Authority, available at <https://www.autoritedelaconcurrence.fr/en/communiqués-de-presse/31-july-2018-freedom-establishment-notaries-proposed-map-2018-2020>.

<sup>21</sup> The Bar Association charges HRK 2,555 in exam fees and HRK 35 as an additional administrative fee. The notarial exam costs HRK 1,000.

also have at least 6.5 years of experience (18-month traineeship before the Bar exam and five years of work experience after passing the Bar exam). Finally, candidates are required to have a law degree.<sup>22</sup>

## Harm to competition

**The qualification process is lengthy, limiting entry of new providers.** It takes more than six years of postgraduate experience and two exams to become a notary in Croatia. Some of the Bar exam content is repeated during the notary exam. These forces aspiring notaries to pay additional fees and spend additional time studying relative to those in countries with one exam (for example, France). Longer traineeships also result in longer time periods over which potential entrants must take lower salaries compared to other countries and related professions within Croatia. For example, only three and a half years of experience are required in Greece and Poland and only two years in Lithuania. In Croatia, attorneys need just three-and-a-half years of experience to qualify as independent service providers. These cost and time considerations not only delay entry into the profession but may also deter candidates from pursuing careers as notaries, in general.

## Policy objective

**Qualification requirements are designed to promote the quality of services.** Education, experience, and exam requirements help ensure that notaries have adequate technical knowledge and practical experience to provide notary services. Notaries are required to provide a wide range of services that span the entire spectrum of private law and respond to demand from companies and private individuals. Notarial acts are presumed to be valid and relied on in transactions. In principle, qualification requirements bar low-quality suppliers from providing these essential services and limit information asymmetries between providers and consumers.

## Alternatives

**It is possible to ensure quality of service with less onerous experience requirements.** While notaries must possess specialized skills from several legal domains, it should be possible to acquire them in less time. Based on the experiences of other countries, the minimum length of work experience could be shortened to three to five years. For example, in Poland, the traineeship period lasts for three-and-a-half years.<sup>23</sup> In Greece, the regulated minimum experience is also three-and-a-half years,<sup>24</sup> while the minimum in Lithuania is only one year as notary trainee and one year as notary assessor (two years in total).<sup>25</sup>

**The examination requirements for notaries could also be streamlined.** Rather than force notary candidates to take the Bar exam, elements of the Bar exam, which are not critical for notary work (for example, elements of criminal law), could be removed and the remainder incorporated

---

<sup>22</sup> Article 13 of the Public Notary Act (Official Gazette No. 78/93, 29/94, 16/07).

<sup>23</sup> The 2005 and 2013 reforms in Poland lowered qualifications requirements (e.g., the mandatory practice as a notary assessor was abolished, exemptions from notary training were expanded). The reform in Poland coincided with the entry of younger professionals. In 2009 the cohorts aged 45–49 and 50–54 years dominated whereas in 2014 the largest were the cohorts aged 30–34 years. Neighboring cohorts aged up to 29 years and 35–39 also grew (Rojek & Masior, 2016). It is also worth noting that notary candidates in Poland pass a pre-traineeship exam, which tests if they have the necessary skills to begin the notary traineeship.

<sup>24</sup> Article 26 of the Greek Code of Notaries foresees a minimum of 2 years of experience as attorney. Attorneys need also to have completed a legal traineeship of at least 1.5 years.

<sup>25</sup> Law on the Notarial Profession of the Republic of Lithuania, available at <https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/TAIS.414816?fwid=5sjojge1>.

into the notary exam. Doing so could decrease barriers to entry without compromising on the legal and technical skills needed to be an effective notary. Other civil law countries in the EU have successfully achieved this balance. For example, in France, notaries take only one professional exam.

### 2.3.3 Chamber membership

**Notaries must be members of the Chamber of Notaries to provide notarial services.** The Public Notary Act establishes that membership in the Chamber is mandatory for notaries.<sup>26</sup> This requirement also applies to notarial trainees and advisors. The Chamber charges HRK 1,000 (around US\$150) for registering trainees, HRK 2,000 (around US\$300) for registering notary advisors, HRK 3,000 (around US\$440) for registering notary assessors, and HRK 8,000 (around US\$1,200) for registering notaries.<sup>27</sup>

#### Harm to competition

**Compulsory chamber membership can harm competition by allowing incumbents to control entry and making it easier for competitors to coordinate on strategic variables.** First, the requirement of chamber membership may limit entry by allowing incumbents to vet new entrants into the profession (that is, through granting or rejecting membership), a potential conflict of interest. Second, compulsory chamber membership makes it easier for providers to collude on strategic variables, such as prices or location. For instance, the Chamber has a track record of setting prices<sup>28</sup> and passing regulations that make it harder for notaries to differentiate themselves (for example, restrictions on advertising).<sup>29</sup>

#### Policy objective

**The objective of mandatory chamber membership is to signal quality and ensure compliance with professional standards.** The Chamber is currently responsible for supervising notaries. In cases of gross incompetence or fraud (for example, if a notary fails to deliver an accurate deed to the client), the Chamber can revoke a notary's professional license. Relatedly, membership in the Chamber can serve as a signal of quality to clients. Because they lack legal training, many clients—especially private individuals—are unable to accurately determine the quality of services offered by notaries. In the absence of a certification system, this information asymmetry may lead to poor-quality services being offered to clients as high-quality providers are unable to differentiate themselves (that is, adverse selection). Chamber membership thus serves as a signal of threshold quality of service.

#### Alternatives

**The government would be a more effective regulator of notary services than the Chamber.** The Chamber of Notaries rarely sanctions members for breaching Chamber regulations (according to the Chamber, there have been no disciplinary proceedings since 2016). This

<sup>26</sup> Article 9 of the Public Notary Act (Official Gazette No. 78/93, 29/94, 16/07).

<sup>27</sup> Decision on the amount of entry fee for public notaries, notary assessors, notary advisors, and notary trainees from August 22, 2008. In comparison, multiple EU countries (for example, Greece) do not charge fees to enter their respective notary chambers.

<sup>28</sup> According to article 161 of the Public Notary Act (Official Gazette No. 78/93, 29/94, 16/07), notarial tariffs are adopted by the Chamber in agreement with the Ministry of Justice.

<sup>29</sup> Article 17 of the Notary Public Ethics Code of the Chamber of Notaries (Official Gazette 55/11).

lack of disciplinary activity may reflect the natural conflict of interest between representing the professional community on the one hand and sanctioning its members on the other hand. Disciplinary action — even if justified — may harm the image of the profession. Thus, making chamber membership voluntary and transferring the supervisory responsibilities of the Chamber to the Ministry of Justice could not only reduce barriers to competition but also allow for more impartial oversight. In Brazil, the court systems in each State and in the Federal District are responsible for overseeing notarial services and establishing administrative rules for notaries. The National Council of Justice also indirectly oversees notarial services and may require State courts to adopt certain specific measures in relation to notaries.<sup>30</sup>

**Moving to voluntary chamber membership would allow to leverage markets to ensure quality.** Voluntary chamber membership would enable professionals to self-select into the professional association, differentiating them from lower-quality providers and providing better signals to consumers. In addition, notaries are already required to purchase professional liability insurance, which provides incentives against misconduct.<sup>31</sup> Insurance premiums can vary depending on the claims of individual providers. Notaries can therefore expect to pay lower premiums if they provide high-quality services, incentivizing them to maintain high standards.

#### 2.3.4 Price control

**Prices for notarial services are fixed.** Croatian regulations establish a fixed tariff system and prescribe rules for the application of the notarial fees.<sup>32</sup> Fees are calculated using a point system that considers the following factors: (a) the value of the subject of a certified legal transaction or other official activity, (b) the time necessary for the preparation and performance of an activity; and (c) a baseline lump sum regardless of the value involved or time required.<sup>33</sup> The fee regulation has been amended four times, in 1994, 1995, 2012, and 2015. In addition, several specific rulebooks governing fees have been issued for tasks assigned to notaries, such as succession or enforcement proceedings.

### Harm to competition

**Fixed tariffs severely limit the ability of notaries to compete on the basis of efficiency and quality.** Fixed fees are in place to ensure continuous access to notarial services at fair prices given regulations that give notaries market power in many areas. However, price control does not allow notaries to base their fees on costs. This means that a more efficient notary who can offer the same or higher quality of service at lower prices cannot do so. In contrast, in the Netherlands, there is no price control over most notarial services, allowing more efficient notaries to set lower prices to win more business. Fixed prices also limit incentives to compete on quality and innovate because they prevent notaries from earning more for providing higher-quality services. In the long term, such restrictions on price-setting may result in clients receiving higher-cost and/or lower-quality services.

<sup>30</sup> Figueiredo and Weizenmann 2006.

<sup>31</sup> Article 17 of the Public Notary Act (Official Gazette No. 78/93, 29/94, 16/07).

<sup>32</sup> Article 161 of the Public Notary Act (Official Gazette No. 78/93, 29/94, 16/07); Ordinance on Provisional Notary Public Tariff (Official Gazette 38/94, 82/94, 52/95, 115/12, 120/15); and Ordinance on Temporary Notary Public Tariffs (Official Gazette 38/94, 82/94, 52/95, 115/12, 120/15).

<sup>33</sup> For example, the notarial fee for certification of signature, or a certified copy of a document (per sheet) is assigned with 3 points, which corresponds to HRK 30. The notarial fee for a verification of a translation varies from 5 points to 10 points per page, which correspond to HRK 50–HRK 100, depending on whether the translation has been examined by the notary or not.

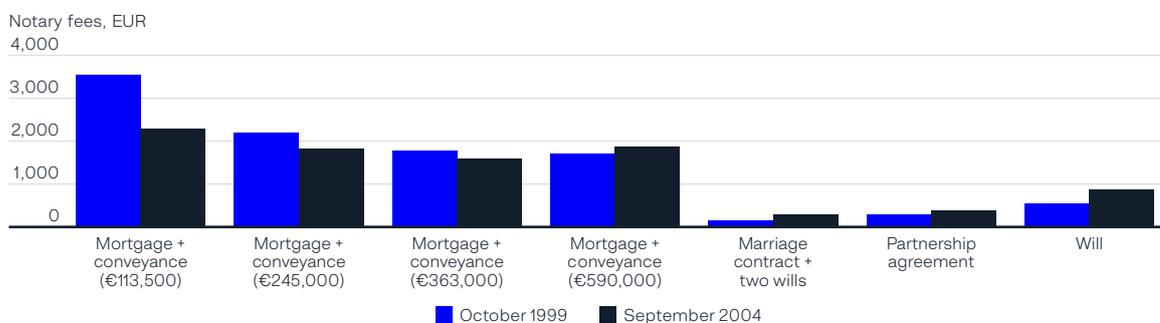
## Policy objective

**The policy objective for price control is to ensure transparency in pricing and prevent notaries from overcharging clients.** According to the Ministry of Justice, fixed prices for notarial services guarantee access to high-quality notarial services at reasonable prices. Fixing prices also reduces incentives for notaries to lower quality through cost reductions. In addition, fixed prices help consumers predict the level of service they will be offered at a specific price, solving the issue of information asymmetry. Finally, fixed prices prevent notaries with market power (that is, notaries who effectively have local monopolies) from overcharging clients who lack choice in providers.

**However, price controls are likely to limit access to notarial services and lead to overcharging.** The Ministry of Justice does not have full information about the cost of service provision and the willingness to pay of individual consumers. As a result, it may price services above or below the free market price. If it prices a service above the market price, price regulation will result in higher prices and lower transaction volumes. If it prices the service below the market price, providers may be deterred from offering the service, leaving unmet demand. Price control also shields providers from competitive pressure and curbs long-term incentives to reduce costs. Evidence from the Netherlands confirms that fixed prices often depart from free market prices of notarial services (see Box 2.2).

### Box 2.2 The liberalization of notary fees in the Netherlands

In 1999, the pricing of notary services in the Netherlands was deregulated through changes to the Dutch Notary Act. Family and corporate services immediately moved to free pricing, while fees for real estate services were gradually liberalized between 1999 and July 2003, at which point they became completely market based. Following the deregulation of prices, Dutch notaries charged at least 10 percent less for most real estate services (Figure B2.2.1). At the same time, the prices of more time-consuming family services increased. In response, the government introduced ceilings for prices paid by low-income households.



Note: Real estate transactions account for around two-thirds of notary revenues in the Netherlands. Pricing for a EUR 590,000 property is for mortgage and conveyancing plus two wills. Pricing for other classes of property is for mortgage and conveyancing only.

Source: Nahuys and Noailly 2005, Kuijpers, Noailly, and Volland 2005.

## Alternatives

**There are more effective and efficient alternatives to ensure affordable access to notarial services.** Removing regulations that limit entry (for example, the notary quota); restrict conduct (for example, advertising restrictions); and facilitate collusion (for example, chamber membership) would increase contestability and therefore weaken the ability of individual providers to increase prices. Even though notary prices are fixed, liberalization is generally expected to increase the volume of transactions and lower the prices of services. Following the 1999 deregulation of prices in the Netherlands, for instance, notaries charged less for real estate services (the most common type of service in the Netherlands) on average (see Box 2.2).<sup>34</sup>

<sup>34</sup> Kuijpers, Noailly, and Volland 2005.

**Price caps may be used to protect vulnerable groups.** It is possible that the prices of some services would rise if regulated prices were set below the costs of service provision. The price of different services can be therefore monitored and capped, if necessary, by regulators. In the Netherlands, the prices of family services increased following the 1999 reforms. In response, regulators introduced a ceiling for prices paid by low-income households.<sup>35</sup> Maximum price regulations for notary services also exist in other civil law countries such as Poland.<sup>36</sup> Such measures can be applied selectively to allow for price competition in some services while regulating prices in others. For example, Romanian law allows the Minister of Justice to determine acts for which notary fees can be freely set.<sup>37</sup>

### 2.3.5 Advertising restrictions

**Any direct or indirect advertising of notary services is prohibited, including the maintenance of a website.** The Code of Ethics of the Chamber of Notaries establishes a ban on advertising and the use of websites by notaries, stating that doing so would harm the reputation of the notary profession.<sup>38</sup> Notaries are allowed to place up to two label plates in the building where their offices are located and display working hours at the entrance of their offices, but other advertising is prohibited. These restrictions go beyond the general rules of protecting consumers against misleading advertising.<sup>39</sup>

### Harm to competition

**The ban on advertising hinders competition by limiting the means through which notaries may attract customers.** The restrictions on advertising make it more difficult for notaries to differentiate themselves and communicate their “selling points” (for example, years of experience). In turn, this inability to differentiate offerings decreases notaries’ incentives to improve their services. The restrictions on advertising also exacerbate the anticompetitive effects of other restrictions, particularly the quota and fixed prices. For example, consumers are more likely to automatically stick with the closest notary if they cannot learn about other notaries’ services through advertising, thus, increasing notaries’ local market power. Indeed, evidence from England and Wales suggests that advertising bans contribute to higher prices of conveyancing services.<sup>40</sup>

### Policy objective

**The policy objective of advertising restrictions is to protect consumers from false and misleading advertising.** Because notary services are complex, consumers may not be able to accurately assess the veracity of claims made in notary advertisements. Advertising restrictions are thus designed to prevent consumers from making decisions based on misleading advertisements by notaries.

<sup>35</sup> Kuijpers, Noailly, and Volland 2005; Nahuis and Noailly 2005.

<sup>36</sup> Ordinance on maximum notary tariffs issued by the Minister of Justice of the Republic of Poland (Official Gazette 2004/148/1564).

<sup>37</sup> Relatedly, the Romanian Competition Council has also begun sanctioning county-level notary chambers when it finds evidence of price-fixing amongst notaries beyond what is authorized under the law (oecd 2018).

<sup>38</sup> Article 17 of the Code of Ethics No. 55/11 (78/93, 29/94 16/07 and 75/09) 33/01, 9/04, 139/06, 65/07 and 55/10).

<sup>39</sup> Consumer Protection Act (Official Gazette 41/14, 110/15 and 14/19).

<sup>40</sup> Love and Stephen (1996); Stephen, Love, and Paterson (1994). Until 1984, only solicitors could provide conveyancing services. In 1984, the United Kingdom Government abolished the legal monopoly and allowed licensed conveyancers to offer real estate services, in competition with solicitors. The relaxation of advertising controls took place also in 1984 and was found to have had a positive effect on price competition.

## Alternatives

**A total ban on advertising, including the use of websites, is not necessary to protect consumers.** False advertisements could be minimized through the enforcement of framework regulations such as the Consumer Protection Act,<sup>41</sup> which covers “any person who offers or concludes legal transactions” and includes specific provisions to enforce misleading practices in advertising.<sup>42</sup> Thus, the general act would cover notarial advertising in the event such advertisements were allowed. Judging from the experiences of similar countries, there appears to be no need for additional restrictions that are specific to notaries. Notaries are allowed to advertise their services in the Netherlands and Austria, among other countries,<sup>43</sup> and rampant false advertising does not appear to be a major issue in these markets. Thus, allowing notaries to advertise, while ensuring adequate enforcement of rules to prevent false advertising, would promote competition on the basis of efficiency and quality without raising significant consumer protection concerns.

## 2.4 Recommendations

Recommendation	Regulation	Justification	Responsible institution and target date <sup>a</sup>
<b>Rules that limit entry or reinforce dominance</b>			
<b>1. Abolish geographical restrictions (fixed number of notaries per court district and ban on solicitation of clients outside court district)</b>	Articles 16 and 30 of the Public Notaries Act (Official Gazette No. 78/93, 29/94, 16/07) Ordinance on official seats of notaries (Official Gazette 51/15)	<b>The geographical restrictions are likely to harm access to notarial services.</b> The geographical restrictions are likely to limit the number of notary offices. There is generally no evidence of market failure in the direct provision of notarial services in Croatia and thus no basis for government intervention. Vacant offices are filled on a regular basis, suggesting that the number of potential providers is either equal to or above the quota. <b>The geographical restrictions harm competition.</b> The quota precludes operators from creating new and expanding existing offices. It also increases the local market power of notaries.	Ministry of Justice January 2021
<b>2. Allow lawyers to enter the notary traineeship, incorporate elements of the Bar exam in the notary exam, and shorten the length of legal traineeships</b>	Articles 13(1) and 170(1) of the Public Notaries Act (Official Gazette No. 78/93, 29/94, 16/07)	<b>The qualification requirements for notaries go beyond the necessary minimum to promote quality of service.</b> The qualification process is simpler in several EU countries (for example, Poland, Greece, and Lithuania). In Poland, notaries are not required to pass the Bar exam and their traineeship lasts three and a half years. In France, notaries take only one professional exam. <b>The qualification process is cumbersome and lengthy, limiting entry into the profession.</b> The requirements delay entry and impose additional cost for notary candidates. This discourages new providers from entering the market and results in longer time periods over which potential entrants must take lower salaries. <b>There are alternatives to promote quality of service.</b> While notaries possess specialized legal skills, it should be possible to acquire them in less time and streamline the two professional exams. The work experience requirement could be shortened to three to five years. Elements of the Bar exam which are not critical for the work of the notary (for example, criminal law) could be eliminated and the rest incorporated in the notary exam.	Ministry of Justice January 2021

<sup>41</sup> Consumer Protection Act (Official Gazette 41/14, 110/15 and 14/19).

<sup>42</sup> Chapter III of the Consumer Protection Act, articles 89–95.

<sup>43</sup> OECD PMR 2018.

Recommendation	Regulation	Justification	Responsible institution and target date <sup>a</sup>
<p><b>3. Review the need for mandatory professional chamber membership and the possibility of transferring to the Ministry of Justice the authority to license, regulate, and supervise notaries</b></p>	<p>Article 9 of the Public Notaries Act (Official Gazette No. 78/93, 29/94, 16/07)</p> <p>Article 2 of the Statute of the Croatian Chamber of Notaries (Official Gazette 64/14).</p>	<p><b>Chamber membership may not be necessary to promote quality of service.</b> The Chamber of Notaries is responsible for licensing, regulating, and supervising notaries. However, there is a natural conflict of interest between representing the professional community on the one hand and sanctioning its members on the other hand. Mandatory chamber membership is not required in some countries with civil law notaries, such as Chile or Brazil.<sup>b</sup></p> <p><b>Compulsory chamber membership harms competition.</b> First, the requirement of chamber membership may limit entry by allowing incumbents to vet new entrants. In addition, the Chamber provides opinions to the Ministry of Justice on the creation of notarial offices and the appointment of new notaries and it is involved in the organization of the professional exam. Finally, compulsory chamber membership makes it easier for providers to collude on strategic variables, such as prices or location. For example, the Chamber is involved in the tariff-setting process and decisions over the location of notary offices.</p> <p><b>There are alternative, more effective means of promoting quality of service.</b> While professional chamber membership may serve as a signal of high-quality services, it is more effective when membership is voluntary because then high-quality providers can self-select into the professional association. In addition, quality of service is already incentivized through mandatory professional liability insurance as the insurance premium directly depends on the claims history of individual providers.</p>	<p>Ministry of Justice, Chamber of Notaries January 2021</p>
<b>Rules that facilitate collusion or increase costs to compete</b>			
<p><b>4. Abolish fixed prices of notarial services</b></p>	<p>Article 161 of the Public Notaries Act (Official Gazette No. 78/93, 29/94, 16/07),</p> <p>Ordinance on provisional notary public tariff (Official Gazette 38/94, 82/94, 52/95, 115/12, 120/15)</p>	<p><b>Tariffs are neither necessary nor efficient to ensure the availability of notarial services.</b> According to the ministry, tariffs prevent notaries from overcharging clients. However, this objective can be more effectively addressed by promoting market competition:</p> <p><b>The ministry does not have full information about the cost of service provision and the willingness to pay of individual consumers.</b> As a result, it may price services above or below the free market price.</p> <p><b>Overcharging is only possible if providers hold significant market power.</b> Removing regulations that limit entry (for example, the notary quota); restrict conduct (for example, advertising restrictions); or facilitate collusion (for example, chamber membership) would increase contestability and therefore weaken the ability of individual providers to raise prices.</p> <p><b>Tariffs harm consumers and severely limit the ability of notaries to compete.</b> Because of tariffs, consumers may have limited access to notary services and pay above-market prices for services. Evidence from the Netherlands confirms that fixed prices depart from free market prices of notarial services. Setting fixed prices limits also the ability of notaries to compete through productivity improvements.</p> <p><b>There are more effective and efficient alternatives to ensure access to services.</b> Price liberalization is generally expected to increase the volume of transactions and lower the prices of services. Following the 1999 deregulation of prices in the Netherlands, for instance, notaries charged, in general, less for real estate services. At the same time, the prices of some services may increase to a level that limits access to these services for some consumers. The price of services can be therefore monitored and, if necessary, capped by regulators, as the Netherlands does for family services.</p>	<p>Ministry of Justice January 2021</p>

Recommendation	Regulation	Justification	Responsible institution and target date <sup>a</sup>
<b>5. Abolish advertising restrictions</b>	Add new provision in the Public Notaries Act (Official Gazette No. 78/93, 29/94, 16/07) authorizing notaries to advertise Abolish Article 17 of the Notary Public Ethics Code of the Chamber of Notaries (Official Gazette 55/11)	<b>Special restrictions on advertising are not necessary to protect consumers.</b> The regulations prohibit any direct or indirect form of advertisement of notarial services, including the maintenance of a website. These restrictions go beyond the general rules of protecting consumers against misleading advertising. <sup>c</sup> There appears to be no need for additional restrictions that are specific to notaries. Notaries are not restricted from advertising their services in the Netherlands and Austria, among other countries. <b>Notaries cannot effectively compete because they have limited means to attract customers.</b> The restrictions on advertising make it more difficult for notaries to differentiate themselves and communicate their 'selling points' (for example, years of experience). As a result, the incentives of notaries to improve their services are unreasonably limited. The restrictions also compound the anticompetitive effects of other restrictions, particularly the quota and fixed prices. Studies of advertising deregulation have found decreases in prices of conveyancing services in England and Wales.	Ministry of Justice Chamber of Notaries January 2021

Notes:

a. For the entry into force of the regulatory change.

b. Data from the OECD PMR 2018.

c. Consumer Protection Act (Official Gazette 41/2014, 110/2015 and 14/2019).

## References

### Notary regulations

Legal Profession Act (Official Gazette 09/94, 117/08, 50/09, 75/09, 18/11)	Zakon o odvjetništvu (NN 09/94, 117/08, 50/09, 75/09, 18/11)
Notary Public Act (Official Gazette 78/93, 29/94, 162/98, 16/07, 75/09, 120/16)	Zakon o javnom bilježništvu (NN 78/93, 29/94, 162/98, 16/07, 75/09, 120/16)
Act on Notary Public Fees (Official Gazette 72/94, 74/95, 87/96, 112/12, 110/15)	Zakon o javnobilježničkim pristojbama (NN 72/94, 74/95, 87/96, 112/12, 110/15)
Act on Trainees in Judicial Bodies and Bar Exam (Official Gazette 14/19)	Zakon o vježbenicima u pravosudnim tijelima i pravosudnom ispitu (NN 14/19)
Statutes of the Croatian Notary Public Chamber (Official Gazette 64/14, 69/14, 33/15)	Statut Hrvatske javnobilježničke komore (NN 64/14, 69/14, 33/15)
Ordinance on notary public work time (Official Gazette 38/94)	Pravilnik o radnom vremenu javnih bilježnika (NN 38/94)
Ordinance on official seats of notaries (Official Gazette 51/15)	Pravilnik o službenim sjedištima javnih bilježnika (NN 51/15)
Ordinance on notary public exam (Official Gazette 38/94)	Pravilnik o javnobilježničkom ispitu (NN 38/94)
Notary Public Ethic Code (Official Gazette 55/11)	Kodeks javnobilježničke etike (NN 55/11)
Ordinance on Provisional Notary Public Tariff (Official Gazette 38/94, 82/94, 52/95, 115/12, 120/15)	Pravilnik o privremenoj javnobilježničkoj tarifi (NN 38/94, 82/94, 52/95, 115/12, 120/15)
Ordinance on the amount of rewards and reimbursement of the notary public costs for acting as a court trustee in the procedure for issuing, correcting, modifying, revoking, or suspending the European certificate of inheritance (Official Gazette 99/15)	Pravilnik o visini nagrade i naknadi troškova javnog bilježnika kao povjerenika suda u postupku za izdavanje, ispravak, izmjenu, opoziv ili privremenu obustavu Europske potvrde o nasljeđivanju (NN 99/15)
Ordinance on the rewards and reimbursement of the notary public costs in the enforcement proceedings (Official Gazette 8/11, 112/12, 114/12)	Pravilnik o nagradama i naknadi troškova javnih bilježnika u ovršnom postupku (NN 8/11, 112/12, 114/12)
Notary Public's Rules of Procedure (Official Gazette 38/94, 82/94, 37/96, 151/05, 115/12, 120/14)	Javnobilježnički poslovnik (NN 38/94, 82/94, 37/96, 151/05, 115/12, 120/14)
Ordinance on notary public protest registry (38/94, 24/99)	Pravilnik o javnobilježničkim protestnim upisnicima (NN 38/94, 24/99)
Ordinance on protection and processing of archive and registry material in notary public offices (Official Gazette 123/08)	Pravilnik o zaštiti i obradi arhivskog i registraturnog gradiva u javnobilježničkim uredima (NN 123/08)
Rulebook on Notary Offices (Official Gazette 123/11, 115/12)	Pravilnik o javnobilježničkim uredima (NN 123/11, NN 115/12)
Ordinance on fees and fees for publishing, education and seminars of November 16, 2015	Pravilnik o honorarima i naknadi troškova za izdavačku djelatnost, edukacije i seminare objavljen 16.11.2015.
Ordinance on the amount of rewards and reimbursement of the expenses of a notary as a trustee of the court in the procedure of inheritance (Official Gazette 135/03)	Pravilnik o visini nagrade i naknade troškova javnog bilježnika kao povjerenika suda u ostavinskom postupku- neslužbeni pročišćeni tekst (NN 135/03)
Ordinance on the Croatian register of testaments (OG 135/2003, 164/2004)	Pravilnik o Hrvatskom upisniku oporuka (NN 135/2003, 164/2004)

## Other references

- Epstein, Lee, and Thomas. G. Walker. 2013. *Constitutional Law: Rights, Liberties and Justice* (8<sup>th</sup> ed.). Washington, DC.: SAGE CQPRESS.
- Figueiredo, Ferreira João, and Luiz Carlos Weizenmann. 2006. "The Notarial Profession in Brazil." *Notarius International*.
- Kuijpers, Nicole, Joelle Noailly, and Ben Vollaard. 2005. "Liberalisation of the Dutch Notary Profession." CPB Document, Den Haag: CPB 93.
- Love, James, and Frank Stephen. 1996. "Advertising, Price and Quality in Self-Regulating Professions: A Survey." *International Journal of the Economics of Business* 3:227–4.
- Love, James, and Frank Stephen. 1997. "Deregulation and Professional Boundaries: Evidence from the English Legal Profession." *Business and Economic History* 26 (2): 792–804.
- Mathis, Klaus. 2019. "New Developments in Competition Law and Economics." *Economic Analysis of Law in European Legal Scholarship* 7.
- Moisescu, Florentina. 2013. *The Liberalization of Notary Fees in Romania. Objectives and Restrictions*. Economics and Applied Informatics, "Dunarea de Jos" University of Galati, Faculty of Economics and Business Administration 1:59–66.
- Nahuis, Richard, and Joelle Noailly. 2005. "Competition and Quality in the Notary Profession." CPB Document CPB Netherlands Bureau for Economic Policy Analysis 94.
- Nahuis, Richard, and Joelle Noailly. 2010. "Entry and Competition in the Dutch Notary Profession." *International Review of Law and Economics* 30:178–185.
- OECD (Organisation for Economic Co-operation and Development). 2007. *Competitive Restrictions in Legal Professions*. Paris: OECD.
- OECD. 2018. *Annual Report on Competition Policy Developments in Romania*. Paris: OECD.
- Rojek, Miłosz, and Michał Masior. 2016. *The Effects of Liberalising Professional Requirements in Poland*. European Commission, DG for Internal Market, Industry, Entrepreneurship and SMEs.
- Stephen, Frank, James Love, and Alan Paterson. 1994. "Deregulation of Conveyancing Markets in England and Wales." *Fiscal Studies* 15:102–1.
- Stephen, Frank H., and Christopher Burns. 2007. "Liberalization of Legal Services." *Service Liberalization in Europe. Case Studies* 2 (35): 118–161.
- Van den Bergh, Roger, and Yves Montangie. 2006. "Competition in Professional Services Markets: Are Latin Notaries Different?" *Journal of Competition Law and Economics* 2 (2): 189–214.
- Willekens, Marleen, Simon DeKeyser, and Ines Simac. 2019. *EU Statutory Audit Reform: Impact on Costs, Concentration, and Competition*. Brussels, Belgium: European Parliament.
- World Bank Group. 2019. *Doing Business, Economy Profile: Croatia*. World Bank Group.

# Attorneys

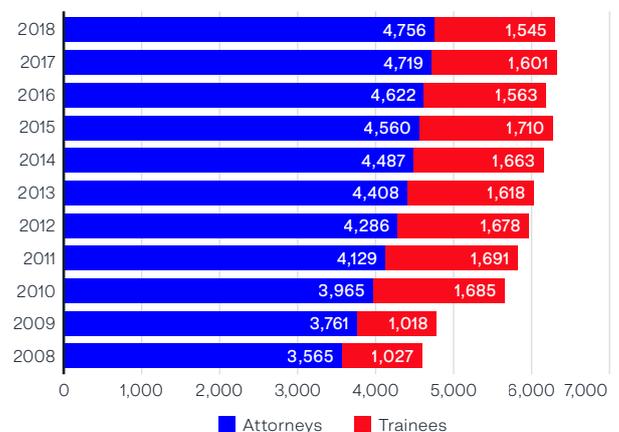
As with their peers in most other countries, attorneys in Croatia are subject to regulations to ensure high-quality service and protect clients from malpractice. Among other requirements, attorneys in Croatia must possess law degrees, pass the Bar exam, and be members of the Croatian Bar Association. Once they are admitted as attorneys, they are also subject to restrictions regarding how they may advertise and market their specialization. However, in many areas, Croatian regulations on attorneys go beyond what is necessary to protect clients. For example, the fees for registering in the Croatian Bar Association far exceed those in other countries (for example, Austria) or related professions in Croatia (for example, notaries), and they are implemented in a way that discriminates candidate attorneys without private law firm experience. Beyond entry, Croatia also imposes stricter rules on pricing, advertising, and lawyer specializations than comparable EU countries. Taken together, these restrictions restrict the supply of attorneys and limit competition on price or quality. On such issues, other comparable countries have adopted more relaxed rules without adverse consequences for consumers. By bringing its regulations on attorneys in line with EU-wide standards, Croatia could improve both access to the profession and affordability and quality of legal services.

## 3.1 Market overview

**Attorneys provide three main types of services: (a) legal advice, (b) drafting of legal documents, and (c) representation of clients.** Legal services are provided to natural persons and legal entities and cover all branches of the law. Corporate clients typically use attorneys for contracting, counseling, and representation on corporate, finance, tax, labor, property, construction, and other issues. Individual and household clients typically use attorneys for injury, defense, wills, and estates, as well as issues related to family law and employment law.

**In 2017, the market for third-party attorney services totaled around HRK 2 billion (US\$300 million).<sup>1</sup>** Legal services revenues accounted for 0.70 percent of GDP in Croatia in 2017, slightly above the EU median of 0.65 percent.<sup>2</sup> Legal services revenues grew rapidly at 9.7 percent per year between 2012 and 2017 but have yet to reach their 2009 peak following a sharp downturn in 2010 (Figure 3.1). These numbers do not include salaries of in-house lawyers.

**Figure 3.1** Number of attorneys in Croatia



Source: Croatian Bar Association.

<sup>1</sup> Eurostat.

<sup>2</sup> Legal services firms in dataset include both law offices/firms and notarial offices, but data are more indicative of law offices/firms given their much larger number.

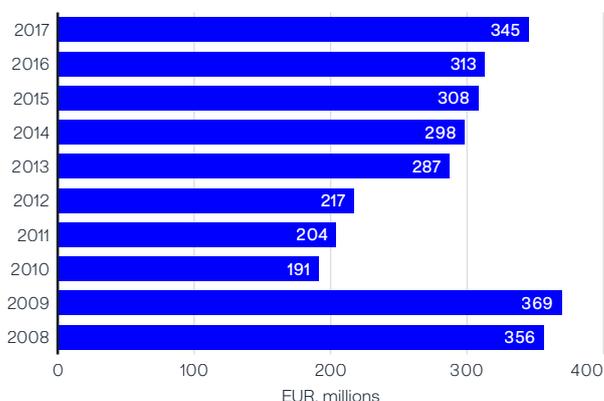
**The attorney market in Croatia is divided between many smaller, generalist firms.** As of November 2019, there were 3,170 individual law offices, 197 joint offices, and 294 law firms in Croatia. These firms employed 4,756 attorneys and 1,545 trainees in 2018 (Figure 3.2). The top 10 law firms account for less than 20 percent of law office/firm revenues, although concentration may be higher within specific segments (for example, high-end corporate work). Most law offices and firms operate as generalist practices as the market is insufficiently large to sustain specialist firms. Outside of in-house lawyers, alternative legal service providers (that is, nonlawyers/notaries who provide legal services) are negligible in Croatia.

**Within the corporate segments, 15–20 top firms control the majority of the market.** According to all market participants interviewed, it is difficult for new firms to break into these segments, and those that do are generally offshoots of established firms. Firms generally compete on quality, reputation, and relationships rather than price, but price competition does occasionally occur. Attorneys charge within the official price range for simpler tasks, but there is more price variation in the case of more complex services.

**Croatian law specifies the conditions under which professionals may provide legal services and establishes the Ministry of Justice and Croatian Bar Association as key regulatory authorities overseeing attorneys.** In Croatia, attorneys are primarily governed by the Legal Profession Act and bylaws issued by the Ministry of Justice and the Bar Association.<sup>3</sup> The Legal Profession Act, the Statute of the Bar Association,<sup>4</sup> and the Tariff on Attorneys' Remuneration and Compensation of Costs<sup>5</sup> determine who can be an attorney, set price ranges for attorney services, and specify how the Bar Association operates as a regulatory and supervisory body. The requirements for becoming an attorney are set through the Legal Profession Act and Ministry of Justice bylaws, while the Bar Association makes day-to-day decisions on individuals' eligibility to become and remain practicing attorneys in Croatia. Tariffs are adopted by the Bar Association in agreement with the Ministry of Justice. The Ministry of Justice also monitors the work of the Bar Association, and both the Ministry and the Bar Association have the power to initiate disciplinary procedures against attorneys. Procedural and substantive laws, such as the Act on Civil Disputes,<sup>6</sup> also stipulate the exclusive rights of attorneys. Given the specific nature of the industry, regulations are generally easily enforceable, and market participants tend to adhere to the rules as a result.

**There are mixed signs of competition in the legal services market in Croatia.** Attorney density is roughly in line with other countries in the EU. There are 116 attorneys per 100,000 inhabitants, close to the median (113) for the 27 EU countries for which the Council of Bars and Law Societies of Europe publishes data (see Figure 3.3). The churn rate in the attorney population has hovered around 7–9 percent over the past five years.<sup>7</sup> On average, around 200–250 new attorneys and 400–500 new legal trainees are admitted to the Bar each year. On the other hand, at the firm level, data suggest a lower degree of competition relative to peer countries. Over

**Figure 3.2** Legal services revenue in Croatia



Source: Eurostat.

Note: Legal services revenues include both revenues for attorneys as well as other legal services.

<sup>3</sup> Official Gazette 09/94, 117/08, 50/09, 75/09, 18/11.

<sup>4</sup> Official Gazette 115/13.

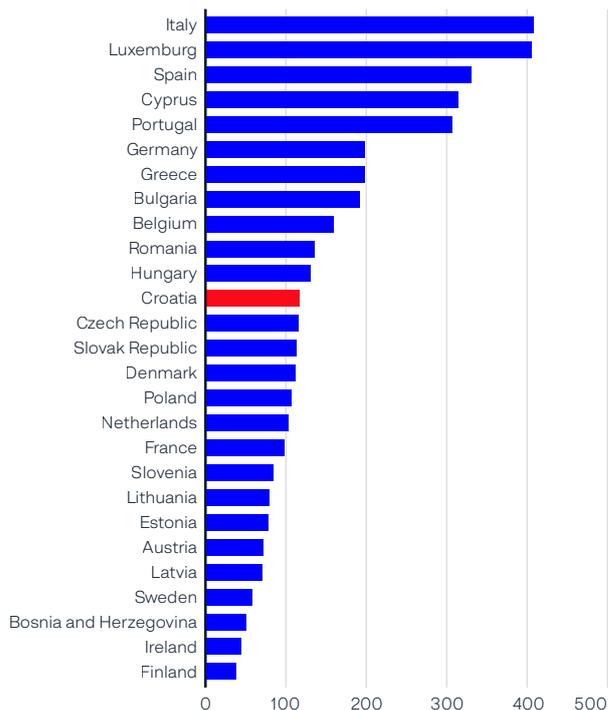
<sup>5</sup> Official Gazette 142/2012, 103/2014, 118/2014, 107/2015.

<sup>6</sup> Official Gazette 70/19.

<sup>7</sup> Attorney population churn is defined as the number of new attorneys as a percentage of the attorney population plus the number of exiting attorneys as a percentage of the attorney population.

2015–2017, business churn—defined as the death rate plus birth rate of firms—in the Croatian legal services market averaged 6.0 percent, well below the median of 13.1 percent for benchmark EU countries (see Figure 3.4).<sup>8</sup> The churn rate in the legal services market is also well below the average of all businesses in Croatia, which typically ranges between 15 and 20 percent.<sup>9</sup>

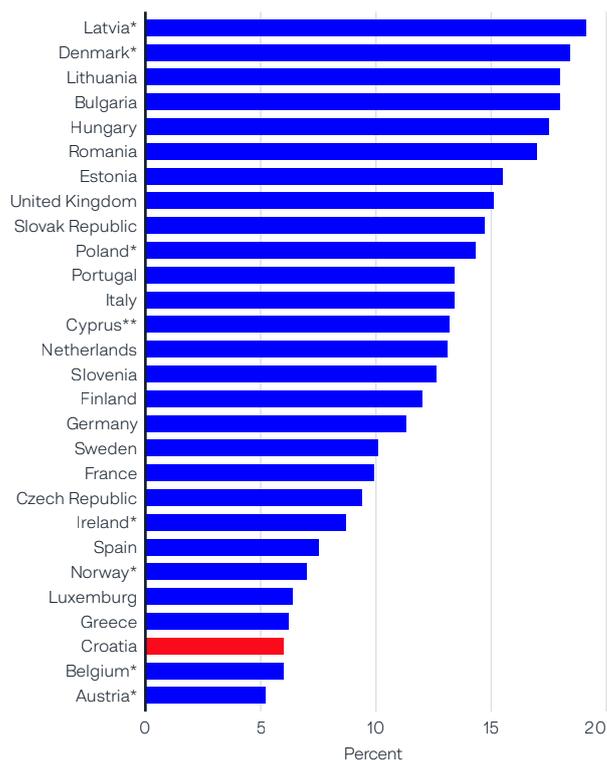
**Figure 3.3** Number of attorneys per 100,000 inhabitants, 2018



Source: Council of Bars and Law Societies of Europe, World Bank World Development Indicators, and World Bank staff calculations.

Note: The comparison is indicative due to differences in exclusive rights between countries. 2015 data for Belgium.

**Figure 3.4** Market churn of legal services firms, 2015–2017



Source: Eurostat and World Bank staff calculations.

Note: \*Data from 2016–2017. \*\*Data from 2015.

## 3.2 Regulated professions

**Attorneys have the exclusive right to perform most legal services in Croatia.** The attorney profession is open to law graduates only. To qualify, law graduates must complete at least three years of attorney training and pass the Bar exam.<sup>10</sup> Attorneys have exclusive rights to provide legal advice; draft legal documents (contracts, statements, and so on); represent clients in courts; and draw up claims, complaints, motions, requests, extraordinary legal remedies, and other pleadings.<sup>11</sup> Some exclusive rights are shared. For instance, in-house lawyers are allowed to represent their employers before courts.<sup>12</sup> Law professors and assistant professors are allowed

<sup>8</sup> Legal services firms in the dataset include both law offices/firms and notarial offices but figures are more indicative of firm death/birth dynamics among law offices/firms given their much larger number.

<sup>9</sup> Eurostat.

<sup>10</sup> Trainees in attorney offices are eligible to take the Bar exam after 18 months of training. Trainees who pass the Bar exam early need to complete the remainder of their three-year traineeship before qualifying as attorneys.

<sup>11</sup> Article 3(a) of the Legal Profession Act (Official Gazette 09/94, 117/08, 50/09, 75/09, 18/11).

<sup>12</sup> There are in-house lawyers who passed the Bar exam and lawyers who did not pass the Bar exam but can still represent their employers before courts. Those who have not passed the Bar exam can represent their employers but are limited to lower-value cases (that is, they cannot represent their employers in cases with dispute values higher than HRK 50,000 or US\$7,500). In-house lawyers are not members of the Bar Association.

to provide paid legal advice.<sup>13</sup> Notaries are also able to provide legal services in matters that are noncontentious and related to notary acts.<sup>14</sup> Attorneys can provide legal services individually through independent offices or together with other attorneys through joint offices or law firms.

### 3.3 Restrictions

**In total, this review identified five key restrictions to competition in the market for attorney services.** The review entailed 4 laws and 13 bylaws regulating the provision of attorney services (see Annex C for a list of restrictions). Most restrictions pertain to rules that are conducive to collusive behavior, including price controls, limitations on advertising, and restrictions on claims of specialization (Table 3.1). Other restrictions stem from Rules that limit entry or reinforce dominance, including mandatory chamber membership and high registration fees. Rules that discriminate and protect vested interests also exist but are less prominent. For each of the key restrictions, the following sections discuss the (a) harm to competition caused by these restrictions; (b) the stated policy rationale for restrictions; and (c) alternative solutions that are either less distortive, more effective, or both.

**Table 3.1** Types of anticompetitive restrictions in attorney regulations, 2019

Main types of rules based on market effect	Specific types	Frequency	Examples of restrictions
Rules that limit entry or reinforce dominance	1.1 Monopoly rights and absolute ban for entry	6	Mandatory chamber membership, registration fee
	1.2 Relative ban for entry and expansion of activities	12	
	1.3 Incumbents participate in entry/exit decisions	13	
	1.4 Requirements for registry (licenses and permits)	17	
Rules that facilitate collusion or increase costs to compete	2.1 Rules that facilitate agreements/ reduce firms' choice of strategic variables	17	Price control (tariffs) and limitation on advertising, approval procedures for specializations
	2.2 Restrictions on type of products and services/format and location	10	
	2.3 Price control	20	
Rules that discriminate and protect vested interests	3.1 Discriminatory application of rules and standards	5	Higher registration fees for attorneys with in-house experience
	3.2 Discretionary application of rules	14	
	3.3 Lack of competitive neutrality vis-à-vis government entities	0	
	3.4 State aid/incentives distorting level playing field	0	

Source: World Bank staff analysis based on the MCPAT. The MCPAT methodology is presented in Annex A.

Note: Some restrictions have been attributed to and counted as several types. For instance, a license that is allocated in a discriminatory way has been counted as two types of restrictions: requirement for registry (licenses and permits) and discriminatory application of rules and standards.

<sup>13</sup> Article 5(a) of the Legal Profession Act (Official Gazette 09/94, 117/08, 50/09, 75/09, 18/11).

<sup>14</sup> Article 4 of the Notary Public Act (Official Gazette 78/93, 29/94, 162/98, 16/07, 75/09, 120/16).

### 3.3.1 Membership in the Bar Association

**Attorneys must be members of the Bar Association to offer legal services.** Article 46 of the Legal Profession Act mandates that attorneys enter the registry of the Bar Association.<sup>15</sup> Attorneys must first meet the eligibility requirements for membership in the Bar Association, including obtaining a law degree, passing the Bar exam, and passing an exam on professional ethics and tariffs.<sup>16</sup> Once they meet these requirements, prospective attorneys apply for registration by submitting all necessary documentation and paying a registration fee of up to HRK 37,500 (around US\$5,600).<sup>17</sup> According to the Legal Profession Act and the Statute of the Bar, the Association represents the interests of the profession as a whole and provides oversight of attorneys' work, initiating disciplinary proceedings in cases of malpractice.<sup>18</sup>

#### Harm to competition

**Mandatory membership in the Bar Association limits entry into the profession, makes it easier for competitors to coordinate with respect to strategic variables, and creates scope for discriminatory practices.** First, mandatory membership allows incumbents to regulate entry of new competitors. Such an arrangement creates the potential for conflicts of interest as the existing attorneys may raise barriers to entry to protect their own interests. For example, the registration fee amounts to HRK 37,500 (around US\$5,600) for some candidates, well above many comparable EU countries.<sup>19</sup> Second, the requirement of Bar Association membership facilitates coordination between competitors on strategic variables such as prices and product offerings by gathering all competitors under one umbrella organization, facilitating communication among competitors. Finally, current procedures to join the Bar Association discriminate against in-house lawyers. The Bar Association differentiates the registration fee depending on the type and length of professional experience. This practice benefits lawyers in attorney offices over in-house lawyers, even though all of them possess the relevant technical qualifications to enter the Bar.

#### Policy objective

**Membership in the Bar Association is meant to ensure adequate quality within and independent oversight over the profession.** Because they lack legal training, many clients—especially private individuals—are unable to accurately determine the quality of legal services offered by attorneys. In the absence of a certification system, this information asymmetry may lead to poor-quality services being offered to clients as high-quality providers are unable to differentiate themselves (that is, adverse selection). Bar Association membership thus serves as an external signal guaranteeing at least threshold quality of service. Relatedly, the Bar Association is responsible for oversight over attorneys' services and the enforcement of disciplinary measures, and it regularly sanctions members for malpractice or violating ethical standards. This oversight helps prevent attorneys who are incompetent or unethical from offering services to clients. The Bar Association oversight would be ineffective if it were to only cover some attorneys (that is, if not all attorneys were members of the Bar Association). Finally, according

<sup>15</sup> The same applies for joint law offices, law firms, and law trainees.

<sup>16</sup> Article 48 of the Legal Profession Act (Official Gazette 09/94, 117/08, 50/09, 75/09, 18/11). The exam on ethics and tariffs is based on the Code of Ethics (Official Gazette 64/07, 72/08) and the Tariff on Attorneys' Remuneration and Compensation of Costs (Official Gazette No. 142/12, 103/14, 118/14, 107/15).

<sup>17</sup> See Section 2.3.2. for more information on registration fees.

<sup>18</sup> Article 39 of the Legal Profession Act (Official Gazette 09/94, 117/08, 50/09, 75/09, 18/11) and Article 29 of the Statute of the Croatian Bar Association (Official Gazette 115/13 and 64/18).

<sup>19</sup> In Greece, the cost to enter the Bar Association is EUR 85 and in Germany the cost varies from EUR 150 to EUR 210, depending on the district.

to the Bar Association, compulsory membership of attorneys in the Bar is necessary to implement Article 27 of the Constitution of the Republic of Croatia,<sup>20</sup> which stipulates that the legal profession should be independent in Croatia. Keeping the Bar Association as a professional body that is separate from the government is meant to guarantee independence of the profession.

## Alternatives

**Oversight responsibilities could be transferred to other parties to eliminate conflicts of interest.** While it is important to license, supervise, and regulate attorneys, such responsibilities do not necessarily need to reside with the Bar Association. Notably, the public sector can effectively provide oversight. For example, in many common law countries and in Switzerland, court systems handle such duties, and a special council appointed by the Ministry of Justice oversees attorneys in Norway. Having the public sector play this role still ensures quality of service and safeguards against unethical practices while avoiding the conflict of interest inherent in having an organization that is responsible for both promotion of the profession's interests and oversight. A mandatory Bar Association would then no longer be necessary for effective regulation of the profession.

**Alternative means to signal quality of services exist in Croatia.** Aside from Bar Association membership, attorneys in Croatia are already required to obtain a law degree, gain work experience, and pass an examination. Those requirements establish a threshold level of competence for attorneys, and Bar Association membership in and of itself does not add significant signaling value on top of them. In contrast, if Bar Association membership were to be made voluntary, the Bar Association would be free to establish more stringent requirements for membership than the current minimum to practice as an attorney. This could make Bar Association membership an even stronger signal of quality than under mandatory membership.

**Mandatory Bar Association membership is not necessary to ensure independence of the profession.** Article 27 only guarantees the independence of the legal profession and obliges professionals to provide legal aid. It does not refer to the Bar Association or membership therein. Furthermore, self-regulation through the Bar Association is not necessary to ensure independence of the profession; public oversight does not automatically entail public or political control of the profession.

### 3.3.2 Registration fee

**Attorneys entering the Bar Association are required to pay a high entry fee.** The fee amounts to HRK 37,500 (around US\$5,600) for professionals who have trained as in-house lawyers and professionals who have completed their traineeship in less than two years. Professionals who have completed two-year traineeships pay half of the fee (HRK 18,750, or US\$2,800), while trainees with three-year traineeships are exempt from the fee.<sup>21</sup>

## Harm to competition

**The fee constitutes a significant financial barrier for new entrants.** A typical legal trainee is paid a minimum monthly salary of HRK 5,500 to HRK 6,600 gross (US\$800–US\$1,000), a fraction

<sup>20</sup> Official Gazette 85/2010.

<sup>21</sup> Articles 41, 45, and 48 of the Legal Profession Act (Official Gazette 09/94, 117/08, 50/09, 75/09, 18/11); Article 18 paragraph 11 of the Statute of the Croatian Bar Association (Official Gazette 115/13 and 64/18); and Decision of the Board of the Croatian Bar Association from March 14, 2019.

of the registration fee. Trainees must save up for a long time to pay the fee or wait until they meet the experience requirement for fee exemptions. Thus, the fee discourages and/or delays entry by aspiring attorneys who lack outside financial resources. In turn, this limits contestability in the market for attorneys.

**The fee does not apply equally to all candidate attorneys and favors some candidates over others.** Without paying a fee, some lawyers are not able to register with the Bar even though they have passed the Bar exam and have acquired the relevant work experience. For instance, in-house counsels who have passed the Bar exam and started their legal careers outside of law firms cannot enter the Bar until they have four years of experience in total (see Table 3.2). In comparison, trainees in law firms need three years of experience to register with the Bar. This limitation results in a delay of at least one year for some in-house counsels.

**Table 3.2** Registration fees for lawyers who passed the Bar exam

Legal experience: In-house counsel → In law firm ↓	<1 year	1-1.49 years	1.5-1.99 years	2-2.49 years	2.5-2.99 years	≥3 years
≥3 years	HRK 0	HRK 0	HRK 0	HRK 0	HRK 0	HRK 0
2.5-2.99 years	Not eligible	HRK 18,750 <sup>a</sup> (US\$2,800)	HRK 18,750 (US\$2,800)	HRK 18,750 (US\$2,800)	HRK 18,750 (US\$2,800)	HRK 18,750 (US\$2,800)
2-2.49 years	Not eligible	Not eligible	HRK 18,750 <sup>a</sup> (US\$2,800)	HRK 18,750 (US\$2,800)	HRK 18,750 (US\$2,800)	HRK 18,750 (US\$2,800)
1.5-1.99 years	Not eligible	Not eligible	Not eligible	HRK 37,500 <sup>a</sup> (US\$5,600)	HRK 37,500 (US\$5,600)	HRK 37,500 (US\$5,600)
<1.5 years	Not eligible	Not eligible	Not eligible	Not eligible	Not eligible	HRK 37,500 <sup>a</sup> (US\$5,600)

Source: World Bank staff analysis of the Legal Professions Act (NN 09/94, 117/08, 50/09, 75/09, 18/11) and bylaws of the Croatian Bar Association (2019).

Note: a. Assuming that total length of experience exceeds four years.

## Policy objective

**According to the Bar Association, the entry fee is necessary to finance the services provided by the Bar Association.** The services provided by the Bar Association include registration of attorneys, setting minimum and maximum tariffs, establishing a program for continuing education, monitoring the work of attorneys, taking disciplinary measures, and certifying attorneys' claims of specialist expertise. Another important service organized by the Bar Association is free legal aid, that is, assigning cases of specific groups of citizens (for example, veterans) to attorneys.

## Alternatives

**Standardizing fees at lower rates would lower barriers to entry and reduce discrimination.** Currently, the Bar Association's full registration fees are much higher than the fees set by other professional chambers. For instance, the Chamber of Notaries does not charge for registering candidates,<sup>22</sup> while the Chamber of Architects charges HRK 1,000 (around US\$150) for the same task. Croatia has the highest bar registration fees of eight EU member states for which

<sup>22</sup> No information on the registration fees charged by the Chamber of Notaries is publicly available. According to market participants, no such fee exists. However, the Chamber of Notaries has the legal authority to set registration fees.

comparable data were available (see Table 3.3). Furthermore, standardization of fees across all qualified candidates would limit discrimination by leveling the playing field between different types of candidates.

**The Bar Association would be able to operate with lower, more consistent fees.** Standardizing fees at lower levels is unlikely to adversely affect the Bar Association's ability to obtain sufficient funds to carry out its tasks. A very small minority—around 3 percent according to the Bar Association—pays the higher fee because those who complete three-year traineeships in private law firms (that is, the vast majority of new attorneys) are exempt. In other words, total contributions to the Bar Association revenues from such fees amounts to only around HRK 200,000 (around US\$30,000) based on the number of new attorneys admitted per year, a small fraction of the HRK 19 million (around US\$2.8 million) which the Bar Association collects in contributions from existing and new members each year.

**Table 3.3** Bar registration fees in selected EU countries (EUR)

Country	Bar registration fees
Austria	0
Netherlands	0
Spain	0
Czech Republic	296
Lithuania	500
Bulgaria	750-1,000
Croatia	0-5,000

Source: Adapted from World Bank (2017).

### 3.3.3 Price control

**The Bar Association sets tariffs for legal services.** The Tariff on Attorneys' Remuneration and Compensation of Costs<sup>23</sup> establishes a point system and assigns points to specific tasks and services. The system generally imposes minimum fees, but there are also provisions which determine a maximum fee (for example success fee limited to 30 percent of the achieved amount). Point values are converted to Croatian kuna to determine tariffs (the value of a point is HRK 10 or US\$1.50). For example, for court proceedings, the system assigns 100 points (HRK 1,000 or US\$150) for the first hour of each hearing (and 50 points for any subsequent hour) related to a criminal offence with a penalty of up to three years imprisonment.<sup>24</sup> The regulations also allow for remuneration based on a success fee<sup>25</sup> or on an hourly basis.<sup>26</sup> For instance, if there is no specified fee (mostly outside court proceedings), the regulation allows a charge of 25 points per hour (HRK 250 or US\$37).<sup>27</sup> Attorneys are allowed to deviate from tariffs but need to stay within official price ranges. For instance, attorneys are allowed to charge below the official tariff, but not less than 50 percent.<sup>28</sup> Success fees are limited to 30 percent of the achieved amount.<sup>29</sup> Such pricing formulas are applied in litigation cases to help the court determine compensatory damages to cover the winning parties' legal costs. However, set price ranges also cover legal advisory work (for which compensatory damages are not applicable) in Croatia and other miscellaneous work (for example, participation in conferences).<sup>30</sup>

<sup>23</sup> Official Gazette 142/12, 103/14, 118/14, 107/15.

<sup>24</sup> Article 4 of the Tariff on Attorneys' Remuneration and Compensation of Costs, (Official Gazette 142/12, 103/14, 118/14, 107/15).

<sup>25</sup> Article 39 of the Tariff on Attorneys' Remuneration and Compensation of Costs, (Official Gazette 142/12, 103/14, 118/14, 107/15).

<sup>26</sup> Article 34 of the Tariff on Attorneys' Remuneration and Compensation of Costs, (Official Gazette 142/12, 103/14, 118/14, 107/15).

<sup>27</sup> Article 35 of the Tariff on Attorneys' Remuneration and Compensation of Costs, (Official Gazette 142/12, 103/14, 118/14, 107/15).

<sup>28</sup> Article 37 of the Tariff on Attorneys' Remuneration and Compensation of Costs, (Official Gazette 142/12, 103/14, 118/14, 107/15).

<sup>29</sup> In Germany for instance, there is no limitation on an agreement for a higher price, dependent on the result of the trial (section 3a of the Lawyers' Remuneration Act).

<sup>30</sup> Articles 30 and 31 of the Tariff on Attorneys' Remuneration and Compensation of Costs (Official Gazette 142/12, 103/14, 118/14, 107/15).

## Harm to competition

**Setting tariffs—even voluntary ones—administratively is inefficient and limits the ability of attorneys to compete.** Regulated prices hinder market transactions below or above official prices, preventing attorneys from competing on the basis of efficiency. Regulated prices also make it more difficult for attorneys to innovate: Since prices are only published for existing services, set prices entrench existing offerings. In addition, tariffs set by the Bar Association rely on less accurate information about firm costs and value to clients than the information provided by a free price mechanism. Finally, experience from analogous cases in the United States shows that, even when set legal tariffs are nonbinding, they may act as a focal point for collusion and limit movements within the allowed price ranges.<sup>31</sup>

## Policy objective

**Tariffs are meant to ensure the availability of legal services, prevent overcharging and predatory pricing, and aid in the calculation of compensatory damages.** According to the Ministry of Justice, tariffs are also used as a basis for courts to calculate damages payable by losing parties to winning parties to compensate them for legal costs. In litigation, tariff formulas may also be used to help judges calculate fair compensatory damages awarded to cover winning parties' legal costs.

## Alternatives

**Promoting competition is a more efficient mean of ensuring fair pricing.** Overcharging is only possible if providers collude or hold significant market power. Removing regulations that restrict conduct (for example, advertising restrictions) or facilitate collusion would increase contestability and therefore weaken the ability of individual providers to unfairly increase prices. In fact, price regulations and recommendations themselves can act as signals to aid collusion, especially given the Bar Association's active role in setting such prices. In addition, the risk of predatory pricing can also be managed through enforcement of the EU and Croatian competition rules. Several EU countries do not regulate prices charged by attorneys, including Spain, Sweden, Latvia, Lithuania, Norway, Luxembourg, Hungary, Ireland, the Netherlands, Portugal, Denmark, and Finland.<sup>32</sup>

**Price formulas can be limited to instances in which courts need to decide attorney costs.** Under certain circumstances, courts may need to calculate realistic costs of legal services. For example, price formulas may be necessary for calculating the costs of public defense as well as in determining compensatory damages to award to winning parties in litigation to cover their legal costs. However, the current tariff-setting system and formulas in Croatia extend well beyond such limited applications. Eliminating set tariffs where they are not necessary (for example, legal advisory) would promote price competition while still allowing calculation of legal fees by courts when necessary.

### 3.3.4 Advertising restrictions

**Attorneys cannot publish price lists and they are limited in the range of information they can publish on the Internet.**<sup>33</sup> For instance, attorneys' websites cannot publish articles or include banners or links to sites other than the website of the Bar Association. The Bar

<sup>31</sup> Goldfarb versus Virginia State Bar, 421 U.S. 773 (1975).

<sup>32</sup> According to data from OECD PMR 2018.

<sup>33</sup> Article 19 of Attorneys' Code of Ethics (Official Gazette 64/07, 72/08), Rulebook on Advertising and Websites (Official Gazette No.: 115/13, 64/2018).

Association approves website content and controls contracts with Internet advertising service providers. In general, the Bar Association allows advertising that promotes the quality of legal services but limits advertising targeting the acquisition of individual clients or cases.

## Harm to competition

### **Restrictions on advertising limit firms' ability to compete and facilitates collusion.**

Prohibiting attorneys from publishing price lists limits price competition by making it harder to earn new business by offering more competitive prices. In addition, even when certain attorneys or firms possess differentiated capabilities or offerings, they are often unable to advertise such capabilities. In turn, this limits the new business that firms may earn through such differentiated capabilities. Thus, the restrictions on advertising reduce incentives to reduce markups, improve capabilities, boost efficiency, and innovate offerings. Furthermore, restricting advertising may raise firms' cost of entry into specific markets by making it harder for them to educate potential clients about their services and expertise.<sup>34</sup> Finally, the Bar Association's involvement in regulating advertising facilitates collusion by allowing incumbents (that is, members of the Bar Association) to coordinate in regulating the advertising behavior of the industry as a whole.

### **The discretionary nature of advertising rules may lead to discrimination and conflicts of interest.**

It is not always clear to market participants which forms of advertising are allowed and which ones are restricted, and much is left to the discretion of the Bar Association. This flexibility opens the possibility of formal or informal favoritism and may afford attorneys who serve as Bar Association officials advantages over attorneys who are competitors.

## Policy objective

**Advertising restrictions were put in place to protect consumers.** Consumers are not always in a position to assess the quality in legal services due to information asymmetries between attorneys and clients. Thus, clients may theoretically be misled by opportunistic suppliers who advertise unrealistically low prices or exaggerate their case experience. In addition, advertising legal actions may lead to unnecessary litigation stemming from unrealistic claims by attorneys. Some prospective clients may not have sufficient knowledge regarding the strength of their claims in court, meaning they could be swayed by advertising to hire attorneys and file lawsuits that they have little chance of winning.

## Alternatives

### **The advertising restrictions issued by the Bar Association are not necessary to protect consumers.**

In Croatia, there already exist general rules protecting consumers against misleading advertising.<sup>35</sup> There is no need for additional restrictions specific to attorneys. A number of EU member states have regulations that are more liberal. For example, in Germany, advertising is generally allowed if it contains factual information concerning the form and the nature of attorneys' services, and there are no restrictions on the use of websites.<sup>36</sup> In Italy, attorney advertising is allowed as long as it does not contain comparative information about other professionals or misleading information regarding attorneys' qualifications. Furthermore, many Nordic countries (for example, Sweden and Norway) do not specifically restrict advertising by attorneys at all.<sup>37</sup>

---

<sup>34</sup> Love and Stephen 1997.

<sup>35</sup> Consumer Protection Act (Official Gazette 41/2014, 110/2015 and 14/2019).

<sup>36</sup> Article 43b of the Federal Lawyers' Act and Article 6 of the Rules of Professional Practice.

<sup>37</sup> According to data from OECD PMR 2018.

**Allowing advertising with no restrictions could lead to better market outcomes for clients.** Restrictions on advertising affect the fees charged by professionals, and more advertising generally leads to lower fees. Various studies have examined the impact of liberalizing advertising by attorneys. In general, advertising has been shown to reduce fees without compromising quality of service.<sup>38</sup> In Scotland, England, and Wales, where a gradual liberalization of advertising took place in the 1970s and 1980s, conveyancing fees were lower in markets where the proportion of solicitors' firms who advertised was higher. In the case of Scotland, a doubling of the proportion of firms which advertised led to a 7 percent reduction in fees. Similar magnitudes have been identified in England and Wales.<sup>39</sup>

**Advertising restrictions' benefits in terms of reducing unnecessary litigation are limited in comparison to their adverse effects on information flows.** Other countries have come to similar conclusions when examining the utility of advertising restrictions: In the case *Bates versus State Bar of Arizona* (1977) in the United States, the court found that attorneys are generally not in a position to deny their clients at least some information regarding their chances of winning a case. It also criticized the assumption that the public is not sophisticated enough to recognize the limitations of advertising, finding that, if anything, advertising was likely to improve, not degrade, the quality of information available to clients.<sup>40</sup>

### 3.3.5 Rules on specialization

**The Bar Association regulates when and how attorneys are allowed to claim specialization in certain subfields of the law.**<sup>41</sup> Attorneys are required to seek approval from the Bar Association to claim that they are specialists in certain areas of the law such as criminal law, civil and family law, administrative law, or labor law.<sup>42</sup> Professionals are required to document their expertise through academic credentials, experience, and publications. In general, requirements for specialization are set at the discretion of the Bar Association. For example, to certify a specialization by the Bar Association, attorneys with no special academic titles (for example field-specific master's degree) must have eight years of professional experience and three publications in this area of law.

### Harm to competition

**The procedure for recognizing professional specializations harms competition by decreasing incentives to invest in expertise and creates scope for conflicts of interest.** First, because the requirements to gain recognition are cumbersome, they limit the number of qualified professionals interested in certification. In turn, having fewer certified professionals limits competition based on expertise and specialty as attorneys are unable to differentiate based on their experiences, leading to lower incentives to invest in such expertise and making it harder for clients to find suitable attorneys for their needs. Second, requirements by field of specialization are set by the Bar Association, effectively giving incumbent attorneys discretion over other

<sup>38</sup> Love and Stephen 1996.

<sup>39</sup> Stephen and Burns 2007.

<sup>40</sup> Epstein and Walker 2013.

<sup>41</sup> Article 69 of the Legal Profession Act (Official Gazette 09/94, 117/08, 50/09, 75/09, 18/11) and Ordinance of the Bar Association on the conditions and procedure for recognition of specialty.

<sup>42</sup> The application is submitted to the Bar Association. The Executive Committee of the Bar examines the request and in case it is accepted, it forwards the request to the Evaluation Committee, which finally decides on the matter. In case of a rejection, the interested attorney has the right to appeal either the rejection by the Executive Committee and the rejection by the Evaluation Committee.

attorneys' certifications.<sup>43</sup> Such an arrangement creates a conflict of interest as attorneys setting the standards may be incentivized to block other attorneys from gaining specialist certifications to protect their businesses.

## Policy objective

**The procedure for recognizing professional specialization is intended to protect consumers.** The regulations on specialization and the approval process are meant to ensure that attorneys do not mislead consumers with false claims of special expertise. By requiring concrete proof of expertise in the form of years of experience and/or publications, the approval process aims to verify if attorneys claiming legal specializations actually possess adequate technical knowledge to make such claims.

## Alternatives

**The Bar Association's system of recognizing areas of specialization does not accurately represent attorneys' true levels of expertise.** While academic credentials are verifiable, having the Bar Association objectively evaluate attorneys' amount of relevant experience is not feasible. Doing so requires the Bar Association to have intimate knowledge of the type and amount of work that attorneys have done for all their clients in both court cases and legal advisory work. Moreover, there are no clear criteria on the type of publications that are accepted. As a result, the certification by the Bar does not offer customers significantly more information than what they could collect themselves: For example, prospective clients can find and evaluate subject matter specialists by evaluating attorneys' track records in relevant cases or through referrals from other clients. Thus, moving away from mandatory Bar Association regulation of specialist credentials could reduce conflicts of interest and improve incentives to invest in expertise while costing little in the way of consumer protection.

## 3.4 Recommendations

Recommendation	Regulation	Justification	Responsible institution and target date <sup>a</sup>
<b>Rules that limit entry or reinforce dominance</b>			
<b>1. Review the need to require membership in the Bar Association and the possibility of transferring to courts the authority to license, regulate, and supervise attorneys<sup>b</sup></b>	Article 37 of the Legal Profession Act (Official Gazette 09/94, 117/08, 50/09, 75/09, 18/11)	<b>Requiring all attorneys to become members of the Bar Association facilitates the enforcement of professional standards.</b> The Bar is responsible for oversight and sanctions members who do not follow standards. Membership acts also as a certification of threshold quality.  <b>However, compulsory membership in the Bar Association restricts competition in three ways.</b> It allows incumbents to regulate entry, facilitates coordination, and creates scope for discriminatory practices (for example, differential entry fees).	Ministry of Justice January 2021

<sup>43</sup> Several countries do not regulate specialization (for example, Greece, Ireland, and Nordic countries). However, other countries follow an approach similar to Croatia's. In Germany, specialization titles are granted after a course of at least 120 hours, a passed exam of at least one hour, and minimum experience in the particular field of law (judged on the basis of a minimum number of cases, for which proof must be submitted through filings). See Article 6 of the Specialist Lawyers' Regulations (Fachanwaltsordnung) of the German Federal Bar Association.

Recommendation	Regulation	Justification	Responsible institution and target date <sup>a</sup>
		<p><b>There may be more effective means to promote the quality of services.</b></p> <ul style="list-style-type: none"> <li>- The powers of the Bar Association to regulate attorneys could be transferred to an institution which does not have incentives to affect market outcomes (for example, courts).</li> <li>- Membership in the Bar Association could then be made voluntary. This would decrease conflicts of interest and allow high-quality providers to self-select into the professional association.</li> </ul>	
<p><b>2. Authorize the Ministry of Justice to regulate the registration fee for new attorneys and lower the fee</b></p>	<p>Articles 41, 45, and 48 of the Legal Profession Act (Official Gazette 09/94, 117/08, 50/09, 75/09, 18/11)<sup>c</sup></p> <p>Article 18 paragraph 11 of the Statute of the Croatian Bar Association (Official Gazette 115/13 and 64/18)</p> <p>Decision of the Board of the Croatian Bar Association from March 14, 2019</p> <p>Issuance of bylaw by the Ministry of Justice</p>	<p><b>The fee paid by candidates for registering in the Bar is disproportionate.</b> The level of the fee varies depending on the type and length of professional experience. It goes up to HRK 37,500 (around US\$5,500) for some candidates. The fee should be the same for all candidates and comparable to the level of registration fees set by other professional chambers.</p> <p><b>A high registration fee harms competition in two ways.</b> First, the fee constitutes a significant financial barrier for new entrants which discourages or delays entry, limits contestability, and reduces churn in the market. Second, the fee does not apply equally to all candidate attorneys (for example, qualified professionals with in-house work experience are at a disadvantage).</p>	<p>Ministry of Justice Bar Association January 2021</p>

#### Rules that facilitate collusion or increase costs to compete

<p><b>3. Abolish tariffs for legal services</b></p>	<p>Article 18 of the Legal Profession Act (Official Gazette 09/94, 117/08, 50/09, 75/09, 18/11)</p> <p>Article 18 of the Statute of Croatian Bar Association (Official Gazette 115/13)</p> <p>Articles 140, 144, 145, 146 of the Attorneys' Code of Ethics (Official Gazette 64/07, 72/08)</p> <p>Tariff on Attorneys' Remuneration and Compensation of Costs (Official Gazette No. 142/2012, 103/2014, 118/2014, 107/2015)</p>	<p><b>Tariffs are not necessary to ensure the availability of legal services.</b> The Bar Association sets tariffs for legal services. Attorneys are allowed to deviate from tariffs but need to stay within official price ranges.<sup>d</sup> According to the Ministry of Justice, tariffs prevent overcharging and predatory pricing.</p> <p><b>The current system of tariff-setting extends beyond what is required for courts' calculations of legal costs.</b> For example, the current system covers legal advisory services (where such considerations are not applicable) and dictates what attorneys should charge (that is, not just what courts will award in compensation).</p> <p><b>In addition, setting tariffs administratively is inefficient and limits incentives to compete.</b> Centrally determined tariffs rely on less accurate information than the information provided by free price mechanisms. They also impede innovation and differentiation through productivity and price improvements. Even when providers deviate from centrally determined prices, set prices can still act as a focal point for collusion.</p>	<p>Ministry of Justice Bar Association January 2021</p>
<p><b>4. Allow advertising and use of website with no limitations</b></p>	<p>New provision in the Legal Professions Act (Official Gazette 09/94, 117/08, 50/09, 75/09, 18/11) and changed article 19 of Attorneys' Code of Ethics (Official Gazette 64/07, 72/08)<sup>e</sup></p> <p>Abolishing the Rulebook on Advertising and Websites (Official Gazette No.: 115/13, 64/2018)</p>	<p><b>The advertising restrictions issued by the Bar Association are not necessary to protect consumers.</b> Attorneys cannot publish price lists. They are also limited in the range of information they can publish on the Internet.<sup>f</sup> The Bar Association approves website content and controls the contract with the internet service provider. These restrictions go beyond general rules protecting consumers against misleading advertising,<sup>g</sup> and there appears to be no need for additional restrictions specific to attorneys. A number of EU member states do not restrict advertising of attorneys or lawyers (for example, Germany, Spain, Sweden, and Italy).<sup>h</sup></p> <p><b>The advertising restrictions harm competition in three ways.</b> First, they limit the ability of attorneys to attract clients and grow by differentiating and marketing their services. Second, the advertising rules facilitate collusion given the power of the Bar Association to regulate advertising. Third, the rules are</p>	<p>Ministry of Justice Bar Association January 2021</p>

Recommendation	Regulation	Justification	Responsible institution and target date <sup>a</sup>
<p><b>5. Allow free claim of specialization and abolish the Bar Association's authority to recognize professional specialization</b></p>	<p>Article 69 of the Legal Profession Act (Official Gazette 09/94, 117/08, 50/09, 75/09, 18/11)</p> <p>Rulebook on Conditions and Procedure for Recognition of Specialties for Attorneys Filed in the Register of Attorneys of the Croatian Bar Association</p>	<p>discretionary as it is not clear to market participants which forms of advertising are allowed and which ones restricted.<sup>1</sup></p> <p><b>The procedure for recognizing professional specialization does not protect consumers.</b> Attorneys are required to seek approval from the Bar Association if they would like to claim that they are specialists in a branch of law. Professionals are required to document their expertise through academic credentials, experience, and publications. While academic credentials are verifiable, it is practically impossible for the Bar Association to evaluate subject matter experience, and there are no clear criteria on the type of publications that are accepted. As a result, the certification by the Bar does not offer clients significantly more information than what they could collect themselves (for example, success rates).</p> <p><b>The procedure harms competition in two ways.</b> First, the specialization requirements are cumbersome<sup>1</sup> and limit the number of qualified professionals interested in certification. Second, the requirements are discretionary and may allow providers to block their competitors from obtaining certification.</p>	<p>Ministry of Justice Bar Association January 2021</p>

Note:

- a. For the entry into force of the regulatory change.
- b. According to the Bar, compulsory membership of attorneys in the Bar is necessary to implement Article 27 of the Constitution of the Republic of Croatia (Official Gazette 85/2010). However, mandatory membership in the Bar does not appear to be necessary to implement the Croatian Constitution. Article 27 guarantees the independence of the legal profession and obliges professionals to provide legal aid. It does not refer to the Bar Association or membership therein.
- c. The changes in the Legal Profession Act should specifically (i) introduce paragraph 15 in Article 48 clarifying when the registration fee should be paid and authorizing the Ministry of Justice to set the fee in a bylaw, (ii) introduce a new provision in Article 45 stating that attorneys are obliged to pay the registration fee in the amount determined by the Ministry of Justice, and (iii) introduce a final clause for the Ministry of Justice to issue the bylaw and for the Bar to align its acts with the amendment of the Legal Profession Act.
- d. For instance, the regulation allows the remuneration based on success rate, but it is limited to 30 percent of the achieved amount. It is also allowed to charge a lower rate but with a maximum of 50 percent of the set tariff.
- e. The Legal Professions Act and Article 19 of Attorneys' Code of Ethics (Official Gazette 64/07, 72/08) should be changed to clarify that attorneys are free to advertise and refer to general rules outlined in the Consumer Protection Act (Official Gazette 41/2014, 110/2015 and 14/2019) instead of the advertising rules issued by the Bar Association.
- f. For instance, attorneys cannot publish on their website articles, banners, or links to other websites than the website of the Bar Association.
- g. Consumer Protection Act (Official Gazette 41/2014, 110/2015 and 14/2019).
- h. OECD PMR indicators 2018.
- i. In general, the Bar Association allows advertising that promotes the quality of legal services but limits advertising targeting the acquisition of individual parties or obtaining representation in individual cases.
- j. Some professionals are required to possess eight years of professional experience and three publications (both in the field of specialty).

## References

### Attorney regulations

- Constitution of the Republic of Croatia (Official Gazette 56/90, 135/97, 8/98, 113/00, 124/00, 28/01, 41/01, 55/01, 76/10, 85/10, 05/14)
- Legal Profession Act (Official Gazette 09/94, 117/08, 50/09, 75/09, 18/11)
- Notary Public Act (Official Gazette 78/93, 29/94, 162/98, 16/07, 75/09, 120/16)
- Act on Trainees in Judicial Bodies and Bar Exam (Official Gazette 14/19)
- Statutes of Croatian Bar Association (Official Gazette 115/13, 64/18)
- Tariff on Attorneys' Remuneration and Compensation of Costs, (Official Gazette 142/12, 103/14, 118/14, 107/15)
- Ordinance on remuneration for court-appointed counsels (Official Gazette 101/12)
- Attorneys' Code of Ethics (Official Gazette 64/07, 72/08, 64/18)
- Ordinance on examination of proficiency on the attorney's code of ethics and tariff on attorneys' remuneration and compensation of costs dated October 25, 2018
- Ustav Republike Hrvatske (NN 56/90, 135/97, 8/98, 113/00, 124/00, 28/01, 41/01, 55/01, 76/10, 85/10, 05/14)
- Zakon o odvjetništvu (NN 09/94, 117/08, 50/09, 75/09, 18/11)
- Zakon o javnom bilježništvu (NN 78/93, 29/94, 162/98, 16/07, 75/09, 120/16)
- Zakon o vježbenicima u pravosudnim tijelima i pravosudnom ispitu (NN 14/19)
- Statut Hrvatske odvjetničke komore (NN 115/13, 64/18)
- Tarifa o nagradama i naknadi troškova za rad odvjetnika (NN 142/12, 103/14, 118/14, 107/15)
- Pravilnik o visini nagrade odvjetniku određenom za branitelja po službenoj dužnosti (NN 101/12)
- Kodeks odvjetničke etike (NN 64/07, 72/08, 64/18)
- Pravilnik o polaganju ispita iz Kodeksa odvjetničke etike i tarife o nagradama i naknadi troškova za rad odvjetnika od 25. 10. 2018.

Ordinance on the manner of keeping the directory and registers of the Croatian Bar Association dated December 12, 2015  
 Rulebook on Advertising and the Website of the Attorney dated October 27, 2018  
 Ordinance on the keeping of business and professional secrets dated November 13, 2013  
 Ordinance on the manner and conditions of storage and the obligation to keep the registry of the Croatian Bar Association dated May 17, 2014  
 Rulebook on Costs in the Registration of Branches of Foreign Attorneys' Societies (OG 9/14)  
 Ordinance on seals and trademarks dated May 17, 2014  
 Ordinance on costs in the procedure for issuing approval of founding and changes in law firms (Official Gazette 9/2014)  
 Rulebook on Lending to Attorneys, dated March 19, 2015

Pravilnik o načinu vođenja imenika, upisnika i evidencija Hrvatske odvjetničke komore (pročišćeni tekst) od 12. 12. 2015.  
 Pravilnik o reklamiranju, oglašavanju i WEB stranici odvjetnika od 27.10. 2018.  
 Pravilnik o dužnosti čuvanja poslovne i profesionalne tajne od 13.11.2013.  
 Pravilnik o načinu i uvjetima pohrane i obvezi čuvanja spisa Hrvatske odvjetničke komore od 17.5.2014.  
 Pravilnik o troškovima u postupku evidentiranja podružnica stranih odvjetničkih društava (NN 9/14)  
 Pravilnik o pečatima i žigovima odvjetničkih zborova od 17.5. 2014.  
 Pravilnik o troškovima u postupku izdavanja suglasnosti u vezi osnivanja i promjena u odvjetničkim društvima (NN 9/2014)  
 Pravilnik o kreditiranju odvjetnika (pročišćeni tekst) od 19. 3. 2015.

## Other references

- Epstein, L., and T. G. Walker. 2013. *Constitutional Law: Rights, Liberties and Justice* (8<sup>th</sup> ed.). Washington, D.C.: SAGE CQPRESS.
- Figueiredo, Ferreira João, and Luiz Carlos Weizenmann. 2006. "The Notarial Profession in Brazil." *Notarius International*.
- Kuijpers, Nicole, Joelle Noailly, and Ben Vollaard. 2005. "Liberalisation of the Dutch Notary Profession." CPB Document, Den Haag: CPB 93.
- Love, James, and Frank Stephen. 1996. "Advertising, Price and Quality in Self-Regulating Professions: A Survey." *International Journal of the Economics of Business* 3:227-4.
- Love, James, and Frank Stephen. 1997. "Deregulation and Professional Boundaries: Evidence from the English Legal Profession." *Business and Economic History* 26 (2): 792-804.
- Mathis, Klaus. 2019. "New Developments in Competition Law and Economics." *Economic Analysis of Law in European Legal Scholarship* 7.
- Moisescu, Florentina. 2013. *The Liberalization of Notary Fees in Romania. Objectives and Restrictions. Economics and Applied Informatics, "Dunarea de Jos" University of Galati, Faculty of Economics and Business Administration* 1:59-66.
- Nahuis, Richard, and Joelle Noailly. 2005. "Competition and Quality in the Notary Profession." CPB Document CPB Netherlands Bureau for Economic Policy Analysis 94.
- Nahuis, Richard, and Joelle Noailly. 2010. "Entry and Competition in the Dutch Notary Profession." *International Review of Law and Economics* 30:178-185.
- OECD (Organisation for Economic Co-operation and Development). 2007. *Competitive Restrictions in Legal Professions*. Paris: OECD.
- OECD. 2018. *Annual Report on Competition Policy Developments in Romania*. Paris: OECD.
- Rojek, Miłosz, and Michał Masior. 2016. *The Effects of Liberalising Professional Requirements in Poland*. European Commission, DG for Internal Market, Industry, Entrepreneurship and SMEs.
- Stephen, Frank., James Love, and Alan Paterson. 1994. "Deregulation of Conveyancing Markets in England and Wales." *Fiscal Studies* 15:102-1.
- Stephen, Frank H., and Christopher Burns. 2007. "Liberalization of Legal Services." *Service Liberalization in Europe. Case Studies* 2 (35): 118-161.
- Van den Bergh, Roger, and Yves Montangie. 2006. "Competition in Professional Services Markets: Are Latin Notaries Different?" *Journal of Competition Law and Economics* 2 (2): 189-214.
- Willekens, Marleen, Simon DeKeyser, and Ines Simac. 2019. *EU Statutory Audit Reform: Impact on Costs, Concentration, and Competition*. Brussels, Belgium: European Parliament.
- World Bank. 2017. *Comparative Analysis of Bar Associations and Law Societies in Select European Jurisdictions*. Washington, DC
- World Bank Group. 2019. *Doing Business, Economy Profile: Croatia*. World Bank Group.



# **Finance professions**

# Auditors

As in most other countries globally, public companies and large firms are subject to mandatory audits in Croatia, and the auditors who conduct these audits are regulated to ensure high standards of work. While regulation of the audit industry is necessary to ensure the accuracy of financial statements, Croatian rules governing auditors go beyond EU standards, restricting entry into and competition within the market. To become an auditor in Croatia, auditors must generally obtain a graduate degree, gain five years of work experience, take a preparatory course, pass a professional exam, and join the professional chamber. In contrast, most other EU countries only require a bachelor's degree and three years of experience before taking the professional exam. Chamber membership is also voluntary in some countries. In the global market for audit talent, these differences amplify incentives for Croatian professionals to qualify and practice abroad and may ultimately drive up costs of doing business in Croatia.

## 4.1 Market overview

**Auditing services entail the review of annual financial statements.** Audits required by law are termed statutory audits. In Croatia, statutory audits cover public interest entities (PIEs)<sup>1</sup> as well as large and medium enterprises.<sup>2</sup> Audits are also compulsory, under certain conditions,<sup>3</sup> for limited liability companies, joint stock companies, and limited partnerships. Audit firms also perform non-statutory audits, tax advisory, accounting, bookkeeping, and other assurance services.<sup>4</sup> In Croatia, such non-audit services account for roughly 50 percent of audit firm revenues.<sup>5</sup>

**Demand for statutory audits in Croatia was worth over HRK 250 million in 2018 (around us\$35 million).** Audit firm revenues grew 4.2 percent per year since 2016 but have yet to reach levels noted before the 2008 financial crisis (see Figure 4.1). According to market participants,

<sup>1</sup> In accordance with Article 3(1) indent 1, in conjunction with Article 20 of the Accounting Act (Official Gazette 78/2015, 134/2015, 120/2016, 116/2018), PIEs in Croatia are, among others, (a) undertakings whose securities are listed on the regulated market of any member state; (b) credit institutions; (c) electronic money institutions; (d) (re)insurance companies; (e) leasing companies; (f) pension companies; (g) factoring companies; (h) investment firms and stock exchanges; (i) companies, which, individually or together with their subsidiaries, fulfill one of the following conditions during the previous financial year: employ, on average, more than 5,000 workers during the business year in the Republic of Croatia and have assets in excess of HRK 5 billion (around us\$650 million) on the last day of the business year.

<sup>2</sup> Pursuant to Article 5(4) and (5) in conjunction with Article 20 of the Accounting Act (Official Gazette 78/2015, 134/2015, 120/2016, 116/2018), medium enterprises are defined as companies that meet one of the three following criteria: (a) total assets in excess of HRK 150 million (around us\$20 million), (b) total revenue in excess of HRK 300 million (around us\$40 million), and (c) average number of employees of 250–5,000 persons during a business year. Large enterprises are those enterprises which meet at least two of these criteria.

<sup>3</sup> In accordance with Article 20(4) of the Accounting Act (Official Gazette 78/2015, 134/2015, 120/2016, 116/2018) at least two of three conditions need to be met: (a) total assets in excess of HRK 15 million (around us\$2 million), (b) total revenue in excess of HRK 30 million (around us\$4 million), and (c) average number of employees in excess of 25 persons.

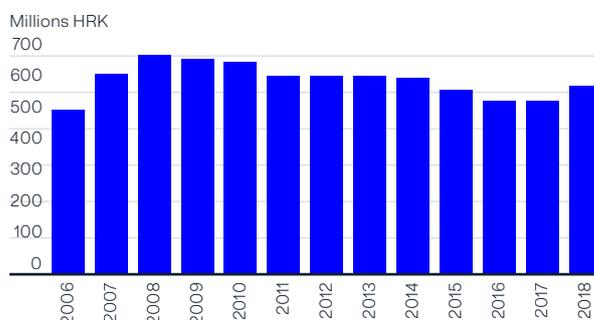
<sup>4</sup> See chapter on tax advisors for additional detail on tax advisory services offered by audit firms.

<sup>5</sup> Data from the Ministry of Finance.

audit buyers in Croatia are relatively price sensitive compared to buyers in other markets and employ a mix of local and international audit providers.<sup>6</sup> In contrast, PIEs, which mostly consist of financial services firms in Croatia and make up roughly 25 percent of the statutory audit market, typically face more stringent auditing requirements.<sup>7</sup> They thus require the expertise of larger, more sophisticated firms with international presence.

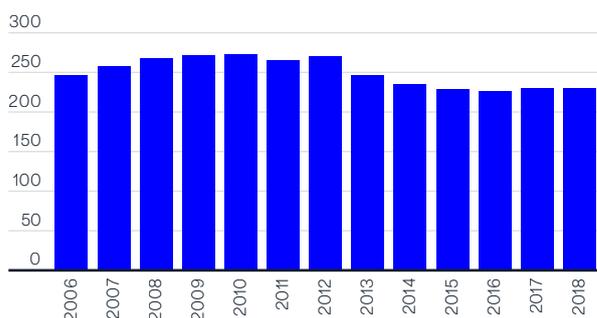
**As in other EU countries, the audit market in Croatia is relatively concentrated, with the ‘Big Four’ accounting for the majority of revenues.** As of October 2018, there were 983 auditors and 230 audit firms. The total number of auditing firms has been stable over the past few years (see Figure 4.2). The ‘Big Four’ were among the top five audit firms in Croatia and accounted for 54 percent of statutory audit revenue and 83 percent of revenue within the PIE segment in 2018 (see Figure 4.3). The latter figure was slightly below the EU average of 88 percent for 2017.<sup>8</sup> Smaller local firms tend to be more active in the non-PIE segment, where the ‘Big Four’ accounted for less than 45 percent of the market in 2018.

**Figure 4.1** Revenues of auditing firms in Croatia



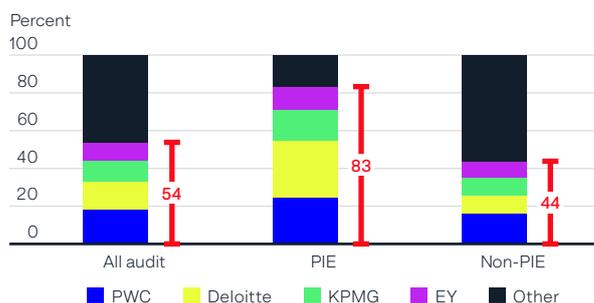
Source: Croatian Chamber of Auditors, Ministry of Finance.

**Figure 4.2** Number of auditing companies in Croatia



Source: Croatian Chamber of Auditors.

**Figure 4.3** Revenue share of ‘Big Four’ audit firms in Croatia, 2018



Source: Croatian Ministry of Finance.

**The Croatian audit market faces the same barriers to switching as other audit markets globally.** Switching audit providers can be costly as tender processes are time-consuming and auditors need time to become familiar with client businesses. Switching auditors also negates the advantages of long-term provider-client relationships such as the auditor’s ability to make business recommendations while conducting audits. In Croatia, market participants cited all of these same factors as reasons for Big Four dominance, although they observed higher switching in the price-sensitive non-PIE segment relative to other countries. Nevertheless, competitive tender processes are relatively rare, especially in the non-PIE segment.<sup>9</sup>

**However, the audit market in Croatia falls behind the EU benchmarks on some measures of competition.** Market share mobility over 2017–2018 — defined as the sum of all changes in market

<sup>6</sup> World Bank interviews with major audit companies in Croatia, including ‘Big Four’ firms.

<sup>7</sup> In comparison to other EU countries, Croatia has a relatively expansive definition of PIEs, leading to a somewhat larger PIE share of the market.

<sup>8</sup> (Willekens, DeKeyser, and Simac 2019) EU-wide data on the overall audit market (that is, including non-PIE) are not publicly available.

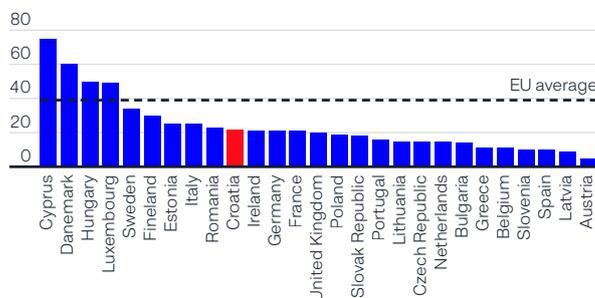
<sup>9</sup> Competitive tenders are more common among multinational corporations (MNCs), which sometimes employ them at the global level. However, they are still relatively rare because MNCs switch less often (fewer opportunities to hold tenders), and MNCs often make their choice of auditor based on factors other than price.

share across firms — for the PIE segment in Croatia is below the EU average (12 percentage points for Croatia versus 14 for the EU).<sup>10</sup> Voluntarily switching audit providers is rare in the PIE segment, and Croatia does not stipulate mandatory provider switching beyond the EU-wide requirements of switching every 10 years.<sup>11</sup> Croatia also has fewer auditors per capita than the EU average (Figure 4.4).

### The regulation of audit services is stricter than in other EU countries.

Two main laws govern audit: the Accounting Act and the Audit Act (which transposes Directive 2014/56/EU, hereafter referred to as the ‘Audit Directive’).<sup>12</sup> Bylaws issued by the Ministry of Finance and the Chamber of Auditors supplement these regulations. The Accounting Act provides general rules governing the preparation of financial statements to be audited, while the Audit Act provides details on how auditing should be performed. In general, new entrants must be registered and obtain work permits from the Ministry of Finance. All audit entities must take the form of either independent sole auditor practices or auditing firms.<sup>13</sup> While these norms are in line with the EU Audit Directive, the education and experience requirements faced by auditors in Croatia go beyond the minimum standards laid out in the Directive.<sup>14</sup>

**Figure 4.4** Number of registered auditors per 100,000 inhabitants, 2017



Source: European Commission.

Note: The comparison is indicative due to differences in exclusive rights between countries. Malta is an outlier in terms of auditor density and has been omitted from the graph.

## 4.2 Regulated profession

**Only licensed auditors are authorized to execute statutory audits.** Auditors obtain their professional license from the Ministry of Finance. They are subject to qualification requirements and mandatory membership in the Chamber of Auditors. Auditors can offer their services as independent service providers or alongside other auditors through registered audit offices or firms. Auditors can also employ trainees and other staff to support the auditing process, but these professionals do not warrant the accuracy of financial statements. In Croatia, as in most other EU member states, professionals who carry out statutory audits cannot work in non-audit firms and auditing firms are restricted in their ability to provide non-audit services to their client. Thus, the entire market for statutory audit in Croatia is exclusively served by licensed auditors. Providers are generally unable to circumvent these regulations given the oversight by the Chamber of Auditors and the Ministry of Finance.

<sup>10</sup> Willekens, DeKeyser, and Simac 2019.

<sup>11</sup> There are two main exceptions to the 10-year rotation rule: firms may extend the audit relationship an additional 10 years (that is, 20 years total) if a competitive tender is undertaken and 14 years if they undergo joint audits (that is, appointing a second audit firm simultaneously). Pursuant to Article 43 of the Audit Act (Official Gazette 127/17), Croatia is slightly stricter with respect to regulating joint audits for PIEs which in the financial year preceding the financial year to which statutory audit relates, independently or together with their subsidiaries meet one of the following criteria: (a) employ on average more than 5,000 employees in the Republic of Croatia or (b) have assets of more than HRK 5 billion on the last day of financial year (except for PIEs that are subsidiaries of a parent company with registered office in another EU member state if they participate in less than 50 percent in the total consolidated assets of the parent company).

<sup>12</sup> Directive 2014/56/EU of the European Parliament and of the Council of May 27, 2014, amending Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts, Official Journal of the European Union, L 158/196.

<sup>13</sup> Pursuant to the provisions of the Audit Act (Official Gazette 127/17) such entities must meet three criteria: (1) three-fourths of the voting rights must be held by auditing companies or certified auditors; (2) the majority of the members of the management board or board of directors must be certified auditors; (3) good reputation. When the management or management board has no more than two members, at least one member must be a certified auditor and where the management board does not have more than two members, at least one member must satisfy that condition, per article 17(2) of the Audit Act (Official Gazette 127/17). Certified auditors/audit firms used to satisfy these requirements may be from Croatia or another EU member state.

<sup>14</sup> See section 3.3.1. for more details.

## 4.3 Restrictions

**In total two sets of key restrictions to competition have been identified in auditing regulations.** The review encompassed 2 domestic laws and 13 bylaws regulating the provision of auditing services (see Annex C for a complete list of restrictions). The review also took into consideration the EU Audit Directive. Most restrictions in auditing regulations stem from Rules that limit entry or reinforce dominance. The involvement of incumbents in entry and exit decisions and excessive qualification requirements (qualification requirements that go beyond EU-wide standards) are particularly problematic. Rules that are conducive to collusion or increase costs to compete have been also identified. Rules that discriminate or protect vested interest exist but are less prominent (Table 4.1). The following sections discuss, for each set of key restrictions, (a) the harm to competition; (b) the stated policy rationale; and (c) alternatives that are either less distortive, more effective, or both.

**Table 4.1** Types of anticompetitive restrictions in audit regulations

Main types of rules based on market effect	Specific types	Frequency	Examples of restrictions
Rules that limit entry or reinforce dominance	1.1 Monopoly rights and absolute ban for entry	0	Excessive qualification requirements, chamber membership
	1.2 Relative ban for entry and expansion of activities	3	
	1.3 Incumbents participate in entry/exit decisions	8	
	1.4 Requirements for registry (licenses and permits)	17	
Rules that facilitate collusion or increase costs to compete	2.1 Rules that facilitate agreements/reduce firms' choice of strategic variables	4	Chamber membership, reporting requirements
	2.2 Restrictions on type of products and services/format and location	1	
	2.3 Price control	0	
Rules that discriminate and protect vested interests	3.1 Discriminatory application of rules and standards	2	Wide powers of the Chamber of Auditors (for example, determining content and fee for the mandatory preparatory course)
	3.2 Discretionary application of rules	10	
	3.3 Lack of competitive neutrality vis-à-vis government entities	0	
	3.4 State aid/incentives distorting level playing field	0	

Source: World Bank staff analysis based on the MCPAT. The MCPAT methodology is presented in Annex A.

Note: Some restrictions have been attributed to and counted as several types. For instance, a license that is allocated in a discriminatory way has been counted as two types of restrictions: requirement for registry (licenses and permits) and discriminatory application of rules and standards.

### 4.3.1 Qualification requirements

**Auditors are required to complete (a) graduate education, (b) five years of work experience, (c) a preparatory course, and (d) an exam.** The graduate education should be equivalent to 300 European Credit Transfer and Accumulation System (ECTS) credits,<sup>15</sup> requiring candidates to obtain a master's degree.<sup>16</sup> Candidates with a bachelor's degree can meet the education requirements by com-

<sup>15</sup> The ECTS is a credit system established by the EU member states to ensure the comparability of higher education curricula between countries and facilitate the recognition of educational qualifications. A typical bachelor's degree consists of 180–240 ECTS credits, while a typical master's degree consists of 60–120 credits.

<sup>16</sup> Article 11(6) point 1 of the Audit Act (Official Gazette 127/17).

pleting a graduate degree of one or more years. No specific field of graduate or undergraduate study is required. Auditors are also required to possess five years of work experience, of which at least three years need to be acquired in statutory audit and supervised by a licensed auditor.<sup>17</sup> Candidates must complete a preparatory course in audit amounting to 120 hours spread over several weeks. The Audit Act allows multiple providers to register with the Ministry of Finance and offer these courses, but currently only the Croatian Chamber of Auditors organizes such training. Candidates are also required to take a professional exam. The exam is administered by the Chamber of Auditors and takes place at least once per year. Apart from standards of financial reporting and audit, it covers business regulation, accounting, economics, finance, management, and ethics. In 2019, the Chamber charged HRK 5,390 (around US\$800) for the exam and HRK 9,800 (around US\$1,500) for the preparatory course.

**The Croatian Audit Act goes beyond minimum qualification requirements stipulated in the EU Audit Directive.** Additional qualification requirements are related to education, experience, and the professional exam (Table 4.2). In some instances, the wording of the Directive is explicit and complemented by more demanding domestic regulations. For example, the Audit Directive requires three years of work experience, including at least two in audit, while the Audit Act mandates five years of work experience, including three in audit. In other cases, the wording of the Audit Directive is flexible, but transposed restrictively. For instance, the Directive requires auditors to have university education, which can be fulfilled with a bachelor's or master's degree. However, the Audit Act effectively requires candidates to complete a master's degree.

**Table 4.2** Differences between qualification requirements for auditors in Croatian and EU law

	EU Audit Directive	Audit Act and bylaws	Differences
<b>Education</b>	<ul style="list-style-type: none"> <li>Article 6: (...) a natural person may be approved to carry out a statutory audit only after having attained university entrance or equivalent level, then completed a course of theoretical instruction (...).</li> <li>Article 11: A Member State may approve a person who does not satisfy the conditions laid down in Article 6 (...), if he or she can show either: (a) that he or she has, for 15 years, engaged in professional activities which have enabled him or her to acquire sufficient experience in the fields of finance, law and accountancy, and has passed the examination of professional competence (...), or (b) that he or she has, for seven years, engaged in professional activities in those fields and has, in addition, undergone the practical training referred to in Article 10 and passed the examination of professional competence (...).</li> </ul>	<p>Article 2(5) of Ordinance on professional training for taking the audit exam, the audit and special exam, and the competency exam (Official Gazette 59/19): A prerequisite for passing the examination is the prior attendance of professional training for the examination. Proof of prior attendance at the professional training for the audit examination is a certificate issued by the Croatian Audit Chamber or other organizer.</p>	<ul style="list-style-type: none"> <li>Candidates who have not completed an audit course are not admitted to the exam and cannot become auditors in Croatia.</li> <li>Candidates with a bachelor's degree are not admitted to the exam and cannot become auditors in Croatia.</li> <li>Candidates with at least seven years of experience in law, finance, or accounting are not exempt from education requirements in Croatia.</li> </ul>
<b>Experience</b>	<ul style="list-style-type: none"> <li>Article 10(1): In order to ensure the ability to apply theoretical knowledge in practice, a test of which is included in the examination, a trainee shall complete a minimum of three years' practical training in, inter alia, the auditing of annual financial statements, consolidated financial statements or similar financial statements. At least two thirds of such practical training shall be completed with a statutory auditor or an audit firm approved in any Member State.</li> <li>No explicit reference on the timing of practical training/work experience.</li> </ul>	<p>Article 11(6): A candidate who fulfills the following conditions is eligible for the examination:</p> <ol style="list-style-type: none"> <li>1. Completion of undergraduate and graduate university studies or integrated undergraduate and graduate university studies or undergraduate professional and specialist graduate professional studies, with at least 300 ECTS credits (...).</li> <li>2. Five years of work experience, including minimum three in statutory audit under the supervision of a certified auditor, in the last eight years before passing the audit examination. The fulfillment of this condition shall commence upon the acquisition of the conditions referred to in point 1 of this paragraph.</li> </ol>	<ul style="list-style-type: none"> <li>Candidates with three to five years of work experience are not admitted to the exam and cannot become auditors in Croatia.</li> <li>Candidates with relevant work experience outside audit (for example, accounting) cannot shorten the audit traineeship from three to two years in Croatia.</li> <li>Candidates who interned in auditing during their university studies cannot count this experience toward the audit traineeship in Croatia.</li> <li>Candidates with at least 15 years of work experience in law, finance, or accounting are not exempt from the audit traineeship in Croatia.</li> </ul>

<sup>17</sup> Pursuant to Article 11(6) of the Audit Act (Official Gazette 127/17), the three-year audit traineeship should be supervised by a licensed auditor and should start no earlier than eight years before the professional exam. The traineeship cannot start before graduation.

	EU Audit Directive	Audit Act and bylaws	Differences
<b>Exam</b>	<ul style="list-style-type: none"> <li>- Article 9(1): By way of derogation from Articles 7 and 8, a Member State may provide that a person who has passed a university degree or equivalent qualification in one or more of the subjects referred to in Article 8 may be exempted from the test of theoretical knowledge in the subjects covered by that examination or degree.</li> <li>- Article 9(2): By way of derogation from Article 7, a Member State may provide that a holder of a university degree or equivalent qualification in one or more of the subjects referred to in Article 8 may be exempted from the test of the ability to apply in practice his or her theoretical knowledge of such subjects if he or she has received practical training in those subjects attested by an examination or diploma recognized by the State.</li> </ul>	<p>Article 11(14): (...) a natural person who has completed a postgraduate specialist study or a postgraduate university doctoral study in one or more of the cases referred to in paragraphs 2 and 3 of this Article may be exempted from examining theoretical knowledge in those cases if subjects of the same content have been placed within these studies. The decision on exemption on the reasoned request of a natural person shall be issued by the Croatian Audit Chamber in accordance with the rules referred to in paragraph 15 of this Article.</p>	<ul style="list-style-type: none"> <li>- Candidates who have obtained equivalent qualifications (for example, Chartered Certified Accountants, licensed tax advisors) are not exempt from parts of the audit exam in Croatia.</li> </ul>

## Harm to competition

**The stricter qualification requirements for auditors in Croatia harm competition by limiting entry and discriminating against qualified candidates.** Becoming an auditor in Croatia is generally more time-consuming and costly than in other EU countries. Auditors need generally up to five years longer to qualify in Croatia than in Austria.<sup>18</sup> The high cost of the professional exam and preparatory course is also a significant entry barrier (altogether HRK 15,190 or around US\$2,300).<sup>19</sup> The stricter qualification requirements affect both young and experienced candidates. As a result, candidates may be discouraged to qualify in Croatia and choose other professions or practice as auditors in other EU countries. The standardization of audits and the high mobility of qualified professionals amplifies the incentive to practice outside Croatia.<sup>20</sup>

## Policy objectives

**Auditors need to meet qualification requirements to minimize risks to buyers and investors from low-quality services.** Minimum qualification requirements respond to two types of market failures in the auditing market: (a) information asymmetry and (b) externalities. Information asymmetry exists because the quality of auditing services is only partly observable to buyers. As a result, buyers may not be able to identify low-quality providers and end up limiting demand. Externalities occur because low-quality audits could mislead investors and eventually undermine the trust placed in the veracity of financial statements. This may have negative consequences not only for individual investors but also financial markets, and could result in more limited access to finance. Minimum qualification requirements minimize risks by helping buyers screen providers and assuring investors about company financials. However, while market failures may justify general qualification requirements for auditors, the Croatian Ministry of Finance and Chamber of Auditors did not present evidence supporting stricter requirements for professionals and firms imposed by domestic regulations which hinder competition.<sup>21</sup>

<sup>18</sup> A Croatian citizen qualifying as an auditor in Austria, for instance, can attempt to pass the exam with a bachelor's degree and three years of audit experience, while the same person qualifying as an auditor in Croatia would be required to obtain additionally two years of work experience and one or two years of university education.

<sup>19</sup> In Poland, for instance, the exam fee amounts to PLN 1,475 (around US\$375) and the preparatory course is voluntary.

<sup>20</sup> See Bloomfield et al. (2017) for recent evidence on the labor mobility of accounting and auditing professionals in the EU following the adoption of the Audit Directive.

<sup>21</sup> World Bank interviews and e-mail correspondence with representatives of the Ministry of Finance and Chamber of Auditors, April–July 2019.

## Alternatives

### Most EU member states rely on the professional exam to screen qualifications and treat education and experience requirements flexibly.

The EU Audit Directive requires all auditors to pass ‘an examination of professional competence’ before they can practice their profession. The Audit Directive also prescribes minimum education and experience requirements. The EU member states can go beyond the requirements in the Audit Directive, but most countries stick to the minimum EU standards for education and experience (Figure 4.5), because they rely on the compulsory professional exam to screen providers. In Austria, Finland, and Portugal, for instance, candidates with a bachelor’s degree and three years of experience in statutory audit are allowed to take the professional exam. Several EU member states allow also alternative pathways (combinations of education and experience) to enter the profession. In Ireland, among other countries, there is also no compulsory preparatory course for auditors. In Poland, one year of work experience gained outside audit (for example, accounting) or before graduation is counted toward the traineeship. Candidates with 15 years of experience in law, finance, or accounting are also exempt from other education and experience requirements. In the same vein, candidates with equivalent professional qualifications (for example, Chartered Certified Accountant) are exempt from parts of the audit exam.

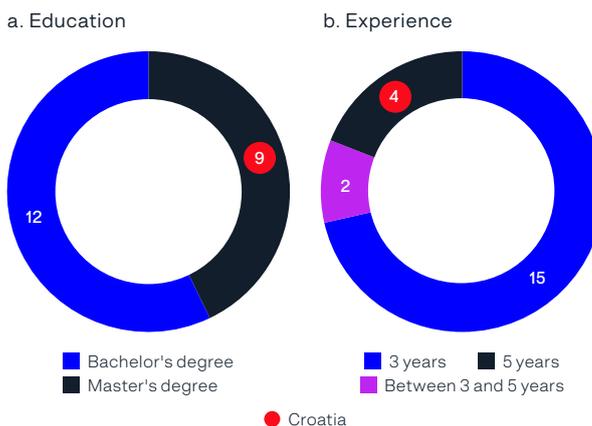
### The professional exam appears to be a strong screening of quality in Croatia.

The exam covers both general and specialist knowledge and contains practical questions and assignments. Licensed auditors and candidates consider the exam to be difficult but relevant to their responsibilities. Between 2009 and 2018, 46 percent of candidates passed the exam. Pass rates varied considerably over time (Figure 4.6). The stringency of the professional exam may be seen as an effective screen against low-quality providers. This could encourage Croatian regulators to follow Austria, Finland, Poland, Portugal, and other EU member states in admitting to the exam candidates with more diverse backgrounds.

#### 4.3.2 Chamber membership

**Membership in the professional chamber is mandatory for auditors in Croatia.** To provide auditing services, auditors are required to join the Chamber of Auditors and pay registration and membership fees. In 2018, the registration fee amounted to HRK 4,000 (around US\$600) for audit firms and HRK 1,200 (around US\$180) for chartered auditors. The membership fees are paid by audit firms and individuals.<sup>22</sup> Individuals pay HRK 560 (around US\$80) per year whereas firms pay 0.35 percent of revenues from the preceding business year. To control payments, the

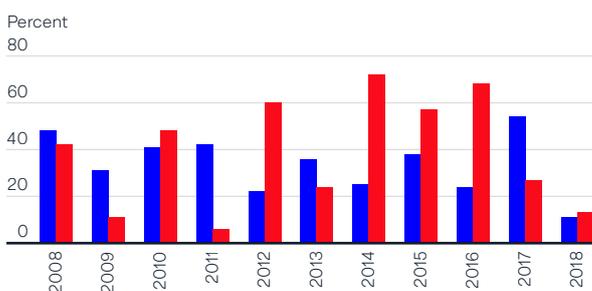
**Figure 4.5 Education and experience requirements for auditors in 21 EU countries**



Source: Van Linden and Hardies (2018) based on Accountancy Europe (2013); World Bank staff analysis.

Note: The data have been compared with the EU Regulated Professions database and discrepancies resolved through primary research. The graph on the right shows experience as an average in countries in which the length of required experience varies. No data available for Cyprus, Denmark, Estonia, Ireland, Latvia, Lithuania, and Portugal.

**Figure 4.6 Exam pass rates of auditors in Croatia**



Source: Croatian Chamber of Auditors.

<sup>22</sup> Decision on contribution rate and membership fee amount for the Chamber of Auditors (Official Gazette 58/18).

Chamber obtains information about firm revenues.<sup>23</sup> The Chamber of Auditors determines the level of the membership fees following the consent from the the Ministry of Finance.<sup>24</sup>

## Harm to competition

**Mandatory chamber membership harms competition.** The requirement of chamber membership allows incumbents to vet new entrants. The Chamber of Auditors administers the professional exam and may use this mechanism to limit entry into the profession. Chamber registration is also compulsory after obtaining a professional license from the Ministry of Finance. Second, compulsory chamber membership makes it more costly to compete and facilitates collusion on strategic variables. For instance, the information on firm revenues collected by the Chamber makes it easier for competitors to enter and monitor anticompetitive agreements.

## Policy objectives

**Before Directive 2014/56/EU, the objective of mandatory chamber membership was to promote service quality.** Alongside the right to issue professional licenses, the Chamber of Auditors was responsible for formulating and enforcing professional standards. Its supervisory powers allowed to sanction professionals who have violated these standards by revoking their license or through other means. However, in 2018, the supervision of auditing firms was transferred to the Ministry of Finance. This change was required by the EU Audit Directive,<sup>25</sup> because following the 2008 financial crisis, regulators concluded that professional oversight should be conducted independently of auditing firms. The objective of this change was to minimize the risk of inaccuracies in financial statements and maximize investor protection.<sup>26</sup> Currently, the powers of the Croatian Chamber of Auditors have been reduced to preparing candidates for the professional exam, administering the exam, registering auditors, issuing professional standards, and supervising continuous professional development. Similar changes have been implemented in other EU countries.

## Alternatives

**Membership in the professional chamber could be optional.** While professional chamber membership may serve as a signal of high-quality services, it is more effective when membership is voluntary because then high-quality service providers can self-select into the professional association. It is also possible to implement voluntary chamber membership as the authority of the Chamber to supervise auditors has been already transferred to the Ministry of Finance and the authority to prepare candidates for the professional exam are not exclusive. Similarly, the authority to register candidates, conduct the exam, issue standards, and supervise continuous learning can be transferred to the Ministry of Finance. Membership in professional bodies is voluntary in several EU member states, such as Finland or Spain.<sup>27</sup>

<sup>23</sup> Article 4 of the Decision on contribution rate and membership fee amount for the Chamber of Auditors (Official Gazette 58/18).

<sup>24</sup> Article 102(2) of the Audit Act (Official Gazette 127/17).

<sup>25</sup> Article 29 of Directive 2006/43/EC, as amended by Directive 2014/56/EU of April 16, 2014.

<sup>26</sup> See point 1 of the recital for Directive 2014/56/EU of April 16, 2014. Compare also with pages 22–23 of the Impact Assessment accompanying the Proposal for a Directive of the European Parliament and of the Council amending Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts and a Proposal for a Regulation of the European Parliament and of the Council on specific requirements regarding statutory audit of public interest entities, Commission Staff Working Paper, SEC (2011) 1384 final.

<sup>27</sup> In accordance with the EU Regulated Professions database. No data available for Greece, Hungary, Luxembourg, Norway, the Slovak Republic, Slovenia, Spain, Sweden, and Croatia.

## 4.4 Recommendations

Recommendation	Regulation	Justification	Responsible institution and target date <sup>a</sup>
<b>Rules that limit entry or reinforce dominance</b>			
<p><b>1. Fully harmonize qualification requirements with the EU Audit Directive:</b></p> <p>(a) Make the audit course voluntary for all candidates</p> <p>(b) Admit candidates with a bachelor's degree and candidates with three years of audit experience to the professional exam</p> <p>(c) Count toward the audit traineeship up to one year of relevant work experience gained outside an audit firm (for example, accounting) or before graduation</p> <p>(d) Exempt candidates with at least seven years of experience in finance, law, or accounting from education requirements</p> <p>(e) Exempt candidates with at least 15 years of experience in finance, law, or accounting from the auditing traineeship</p> <p>(f) Recognize other relevant exams and qualifications</p>	<p>Articles 11(6), 11(14) and 13 of the Audit Act (Official Gazette 127/17)</p> <p>Ordinance on professional training for taking the audit exam, the audit and special exam, and the competency exam (Official Gazette 59/19)</p>	<p><b>Some education and experience requirements go beyond the necessary minimum to ensure quality of service.</b> Qualification requirements are in place to ensure that auditors possess the necessary knowledge and skills to follow domestic and international auditing standards. However, unlike the EU Audit Directive, Croatia's Audit Act does not</p> <ul style="list-style-type: none"> <li>- Allow candidates with a bachelor's degree, candidates with three to five years of work experience, or candidates who have not completed the audit course to take the professional exam;</li> <li>- Allow candidates to count toward the audit traineeship relevant work experience gained outside an audit firm (for example, in accounting or before graduation);</li> <li>- Exempt candidates with at least seven years of experience in law, finance, or accounting from education requirements;</li> <li>- Exempt candidates with at least 15 years of experience in law, finance, or accounting from the audit traineeship and education requirements; and</li> <li>- Exempt candidates who have obtained equivalent qualifications (for example, Chartered Certified Accountants, licensed tax advisors) from parts of the audit exam.</li> </ul> <p><b>Overly strict education and experience requirements harm competition.</b> The differences between the Croatian Audit Act and the EU Audit Directive limit entry and discriminate against some candidates. Becoming an auditor in Croatia is generally more time-consuming and costly than in other EU countries. Auditors need up to five years longer to qualify in Croatia than in Austria. In some cases, the stricter requirements imposed by the Croatian Audit Act may effectively bar qualified professionals from becoming auditors. Entry is more costly in Croatia because of foregone income caused by the long qualification period and the fee costs.</p> <p><b>The professional exam is already a strong screen of quality of service.</b> Generally, EU member states rely on the compulsory professional exam to screen providers. In Croatia, 46% of candidates passed the professional exam between 2009 and 2018, suggesting that this screen is strong.</p>	<p>Ministry of Finance, January 2021</p>
<b>Rules that facilitate collusion or increase costs to compete</b>			
<p><b>2. Abolish mandatory professional chamber membership and transfer the organization of the professional exam to the Ministry of Finance.</b></p>	<p>(a) Article 100(1) of the Audit Act (Official Gazette No. 127/17);</p> <p>(b) Articles 11(4) and (7)-(13), 101(1) - points 5 to 7 and 119(1) point 1 of the Audit Act (Official Gazette No. 127/17) and Ordinance on professional training for taking the audit exam, the audit and special exam, and the competency exam (Official Gazette 59/19).</p>	<p><b>Chamber membership is not necessary to promote quality of service.</b> Under the EU Audit Directive, quality assurance of audits should be subject to public oversight and conducted independently of auditing firms and professionals. This is to ensure that oversight is effective in promoting the veracity of financial statements and protecting investors. Croatia and other EU member states have therefore reassigned quality assurance from professional chambers to public oversight bodies. As of January 2018, the Ministry of Finance is responsible for the supervision of quality standards in Croatia. Given these changes, the requirement of membership in the Chamber of Auditors does not seem justified.<sup>b</sup> Membership in professional bodies is voluntary in several EU member states.</p>	<p>Ministry of Finance, Chamber of Auditors January 2021</p>

Recommendation	Regulation	Justification	Responsible institution and target date <sup>a</sup>
		<b>Compulsory chamber membership can harm competition.</b> The requirement of chamber membership allows incumbents to vet new entrants. Compulsory chamber membership makes it also more costly to compete and facilitates collusion on strategic variables. Auditing firms are required to pay to the Chamber 3.5 per mille of annual revenues, in addition to membership dues paid by professionals. The Chamber also collects information on revenues of members, which could make it easier for chamber members to monitor potential anticompetitive agreements.	

Note:

a. For the entry into force of the regulatory change.

b. The Chamber of Auditors continues to be engaged in setting professional standards and administering the professional exam and courses. However, both tasks can be carried out by the Ministry of Finance and do not justify universal chamber membership.

## References

### Audit regulations

Audit Act (Official Gazette 127/17)	Zakon o reviziji (NN 127/17)
Accounting Act (Official Gazette 78/2015, 134/2015, 120/2016, 116/2018)	Zakon o računovodstvu (NN 78/2015, 134/2015, 120/2016, 116/2018)
Ordinance on permanent professional development of authorized auditors (Official Gazette 104/18)	Pravilnik o stalnom stručnom usavršavanju ovlaštenih revizora (NN 104/18)
Decision on contribution rate and membership fee amount for the Croatian Chamber of Auditors (Official Gazette 58/18)	Odluka o stopi doprinosa i iznosu članarine Hrvatskoj revizorskoj komori (NN 58/18)
Decision on prices of the services provided by the Croatian Chamber of Auditors (Official Gazette 58/18)	Odluka o cijenama usluga koje obavlja Hrvatska revizorska komora (NN 58/18)
Decision on publishing the Code of Ethics for Professional Accountants (Official Gazette 106/16, 127/17)	Odluka o objavljivanju kodeksa etike za profesionalne računovode (NN 106/16, 127/17)
Decision on publishing the Code of Ethics for Professional Accountants and Amendments of the Code related to long connection of the staff with the audit client or with client for whom the certificate is being provided (Official Gazette 3/19)	Odluka o objavljivanju Kodeksa etike za profesionalne računovode i Izmjene Kodeksa vezano za dugu povezanost osoblja s klijentom revizije ili s klijentom za kojeg se izražava uvjerenje (Konačni dokument) (NN 3/2019)
Statute of the Croatian Chamber of Auditors (Official Gazette 58/18)	Statut Hrvatske revizorske komore (NN 58/18)
Rules on travel and other reimbursement fees for official travel expenses dated November 16, 2018 (internal act of the Croatian Chamber of Auditors)	Pravila o naknadama putnih i drugih troškova službenih putovanja od 16.11.2018 (interni akt Hrvatske revizorske komore)
Rules on reimbursement fees and awards for the members of the elected bodies of the Chamber dated November 16, 2018 (internal act of the Croatian Chamber of Auditors)	Pravila o naknadi troškova i nagradi članovima izbornih tijela Komore od 16.11.2018 (interni akt Hrvatske revizorske komore)
Ordinance on the issuance of work permit to the certified auditor and the auditing company (Official Gazette 27/2019)	Pravilnik o izdavanju odobrenja za rad ovlaštenom revizoru i revizorskom društvu (NN 27/19)
Regulations on the registry management (Official Gazette 44/2019)	Pravilnik o vođenju registara (NN 44/19)
Ordinance on the manner of collecting reports, information, and data from the subjects of supervision (Official Gazette 53/2019)	Pravilnik o načinu prikupljanja izvještaja, obavijesti i podataka od subjekata nadzora (NN 53/19)
Ordinance on continuing professional development of certified auditors (Official Gazette 104/2018)	Pravilnik o stalnom stručnom usavršavanju ovlaštenih revizora (NN 104/18)
Ordinance on professional training for taking the audit exam, the audit and special exam, and the competency exam (Official Gazette 59/19)	Pravilnik o stručnom osposobljavanju za polaganje revizorskog ispita, revizorskom i posebnom ispitu te ispitu osposobljenosti (NN 59/19)

### Other references

Bloomfield, Matthew, Ulf Brüggemann, Hans Christensen, and Christian Leuz. 2017. "The Effect of Regulatory Harmonization on Cross-Border Labor Migration: Evidence from the Accounting Profession." <i>Journal of Accounting Research</i> 55 (1): 35–78.	European Commission. 2017. Report from the Commission to the Council, the European Central Bank, the European Systemic Risk Board and the European Parliament on Monitoring Developments in the EU Market for Providing Statutory Audit Services to Public-interest Entities Pursuant to Article 27 of Regulation (EU) 537/2014. COM(2017) 464 final.
European Commission. 2011. "The Impact Assessment Accompanying the Proposal for a Directive of the European Parliament and of the Council Amending Directive 2006/43/EC on Statutory Audits of Annual Accounts and Consolidated Accounts and a Proposal for a Regulation of the European Parliament and of the Council on Specific Requirements Regarding Statutory Audit of Public-interest Entities." Commission Staff Working Paper, SEC (2011) 1384 final.	Van Linden, Christophe., and Kris. Hardies. 2018. "Entrance Requirements to the Audit Profession within the EU and Audit Quality." <i>International Journal of Auditing</i> 22 (3): 360–373.

# Tax advisors

Tax advisors are licensed in Croatia to reduce information asymmetry and potential conflicts of interest. However, the requirements for tax advisors are so demanding that Croatia has by far the fewest licensed tax advisors per capita of any EU country that regulates this profession. Less than 10 licenses are issued per year because existing providers—mostly attorneys and audit professionals—see limited benefit in certifying their qualifications. Tax advisors need a master’s degree in law or economics and five years of relevant experience to sit for a mandatory professional exam. They are also required to join and pay dues to the Chamber of Tax Advisors. Licensed tax advisors are more limited in their ability to provide services than attorneys and auditors. By admitting more candidates to the professional exam, making chamber membership voluntary, removing restrictions for tax advisors who work in audit and law firms, and allowing tax advisors to represent clients before courts, Croatia could restore the relevance of the profession and develop the market for professional tax advisory services.

## 5.1 Market overview

### **Tax advisory services generally consist of tax planning, compliance, and representation.**

Tax advice typically consists of three types of services: providing advice to clients on the scope and optimization of their tax obligations (planning), preparing tax returns and maintaining tax-related systems and records (compliance), and representing clients before public bodies and courts (representation). Tax advisory services generally focus on complex issues, such as tax implications of transfer pricing and mergers and acquisitions. Such services are essential—especially for larger enterprises—given the relatively complex nature of Croatian tax law.<sup>1</sup> More basic services are provided by bookkeepers. While related to tax advisory, market participants in Croatia consider these services to be distinct from tax advice.

**In Croatia, tax advice is provided by tax advisory, law, and audit and consulting firms.** All three types of providers compete for work on tax planning and compliance (Table 5.1). Although exact data are not available,<sup>2</sup> market participants report that the ‘Big Four’ firms (Deloitte, EY, KPMG, and PwC) account for the majority of revenues and

**Table 5.1** Providers of tax advisory services in Croatia, 2019

	<b>Tax advisory firms</b>	<b>Law offices</b>	<b>Audit and consulting firms</b>
Tax planning	Yes	Yes	Yes
Tax compliance	Yes	Yes	Yes
Tax representation	Yes, before tax authorities	Yes, before tax authorities and courts	Yes, before tax authorities

Source: World Bank staff analysis.

<sup>1</sup> Hoppe et al. (2020) rate Croatia’s tax system as ‘highly complex’.

<sup>2</sup> Given that the licensed tax advisors make up a very small portion of de facto tax advisory service providers in Croatia, no official statistics covering the overall market are collected. Insights in this report have been triangulated through data collected by the Ministry of Finance on the tax activities of audit firms and interviews with major market participants (for example, ‘Big Four’ firms). Nevertheless, this approach is unable to systematically cover providers of tax advice who do not offer audit services.

dominate services for MNCs and larger national companies.<sup>3</sup> Local auditing firms also provide tax advisory, mainly to medium and large firms. Tax representation before courts is reserved to law offices, as only attorneys are authorized to represent clients before administrative courts in Croatia.<sup>4</sup>

**Tax advice is generally bought by larger corporations and demand is relatively small.**

While data on tax advisory are limited, revenues in Croatia are estimated by market participants to total HRK 150–HRK 185 million (US\$23–US\$28 million). MNCs and larger Croatian companies generally have more sophisticated needs (for example, transfer pricing). Although exact data are not available, these two segments likely comprise most of the market by revenue.<sup>5</sup> Small businesses and private individuals rarely employ tax advisory firms other than bookkeepers and are considered a separate market by auditors, lawyers, and licensed tax advisors.<sup>6</sup>

**The provision of tax advice is regulated.** The Tax Advisory Services Act defines tax advisory services, establishes licensing requirements for firms and professionals, and sets out the rights and obligations of tax advisors. This regulation is further expanded on in by laws issued by the Ministry of Finance and the Chamber of Tax Advisors. The Chamber is in charge of licensing, regulating, and supervising tax advisors. Professionals need to hold minimum qualifications and join the Chamber.<sup>7</sup> Only professionals licensed by the Chamber are authorized to use the professional title and only firms licensed by the Chamber can refer to their services as tax advisory.<sup>8</sup> But the Tax Advisory Services Act allows other providers to offer some tax advisory services.<sup>9</sup> Given that most providers of tax advice are audit and law firms, the Audit Act and Legal Professions Act and their bylaws effectively also regulate tax advisory services in Croatia.

**‘Big Four’ firms control most of the tax advisory market in Croatia, although competitive dynamics vary across segments and project types.** According to market participants, ‘Big Four’ firms account for the majority (50–70 percent) of the market by revenue and dominate higher-end segments (MNCs and larger companies), similar to patterns in other EU countries. Tax advisory relationships are generally not exclusive: clients are known to switch between tax advisory providers both for different services (for example separate providers for transfer pricing and mergers and acquisitions) and over time for the same service. Providers may compete on price, reputation, relationships, and/or expertise, depending on the nature of the client and engagement. Simpler engagements are generally more subject to price competition.

## 5.2 Regulated professions

**Three regulated professions provide tax advice: tax advisors, auditors, and attorneys.** The Tax Advisory Act authorizes tax advisors to advise on all tax issues, help file tax returns, supervise tax records, and represent clients in tax and misdemeanor proceedings before tax authorities.<sup>10</sup> The Tax Advisory Act authorizes auditors to perform some of these

<sup>3</sup> Although ‘Big Four’ firms are also audit firms, audit and tax services are typically not cross-sold or bundled together. Many clients have explicit internal rules against this, and in general tax contracts derive from clients and providers’ personal connections.

<sup>4</sup> Please refer to section 4.3.3 for more details.

<sup>5</sup> World Bank interviews with market participants.

<sup>6</sup> Owners of medium-to-large companies whose finances are often not separable from their companies are the major exception to this general pattern.

<sup>7</sup> Articles 8, 9, and 25 of the Tax Advisory Services Act (Official Gazette 127/00, 76/13, 115/16).

<sup>8</sup> Articles 6, 17, and 17a–b of the Tax Advisory Services Act (Official Gazette 127/00, 76/13, 115/16).

<sup>9</sup> Article 7 of the Tax Advisory Services Act (Official Gazette 127/00, 76/13, 115/16). Please also refer to the general overview provided in Table 5.1.

<sup>10</sup> Article 6(2) of the Tax Advisory Services Act (Official Gazette 127/00, 76/13, 115/16).

tasks.<sup>11</sup> Attorneys-at-law provide tax advice under their rights to provide legal advice and represent clients. All licensed professionals who provide tax advice in Croatia are required to (a) obtain a tertiary degree, (b) acquire work experience, (c) pass a professional exam, and (d) join a professional chamber. However, these requirements have a different focus for each of the professional groups (Table 5.2).

**Table 5.2** Key entry requirements for tax advisors, auditors and attorneys in Croatia

	Tax advisors	Auditors	Attorneys
Education	Graduate degree in law or economics, or undergraduate specialist degree related to taxes.	Graduate degree in any field <sup>a</sup> and professional course	Graduate degree in law and professional course
Experience	Five years (candidates with graduate degree) to seven years (candidates with undergraduate degree).	Five years, including at least three years in statutory audit	Three to four years in legal practice
Exam	CIT, PIT, VAT, financial reporting and audit, tax law, company law, and so on.	Financial reporting and audit, business regulation, accounting, economics, finance, management, and so on.	Civil Law, commercial law, family law, criminal law, labour law, administrative law, EU law, and so on.
Chamber membership	Chamber of Tax Advisors	Chamber of Auditors	Bar Association

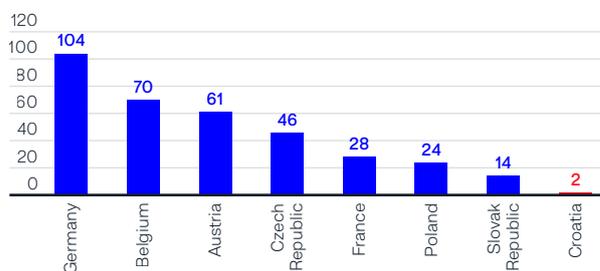
Source: Tax Advisory Services Act (Official Gazette 127/2000, 76/2013, 115/2016); Audit Act (Official Gazette 127/17); Legal Profession Act (Official Gazette 09/94, 117/08, 50/09, 75/09, 18/11); World Bank staff analysis.

Note: Pursuant to Article 9(1)(b) of the Tax Advisory Services Act (Official Gazette 127/00, 76/13, 115/16), only degrees recognized in Croatia and obtained after completing an undergraduate specialist professional study program are accepted. The study program should cover at least all of the subjects of the professional exam for tax advisors. The Chamber of Tax Advisors assesses the curriculum of specialist professional study programs on a case-by-case basis.

a. Pursuant to Article 11(6) point 1 of the Audit Act (Official Gazette 127/17), the education should be equivalent to 300 ECTS credits, which effectively requires candidates to obtain a master's degree.

**Licensed tax advisors constitute a small share of providers.** In 2018, around 4,750 attorneys, 980 auditors, and 70 tax advisors held professional licenses in Croatia. The number of licensed tax advisors per capita is significantly lower in Croatia than in other regulated markets (Figure 5.1). While the number of newly licensed professionals has increased since 2013, there have never been more than 10 entrants in any single year (Figure 5.2). This low figure does not mean that there are few providers in the market. According to all market participants interviewed, the vast majority of providers simply provide services without tax advisor licenses. The low number of licensed professionals suggests instead that providers see limited value in certifying their qualifications despite statutory obligations to do so (that is, enforcement is limited in practice).

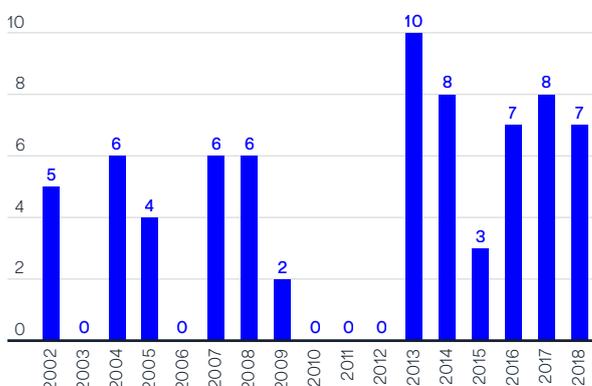
**Figure 5.1** Number of tax advisors per 100,000 inhabitants, 2018



Source: Tax advisor chamber websites; World Bank staff calculations.

Note: Out of 28 EU countries, 17 had some form of regulation for tax advisors in 2012. Recent data on the number of registered tax advisors are available for eight countries. Estimates are directional and not exact given approximate nature of data provided by country chambers, and differences in exclusive rights between countries.

**Figure 5.2** New tax advisors in Croatia



Source: Croatian Chamber of Tax Advisors.

<sup>11</sup> Pursuant to Article 7 of the Tax Advisory Services Act (Official Gazette 127/00, 76/13, 115/16), the auditors cannot (a) sign tax returns, (b) continuously supervise the compliance of tax records, or (c) participate and represent the party in tax and misdemeanor proceedings before tax authorities and courts.

## 5.3 Restrictions

**In total, three sets of key restrictions to competition have been identified in tax advisory regulations.** The review focused on one law and seven bylaws regulating the provision of such services (see Annex C for a list of key regulations). In Croatia, most restrictions in tax advisory regulations relate to Rules that limit entry or reinforce dominance. The involvement of incumbents in entry and exit decisions and excessive qualification requirements are particularly harmful. Mandatory membership in the Chamber of Tax Advisors may also facilitate collusion and increase costs to compete. Rules that discriminate or protect vested interest also exist (Table 5.3). The following sections discuss for each set of key restrictions: (a) the harm to competition; (b) the stated policy rationale; and (c) alternatives that are either less distortive, more effective, or both.

**Table 5.3** Types of anticompetitive restrictions in tax advisory regulations, 2019

Main types of rules based on market effects	Specific types	Frequency	Key restrictions
Rules that limit entry or reinforce dominance	1.1 Monopoly rights and absolute ban for entry	3	Excessive qualification requirements, chamber membership
	1.2 Relative ban for entry and expansion of activities	4	
	1.3 Incumbents participate in entry/exit decisions	4	
	1.4 Requirements for registry (licenses and permits)	10	
Rules that facilitate collusion or increase costs to compete	2.1 Rules that facilitate agreements/reduce firms' choice of strategic variables	7	Restrictions on outside employment of tax advisors, exclusive right of attorneys to represent clients in tax matters before courts
	2.2 Restrictions on type of products and services/format and location	4	
	2.3 Price control	0	
Rules that discriminate and protect vested interests	3.1 Discriminatory application of rules and standards	1	Oral exam, no independent appeals process
	3.2 Discretionary application of rules	3	
	3.3 Lack of competitive neutrality vis-à-vis government entities	0	
	3.4 State aid/incentives distorting level playing field	0	

Source: World Bank staff analysis based on the MCPAT. The MCPAT methodology is presented in Annex A.

Note: Some restrictions have been attributed to and counted as several types. For instance, a license that is allocated in a discriminatory way has been counted as two types of restrictions: requirement for registry (licenses and permits) and discriminatory application of rules and standards.

### 5.3.1 Qualification requirements

**Tax advisors are required to complete (a) undergraduate or graduate university studies, (b) five to seven years of work experience, and (c) an exam.** Candidates for tax advisors are generally required to hold graduate degrees in law or economics.<sup>12</sup> Candidates with graduate degrees are also required to have five years of work experience in taxes.<sup>13</sup> Candidates who meet

<sup>12</sup> Pursuant to Article 9(i)(b) of the Tax Advisory Services Act (Official Gazette 127/00, 76/13, 115/16), candidates who have completed specialist professional studies at the undergraduate or graduate level are also allowed to take the professional exam. However, this pathway is not followed by the majority of candidates.

<sup>13</sup> Article 9(i)(a) of the Tax Advisory Services Act (Official Gazette 127/00, 76/13, 115/16). Pursuant to Article 9(i)(b), candidates who have completed specialist professional studies must have seven years work experience in taxes.

the education and experience requirements are eligible to take the professional exam. The professional exam is conducted by the Chamber of Tax Advisors and covers topics such as corporate income tax, personal income tax, value added tax, financial reporting and audit, tax law, and company law. The exam is performed at least once per year and takes several days. The Chamber charges exam takers HRK 7,200 (around US\$1,100) in fees.

## Harm to competition

**The education and experience requirements are overly strict and harm competition.** The pool of candidates who are eligible to take the professional exam is small. This is because some education and experience requirements unduly limit entry and discriminate against qualified candidates. For instance, the profession is not open to professionals who have significant work experience in taxes but no degree in law or economics. Consequently, some candidates who may be qualified to provide tax advice are barred from the profession. In addition, persons who have the required education, need five to seven years of work experience before they can take the professional exam. This is a long time and may discourage some professionals from becoming tax advisors and force others to work for lower salaries.

**The organization of the professional exam adds to the potential for discrimination.** Several exam features may give rise to discriminatory or discretionary decisions toward entrants. The exam is administered by the Chamber of Tax Advisors, which represents existing service providers. Qualified candidates (for example, licensed auditors) are not exempt from parts of the exam (for example, on accounting and auditing). One part of the exam is conducted orally with no recording. Appeals are handled by the examination board, whose composition is influenced by the Chamber of Tax Advisors.<sup>14</sup>

## Policy objective

**Tax advisors in Croatia are obliged to fulfill qualification requirements to reduce risks from low-quality services.**<sup>15</sup> The existing qualification requirements in Croatia intend to address two market failures in the tax advisory market: (a) negative externalities and (b) information asymmetry. Negative externalities occur if false or misleading tax advice leads to the underreporting of tax obligations and the lowering of tax receipts. If occurring at a large scale, low-quality tax advice may limit the availability of public services and negatively affect their users. Information asymmetry occurs because the buyers of tax advisory services may have difficulties in identifying low-quality services. As a result, demand for tax advisory services may be reduced and high-quality tax advisors may have fewer opportunities to sell their services.

**However, the qualification requirements are too demanding to allow the market for specialized tax advisory services to develop.** The stringent qualification requirements for tax advisors in Croatia may explain why Croatia has the lowest number of licensed tax advisors out of the EU countries, for which there are comparable data. The services of tax advisors are less known to buyers than the related services of auditors and attorneys. There is therefore no critical mass of buyers to receive the quality signal which demanding qualification requirements could send. In return, providers see limited value in obtaining the professional license.

<sup>14</sup> Article 10(2) of the Tax Advisory Services Act (Official Gazette 127/00, 76/13, 115/16).

<sup>15</sup> The Ministry of Finance in its response to the World Bank indicated that the current entry requirements are to 'ensure the professional and quality performance of the tax counseling activity and to achieve a higher level of legal and tax certainty'.

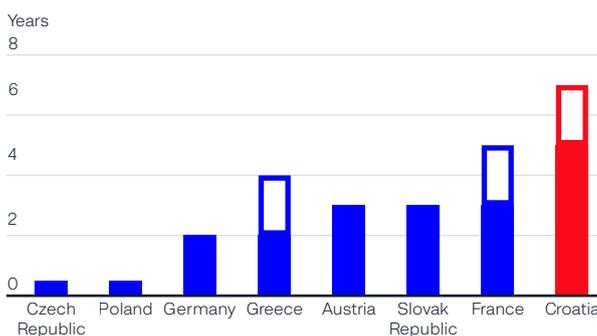
## Alternatives

**The qualification requirements are less demanding in comparable markets.** Tax advisors in other EU countries face less demanding qualification requirements (Figure 5.3).<sup>16</sup> In 11 EU countries, including Sweden and Lithuania, the profession is not regulated.<sup>17</sup> In Austria, for instance, tax advisors are required to possess three years of professional experience whereas in Poland the mandatory traineeship lasts only six months. In Poland and the Czech Republic, tax advisors need to be university graduates but their field of study is not prescribed. The education and experience requirements are also more flexible for attorneys and auditors in Croatia, who compete directly with tax advisors. Attorneys can practice their profession after three to four years of work experience, while auditors can have graduate degrees in any field of study, and they can acquire two of the required five years of work experience outside audit.<sup>18</sup>

**The professional exam could be the primary screen of quality.** The professional exam for tax advisors is comprehensive. It is also a more reliable way to screen providers than education and experience requirements. Between 2013 and 2018, the exam pass rates varied between 50 percent and 75 percent, suggesting that the exam differentiates between candidates.<sup>19</sup>

The objectivity and contestability of the exam could be further strengthened by (a) transferring its organization to the Ministry of Finance, (b) introducing an independent appeals process, and (c) abolishing the more subjective oral exam. In addition, candidates with equivalent qualifications (for example, licensed auditors) could be exempt from parts of the exam.

**Figure 5.3 Experience requirements for tax advisors in selected EU countries, 2012**



Source: CFE Tax Advisors Europe 2013 and World Bank staff analysis.

Note: The experience requirements in Greece, France and Croatia are shown as ranges. Data for Poland are for 2019. Tax advisors were among 250 professions reformed in Poland between 2012 and 2015. The entry regulations for tax advisors may have also changed in other countries.

### 5.3.2 Chamber membership

**The membership in the Chamber of Tax Advisors is mandatory.** Tax advisors are required to register with the Chamber and pay annual dues of HRK 1,200 (around US\$180). Apart from registering tax advisors, the Chamber is also responsible for administering the professional exam. The Chamber sets and enforces professional standards. It also organizes and oversees continuous learning of tax advisors.

## Harm to competition

**Mandatory chamber membership may harm competition in three ways.** First, incumbents decide over entry and exit of service providers, which may strengthen their position and weaken the position of new entrants. Second, compulsory membership in the Chamber makes it easier for providers to collude on strategic variables and increase the costs to compete. For instance, the Chamber has the right to charge all tax advisors the cost of the training materials that it prepares

<sup>16</sup> Available data cover France, Germany, Belgium, Austria, the Czech Republic, Poland, the Slovak Republic, and Croatia. In accordance with the EU Regulated Professions database, tax advisors are also regulated in Hungary, Ireland, Italy, the Netherlands, Portugal, and Romania.

<sup>17</sup> Data from the EU Regulated Professions database and CFE Tax Advisors Europe (2013).

<sup>18</sup> Attorneys and auditors also need to complete a professional course, pass a professional exam, and become members of their respective professional chamber. Only law graduates can become attorneys.

<sup>19</sup> Data from the Ministry of Finance.

irrespective of their interest in the training.<sup>20</sup> Third, Chamber supervision may result in discretionary decisions, if the Chamber uses its supervisory powers to sanction competitors.

## Policy objective

**Universal chamber membership is required to promote quality of services.** Membership in the professional chamber is required to ensure compliance with professional standards set in the Code of Ethics and other Chamber regulations, such as the Ordinance on professional development. The Chamber enforces these regulations by collecting information about violations of professional standards and sanctioning noncompliance. However, in practice, the Chamber of Tax Advisors has not sanctioned members since its founding in 2013.

## Alternatives

**There are alternative, more effective means of promoting quality of service than mandatory chamber membership.** While professional chamber membership may serve as a signal of high-quality services, it is more effective when membership is voluntary because then high-quality providers can self-select into the professional association. This selection can be encouraged through objective screening criteria, such as additional qualifications or years of practice. In addition, the quality of service may be more effectively promoted through mandatory professional liability insurance as the insurance premium directly depends on the claims history of individual providers. Croatian tax advisors are already required to purchase professional liability insurance. The current competences of the Chamber of Tax Advisors could be shifted to the Ministry of Finance. The Ministry has taken over the supervision of auditors in 2018 and could do the same for tax advisors.

### 5.3.3 Conduct restrictions

**Tax advisors are limited in their ability to practice their profession within and outside tax advisory firms.** First, tax advisors who provide services independently or work in tax advisory firms cannot represent clients before administrative courts in tax matters.<sup>21</sup> Second, tax advisors are required to offer their services independently, and generally cannot be employed by other firms.<sup>22</sup> Tax advisors who work in auditing or law firms cannot provide the full range of tax advisory services. As a result, few licensed tax advisors work for the largest providers of tax advice (that is, the 'Big Four' firms).

## Harm to competition

**The conduct restrictions limit competition between different types of tax advisory providers.** Currently, tax advice is provided by tax advisory firms, audit firms, and law firms. The first two types of firms cannot represent clients before courts, which limits their ability to provide integrated services and compete with law offices. In turn, law firms and audit firms cannot

---

<sup>20</sup> Article 4(5) of Ordinance on professional development of tax advisors of December 7, 2017.

<sup>21</sup> According to Articles 2(2) and 4(2) of the Tax Advisory Services Act (Official Gazette 127/00, 76/13, 115/16), the tax advisor has the power and duty to participate in the tax disputes before administrative courts. More details on representation are provided in Article 21 of the Act on Administrative Disputes (Official Gazette 29/17). This Act refers to the provisions of Act on Civil Disputes (Official Gazette 70/19) which states in Article 89(a) that only attorneys-at-law can represent clients before courts (of any type). According to information from the Chamber of Tax Advisors and the Ministry of Finance, a recent case law confirmed that tax advisors can only participate in tax proceedings as members of the public.

<sup>22</sup> Article 6(2) of the Tax Advisory Services Act (Official Gazette 127/00, 76/13, 115/16).

hire licensed tax advisors as flexibly as tax advisory firms. These limitations also decrease the payoffs from becoming licensed as tax advisors and thus limit the pool of certified tax specialists.

**The conduct restrictions also undermine the development of the market for tax advisory services.** Most tax advice in Croatia is provided by professionals who are not licensed to do so and the professionals most qualified to provide tax advice are restricted from doing so in the firms providing the least tax advice. The conduct restrictions therefore compound the strict entry requirements and limit the effectiveness of the professional license as a screen of quality.

## Policy objectives

**The exclusive right of the attorney to represent clients in tax matters is designed to promote quality of service.** According to the Ministry of Justice, tax advisors are not prepared to represent clients in courts; only attorneys have the necessary training to do so. Attorneys are trained, for instance, in the rules of evidence and related court procedures, and they may be better prepared to advise on litigation strategy. At the same time, attorneys do not generally possess specialized knowledge of taxes.

**The objective of the restrictions on outside employment of tax advisors is to ensure the impartiality of tax advisors.** According to the Ministry of Finance, tax advisors who are employed by their clients have stronger incentives to harm the public interest by underreporting tax obligations.<sup>23</sup> In the opinion of the ministry, authorizing tax advisors to practice their profession outside tax advisory firms would also create stronger incentives for tax advisors to undermine the quality of service and increase the risk of mistakes in tax returns or records, which may eventually lead to more frequent tax inspections and sanctions by tax authorities.<sup>24</sup>

## Alternatives

**There are less distortive alternatives available to promote quality of service.** Tax advisors could be allowed to represent clients in tax disputes before administrative courts. This is already the case in Poland and Germany. To ensure that they possess the necessary knowledge and skills to do so, the professional exam could be extended and include questions about procedural law.<sup>25</sup> Sharing the exclusive right of tax representation in courts with tax advisors would also encourage the creation of teams that combine the expertise of tax advisors and attorneys.

**There are also less distortive means to preserve the impartiality of tax advisors.** The impartiality of tax advisors would not be harmed if they were allowed to practice their profession while working in audit or law firms, as auditors and attorneys are also required to act in the public interest. Employment of tax advisors outside tax advisory firms is common in countries in which the tax advisor profession is regulated. Tax advisors are employed outside tax advisory firms in Belgium, the Czech Republic, Finland, Germany, Ireland, the Netherlands, and Poland.<sup>26</sup> In Belgium and Ireland, the share of tax advisors working outside tax advisory firms is 30 percent and 32 percent, respectively.<sup>27</sup> The autonomous character of tax advisory services could be also stressed by adding mandatory clauses to the employment contract that protect tax advisors from undue pressure from their employer. As an additional safeguard, tax advisors employed outside tax advisory firms could also continue to be subject to the requirement of mandatory professional insurance.

---

<sup>23</sup> Interviews and e-mail correspondence with the Ministry of Finance, April to July 2019.

<sup>24</sup> E-mail correspondence with the Ministry of Finance, Tax Administration, dated July 26, 2019.

<sup>25</sup> In Poland, for instance, candidates for tax advisors are examined on their ability to write a court complaint.

<sup>26</sup> CFE Tax Advisors Europe 2013.

<sup>27</sup> *Ibid.*

## 5.4 Recommendations

Recommendation	Regulation	Justification	Responsible institution and target date <sup>a</sup>
<b>Rules that limit entry or reinforce dominance</b>			
<p><b>1. Admit to the professional exam</b></p> <p>(a) Candidates with university degrees in other fields than law, economics, or taxes and</p> <p>(b) Candidates with three years of relevant work experience.</p>	<p>Article 9(1) of the Tax Advisory Services Act (Official Gazette 127/00, 76/13, and 115/16)</p>	<p><b>Education and experience requirements go beyond the necessary minimum to ensure quality of service.</b> Qualification requirements are in place to ensure that tax advisors possess the necessary knowledge and skills to interpret tax regulations. However, the education and experience requirements for tax advisors in Croatia are more demanding than the requirements for tax advisors in other EU countries. Entry requirements for tax advisors are also higher than the requirements in other professions that provide tax advice in Croatia (for example auditors, attorneys-at-law).</p> <p><b>Overly strict education and experience requirements harm competition.</b> Current qualification requirements limit entry by banning or delaying qualified candidates from offering tax advice. Candidates with less than five years of experience or degrees in other fields than law or economics or taxes are not allowed to take the professional exam. In 2018, the number of licensed tax advisors per 100,000 inhabitants in Croatia was the lowest out of eight EU countries which regulate the profession and for which comparable data were available.</p>	<p>Ministry of Finance January 2021</p>
<p><b>2. Reorganize the professional exam:</b></p> <p>(a) Transfer the organization of the professional exam to the Ministry of Finance</p> <p>(b) Exempt qualified candidates from parts of the exam</p> <p>(c) Introduce an independent appeals process</p> <p>(d) Abolish oral examination</p>	<p>Article 10(5) of the Advisory Services Act (Official Gazette 127/00, 76/13, and 115/16)</p> <p>Ordinance on the procedure and conditions for taking the tax advisor exam (Official Gazette 2/17)</p> <p>Statute of the Croatian Chamber of Tax Advisors (Official Gazette 145/2011, 5/2013, 3/2018)</p>	<p><b>The professional exam helps promote quality of service.</b> Tax advisors are required to pass an exam covering accounting, audit, financial statements, tax law, company law, and other topics. Between 2013 and 2018, 62% of candidates passed the professional exam, suggesting that the exam is effective in screening providers.</p> <p><b>However, some features of the exam may give rise to discriminatory or discretionary decisions.</b> The exam is administered by the Chamber of Tax Advisors, which represents existing service providers. Qualified candidates (for example, licensed auditors) are not exempt from parts of the exam (for example, the section on financial reporting and audit). One part of the exam is conducted orally and not recorded. Appeals are handled by the examination board which is appointed on the request of the Chamber. These issues may limit entry into the profession and reduce the pool of competitors.</p>	<p>Ministry of Finance and Chamber of Tax Advisors January 2021</p>
<b>Rules that facilitate collusion or increase costs to compete</b>			
<p><b>3. Abolish mandatory professional chamber membership</b></p>	<p>Article 25 of the Tax Advisory Services Act (Official Gazette 127/00, 76/13, and 115/16)</p> <p>Article 2 of the Statute of the Croatian Chamber of Tax Advisors (Official Gazette 145/2011, 5/2013, 3/2018)</p>	<p><b>Mandatory professional chamber membership is not necessary to promote quality of services.</b> Membership in the professional chamber is required to ensure compliance with professional standards set in the Code of Ethics and other chamber regulations. However, in practice, the Chamber of Tax Advisors rarely sanctions members for breaching Chamber regulations. There is a natural conflict of interest between representing the professional community on the one hand and sanctioning its members on the other hand. Alternative, market-based means of promoting quality of service (for example, mandatory professional liability insurance) could be more effective. Voluntary chamber membership would also allow high-quality providers to self-select into the professional association and strengthen chamber membership as a signal of quality.</p> <p><b>Mandatory chamber membership may harm competition.</b> Mandatory chamber membership allows incumbents to vet new entrants. Membership in the</p>	<p>Ministry of Finance and Chamber of Tax Advisors January 2021</p>

Recommendation	Regulation	Justification	Responsible institution and target date <sup>a</sup>
		chamber also increases the cost of entering and operating in the market as candidates are required to pay exam-related fees of HRK 7,200 (around US\$1,100) and annual dues for members are HRK 1,200 (around US\$180).	
<b>4. Allow tax advisors employed in law firms, audit firms, and other regulated entities to provide tax advice</b>	Articles 6, 6a, 9a-f, and 11 of the Tax Advisory Services Act (Official Gazette 127/00, 76/13, and 115/16)	<b>The requirement harms quality of service and competition.</b> Currently, tax advisors are not allowed to provide the full range of tax advice if they work outside a firm specializing in tax advisory, such as an audit firm or a law firm. This limitation applies to licensed tax advisors, that is, tax advisors who have already passed the professional exam and fulfilled all other qualification requirements. Yet, according to market participants, most of the demand for tax advice is served by audit firms and law firms, because the demand for tax advice derives from the demand for related services, such as financial audit or legal advice. As a result, the professionals most qualified to provide tax advice are restricted to do so in the firms providing the most tax advice. The requirement of exclusive service provision in tax advisory firms also harms competition by putting audit firms and law firms at a competitive disadvantage in relation to tax advisory firms, and by putting licensed tax advisors at a disadvantage in relation to other employees of audit firms and law firms.	Ministry of Finance January 2021
<b>5. Authorize tax advisors to represent clients in tax matters before administrative courts and test tax advisors on their ability to represent clients during the professional exam</b>	Article 4(3) of the Tax Advisory Services Act (Official Gazette 127/00, 76/13, and 115/16) Article 21 (2) of the Administrative Disputes Act (Official Gazette, 20/10, 143/12, 152/14, 94/16 and 29/17) Article 2 of Ordinance on the procedure and conditions for taking the tax advisor examination and list of exam literature of the tax advisor exam programme (Official Gazette 2/17)	<b>The requirement harms competition.</b> Currently, tax advisors are not allowed to represent clients in tax matters before administrative courts. The only professionals authorized to do so are attorneys. This limits the ability of tax advisors to compete with attorneys. It also limits the ability of tax advisors to provide integrated services and increases the cost to clients. <b>Quality of service can be promoted by modifying the professional exam for tax advisors.</b> To make sure that tax advisors possess the necessary knowledge and skills to represent clients before administrative courts, the professional exam could test them on their knowledge of administrative court procedure. Tax advisors are authorized to represent clients in administrative courts in other EU countries, such as Germany and Poland. In Poland, candidates for tax advisors are also examined on their ability to write a court complaint.	Ministry of Justice, Ministry of Finance, Chamber of Tax Advisors January 2021

Note:

a. For the entry into force of the regulatory change.

## References

### Tax advisory regulations

Act on Tax Advisory Services (Official Gazette 127/00, 76/13, 115/16)	Zakon o poreznom savjetništvu (NN 127/00, 76/13, 115/16)
Act on Administrative Disputes (Official Gazette 20/10, 143/12, 152/14, 94/16, 29/17)	Zakon o upravnim sporovima (NN 20/10, 143/12, 152/14, 94/16, 29/17)
Act on Civil Disputes (Official Gazette 53/91, 91/92, 112/99, 129/00, 88/01, 117/03, 88/05, 2/07, 96/08, 84/08, 123/08, 57/11, 25/13, 89/14, 70/19)	Zakon o parničnom postupku (NN 53/91, 91/92, 112/99, 129/00, 88/01, 117/03, 88/05, 2/07, 96/08, 84/08, 123/08, 57/11, 25/13, 89/14, 70/19)
Ordinance on the procedure and conditions for taking the tax advisor examination (Official Gazette 2/17)	Pravilnik o postupku i uvjetima polaganja ispita za poreznog savjetnika (NN 2/17)
Programme for taking the tax advisor examination (Official Gazette 2/17)	Program polaganja ispita za poreznog savjetnika (NN 2/17)
Statutes of the Croatian Chamber of Tax Advisors (Official Gazette 4/18 - consolidated version)	Statut Hrvatske komore poreznih savjetnika (NN 4/18 - pročišćeni tekst)
Ordinance on professional development of tax advisors of December 7, 2017	Pravilnik o stručnom usavršavanju poreznih savjetnika od 7. prosinca 2017
Tax advisors' Code of Ethics of December 16, 2016, revised text	Etički kodeks poreznih savjetnika od 16. prosinca 2016., pročišćen tekst
Ordinance on keeping directories and registers of the Chamber of December 7, 2017	Pravilnik o vođenju imenika i registara Komore od 7. prosinca 2017
Decision on membership fee of December 7, 2017	Odluka o visini članarine od 7. prosinca 2017

## Other references

CFE Tax Advisors Europe (Professional Affairs Committee) and R. Reibel, ed. 2013. European Professional Handbook for Tax Advisors. Brussels: Confédération Fiscale Européen.

Hoppe, Thomas, Deborah Schanz, Susann Sturm, and Caren Sureth-Sloane. 2020. "Measuring Tax Complexity Across Countries: A Survey Study on MNCs." TRR 266 Accounting for Transparency Working Paper Series No. 5.



# **Construction professions**

# Architects and construction engineers

In line with other EU countries, architecture and engineers in Croatia must adhere to a wide set of regulations to design and supervise construction. While exact requirements vary by profession, architects and engineers must generally meet minimum education and experience requirements, pass a professional exam, and be active members of their respective professional chambers. Once admitted to practice, most professionals are also subject to price recommendations, albeit on a nonbinding basis. While some degree of regulation is required to ensure the safety of construction and accuracy of measurements, many restrictions go too far. For example, in Croatia, becoming a geodetic engineer authorized to perform state surveys and cadastre work requires three years of experience on top of a master's degree, compared with two years in most EU countries. In addition, price recommendations for architects and civil engineers and input recommendations for geodetic engineers provide focal points which may facilitate collusion. Finally, exclusive rights are divided among many professions, meaning even relatively simple tasks such as warehouse construction require multiple professionals. Bringing these regulations in line with EU best practice could create more income opportunities for qualified professionals and minimize the risk of overcharges to investors.

## 6.1 Market overview

**Architecture and engineering (A/E) services are essential inputs for construction.**<sup>1</sup> A/E services can be divided into two construction phases: (pre-)design and supervision. In the (pre-)design phase, architects and engineers provide advice; perform measurements; prepare concepts, plans, and drawings; conduct studies and assessments; and help obtain permits. In the supervision phase, architects and engineers administer tenders, oversee construction works, manage contractors and costs, and help in contacts with the authorities. Architects and engineers are also involved in maintaining and operating built structures.

**In Croatia, demand for construction and A/E services has not returned to pre-financial crisis levels.** In the European Union, construction turnover is slowly returning to levels noted before the global financial crisis. In Croatia, construction revenues in 2017 amounted to slightly

---

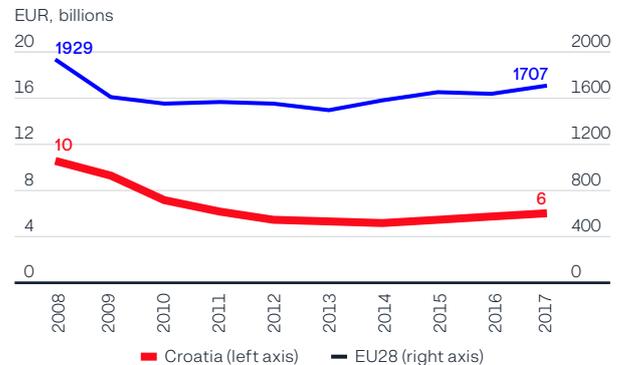
<sup>1</sup> Engineering services are also used in a wide range of other sectors, particularly manufacturing, mining, transport, and information and communication technology, but unlike in construction, engineers in these sectors are not subject to strict entry and conduct regulations. The abbreviation A/E is used in the remainder of this chapter for construction-related architecture and engineering services.

more than half of construction revenues noted 10 years earlier (Figure 6.1). The demand for A/E services generally follows the demand for construction. According to national accounts, total spend on A/E amounted to HRK 6.5 billion (around US\$1 billion).<sup>2</sup> While most A/E revenues came from engineering and technical consultancy, the contribution of architecture has been growing over the last decade (Figure 6.2).<sup>3</sup>

**A/E services are mainly provided by micro firms.** There are about 4,000 firms providing engineering services and about 1,000 providing architecture services. An average engineering firm employed four staff compared to two in architectural practices.<sup>4</sup> In 2017, the largest firm in engineering employed around 500 engineers and earned around HRK 220 million (around US\$34 million), while the largest architectural practice employed 39 staff and reported revenues of about HRK 17 million (around US\$2.5 million). In the case of architectural practices, more than 90 percent of firms have five or fewer employees, and about 40 percent are one-person operators.<sup>5</sup> Most A/E firms operate as limited liability companies, independent practices, or partnerships. While some engineers and architects work in national and local government as well as public research bodies, firms are not publicly owned.

**Government and state-owned enterprises are important buyers of A/E services.** Civil engineering projects, such as roads and utility lines, account for about half of all construction spend in Croatia compared to about one-third in the EU.<sup>6</sup> These investments are undertaken mainly by central or local government or state-owned enterprises, such as the national power company Hrvatska elektroprivreda d.d. (HEP). Public entities also construct and operate nonresidential buildings. The operation and maintenance of the land and real estate cadastres relies on services provided by geodetic engineers. The share of engineering services contracted by state institutions and firms is likely larger than the share of publicly procured architecture services.<sup>7</sup>

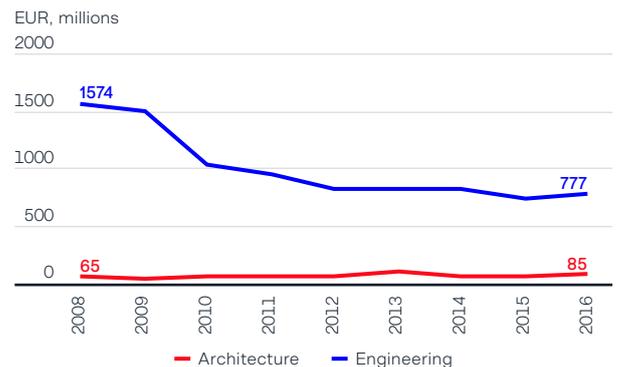
**Figure 6.1 Construction revenues**



Source: Eurostat.

Note: Croatia joined the EU in 2013. EU-28 data for 2008–2012 are produced by summing revenues in EU-27 and Croatia.

**Figure 6.2 A/E revenues**



Source: Croatian Bureau of Statistics.

Note: Croatia joined the EU in 2013. EU-28 data for 2008–2012 are produced by summing revenues in EU-27 and Croatia.

<sup>2</sup> There are important caveats when estimating the value of A/E services based on national accounts. A/E services may be classified in national accounts under construction (section F) or professional, scientific, and technical services (section M). In classification M engineering services are classified at the NACE four-digit level together with other forms of technical consultancy (for example, environmental and geologic). In addition, a firm-level analysis of business registry data revealed that several companies whose core business lies in manufacturing and not services have registered their business in section M.

<sup>3</sup> Within A/E, geodetic engineering is a relatively small subsegment, totaling HRK 525 million (around US\$80 million) in revenues in 2016 (Basic et al. 2016). Data on geodetic engineering revenues are available from the Croatian Chamber of Geodetic Engineers. No such data are available for civil, electrical, and mechanical engineers.

<sup>4</sup> NACE codes 7111 'Architectural activities' and 7112 'Engineering activities and related technical consultancy', Croatian Bureau of Statistics. A review of the 20 largest companies in each of the above codes confirmed that in some cases the information includes providers whose core business lies outside of A/E services.

<sup>5</sup> Practice-level data collected by the Architect's Council of Europe (ACE 2017), covering about 1,900 of Croatia's 2,400 architects who are members of the Chamber of Architects.

<sup>6</sup> Eurostat, excluding specialized construction services.

<sup>7</sup> At least 25 percent of work in architecture is undertaken in Croatia for the state compared to minimum 20 percent in the EU (ACE 2017).

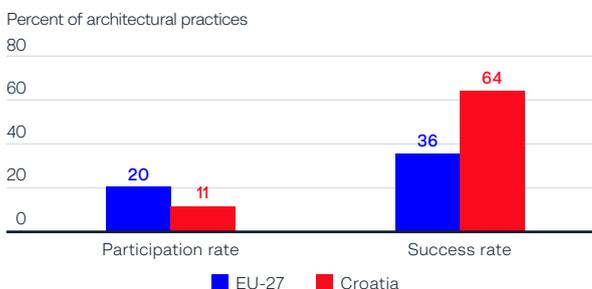
**The provision of A/E services is regulated in detail in Croatia.** The work of architects and engineers is covered in four main acts: (a) the Construction Act,<sup>8</sup> (b) the Act on Spatial Planning and Construction Activities,<sup>9</sup> (c) the Geodetic Activities Act,<sup>10</sup> and (d) the Act on the Chamber of Architects and the Chamber of Engineers in Construction and Spatial Planning.<sup>11</sup> The first act defines requirements for all types of construction as well as the permitting and supervision process. The second and third act lay out, among others, the rights and responsibilities of different professionals involved in spatial planning and construction. The third act establishes further the Chamber of Geodetic Engineers and gives both the Chamber and the State Geodetic Administration powers to license and supervise geodetic engineers. The fourth act establishes mandatory chambers for architects, civil, electrical, and mechanical engineers; defines professional liability; and requires professionals to obtain insurance. The Ministry of Construction and Spatial Planning issues bylaws related to the first three acts, and the chambers issue bylaws related to the third and fourth act. As the state is the largest client for services and oversight is extensive, it is relatively rare for providers to violate these regulations in practice.

**There are signs of limited competition in the A/E sector.** Supply of A/E services has responded to the drop in demand for engineering services and the increase in demand for architecture services. In engineering, firms have closed or laid off workers, who have in turn founded their own micro businesses. In architecture, the number and size of firms have increased following growth in demand. However, while firms adapt to changes in demand, market churn alone is not sufficient proof of firm rivalry. In architecture, for instance, the share of practices that participate in design competitions is small and their success rate is high, suggesting overall a lower number of competitors than in the EU (see Figure 6.3). The number of architects has also not increased and remains below levels noted in other EU countries (Figure 6.4).

## 6.2 Regulated professions

**Architects and construction engineers are subject to compulsory licensing in Croatia.** Apart from architects, four types of engineers are involved in the design and supervision of construction: civil, mechanical, electrical, and geodetic engineers. There are about 2,400 architects, 3,000 civil engineers, 1,700 electrical engineers, 1,000 mechanical engineers, and 1,000 geodetic engineers with active professional licenses in Croatia. Generally, architects focus on (pre-)design while engineers support all construction phases.<sup>12</sup> Candidates follow similar tracks to enter the

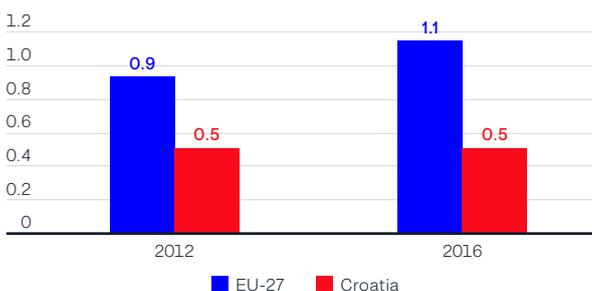
**Figure 6.3 Participation and success rates in architectural design competitions**



Source: ACE 2017.

Note: No data for Latvia. Low number of observations for Cyprus, Czechia, Hungary, Malta, and Romania. Data on the number of architects is indicative given differences in exclusive rights between countries.

**Figure 6.4 Number of architects per 100,000 inhabitants**



Source: ACE 2013, 2017.

Note: No data for Latvia. Low number of observations for Cyprus, Czechia, Hungary, Malta, and Romania. Data on the number of architects is indicative given differences in exclusive rights between countries.

<sup>8</sup> Official Gazette 153/13, 20/17, 39/19.

<sup>9</sup> Official Gazette 78/15, 118/18.

<sup>10</sup> Official Gazette 25/18.

<sup>11</sup> Official Gazette 78/15, 114/18.

<sup>12</sup> The regulations do not exclude architects from working in supervision.

profession. Civil engineers, for instance, are generally required to complete four steps: (a) graduate in civil engineering,<sup>13</sup> (b) obtain work experience in civil engineering,<sup>14</sup> (c) pass a professional exam covering general knowledge of construction regulation and specialist knowledge of civil engineering, and (d) become members of the Chamber of Civil Engineers.<sup>15</sup> Architects, mechanical, electrical, and geodetic engineers follow the same process but specialize in their respective fields. In the case of some tasks carried out by geodetic engineers, additional approvals from the State Geodetic Administration (SGA) are required.<sup>16</sup>

**Depending on work experience, architects and construction engineers can also obtain specialist licenses.** In design, civil engineers who have 10 years of working experience in relevant area and fulfill other prescribed conditions can become licensed as design auditors. Design auditors are professionals entitled to check and certify the stability of construction. In construction, architects as well as civil, mechanical, and electrical engineers can become project managers, site managers, and/or works managers. Project managers are professionals with at least eight years of experience and an international project management certificate, who are in charge of the construction of large public projects.<sup>17</sup> Site managers are professionals with at least three years of experience entitled to manage other construction works. Works managers are professionals with at least two years of experience authorized to manage construction works that fall within their respective area of specialization (civil/electrical/mechanical). Most engineers are licensed site managers, while the remaining specialist licenses are less common (see Table 6.1).

**Table 6.1** Number of general and specialist A/E license holders, 2017

	Architects	Civil engineers	Electrical engineers	Mechanical engineers	Geodetic engineers
Chamber members, of which	2,430	3,067	1,657	1,073	929
Works managers	3	44	31	44	n.a.
Site managers	178	1,935	787	761	na.
Design auditors	n.a.	115	n.a.	n.a.	n.a.
Project managers	n.d.	n.d.	n.d.	n.d.	n.a.

Source: Ministry of Construction and Spatial Planning, Chamber of Architects, Chamber of Civil Engineers, Chamber of Electrical Engineers, Chamber of Mechanical Engineers, Chamber of Geodetic Engineers

Note: n.a. = not applicable; n.d. = no data.

<sup>13</sup> According to Article 27 of the Act on the Chamber of Architects and the Chambers of Engineers in Construction and Spatial Planning (Official Gazette 78/15, 118/18), candidates are required to complete either (a) undergraduate and graduate university study or integrated undergraduate university study in civil engineering, earning a master's degree (300 ECTS points); or (b) undergraduate and professional study in civil engineering, which earns the title of professional specialist (300 ECTS points); or (c) other appropriate education in civil engineering as set out in special regulations. See Annex C for a detailed overview of entry requirements.

<sup>14</sup> According to Article 27 of the Act on the Chamber of Architects and the Chambers of Engineers in Construction and Spatial Planning (Official Gazette 78/15, 118/18), candidates are required to have either (a) at least two years of work experience in design following the completion of graduate university/professional study, or (b) at least one year of work experience in design following the completion of study if a candidate has acquired three years of work experience in design following the completion of undergraduate university or professional study, or (c) at least ten years of work experience/employment in the field of professional works in building and spatial planning in state administration authorities or units of local and regional self-government. The same requirements apply to architects as well as civil, mechanical, and electrical engineers, but professionals are required to have completed them in their respective fields. See Annex C for a detailed overview of entry requirements.

<sup>15</sup> See Annex C for a detailed overview of entry and conduct requirements to practice as architect or engineer in Croatia.

<sup>16</sup> See Section 3.3.2. for more details.

<sup>17</sup> Buildings worth more than HRK 50 million (around US\$8 million) and infrastructure worth more than HRK 10 million (around US\$1.5 million).

## 6.3 Restrictions

**In total four key sets of restrictions to competition were identified in A/E regulations.**

The review entailed four laws and 37 bylaws regulating the provision of A/E services (see Annex D for a complete list of restrictions). Most restrictions stem from rules that limit entry or reinforce dominance, in particular registration and licensing by the construction chambers. Rules that facilitate collusion, increase costs to compete, and discriminate or protect vested interests have also been identified (Table 6.2). The following sections discuss the (a) harm to competition caused by these restrictions; (b) the stated policy rationale for restrictions; and (c) alternative solutions that are either less distortive, more effective, or both.

**Table 6.2** Types of anticompetitive restrictions in construction regulations

Main types of rules based on market effect	Specific types	Frequency	Examples of restrictions
Rules that limit entry or reinforce dominance	1.1 Monopoly rights and absolute ban for entry	0	Chamber membership, cumbersome licensing procedures
	1.2 Relative ban for entry and expansion of activities	0	
	1.3 Incumbents participate in entry/exit decisions	27	
	1.4 Requirements for registry (licenses and permits)	23	
Rules that facilitate collusion or increase costs to compete	2.1 Rules that facilitate agreements/reduce firms' choice of strategic variables	4	Price recommendations, fragmented exclusive rights, restrictions on firm size
	2.2 Restrictions on type of products and services/format and location	15	
	2.3 Price control	11	
Rules that discriminate and protect vested interests	3.1 Discriminatory application of rules and standards	0	Residency requirements
	3.2 Discretionary application of rules	1	
	3.3 Lack of competitive neutrality vis-à-vis government entities	0	
	3.4 State aid/incentives distorting level playing field	0	

Source: World Bank staff analysis based on the MCPAT.

Note: Some restrictions have been attributed to and counted as several types. For instance, a license that is allocated in a discriminatory way has been counted as two types of restrictions: requirement for registry (licenses and permits) and discriminatory application of rules and standards.

### 6.3.1 Chamber membership

**Membership in the construction chambers is mandatory for architects and construction engineers.** There are five construction chambers: the Chamber of Architects, the Chamber of Civil Engineers, the Chamber of Electrical Engineers, the Chamber of Mechanical Engineers, and the Chamber of Geodetic Engineers. Professionals are required to register with their chamber and pay annual membership dues of minimum HRK 1,800 (around US\$300). Registration is conditional on meeting qualification requirements, payment of the registration fees, and other conditions (for example, residency in Croatia and no ongoing criminal proceedings are special requirements for architects, electrical engineers, and geodetic engineers). There are separate registers for firms and professionals. Professionals are also required to register separately for each specialist license. The registration fees vary. The Chamber of Architects, for instance, charges HRK 3,000 or US\$500 for the registration of project managers. The chambers supervise the work of their members and purchase mandatory professional liability insurance on their behalf.

## Harm to competition

**Mandatory chamber membership harms competition by creating conflicts of interest regarding entry, potentially facilitating collusion, and introducing discretion into regulatory processes.** First, incumbents decide about entry and exit of service providers, which reinforces their position and weakens the position of new entrants. Second, compulsory membership in the chamber makes it easier for providers to collude on strategic variables, such as prices or location. All five construction chambers have set prices in the past and currently provide guidance to its members in standardizing fees. The chambers also request members who would like to open a joint office to submit their contract to the chambers. Third, the chambers' regulations are cumbersome and discretionary and open room for discrimination. According to bylaws issued by the chambers, candidates are often expected to meet conditions that go beyond the requirements specified in primary laws. Architects, electric engineers, and geodetic engineers, for instance, are required to be Croatian residents and have no pending criminal investigation.<sup>18</sup>

## Policy objective

**Chamber membership is meant to protect public safety and secure property rights.** Errors by architects and civil/mechanical/electrical engineers may cause loss of life and property. Errors by geodetic engineers may lead to inaccurate land and real estate records, which may impair the functioning of property markets. To minimize risks, professional chambers are in charge of supervising their members. The chambers have the right to sanction members who do not follow professional standards. Members are also required to develop their qualifications on a continuous basis and the chambers monitor this process. The chambers purchase mandatory professional liability insurance for their members. Chamber membership is also seen by regulators as a signal of quality, which may help to mitigate information asymmetries between the buyers and sellers of A/E services.

**In practice, there is an inherent conflict of interest between supervision and representation.** On the one hand, chambers are expected to contribute to public safety by overseeing the work of their members, collecting information about violations of professional standards, and sanctioning noncompliance. On the other hand, the chambers represent the collective interests of Croatian architects and engineers. The Chambers Act and Geodetic Activities Act are explicit about this role and mention the promotion, coordination, and representation of common interests as one of the core functions of chambers.<sup>19</sup> In general, the chambers do not publish data on violations of professional standards and sanctions, but information from market participants suggests that architects or engineers have not been expelled from the chambers in the past.<sup>20</sup>

## Alternatives

**There are already alternative solutions in place to protect public safety and safeguard the quality of geodetic surveys.** The qualification requirements for architects and construction

---

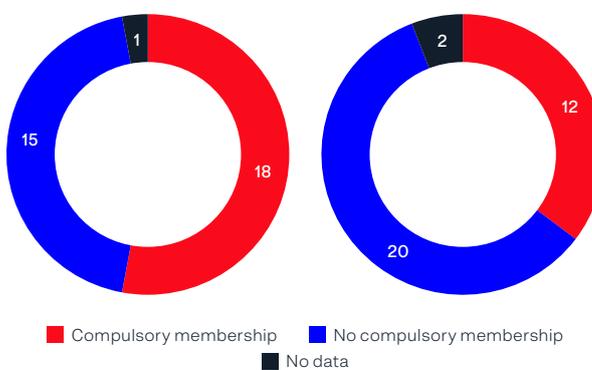
<sup>18</sup> Article 4 of the Ordinance on the registration in directories, registers, and records (internal regulation of the Croatian Chamber of Architects), Article 5 of the Ordinance on entry (internal regulation of the Croatian Chamber of Electrical Engineers), and Articles 5 and 9 of the Ordinance on entries, decisions, approvals, and certifications (internal regulation of the Chamber of Geodetic Engineers). In addition, pursuant to Article 28 of the Ordinance on the registration in directories, registers, and records of the Croatian Chamber of Architects (internal regulation), the chamber has the right to reject applicants for "reasons laid out in...other positive regulations." This general provision can be used against new entrants even in the case of minor violations of the law that are unrelated to the chambers' oversight.

<sup>19</sup> Article 2 of the Act on the Chamber of Architects and the Chambers of Engineers in Construction and Physical Planning (Official Gazette 78/15 and 114/18) and Article 4 of the Geodetic Activities Act (Official Gazette 25/18).

<sup>20</sup> The Chamber of Geodetic Engineers appears to be more active in enforcing professional standards than other chambers. The chamber has initiated 112 disciplinary proceedings since 2016.

engineers are already more demanding in Croatia than in most other countries. Practicing architects and engineers generally hold master's degrees and have at least two years of work experience. Their qualifications have also been tested through professional exams. The stability of complex construction is checked by civil engineers with 10 years of professional experience. Professionals have incentives to ensure that construction is safe as they are personally liable for errors. Professional insurance is also mandatory, although its effectiveness is limited by moral hazard.<sup>21</sup> The Ministry of Construction and Spatial Planning supervises new construction through inspections and publishes the results of its work online.<sup>22</sup> Given the qualification requirements and professional liability as well as existing controls, the requirement for chamber membership appears redundant and costly. Duties of the chambers which are not yet carried out by the government, such as oversight over continuous education, could be carried out by the Ministry of Construction and Spatial Planning and the SGA with less conflict of interest. Membership in professional bodies is optional for architects and civil engineers in many OECD countries (see Figure 6.5).<sup>23</sup>

**Figure 6.5** Membership in A/E professional bodies in the OECD, 2013



Source: OECD Product Market Regulation indicators.

### 6.3.2 Entry requirements for geodetic engineers

**Geodetic engineers conducting state surveys are subject to additional entry requirements.** Performing tasks related mainly to state surveys and the land and real estate cadastre<sup>24</sup> requires three years of experience (that is, more than the two-year traineeship requirement for other geodetic tasks).<sup>25</sup> Both firms and individual engineers conducting state surveys must be licensed with the SGA in addition to registration with the chamber.<sup>26</sup> For such licenses, both firms and individual engineers must renew their registration with the SGA each year.<sup>27</sup> Finally, only larger firms or consortia are allowed to bid on state surveying projects. Geodetic firms with fewer than three licensed engineers and three associates or expert associates are not allowed to provide services related to state surveying and the cadastre.<sup>28</sup> Smaller firms are only allowed to participate in such projects if they join with other firms to meet the size requirement.

## Harm to competition

**Extended requirements harm competition by raising the cost of entry into state surveying activities.** According to market participants, tasks related to state surveys and the cadastre account for the majority of geodetic engineering revenue. Longer experience

<sup>21</sup> Since insurance is purchased by the chamber on behalf of its members, individuals' premiums do not vary between more and less risky professionals.

<sup>22</sup> The construction inspectorate undertook more than 10,000 inspections in 2017 and identified violations in half of all cases.

<sup>23</sup> In the case of geodetic engineers, membership is optional in Germany, for instance. No comparable data for mechanical and electrical engineers.

<sup>24</sup> The tasks are defined in Article 5 (4, 5, 6) of the Geodetic Activities Act (Official Gazette 25/18).

<sup>25</sup> Article 19 (2) of the Geodetic Activities Act (Official Gazette 25/2018); Articles 5, 11, and 13 of the Ordinance on entries, decisions, approvals, and certificates of Croatian Chamber of Geodetic Engineers (internal regulation of the Chamber) and Articles 3 (1) and 11 (1) and (3) of the Traineeship program and implementation method (internal regulation of the chamber).

<sup>26</sup> Receiving approval for state surveys also involves fees paid to the State Geodetic Administration, although such fees are low in practice (HRK 35, or US\$6, for initial licensing and HRK 20, or US\$3, for issuance of replacement certificates).

<sup>27</sup> Article 19 (4) and (5), Article 20 (3), Article 25, and Article 29 of the Act on Geodetic Activities (Official Gazette 25/18).

<sup>28</sup> Article 19 (5) of the Geodetic Activities Act (Official Gazette 25/18).

requirements decrease the supply of engineers who can perform these tasks. Similarly, having parallel licensing requirements for firms and individuals makes entry into the state survey and cadastre segment more cumbersome and costly, potentially deterring firms and individuals from participating. Finally, restricting participation on state surveying and cadastre projects to firms and consortia of a certain size reduces competition in bids for such projects and limits clients' flexibility to put out tenders for smaller projects that do not necessitate larger firms. Taken together, these restrictions decrease the number of eligible engineers and firms who may bid for state surveying and cadastre projects. In turn, lower supply may translate to increased market power among geodetic engineers and firms, raising prices and lowering quality.

## Policy objective

**Additional entry requirements for state surveys are meant to ensure adequate expertise and limit negative externalities from poor service.** The Croatian state has an interest in ensuring that state surveys are conducted rigorously by qualified professionals because the outputs are used for taxation and real estate transactions. Trainees may not gain adequate knowledge of the specificities of conducting state surveys and cadastre work during their two-year traineeship, so requiring the extra year of work experience is meant to ensure that only more experienced candidates undertake these tasks, limiting the scope for negative externalities from poorly conducted surveys. From a firm perspective, many large-scale state surveying projects require large amounts of manpower and resources. Thus, the law restricting bidders to larger firms and consortia is meant to ensure that only bidders capable of completing such projects participate.

## Alternatives

**Two years of professional experience are sufficient to qualify as a geodetic engineer for all tasks.** The three-year requirement for state survey tasks is above the level set in industry standards by the Council of European Geodetic Surveyors.<sup>29</sup> It is also above 6 of the 10 other EU countries for which there are comparable data.<sup>30</sup> Finally, in addition to international standards, the three-year traineeship requirement for select tasks is above the two-year standards for geodetic engineers working on other tasks and for related professions within Croatia (for example, civil, mechanical, and electrical engineers).

**Licensing individuals (but not firms) is sufficient to promote quality.** Licensing firms in addition to individuals is redundant because individuals working as geodetic engineers are already subject to exam, experience, and education requirements. Firms are also registered by the Chamber of Geodetic Engineers. The additional requirement that firms be licensed increases costs but does not add value in ensuring the quality of services.

**Clients can make judgments on firms' qualifications to conduct state surveys and cadastre work on a case-by-case basis.** Some geodetic trainees gain experience conducting state surveys and cadastre work during their traineeships, meaning they are qualified to conduct state surveys without an additional year of experience. Conversely, some geodetic engineers who have three years of experience may still not have had experience conducting state surveys. Thus, when evaluating bidders for state surveying and cadastre work, clients could obtain better outcomes by verifying past projects of engineers rather than applying blanket rules about experience requirements. Similarly, allowing client procurement officers to set minimum sizes on a case-by-case basis allows for more flexibility to tailor requirements to project

<sup>29</sup> The Council of European Geodetic Surveyors, IG PARLS Accord. Available at <https://www.clge.eu/ig-parls/accord>

<sup>30</sup> Pirlot, Barbieri, and Krupa 2018.

needs, with fewer anticompetitive effects. Smaller state surveying projects may not necessitate firms as large as the minimums outlined in the Geodetic Activities Act, while larger projects may require more manpower than the statutory minimums.

### 6.3.3 Exclusive rights

**Architects and construction engineers hold exclusive rights to conduct several activities in Croatia and few rights are shared between professions.** Similar to many OECD countries, architects and engineers are the only professionals entitled to design construction, check applications for construction permits, and supervise construction. However, the rights of engineers are fragmented. Civil, mechanical, and electrical engineers hold exclusive rights over their own domains of responsibilities (such as electrical installations in the case of the electrical engineers and water and sewage installations in the case of mechanical engineers). In the case of simple construction objects, such as single-family buildings, one professional can design and supervise construction, but for most new construction in Croatia, the regulations require the cooperation of professionals from three fields. Until recently, architects have also been exclusively authorized to design interior and outdoor spaces, but these regulations have been liberalized.

#### Harm to competition

**The fragmentation of exclusive rights in engineering harms competition by limiting rivalry between different types of engineers.** In the case of complex constructions, such as the construction of large industrial facilities, the expertise of civil, mechanical, and electrical engineers is required, and these professionals do not compete with one another. However, in the case of other objects, such as small- and medium-size warehouses, the expertise of one engineer is sufficient to design and supervise construction. Requiring several engineering professionals to participate in such construction increases costs and reduces the pool of competitors.

#### Policy objective

**Exclusive rights are fragmented to ensure technical safety and quality.** While civil, mechanical, and electrical engineers share some qualifications, they are trained to specialize in their respective fields. The Ministry of Construction and Spatial Planning has defined the responsibilities of each of the professional groups separately to ensure that construction is technically safe and that it meets high quality standards.

#### Alternative

**The fragmentation of exclusive rights is not necessary to ensure technical safety.** In the design phase, applications for construction permits are accompanied by copies of the main design signed by the lead designer. Article 52 of the Construction Act specifies further that the lead designer is responsible for the ‘completeness and alignment’ of partial designs. Similarly, in the construction phase, supervision is executed by the lead supervisor, who can be an architect or an engineer. In situations in which supervising engineers with different backgrounds are needed, Article 57 of the Construction Act requires the investor to appoint a lead supervisor. In practice, there is no need to divide the responsibility between professionals as the lead designer can be liable for design faults and the lead supervisor can be liable for construction faults. In other countries, such as Lithuania, the country in central and southeastern Europe ranking the highest in the World Bank’s Doing Business report on the ease of obtaining construction permits, design and supervision are generally the responsibility of one architect or engineer.

### 6.3.4 Price control

**The construction chambers provide guidance on prices or inputs.** The Chambers of Architects, Civil Engineers, Electrical Engineers, and Mechanical Engineers have issued ordinances on service standards. These bylaws provide guidance on required workhours and hourly rates for the completion of specific A/E tasks. The Chambers of Architects, Civil Engineers, and Electrical Engineers also offer software on their website to allow service providers to standardize quotes and invoices. The Chamber of Architects offers paid assistance in implementing the Ordinance on the standard of services<sup>31</sup> and requires the use of the Ordinance in the Code of Ethics.<sup>32</sup> The ordinances on service standards and the use of chamber software are not binding. The Chamber of Geodetic Engineers publishes guidance on inputs (including person-hours) necessary to complete different tasks. In addition, its Code of Ethics stipulates that geodetic engineers should compete on the basis of quality and experience rather than price.<sup>33</sup>

#### Harm to competition

**Price guidance harms competition by facilitating collusion among market participants.**

While the rates suggested by the chamber are not binding, they may still serve as a reference point. Service providers may refer to the rates endorsed by the chamber as minimum prices and characterize lower offers as dumping. Buyers of A/E services may treat the suggested price as maximum price and treat more expensive services as overcharges. As a result, the suggested price may become a focal point in negotiations between sellers and buyers and distort markets by aggravating the problem of information asymmetry. Price guidance could harm in particular buyers with limited experience, such as foreign firms or other first-time investors, as well as service providers, who wish to differentiate themselves on the market.

**Guidance on inputs may also disincentivize competition and make it easier for competitors to coordinate.**

The Chamber of Geodetic Engineers does not specify hourly rates but recommends inputs and time needed for specific tasks. This constitutes implicit price recommendation because the chamber outlines the costs involved in carrying out different tasks. Although this guidance is not binding, it nevertheless provides a focal point around which competitors may coordinate their bids. Such an arrangement may disincentivize geodetic engineers and firms from innovating and competing on efficiency (that is, doing more tasks with fewer resources), ultimately increasing prices for clients.

#### Policy objective

**Price and input regulations have been adopted to reduce transaction costs and unfair competition.**

The Ministry of Construction and Spatial Planning is concerned with price dumping in public tenders and the safety and quality of construction and state surveys in general. It sees price and input guidance as a means to inform tendering authorities about the cost of A/E and geodetic engineering services and to minimize unnecessary frictions in the market (for example, evaluations of whether submitted bids are realistic). The ministry acknowledges the need to align sectoral regulations with EU-wide and domestic competition laws and has endorsed in the past the transition from mandatory to voluntary price regulation.

<sup>31</sup> Decision on administrative fees of the Croatian Chamber of Architects.

<sup>32</sup> For instance, according to Article 21 of the Code of Ethics (internal regulation of the Croatian Chamber of Architects), "Design work that is offered together with the work of building construction has to be separated and as such quoted in accordance with the Ordinance on the architectural service standard."

<sup>33</sup> Article 62 of the Geodetic Activities Act (Official Gazette 25/18); Articles 9 (4) and 19 of the Code of Ethics of the Chamber of Geodetic Engineers (Official Gazette 3/19); Article 17 (1) of the Statute of the Croatian Chamber of Geodetic Engineers (Official Gazette 109/18); and Draft of the standard of geodetic services (internal regulation of the Chamber of Geodetic Engineers).

## Alternative

**The market is more efficient in reducing transaction costs than the chambers.** In practice, it is not possible to reduce the transaction costs of buyers of A/E and geodetic engineering services by regulating prices. Services are heterogeneous, which makes it difficult to define types of services and find the ‘right’ price for each of these types. In addition, the willingness to accept (including providers’ cost structures) and the willingness to pay for services vary between market participants, and the information needed to reconcile preferences is either not available to the chambers or dispersed. In practice, the market offers the most efficient mechanism in aggregating information from market participants and pricing different types of services. Prices are not regulated in the majority of OECD jurisdictions (see Figure 6.6).

**Figure 6.6** Price regulation of A/E services in the OECD, 2013



Source: OECD Product Market Regulation indicators.

**Existing regulations can address unfair market practices and enforce minimum quality standards.** Predatory pricing is an infringement of EU and Croatian competition regulations and can be investigated. Procurement law also allows to apply quality criteria to ensure value for money. Furthermore, EU-wide procurement rules allow contracting authorities to reject abnormally low bids, provided bidders are given an opportunity to explain the low offer.<sup>34</sup> The MOEEC has been supporting tendering authorities in applying value-for-money principles, such as the most economically advantageous tender, and more efforts could be made to encourage knowledge sharing between procurement professionals on the use of quality criteria in public procurement. Finally, engineers are already subject to training, continuing education, examination, and work experience requirements and subject to disciplinary action in the event of professional malpractice. These layers of oversight appear sufficient to ensure threshold quality among geodetic engineers.

## 6.4 Recommendations

Recommendation	Regulation	Justification	Responsible institution and target date <sup>a</sup>
<b>Rules that limit entry or reinforce dominance</b>			
<b>1. Abolish compulsory professional chamber membership for architects and civil, electrical, mechanical, and geodetic engineers</b>	Article 2 of the Act on the Chamber of Architects and the Chambers of Engineers in Construction and Physical Planning (Official Gazette 78/15 and 114/18) Articles 41 (2) and 71 (1) of the Act on Geodetic Activities (Official Gazette 25/18)	<b>Chamber membership is not necessary to achieve the policy objective of public safety.</b> The chambers are responsible for professional oversight and can sanction members who do not follow professional standards. However, the requirement for chamber membership is additional to existing qualification and insurance requirements and state inspections. Most chambers do not appear to play an active role in supervision and regulatory enforcement, and even those that do (for example, the Chamber of Geodetic Engineers) face conflicts of interest. Membership in professional bodies is optional for architects and construction engineers in many OECD countries (for example, the United Kingdom). <b>Compulsory chamber membership harms competition.</b> Incumbents decide about entry and exit of service providers which reinforces their position	Ministry of Construction and Spatial Planning January 2021

<sup>34</sup> Article 69 of Directive 2014/24/EU implemented through Article 289 of Procurement Act (Official Gazette 120/16).

Recommendation	Regulation	Justification	Responsible institution and target date <sup>a</sup>
<p><b>2. Streamline requirements for conducting state cadastral surveys:</b></p> <p><b>(a) reduce experience requirement to two years,</b></p> <p><b>(b) abolish SGA licensing of firms,</b></p> <p><b>(c) abolish statutory firm size requirements</b></p>	<p>Articles 19 (2, 4, 5), 20 (3), 25, and 29 of the Geodetic Activities Act (Official Gazette 25/18)</p> <p>Articles 5, 11, and 13 of the Ordinance on entries, decisions, approvals, and certificates of Croatian Chamber of Geodetic Engineers (internal regulation of the chamber)</p> <p>Articles 3 (1) and 11 (1) and (3) of the Traineeship program and implementation method (internal regulation of the chamber)</p>	<p>and weakens the position of new entrants. Compulsory chamber membership also makes it easier for providers to collude on strategic variables, such as prices or location. Chamber regulations are also cumbersome and discretionary and open room for discrimination. According to bylaws issued by the chamber, candidates are expected to meet conditions that go beyond the requirements specified in primary laws.</p> <p><b>Two years of professional experience are sufficient to qualify as a geodetic engineer.</b> Three years of experience are required to conduct tasks related to state surveys. This three-year requirement is above the level set in industry standards. It is also above the requirements in 6 out of the 10 other EU countries for which comparable information is available.</p> <p><b>Licensing of firms conducting state surveys by the SGA is redundant.</b> Individuals working as geodetic engineers are already subject to licensing and education requirements. Firms are also registered by the Chamber of Geodetic Engineers. Requiring firms to obtain a license increases costs but does not add value in ensuring the quality of services.</p> <p><b>Restricting state survey work to larger firms is not effective in achieving the stated policy objective of ensuring quality.</b> Firms with fewer than three licensed engineers and three associates or expert associates are not allowed to provide services related to state surveying and the real estate cadastre. State clients procuring geodetic services for surveying and real estate cadastral services can make judgments on firms and bids' suitability for projects on a case-by-case basis rather than applying blanket rules.</p> <p><b>Stringent requirements for state surveys harm competition by limiting supply.</b> Mandating additional years of experience, adding steps to obtain and maintain licensing, and restricting work to larger firms delay entry or deter/ban some providers from providing services. As a result, competition may be less intense, leading to higher prices and lower quality on state surveys.</p>	<p>Ministry of Construction and Spatial Planning January 2021</p>
<b>Rules that facilitate collusion or increase the costs to compete</b>			
<p><b>3. Reduce fragmentation of the design process by adopting a more detailed classification of construction objects and authorizing lead designers to perform all types of design for most construction</b></p>	<p>Articles 17 and 49 – 52 of the Act on Physical Planning and Construction Activities (Official Gazette 78/15 and 118/18)</p>	<p><b>Construction design in Croatia is more fragmented and complicated than in other EU countries.</b> According to the Act on Physical Planning and Construction Activities, architects, civil engineers, mechanical engineers, and electrical engineers hold exclusive rights over their own domains of responsibilities (such as electrical installations in the case of the electrical engineers and water and sewage installations in the case of the mechanical engineers). Most construction requires the cooperation of professionals from all four fields, whereas in other countries (such as Lithuania, the highest ranking country in central and southeastern Europe in the World Bank's Doing Business report) design is generally the responsibility of architects or engineers who are the lead designers of a construction.</p> <p><b>The fragmentation of exclusive rights in construction design is not necessary to ensure technical safety.</b> In practice, applications for construction permits are accompanied by copies of the main design signed by the lead designer. Article 52 of the Construction Act further specifies that the lead designer is responsible for the 'completeness and alignment' of partial designs. Therefore, the lead designer should be liable for design flaws, and there is no need to divide the responsibility between other designers.</p>	<p>Ministry of Construction and Spatial Planning January 2021</p>

Recommendation	Regulation	Justification	Responsible institution and target date <sup>a</sup>
<p><b>4. Reduce fragmentation of the construction process by adopting a more detailed classification of construction objects and authorizing lead supervisors to perform all types of project supervision for most construction</b></p>	<p>Articles 18 and 53 of the Act on Physical Planning and Construction Activities (Official Gazette 78/15 and 118/18)</p> <p>Article 57 of the Construction Act (Official Gazette 153/13 and 20/17)</p>	<p><b>The fragmentation of exclusive rights harms competition by making it more costly to compete.</b> Service providers are required to cooperate with other professionals even though they possess the necessary skills and knowledge to perform the design individually. This makes it harder to develop integrated services. Consumers may be confronted with higher costs and unnecessary complexity.</p> <p><b>The government should adopt a more detailed classification of buildings.</b> Currently, the Construction Act differentiates between simple objects, public utility objects, and other objects. The first category comprises single-family homes, the second category infrastructure, and the third category other objects. The construction process is streamlined for the first category but not for other basic objects covered by the third category (for example, a small warehouse). The government can draw on the experience of Austria and other countries by adopting a detailed classification of buildings, based on use and/or size criteria, and defining with more precision the objects that can be designed by one designer only.</p> <p><b>Construction supervision in Croatia is more fragmented and complicated than in other EU countries.</b> According to the Act on Physical Planning and Construction Activities, architects, civil engineers, mechanical engineers, and electrical engineers hold exclusive rights over their own domains of responsibilities (such as electrical installations in the case of the electrical engineers and water and sewage installations in the case of the mechanical engineers). Most construction requires the cooperation of professionals from all four fields, whereas in other countries (such as Lithuania, the highest ranking country in central and southeastern Europe in the World Bank's Doing Business report) supervision is generally the responsibility of one architect or engineers who are the lead supervisors of construction.</p> <p><b>The fragmentation of exclusive rights in construction supervision is not necessary to ensure technical safety.</b> In practice, supervision is executed by a lead supervisor, who can be an architect or an engineer. In situations in which more supervising engineers of different specialties are needed, Article 57 of the Construction Act requires the investor to appoint a lead supervisor. Therefore, the lead supervisor should be liable for design flaws, and there is no need to divide the responsibility between other designers.</p> <p><b>The fragmentation of exclusive rights harms competition by making it more costly to compete.</b> Service providers are required to cooperate with other professionals even though they possess the necessary skills and knowledge to perform supervision individually. This makes it harder to develop integrated services. Consumers may be confronted with higher costs and unnecessary complexity.</p> <p><b>The government should adopt a more detailed classification of buildings.</b> Currently, the Construction Act differentiates between simple objects, public utility objects, and other objects. The first category comprises single-family homes, the second category infrastructure, and the third category other objects. The construction process is streamlined for the first category but not for other basic objects covered by the third category (for example, a small warehouse). The government can draw on the experience of Austria and other countries by adopting a detailed classification of buildings, based on use and/or size criteria, and defining with more precision the objects that can be designed by one designer only.</p>	<p>Ministry of Construction and Spatial Planning January 2021</p>

Recommendation	Regulation	Justification	Responsible institution and target date <sup>a</sup>
<b>5. Abolish chamber guidance on inputs (for example, work-hours) or fees</b>	<p>Article 62 of the Geodetic Activities Act (Official Gazette 25/18)</p> <p>Articles 9 (4) and 19 of the Code of Ethics of the Chamber of Geodetic Engineers (Official Gazette 3/19)</p> <p>Article 17 (1) of the Statute of the Croatian Chamber of Geodetic Engineers (Official Gazette 109/18)</p> <p>Draft of the standard of geodetic services (internal regulation of the Chamber of Geodetic Engineers)</p> <p>Ordinance on the standard of architects' services (internal regulation of the Chamber of Architects)</p> <p>Ordinance on the design service standard and/or professional construction supervision for construction professionals (internal regulation of the Chamber of Civil Engineers)</p> <p>Ordinance on the standards of services of certified mechanical engineers and the recommended price of man-hours (internal chamber regulation)</p> <p>Ordinance on the standard of services of the Croatian Chamber of Electrical Engineers (internal chamber regulation)</p>	<p><b>Price and input guidance are not effective in achieving the stated policy objectives.</b> Chamber guidance on workhours or hourly rates are examples of indirect price recommendations. According to Croatian regulators, such guidance prevents dumping and provides public authorities with information to cost public contracts. In practice, price suggestions by the chamber are less reliable than the information which can be obtained from the market, because the chamber does not possess information on efficiency, costs, and willingness to accept of individual providers.</p> <p><b>There are other, more effective means to achieve the policy objective.</b> Predatory pricing is an infringement of EU and domestic competition regulations and can be subject to investigation. In addition, abnormally low bids for public contracts can be rejected by contracting authorities under EU-wide procurement rules.<sup>b</sup></p> <p><b>Price recommendations harm competition by giving market participants a focal point for collusion.</b> While the recommended prices are not binding, they may still serve as a reference point, particularly in negotiations with uninformed investors (such as one-time investors or foreign firms). Prices of engineering and architecture services should be subject to free agreement between the buyer and the seller of services and should not be influenced by regulators.</p>	<p>Ministry of Construction and Spatial Planning, Chamber of Architects, Chamber of Civil Engineers, Chamber of Electrical Engineers, Chamber of Mechanical Engineers January 2021</p>
<b>Rules that discriminate or protect vested interests</b>			
<b>6. Abolish residency requirement and requirement of no pending criminal investigation for architects, electrical engineers, and geodetic engineers and align other chamber requirements with primary legislation</b>	<p>Articles 4, 6, 7, 9, 12, and 22 of the Ordinance on the registration in directories, registers, and records of the Croatian Chamber of Architects (internal chamber regulation)</p> <p>Article 5 of the Ordinance on entry of Croatian Chamber of Electrical Engineers (internal chamber regulation)</p> <p>Articles 5 and 9 of the Ordinance on entries, decisions, approvals, and certifications (internal regulation of the Chamber of Geodetic Engineers)</p>	<p><b>The requirements are not necessary and go beyond requirements in the primary legislation.</b> Professionals who do not reside in Croatia but meet all other requirements for registration with the Chamber of Architects or the Chamber of Geodetic Engineers are required to follow a different process for registration with the chamber. In practice, there is no need to require residency for chamber registration. This requirement is also not mentioned in the Act on the Chamber of Architects and Chambers of Engineers in Construction and Physical Planning or the Geodetic Activities Act. Similarly, applicants are required to have no ongoing criminal investigation. This requirement not only goes beyond the primary legislation but it also runs counter to the presumption of innocence. The requirement of no ongoing criminal investigation could be changed to the requirement of no active sentence.</p>	<p>Ministry of Construction and Spatial Planning, Chamber of Architects January 2021</p>

## Notes:

a. For the entry into force of the regulatory change.

b. Directive 2014/24/EU on public procurement contains provisions for dealing with tenders that are suspected of being abnormally low. These rules enable contracting authorities to avoid the negative consequences of accepting a tender that appears extremely advantageous but, in practice, is not viable. According to Article 69 (1) of the directive, contracting authorities are obliged to require economic operators to explain the price or costs proposed in their tenders where those tenders appear to be abnormally low in relation to the works, supplies, or services. Contracting authorities are allowed to reject a tender that appears to be abnormally low provided they have allowed the bidder to explain the low level of the price or costs. The respective directive is implemented through Croatian Procurement Act (Official Gazette 120/16).

## References

### General regulations: architects and civil/mechanical/electrical engineers

- Construction Act (Official Gazette 153/13, 20/17, 39/19, 125/19)  
 Act on Physical Planning and Building Tasks and Activities (Official Gazette 78/15, 118/18, 110/19)  
 Act on the Chamber of Architects and Chambers of Engineers in Construction and Physical Planning (Official Gazette 78/15, 114/18, 110/19)  
 Act on Regulated Professions and Recognition of Foreign Professional Qualifications (Official Gazette 82/15, 70/19)  
 Act on Urban Planning (Official Gazette 153/13, 20/17)  
 Ordinance on professional examination of persons performing construction and physical planning tasks (Official Gazette 129/15)  
 Ordinance on Extending the Period of Professional Development of the Knowledge of Persons Performing Spatial Planning and Construction (Official Gazette 7/10, 23/11, 153/13)  
 Ordinance on necessary know-how in project management (Official Gazette 85/15)  
 Ordinance on design audit (Official Gazette 32/14)  
 Ordinance on requirements and criteria for granting authorization for design audit (Official Gazette 32/14)
- Zakon o gradnji (NN 153/13, 20/17, 39/19, 125/19)  
 Zakon o poslovima i djelatnostima poslovnog uređenja i gradnje (NN 78/15, 118/18, 110/19)  
 Zakon o komori arhitekata i komorama inženjera u graditeljstvu i prostornom uređenju (NN 78/15, 114/18, 110/19)  
 Zakon o reguliranim profesijama i priznavanju inozemnih stručnih kvalifikacija (NN 82/15, 70/19)  
 Zakon o prostornom uređenju (NN 153/13, 65/17, 114/18)  
 Pravilnik o stručnom ispitu osoba koje obavljaju poslove graditeljstva i prostornoga uređenja (NN 129/15)  
 Pravilnik o produženju razdoblja stručnog usavršavanja znanja osoba koje obavljaju poslove prostornog uređenja i graditeljstva (NN 7/10, 23/11, 153/13)  
 Pravilnik o potrebnim znanjima iz područja upravljanja projektima (NN 85/15)  
 Pravilnik o kontroli projekata (NN 32/14)  
 Pravilnik o uvjetima i mjerilima za davanje ovlaštenja za kontrolu projekata (NN 32/14)

### Electrical engineers

- Statutes of Croatian Chamber of Electrical Engineers (Official Gazette 137/15, 35/19, 129/19)  
 Ordinance on conditions and procedure for temporary or periodic provision of services and recognizing foreign professional qualifications of Croatian Chamber of Electrical Engineers of December 17, 2015  
 Ordinance on the registration with the Croatian Chamber of Electrical Engineers of January 14, 2016  
 Ordinance on the professional development of members of electrical engineering profession of September 12, 2019  
 Ordinance on the services standard of the Croatian Chamber of Electrical Engineers of June 28, 2013  
 Continuing Professional Development Program of the Croatian Chamber of Electrical Engineers  
 Code of Professional Ethics of Electrical Engineers of June 28, 2013
- Statut hrvatske komore inženjera elektrotehnike (NN 137/15, 35/19, 129/19)  
 Pravilnik o uvjetima i postupku za privremeno ili povremeno pružanje usluga te priznavanju inozemnih stručnih kvalifikacija Hrvatske komore inženjera elektrotehnike od 17. prosinca 2015.  
 Pravilnik o upisima Hrvatske komore inženjera elektrotehnike od 14. siječnja 2016.  
 Pravilnik o stručnom usavršavanju osoba elektrotehničke struke od 12. rujna 2019  
 Pravilnik o standardu usluga hrvatske komore inženjera elektrotehnike od 28. lipnja 2013.  
 Program trajnog stručnog usavršavanja HKIE  
 Kodeks strukovne etike ovlaštenih inženjera elektrotehnike od 28. lipnja 2013

### Mechanical engineers

- Statutes of the Croatian Chamber of Mechanical Engineers (Official Gazette 137/15)  
 Code of Professional Ethics of the Croatian Chamber of Mechanical Engineers Members (Official Gazette 53/16)  
 Ordinance on the standards of services of certified mechanical engineers of November 14, 2013  
 Ordinance on the professional supervision of work of the Croatian Chamber of Mechanical Engineers Members of May 19, 2016  
 Ordinance on registration in directories, registers and records of the Croatian Chamber of Mechanical Engineers and on seals, ID cards and sign boards of January 21, 2016  
 Ordinance on the conditions and the procedure for issuing certificate for providing services on temporary or periodic basis and recognition of foreign professional qualifications for members of mechanical engineering profession of December 18, 2015  
 Ordinance on professional development of mechanical profession persons of September 16, 2016
- Statut Hrvatske komore inženjera strojarstva (NN 137/15)  
 Kodeks strukovne etike članova Hrvatske komore inženjera strojarstva (NN 53/16)  
 Pravilnik o normativu usluga ovlaštenih inženjera strojarstva od 14. studenoga 2013.  
 Pravilnik o stručnom nadzoru nad radom članova Hrvatske komore inženjera strojarstva od 19. svibnja 2016.  
 Pravilnik o upisima u imenike, upisnike i evidencije Hrvatske komore inženjera strojarstva i pečatima, iskaznicama i natpisnim pločama od 21. siječnja 2016.  
 Pravilnik o uvjetima i postupku izdavanja potvrde za pružanje usluga na privremenoj ili povremenoj osnovi i priznavanju inozemnih stručnih kvalifikacija za osobe strojarске struke od 18. prosinca 2015.  
 Pravilnik o stručnom usavršavanju osoba strojarске struke od 16. rujna 2016.

## Civil engineers

Statutes of the Croatian Chamber of Civil Engineers (Official Gazette 132/15)  
 Ordinance on the registration in directories, registers, and records of the Croatian Chamber of Civil Engineers and on seals, ID cards and sign boards of January 21, 2016  
 Ordinance on professional development of construction professionals of February 23, 2016  
 Program on professional development of the Croatian Chamber of Civil Engineers  
 Ordinance on the design service standard and/or professional construction supervision for construction professionals of March 26, 2013  
 Ordinance on paying membership fee and other fees of the Croatian Chamber of Civil Engineers of June 17, 2009.  
 Ordinance on the conditions and the procedure for issuing the certificate for temporary or periodic provision of services of November 14, 2015

Statut Hrvatske komore inženjera građevinarstva (NN 132/15)  
 Pravilnik o upisima u imenike, upisnike i evidencije Hrvatske komore inženjera građevinarstva i pečatima, iskaznicama i natpisnim pločama od 21. siječnja 2016.  
 Pravilnik o stručnom usavršavanju osoba građevinske struke od 23. veljače 2016.  
 Program stručnog usavršavanja Hrvatske komore inženjera građevinarstva  
 Pravilnik o standardu usluga projektiranja i/ili stručnog nadzora građenja osoba građevinske struke od 26. ožujka 2013.  
 Pravilnik o plaćanju članarine i ostalih davanja HKIG od 17. lipnja 2009.  
 Pravilnik o uvjetima i postupku izdavanja potvrde za pružanje usluga privremeno ili povremeno od 14. studenog 2015

## Architects

Statutes of the Croatian Chamber of Architects (Official Gazette 14/15, 43/17)  
 Ordinance on the standard of architects' services of December 13, 2013  
 Code of Professional Ethics of Croatian Chamber of Architects Members (Official Gazette 43/16)  
 Ordinance of the Croatian Chamber of Architects on professional development of April 15, 2016  
 Ordinance on the registration in directories, registers, and records of the Croatian Chamber of Architects of January 13, 2016  
 Amendment to the Ordinance on the registration in directories, registers, and records of the Croatian Chamber of Architects of May 8, 2017  
 Ordinance on the form and content of the sign board of the Croatian Chamber of Architects and chartered architects of April 20, 2012  
 Ordinance on the conditions and the procedure for temporary or periodic provision of services and recognition of foreign qualifications of December 18, 2015  
 Ordinance on tenders in the field of architecture, urbanism, interior design and architectural landscaping of July 14, 2014  
 Decision on administrative fees of the Croatian Chamber of Architects of December 18, 2015  
 Amendments to the Decision on administrative fees of the Croatian Chamber of Architects of December 15, 2017  
 Decision on the enrolment and membership fees of the Croatian Chamber of Architects of December 18, 2015  
 Amendments to Decision on the enrolment and membership fees of the Croatian Chamber of Architects of April 15, 2016

Statut Hrvatske komore arhitekata (NN 140/15, 43/17)  
 Pravilnik o standardu usluga arhitekata od 13. prosinca 2013.  
 Kodeks strukovne etike članova Hrvatske komore arhitekata (NN 43/16)  
 Pravilnik Hrvatske komore arhitekata o stručnom usavršavanju od 15. travnja 2016  
 Pravilnik o upisima u imenike, upisnike i evidencije Hrvatske komore arhitekata od 13. siječnja 2016  
 Pravilnik o izmjenama i dopunama pravilnika o upisima u imenike, upisnike i evidencije hrvatske komore arhitekata od 8. svibnja 2017.  
 Pravilnik o obliku i sadržaju natpisne ploče Hrvatske komore arhitekata i ovlaštenih arhitekata od 20. travnja 2012.  
 Pravilnik o uvjetima i postupku za privremeno ili povremeno pružanje usluga te priznavanje inozemnih stručnih kvalifikacija od 18. prosinca 2015.  
 Pravilnik o natječajima s područja arhitekture, urbanizma, unutarnjeg uređenja i uređenja krajobrazu od 14. srpnja 2014.  
 Odluka o administrativnim naknadama HKA od 18. prosinca 2015.  
 Odluka o izmjenama i dopunama odluke o administrativnim naknadama HKA od 15. prosinca 2017  
 Odluka o visini upisnine i članarine Hrvatske komore arhitekata od 18. prosinca 2015  
 Odluka o izmjenama i dopunama odluke o visini upisnine i članarine Hrvatske komore arhitekata od 15. travnja 2016.

## Geodetic engineers

Geodetic Activity Act (Official Gazette No. 25/2018)  
 Law on State Surveying and Real Estate Cadaster (Official Gazette 112/18)  
 Law on National Spatial Data Infrastructure (Official Gazette 56/13, 52/18)  
 Law on Construction (Official Gazette 153/13, 20/17)  
 Law on Urban Planning (Official Gazette 153/13, 20/17)  
 Ordinance on the professional examination of persons who perform professional geodetic operations (Official Gazette 90/18)  
 Statutes of the Croatian Chamber of Chartered Geodetic Engineers (Official Gazette 109/18)  
 Code of Professional Ethics for Chartered Geodetic Engineers (Official Gazette 3/19)  
 Ordinance on the Conditions and Measures for Granting and Withdrawal of Compliance for the Execution of State Surveys and Real Estate Cadaster (Official Gazette 105/07, 116/07)  
 Ordinance on granting consent for the performance of professional geodetic works (Official Gazette 54/18)  
 Ordinance on the contents of the data for the record keeping of professional geodetic works (Official Gazette 90/18)  
 Ordinance on the geodetic project (2014) (Official Gazette 12/14, 56/14)

Zakon o obavljanju geodetske djelatnosti (NN 25/2018)  
 Zakon o državnoj izmjeri i katastru nekretnina (NN 112/18)  
 Zakon o Nacionalnoj infrastrukturi prostornih podataka (NN 56/13, NN 52/18)  
 Zakon o gradnji (NN 153/13, 20/17)  
 Zakon o prostornom uređenju (NN 153/13, 65/17, 114/18)  
 Pravilnik o stručnom ispitu osoba koje obavljaju stručne geodetske poslove (NN 90/18)  
 Statut Hrvatske komore ovlaštenih inženjera geodezije (NN 109/18)  
 Kodeks strukovne etike u obavljanju stručnih geodetskih poslova ovlaštenih inženjera geodezije (NN 3/19)  
 Pravilnik o uvjetima i mjerilima za davanje i oduzimanje suglasnosti za obavljanje poslova državne izmjere i katastra nekretnina (NN 105/07, 116/07)  
 Pravilnik o izdavanju suglasnosti za obavljanje stručnih geodetskih poslova (NN 54/18)  
 Pravilnik o sadržaju podataka evidencije obavljanja stručnih geodetskih poslova (NN 90/18)  
 Pravilnik o geodetskom projektu (2014.) - (NN 12/14, 56/14)

Ordinance on the method of performing basic geodetic works (Official Gazette 112/17)

Ordinance on the Content and Manner of Maintaining the Register of Performing Geodetic Activities (Official Gazette 67/09)

Ordinance on disciplinary procedures of the Croatian Chamber of Authorized Engineers geodesy of December 11, 2018

Program of internship practice with implementation method dated 16.1. 2014, amendments of 15/03/2014. and changes of 22.2.2017.

Ordinance on entries, decisions, approvals and certificates of March 25, 2010

Ordinance on the conditions for enrolment in the Register of Professional Associates and Associates of Authorized Geodesy Engineers of February 15, 2010

Ordinance on Public Books and Records Chamber of December 17 2009.

Ordinance on the sign of the Chamber of December 17, 2009

Ordinance on amendments and supplements to the Seals Regulations and Passports of February 26, 2016.

Ordinance on payment of membership fees and other benefits of the Chamber of December 17, 2009

Pravilnik o načinu izvođenja osnovnih geodetskih radova (NN 112/17)

Pravilnik o sadržaju i načinu vođenja upisnika obavljanja geodetske djelatnosti (NN 67/09)

Pravilnik o stegovnom postupanju Hrvatske komore ovlaštenih inženjera geodezije od 11. prosinca 2018.

Program vježbeničke prakse s načinom provedbe od 16.1. 2014., dopune od 15.3.2014. i izmjene od 22.2.2017.

Pravilnik o upisima, odlukama, odobrenjima i potvrđama od 25. ožujka 2010.

Pravilnik o uvjetima za upis u Evidenciju stručnih suradnika i suradnika ovlaštenih inženjera geodezije od 15. veljače 2010.

Pravilnik o javnim knjigama i evidencijama Komore od 17. prosinca 2009.

Pravilnik o znaku Komore od 17. prosinca 2009.

Pravilnik o izmjenama i dopunama pravilnika o pečatima i iskaznicama od 26. veljače 2016.

Pravilnik o plaćanju članarine i ostalih davanja Komore od 17. prosinca 2009.

## Other references

ACE (Architects's Council of Europe). 2013. "The Architectural Profession in Europe 2012. A Sector Study." [https://www.ace-cae.eu/fileadmin/user\\_upload/Publications/EN\\_CH1\\_Sector\\_Study\\_2012.pdf](https://www.ace-cae.eu/fileadmin/user_upload/Publications/EN_CH1_Sector_Study_2012.pdf).

———. 2017. "The Architectural Profession in Europe 2016. A Sector Study." [https://www.ace-cae.eu/fileadmin/New\\_Upload/7\\_Publications/Sector\\_Study/2016\\_V2/2016\\_EN\\_Full\\_021017.pdf](https://www.ace-cae.eu/fileadmin/New_Upload/7_Publications/Sector_Study/2016_V2/2016_EN_Full_021017.pdf).

Basic, Tomislav, Sinisa Mastlic-Ivic, Marijan Grgic, and Matej Varga. 2016. "Geodesy and Economics: How Big Is the Spatial Information Industry in Croatia?" Proceedings of the 11<sup>th</sup> Symposium of Licensed Geodetic Engineers 181–185.

Pirlot, Jean-Yves, Maurice Barbieri, and Vladimir Krupa. 2018. "Smart Regulation for Geodetic Surveyors." Proceedings of the 11<sup>th</sup> Cadastral Congress 109–120. [https://demlas.geof.unizg.hr/pluginfile.php/330/mod\\_book/chapter/63/VI\\_HKK\\_zbornik.pdf](https://demlas.geof.unizg.hr/pluginfile.php/330/mod_book/chapter/63/VI_HKK_zbornik.pdf)

The background is a dark blue color. It features several curved lines of varying thicknesses. There are four blue lines and one red line. The blue lines are positioned at the top left, top right, middle left, and bottom left. The red line is on the right side, curving from the top right towards the bottom right. The text 'Transport professions' is centered in the upper half of the image.

# **Transport professions**

# Maritime pilots

Maritime pilotage is highly regulated in Croatia to protect maritime safety. Among other requirements, maritime pilots must pass a professional exam, possess a shipmaster's certificate for large ships, and meet minimum experience requirements in terms of on-ship and pilotage services. In addition, competition in coastal areas is limited to decrease incentives to win business by engaging in risky behavior. While many of these regulations are justified, select restrictions go beyond what is required to ensure safety. For example, foreign pilotage companies are effectively locked out of the market—regardless of their qualifications—through regulations that bar foreign entrants if any domestic providers express interest. Croatia also grants local monopolies to providers on a fixed-term basis without accounting for differences in traffic and sea conditions, and it applies restrictive standards regarding exemptions from mandatory pilotage. Relaxing such standards would boost competition without necessarily affecting safety. By scaling back restrictions, Croatia could lead reforms of port services in the EU.

## 7.1 Market overview

**Maritime pilotage is the service of guiding ships through dangerous or congested seaways, mainly in port areas.** The service is provided by professional pilots who advise shipmasters of vessels on safe navigation in Croatian harbors, straits, territorial seas, and other internal seaways. Pilots embark on special boats or helicopters to reach the ships which they help navigate.<sup>1</sup> Shipmasters continue to hold legal authority aboard the piloted ship and bear the ultimate responsibility for the ship and any damage it may cause.<sup>2</sup> The service is highly localized and relies on the knowledge of the characteristics of particular waterways, such as their depths, currents, and hazards. The service includes advice on the berthing and unberthing of ships.

**As in other EU countries, pilotage in port areas is mandatory for vessels exceeding 500 gross tonnage, irrespective of their class and type of freight.**<sup>3</sup> In 2018, such vessels accounted for 90 percent of cargo traffic and 36 percent of cargo ships in Croatian seaports. Vessels subject to pilotage accounted for less than 10 percent of ships but more than 73 percent of passenger traffic (Figure 7.1).

**Pilotage is sometimes required outside port areas.** In Croatia, coastal pilotage<sup>4</sup> is mandatory, among others, for vessels over 40,000 gross tonnage that (a) transport liquefied gases or other hazardous substances and (b) transport oil and maneuver around ports. Pilotage is also required in areas with exceptionally demanding nautical conditions such as Fažana Canal.<sup>5</sup>

---

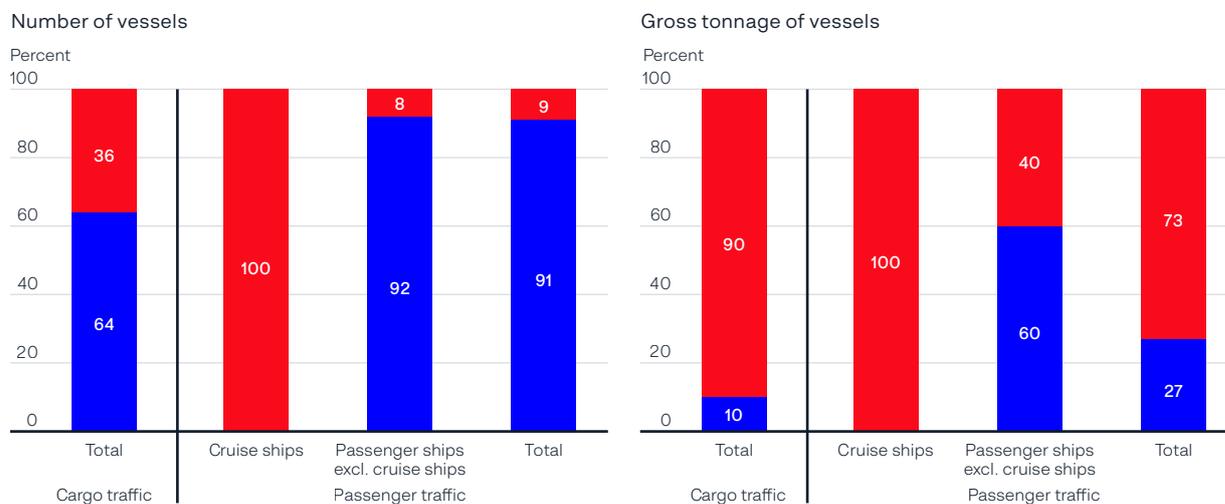
<sup>1</sup> No shore-based pilotage is provided in Croatia.

<sup>2</sup> Article 73 of the Maritime Code (Official Gazette, No. 181/04, 76/07, 146/08, 61/11, and 56/13).

<sup>3</sup> With the exception of yachts, for which the threshold is 1,000 tonnage.

<sup>4</sup> Piloting in a part of the internal waters and the territorial sea up to the limit of port pilotage.

<sup>5</sup> Article 10 of the Ordinance on maritime piloting (Official Gazette 116/2010, 43/2018).

**Figure 7.1** Share of maritime traffic by type of vessels, 2018

Source: Eurostat.

**The provision of pilotage services is regulated in Croatia.** Pilotage services are covered by the Maritime Code<sup>6</sup> and bylaws, of which the Ordinance on maritime pilotage<sup>7</sup> is the most important. The services are carried out in coastal areas managed by port captaincies (harbor-masters' offices).<sup>8</sup> There are eight such areas in Croatia. Ports and water routes are also supervised by port authorities. The Ministry of Sea, Transport, and Infrastructure selects the provider of pilotage services in each coastal area through a public call. Providers are granted exclusivity for 10 years. Pilotage companies have to meet the minimum requirements for equipment, personnel, and insurance. They are generally obliged to serve all vessels subject to pilotage,<sup>9</sup> and the shipmasters of such vessels cannot refuse pilotage.<sup>10</sup>

**Seven companies provided pilotage services in 2018, earning EUR 4.4 million.**<sup>11</sup> Six of the seven companies cover one coastal area each. The seventh and largest company, Croatia Pilot d.o.o., is responsible for two areas—Rijeka and Senj. Coastal areas vary in traffic, type of transport, and nautical conditions. Because traffic is concentrated in the ports of Rijeka and Split, the companies that serve these two areas account for 60 percent of sector revenues (Table 7.1). Passenger transport is more evenly distributed across ports than cargo transport, which is insignificant in five of the coastal areas.<sup>12</sup>

**Table 7.1** Pilotage companies in Croatia, 2018

Name	Revenue (EUR, thousands)	Employment
Croatia pilot d.o.o.	1,495	23
Pomorski peljar d.o.o.	1,207	11
Dubrovački peljar d.o.o.	620	9
Istra pilot d.o.o.	460	9
Zadar pilot d.o.o.	332	5
Ploče pilot d.o.o.	237	4
Šibenik pilot d.o.o.	184	2

Source: World Bank staff calculations based on Bisnode data.

<sup>6</sup> Official Gazette 181/04, 76/07, 146/08, 61/11, 56/13.

<sup>7</sup> Official Gazette 116/10, 43/18.

<sup>8</sup> Port captaincies are a civilian administration of the Croatian Ministry of the Sea, Transport, and Infrastructure with the authority to register vessels, conduct inspections, control navigation, and organize search and rescue operations at sea.

<sup>9</sup> Pilots can refuse service when the ship (a) draft is bigger than depth at the berth, (b) is not seaworthy, (c) does not have permission for arrival or departure, and (d) does not have safe berth in the harbor. See PwC and Panteia (2012, 132).

<sup>10</sup> This excludes vessels whose shipmaster holds pilotage exemption certificates (PECs).

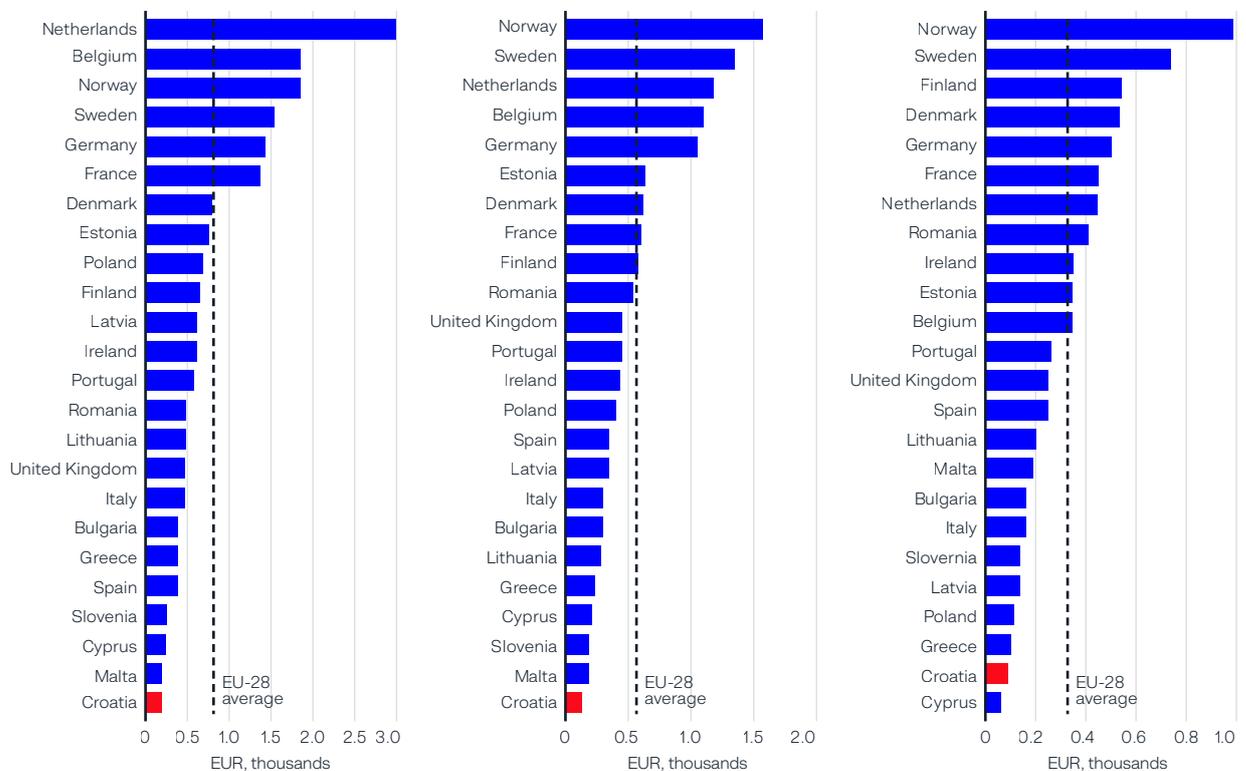
<sup>11</sup> Croatia Pilot d.o.o. (Rijeka and Senj Port Areas), Zadar Pilot d.o.o. (Zadar Port Area), Šibenik Pilot d.o.o. (Šibenik Port Area), Pomorski Peljar d.o.o. (Split Port Area), Ploče Pilot d.o.o. (Ploče Port Area), Dubrovački Peljar d.o.o. (Dubrovnik Port Area), and Istra Pilot d.o.o. (Pula Port Area).

<sup>12</sup> In 2018, according to data from Eurostat, there was no cargo traffic in Dubrovnik, Senj, and Šibenik. In Pula, 558 thousand tons of cargo were processed, which corresponded to 4 percent of the total cargo traffic in Croatia.

All companies are registered as limited liability companies (d.o.o.) and owned by professional pilots. Pilotage companies are not engaged in other port services, such as towage or mooring. The average number of missions per maritime pilot per year is on par in Croatia (327) and the EU (320).<sup>13</sup>

**Pilotage dues in Croatia are reported to be the lowest in the EU for cargo vessels and the second lowest for passenger ships.** Pilotage dues in Croatian ports are determined based on tonnage or volume, distance, and type of cargo, a similar approach to Bulgaria, Estonia, Finland, Germany, and Italy. For all types of ships, rates charged by Croatian pilots are 25 percent of the average dues in the EU and 50 percent of the average for member states that joined the EU after 2004 (Figure 7.2). The prices of pilotage services are capped by the Ministry of Sea, Transport, and Infrastructure.<sup>14</sup>

**Figure 7.2** Average pilotage dues, 2011



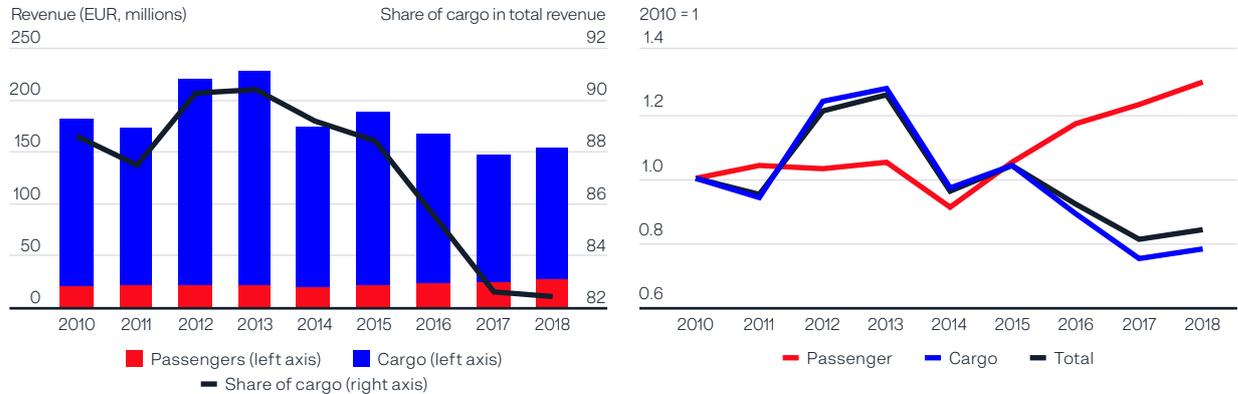
Source: PwC in partnership with Panteia (2012).

**Despite falling port revenues, pilotage companies in Croatia are profitable.** Over time, the earnings of seaports have declined due to falling cargo traffic despite growing passenger traffic (Figure 7.3). However, compared to other transport firms, pilotage companies are relatively profitable. The average net profits of pilotage companies amounted to 31 percent of revenues in 2018 versus 13 percent for other water transportation firms.<sup>15</sup> These statistics should be interpreted with care as pilotage companies are employee owned and may prefer to pay out salaries as dividends.

<sup>13</sup> PwC, Panteia (2012, 141).

<sup>14</sup> Decree on the maximum amount of remuneration for pilotage services in the internal waters and territorial sea of the Republic of Croatia (Official Gazette 22/05, 68/10).

<sup>15</sup> According to firm-level data collected by the Croatian Financial Agency (FINA) and obtained from the information provider Bisnode.

**Figure 7.3 Revenue of seaports in Croatia, 2010–2018**

Source: Eurostat; World Bank staff calculations.

## 7.2 Regulated profession

**Providing maritime pilotage services is the exclusive right of licensed pilots.** Pilots are licensed by harbormasters' offices on behalf of the Ministry of Sea, Transport, and Infrastructure. Each maritime pilot is allowed to provide services only within the coastal area managed by the harbormaster's office for which they have a professional license. To obtain a license, candidates are required to (a) pass a professional exam; (b) have at least 12 months of seagoing service on a ship of at least 3,000 gross tonnage; (c) possess a shipmaster's certificate for a ship of 3,000 gross tonnage or larger, alongside other professional certificates;<sup>16</sup> (d) complete at least 50 port pilotage services (for port areas) or five coastal pilotage services (for other coastal areas); and (e) know Croatian.<sup>17</sup> There were 33 maritime pilots in Croatia in 2018 and they all worked for pilotage companies. The service cannot be provided by pilots as natural persons; pilots must be employed by pilotage companies which hold the exclusive right to offer pilotage services in a port area. Given tight government control and the small market, it is virtually impossible for providers to circumvent such regulations.

## 7.3 Restrictions

**In total, three key restrictions to competition were identified in pilotage regulations.** The review covered one law and three bylaws regulating the provision of pilotage services (see Annex C for a complete list of restrictions). The majority of restrictions in maritime pilotage regulations stem from Rules that limit entry or reinforce dominance (Table 7.2). Rules that grant pilotage companies the same 10-year exclusivity period regardless of differences across coastal areas are particularly harmful to competition. The review also highlighted multiple restrictions that discriminate or protect vested interests. Such restrictions include preferences for domestic providers and limitations on types of vessels which may be granted exemptions from mandatory pilotage. The review also identified maximum prices for pilotage services as a regulation that may be conducive to collusion. For key restrictions, the report outlines (a) the harm to competition caused by these restrictions; (b) the stated policy rationale for restrictions; and (c) alternative solutions that are less distortive, more effective, or both.

<sup>16</sup> Basic proficiency certificate for working on tankers and certificate of competency as general radio operator. See Article 19(2) point 2 of the Ordinance on maritime pilotage (Official Gazette 115/10, 32/2018).

<sup>17</sup> Articles 19 and 23 of the Ordinance on maritime pilotage (Official Gazette 116/10, 43/2018).

**Table 7.2** Types of anticompetitive restrictions in pilotage regulations

Main types of rules based on market effect	Specific types	Frequency	Examples of restrictions
Rules that limit entry or reinforce dominance	1.1 Monopoly rights and absolute ban for entry	6	Temporal and geographical exclusivity
	1.2 Relative ban for entry and expansion of activities	1	
	1.3 Incumbents participate in entry/exit decisions	4	
	1.4 Requirements for registry (licenses and permits)	0	
Rules that facilitate collusion or increase costs to compete	2.1 Rules that facilitate agreements/reduce firms' choice of strategic variables	0	Maximum prices
	2.2 Restrictions on type of products and services/format and location	0	
	2.3 Price control	1	
Rules that discriminate and protect vested interests	3.1 Discriminatory application of rules and standards	2	Preference for domestic providers, limited eligibility for pilotage exemptions
	3.2 Discretionary application of rules	2	
	3.3 Lack of competitive neutrality vis-à-vis government entities	0	
	3.4 State aid/incentives distorting level playing field	0	

Source: World Bank staff analysis based on the MCPAT. The MCPAT methodology is presented in Annex A.

Note: Some restrictions have been attributed to and counted as several types. For instance, a license that is allocated in a discriminatory way has been counted as two types of restrictions: requirement for registry (licenses and permits) and discriminatory application of rules and standards.

### 7.3.1 Exclusive authorization

**Currently, only one pilotage company is allowed to provide services per coastal area.** The provider is selected through a public call. All firms participating in the selection are expected to meet minimum standards regarding equipment (number of vessels and number of very high frequency [VHF] radio stations), staff (number of employed pilots), and insurance. These requirements are specified individually for each of the coastal areas.<sup>18</sup> Proposed prices of pilotage services are taken into consideration in the final evaluation of bids. Price information from providers is used as a reference point when setting maximum prices. Until recently, providers were granted exclusivity for five years.<sup>19</sup> In 2018, the existing authorizations have been extended to 10 years.<sup>20</sup> In the majority of cases, only one company responded to the public call, but according to the Ministry of Sea, Transport, and Infrastructure, there has been at least one call with participation of two companies. Pilotage companies are allowed to apply for exclusive authorization in several coastal areas.

<sup>18</sup> For example, for the port area of Rijeka, the call determines as minimum requirement 10 pilots and 3 vessels while in Pula the same requirements are set at 4 pilots and 4 vessels, see Public Call (No 116/10) for issuing authorization to provide pilotage service in the coastal I port pilotage area of the Port Authority of Pula, Rijeka, Senj, Zadar, Split, Pula, and Dubrovnik.

<sup>19</sup> Article 11 of the Ordinance on maritime pilotage was amended by Article 5(a) of the Rulebook on modifications and amendments to the maritime pilotage regulations (Official Gazette 43/18) and changed the minimum duration from 5 to 10 years.

<sup>20</sup> Article 14 (transitional provisions) of the Rulebook on modifications and amendments to the maritime pilotage regulations (Official Gazette 43/18).

## Harm to competition

**Exclusive authorization allows competition for the market, but not competition in the market.** Firms can only enter by participating in public calls for the right to offer pilotage. Under the current regulations, providers are selected every 10 years. During the selection process, companies compete on the basis of price, provided that they meet the technical criteria. However, during the exclusivity period, there is no competition in the market as providers hold coastal area-level monopolies. This limits the incentives to improve quality or efficiency.

**Competition for the market may be optimal given market characteristics.** Some services have characteristics that lead firms to compete to be the supplier of a whole market, rather than for market share. In such markets, monopolies arise naturally because of subadditivity and economies of scale. Pilotage companies may be natural monopolies in coastal areas in which traffic volumes allow to cover the fixed costs (for example, the cost of specialist pilot boats) of one provider only.<sup>21</sup> Granting exclusivity to a monopoly provider and limiting the period during which the provider holds exclusivity may support competition in such markets. This is because it allows providers to compete at regular intervals for the right to provide services. In the absence of exclusivity, the barriers to entry would be likely too high to allow for competition.<sup>22</sup>

## Policy objective

**Coastal area-level monopolies are meant to decrease pilots' incentives to engage in risky behavior.** Pilot errors may result in loss of life and property, suspension of traffic, and pollution. The consequences of such errors may be not remediable. According to the Ministry of Sea, Transport, and Infrastructure, granting exclusive rights to providers is meant to remove incentives to engage in risky behavior. Pilots who face competitive pressure may be more inclined to forego safety (for example, not aborting dangerous missions) to win business.

**Alternative safety measures are considered insufficient because compliance is not fully observable.** Safety requirements (for example, equipment norms), mandatory insurance, inspections, and other forms of supervision also support safety, but are considered insufficient by the Ministry of Sea, Transport, and Infrastructure. This is because compliance with safety rules is only partly observable. In addition, while providers who engage in dangerous behavior could lose their authorization, this deterrent may not be sufficient to reduce risk to an acceptable level. The effectiveness of insurance is also limited because of moral hazard.<sup>23</sup>

## Alternatives

**Multiple pilotage companies could be allowed to operate in coastal areas in which competition is viable.** The possibility to allow for multiple providers could be reviewed, as policies designed to promote competition should not compromise safety, but safety is not necessarily inconsistent with competition. There are already other, less restrictive measures in place that promote safety such as minimum requirements for pilotage companies and professionals. Depending on risk-benefit analysis, these measures could be considered sufficient. While single

---

<sup>21</sup> In two (Zadar and Senj) of Croatia's eight coastal areas, providers rely on one pilotage boat only, suggesting that these markets may be natural monopolies.

<sup>22</sup> Some degree of competition in markets that have the characteristics of a natural monopoly is possible, as the threat of potential entry could lead the incumbent to provide the service.

<sup>23</sup> For instance, pilots with insurance may prefer not to abort dangerous missions because they know that this may increase the premiums they pay to insurers.

organizations hold coastal area-level monopolies in most EU markets (for example, Poland and Slovenia), Germany and Belgium allow multiple providers to provide services.<sup>24</sup> However, given the relatively low level of pilotage fees and the sound safety record in Croatia's seaports, waiving the exclusivity of pilotage providers does not appear to be a reform priority.

**Exclusivity periods could be adapted to local conditions (for example, traffic volumes and sea conditions).** The exclusivity period is the same for all coastal areas despite differences in natural characteristics, traffic volumes, and costs of pilotage. Areas with exceptionally low volumes or difficult operating conditions may merit longer exclusivity periods than 10 years. By the same token, for areas with high volumes or easier conditions, exclusivity periods of 10 years may be too long. Where feasible, a shorter duration will incentivize providers to compete for the market while still limiting pilots' incentives to engage in risky behavior as they face no day-to-day competition. Changes in the terms of the exclusive authorization, such as extensions of the exclusivity period, should be avoided to ensure predictable conditions for potential entrants. In Spain, exclusivity periods vary across ports to match local conditions (although they are not allowed to exceed 10 years), and renewal without another public tender round is not allowed.<sup>25</sup>

### 7.3.2 Preference for domestic providers

**Croatian regulations give preferential treatment to domestic providers of pilotage services.** As per the Maritime Code, a foreign company can obtain the authorization to provide pilotage service only if there is no interest from Croatian companies.<sup>26</sup> Since Croatia's coastal areas have been served by domestic companies in the past, foreign firms do not have realistic prospects for entering the Croatian market.

#### Harm to competition

**Foreign firms effectively cannot enter the market.** The preference for domestic providers effectively prohibits foreign companies from entering the market. In coastal areas served by domestic companies, foreign companies do not participate in public calls for pilotage companies because they presume that domestic companies are interested in continuing to provide services. Should domestic providers have little interest, the requirement could still act as a deterrent as foreign companies may have difficulties anticipating the interest of local competitors. Limiting the participation of foreign providers means that domestic providers face less competition during the selection process, decreasing incentives for them to compete on price, equipment, and staff.

#### Policy objective

**The preference for domestic providers is designed to promote maritime safety.** According to the Ministry of Sea, Transport, and Infrastructure, domestic providers may have better knowledge of Croatian coastal areas and a better command of the Croatian language for communicating with nearby vessels and the port. Such knowledge and skills may contribute to effective and safe performance of pilotage services.

<sup>24</sup> ECORYS in partnership with Trademco 2005.

<sup>25</sup> Ruiz de Apodaca, Madariaga, and Martinez 2013.

<sup>26</sup> Article 69 of the Maritime Code (Official Gazette 181/04, 76/07, 146/08).

## Alternative

**Foreign providers could be allowed to compete for the market without adverse effects on safety.** The preference for domestic providers does not contribute to maritime safety. Although the preferences for domestic pilotage providers are common across the EU, they are not necessary to ensure maritime safety. Both domestic and foreign providers are liable to comply with general rules for maritime safety<sup>27</sup> and the minimum requirements for pilotage companies and professionals in Croatia.<sup>28</sup> Pilotage companies that do not follow these requirements face the risk of revocation of their authorization. While the knowledge of Croatian may be necessary to communicate with other vessels and the port, pilots are already required to know Croatian by the Ordinance of maritime pilotage.<sup>29</sup>

### 7.3.3 Pilotage exemption certificates

**Some vessels may be exempted from mandatory pilotage, but such exemptions are rare.** Vessels up to 2,000 gross tonnage<sup>30</sup> may be released from port pilotage for a specified period and in a specific port area provided the shipmaster has a PEC. The PEC is issued by the Ministry of Sea, Transport, and Infrastructure after a prior opinion from the responsible harbormaster's office.<sup>31</sup> PECs may be granted for two years. For vessels beyond 2,000 gross tonnage, no exemptions are allowed. There were only nine active PECs in Croatia as of 2018: seven were granted by the port captaincy in Split and two were granted by the captaincy in Šibenik.

## Harm to competition

**Limited eligibility for PECs raises costs for large vessels.** Shipmasters of ships over 2,000 gross tonnage are not allowed to use PECs, even if they possess the knowledge and skills to navigate their ship through a given coastal area. Limited use of PECs thus discriminates in favor of smaller vessels. In addition, the ban increases the market power of pilotage providers.

## Policy objective

**Restricting large vessels from using PECs is meant to promote maritime safety.** Incidents with large vessels pose greater risks of disruption to waterways and port areas as they are more difficult to remove and can block a larger area. Thus, ensuring safe pilotage is even more important for large ships than for smaller ones.

## Alternative

**All vessels should be allowed to request an exemption from compulsory pilotage.** The exams for a PEC are already detailed and require a high level of effort from the applicant. The exams include a deep knowledge of the area, a high level of technical skills, and a practical examination

---

<sup>27</sup> For instance, according to Article 23 of the Ordinance on maritime pilotage (Official Gazette 116/10, 43/18), the exam tests the knowledge of the Standard Marine Communication Phrases (SMCP). The SMCP is a standard of the International Maritime Organization and includes phrases which have been developed to cover the most important safety-related fields of verbal shore-to-ship (and vice-versa), ship-to-ship, and on-board communications. The purpose of the SMCP is to overcome language barriers at sea and avoid misunderstandings which can cause accidents.

<sup>28</sup> According to Article 11 of the Ordinance on maritime pilotage (Official Gazette 116/10, 43/18), the company offering the service should have the required number of boats and employed pilots, as well as VHF equipment and liability insurance.

<sup>29</sup> Article 19 of the Ordinance on maritime pilotage (Official Gazette 116/10, 43/18).

<sup>30</sup> Except for tankers and ships carrying dangerous or harmful substances.

<sup>31</sup> Article 8 of the Ordinance on maritime pilotage (Official Gazette 116/10, 43/18).

of maneuvering the specific vessel.<sup>32</sup> Thus, there is no need to restrict the use of PECs on vessels above 2,000 gross tonnage. Furthermore, because PECs are issued on a case-by-case basis, the ministry can apply greater scrutiny to cases with larger vessels rather than issue a blanket ban on PECs for larger vessels. PECs are more common in many other European countries, particularly in Northern Europe. In 2011, there were more than 100 PECs in Denmark, Finland, France, Germany, Ireland, the Netherlands, Norway, Poland, Spain, Sweden, and the United Kingdom. Over 30 percent of missions are exempted from pilotage in some of these countries.<sup>33</sup>

## 7.4 Recommendations

Recommendation	Regulation	Justification	Responsible institution and target date <sup>a</sup>
<b>Rules that limit entry or reinforce dominance</b>			
<b>1. Adapt to local conditions the length of the exclusive authorization</b>	<p>Article 70 of the Maritime Code (Official Gazette 181/04, 76/07, 146/08, 61/11 and 56/13)</p> <p>Article 2 and 11 of the Ordinance on maritime pilotage (Official Gazette 116/10, 43/18)</p> <p>Article 5 of the Rulebook on modifications and amendments to the maritime pilotage regulations (Official Gazette 181/04, 76/07, 146/08, 61/11, 56/13, 26/15)</p>	<p><b>Exclusive authorization is in place to ensure safety.</b> Currently, only one pilotage company is allowed to provide services per coastal area. The provider is selected through a public call for a period of 10 years. The prices of pilotage services are capped to curb the market power of monopoly providers. Pilotage companies are obliged to serve incoming vessels and they have to meet minimum requirements for equipment, personnel, and insurance. These requirements are designed to promote safe navigation in coastal areas. Pilot errors may result in loss of life and property, suspension of traffic, and pollution. Some of these consequences cannot be remedied. According to the Ministry of Sea, Transport, and Infrastructure, pilots who face competitive pressure may be more inclined to engage in risky behavior (for example, not aborting dangerous missions). In the majority of EU ports, there is one provider of pilotage services, but in Germany and Belgium, multiple providers are allowed to provide services.<sup>b</sup></p> <p><b>Exclusive authorization allows competition for the market, but not competition in the market.</b> Firms can only enter by participating in public calls for the right to offer pilotage. Until 2018, providers of pilotage services were granted exclusivity for five years. However, as a result of recent changes, this period has been extended to 10 years. The exclusivity period is the same for all coastal areas despite differences in natural characteristics, traffic volumes, and costs of pilotage.</p> <p><b>Exclusivity can be adjusted to promote competition.</b> First, the exclusivity period could be adapted to local conditions. Second, changes in the terms of the exclusive authorization, such as extensions of the exclusivity period, should be avoided to ensure predictable conditions for potential new entrants. For example, in Spain, exclusivity periods vary across ports to match local conditions (although they are not allowed to exceed 10 years), and renewal without another public tender round is not allowed.</p>	Ministry of Sea, Transport, and Infrastructure January 2021
<b>2. Remove preferences for domestic providers</b>	Article 69 of the Maritime Code (Official Gazette 181/04, 76/07, 146/08, 61/11, 56/13)	<b>Foreign providers cannot enter the market.</b> Currently, foreign companies can obtain the authorization to provide pilotage services only if there is no interest from domestic providers. This effectively prohibits foreign companies from entering the market.	Ministry of Sea, Transport, and Infrastructure, January 2021

<sup>32</sup> Article 25 of the Ordinance of maritime pilotage (Official Gazette 116/10, 43/18) and the requirements to obtain a PEC include (a) a theoretical part, which tests the knowledge of the geographical characteristics of the specific port, hydrographic and hydrometeorological characteristics, procedures of the pilot (mooring, piloting etc.), reaction on extraordinary events, knowledge of maneuvering, and (b) a practical part which consists of maneuvering the specific vessels for which the exemption is requested.

<sup>33</sup> PWC and Panteia (2012, 138).

Recommendation	Regulation	Justification	Responsible institution and target date <sup>a</sup>
3. Allow vessels over 2,000 gross tonnage to obtain PECs	Article 8 of the Ordinance on maritime pilotage (Official Gazette 116/10, 43/18)	<p>In coastal areas served by domestic companies, foreign companies do not participate in public calls for pilotage companies because they presume that domestic companies are interested in continuing to provide services. Should domestic providers have little interest, the requirement could act as a deterrent as foreign companies may have difficulties anticipating the interest of local competitors.</p> <p><b>Preferences for domestic companies do not contribute to maritime safety.</b> Both domestic and foreign providers are liable to comply with general rules for maritime safety and minimum requirements for pilotage companies and professionals who are active in Croatian coastal areas. Pilotage companies that do not follow these requirements risk the revocation of their authorization.</p> <p><b>Shipmasters of large vessels are not allowed to use pilotage exemptions.</b> Currently, vessels above 2,000 gross tonnage are not allowed to obtain an exemption from compulsory pilotage. This is because large vessels are considered to pose greater safety risks than smaller vessels.</p> <p><b>Broadening eligibility for PECs would lower costs and does not need to harm safety.</b> PECs are granted for specific coastal areas to shipmasters who have proven experience in navigating this area. Applications from applicants who navigate larger ships can be checked in more detail. Croatia has a very low number of PECs compared to many other European countries, particularly in Northern Europe.</p>	Ministry of Sea, Transport, and Infrastructure January 2021

Note:

a. For entry into force of the regulatory change.

b. ECORYS 2005.

## References

### Pilotage regulations

Maritime Code (Official Gazette 181/04, 76/07, 146/08, 56/13, 26/15)

Ordinance on sea pilotage (Official Gazette 116/10, 43/2018)

Decree on the maximum amount of remuneration for pilotage services in the internal waters and territorial sea of the Republic of Croatia (Official Gazette 22/05, 68/10)

Ordinance on vocations and certificates of competencies of seafarers (Official Gazette 130/13, 45/14, 124/15, 72/16)

Pomorski zakonik (NN 181/04, 76/07, 146/08, 56/13, 26/15)

Pravilnik o pomorskom peljarenju (NN 116/10, 43/2018)

Naredba o najvećoj dopuštenoj visini naknade za usluge peljarenja u unutarnjim morskim vodama i teritorijalnom moru RH (NN 22/05, 68/2010)

Pravilnik o zvanjima i svjedodžbama o osposobljenosti pomoraca (NN 130/13, 45/14, 124/15, 72/16)

### Other references

Deloitte in partnership with Coffey and Panteia. 2017. Study on a Pilot Project: Making the EU Transport Sector Attractive to Future Generations. Study commissioned by the European Commission, Directorate-General for Transport and Energy. [https://ec.europa.eu/transport/themes/social/studies/social\\_en](https://ec.europa.eu/transport/themes/social/studies/social_en).

Ecorys in partnership with Trademco. 2005. Complementary Economic Evaluation Study on the Commission Proposal for a Directive on Market Access to Port Services. Final Report. Study commissioned by the European Commission, Directorate-General for Transport and Energy.

OECD (Organisation for Economic Co-operation and Development). 2011. Competition in Ports and Port Services. Paris. <http://www.oecd.org/regreform/sectors/48837794.pdf>.

PwC in partnership with Panteia. 2012. Study on Pilotage Exemption Certificates. Study commissioned by the European Commission, Directorate-General for Mobility and Transport. <https://ec.europa.eu/transport/sites/transport/files/modes/maritime/studies/doc/2012-09-18-pec.pdf>.

PwC in partnership with Panteia. 2013. Supporting an Impact Assessment on Measures to Enhance the Efficiency and Quality of Port Services in the EU. Final Report. Study commissioned by the European Commission, Directorate-General for Transport and Energy. <https://ec.europa.eu/transport/sites/transport/files/modes/maritime/studies/doc/2013-07-ia-port-services.pdf>.

Ruiz de Apodaca, Angel, Ernesto Madariaga, and Jesus Martinez. 2013. "Juridical Regime of Pilotage Service in Spain." *Journal of Maritime Research* 10 (1): 85–92.

van Reeve, Peran. 2010. "The Effect of Competition on Economic Rents in Seaports." *Journal of Transport Economics and Policy* 44 (1): 79–92.

The background is a dark blue color. It features several curved lines of varying thicknesses. There are four blue lines and one red line. The blue lines are positioned at the top left, top right, middle left, and bottom left. The red line is on the right side, curving from the top right towards the bottom right. The text 'Tourism professions' is centered in the upper half of the image.

# **Tourism professions**

## 8

# Travel agency managers and tourist guides<sup>1</sup>

Croatia has established itself as one of Europe's foremost tourism destinations. Going forward, it aims to capitalize more on the growing number of foreign visitors and overnights. However, the licensing of tourism professions impedes the development of the sector due to restrictive entry regulations that are designed to protect tourists from low-quality providers. The Services in Tourism Act requires Croatian travel agencies to be run by managers who have passed a professional exam, possess one year of relevant experience, and know Croatian as well as two foreign languages. Tourist guides are required to pass two types of exams and obtain separate licenses for each of the 21 counties in which they provide services. The licensing process for mountain and cave guides is also cumbersome. Taken together, these regulations hold up entry and make it harder for providers to respond to new demand, for example from East Asian travelers. At the same time, low-quality services, while not desirable, generally do not have serious repercussions for tourists, and quality is partly observable through personal experience, certificates, and review websites. Croatia could achieve better market outcomes by replacing the licensing of travel agency managers and tourist guides with voluntary certification and by streamlining the licensing of mountain and cave guides.

## 8.1 Market overview

**Tourism in Croatia is mainly incoming, with foreign tourists traveling to Croatia primarily for leisure.** With its advantageous location, long coastline, and outstanding natural attractions, Croatia has always been a popular tourist destination. In 2018, tourist arrivals exceeded 18.6 million, accounting for 89.6 million overnights (an average of 4.8 nights per tourist).<sup>2</sup> Foreign tourists account for about 90 percent of arrivals and overnights and nearly 94 percent

---

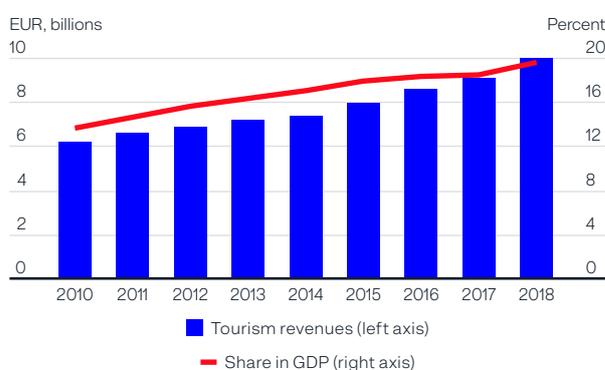
<sup>1</sup> This chapter covers also the profession of the tour leader (voditelj putovanja), which has been deregulated in 2018, following entry into force of the Services in Tourism Act (Official Gazette 130/17, 25/19, 98/19).

<sup>2</sup> Croatian Bureau of Statistics 2018.

of spending.<sup>3</sup> On average, travelers spend 49 percent of their daily budgets on accommodation and around 31 percent on food and shopping.<sup>4</sup> Spending is concentrated in coastal areas and the June-September period. This analysis focuses on leisure travel by foreigners to Croatia.

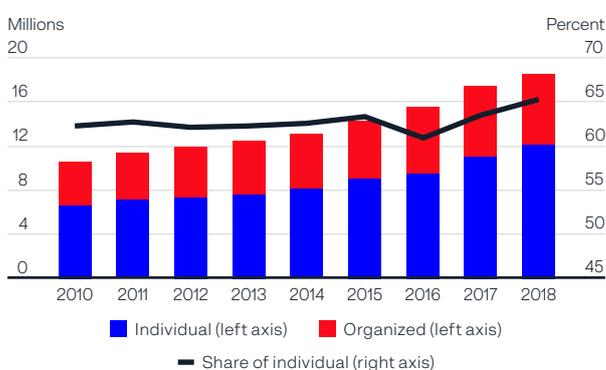
**In 2018, tourism revenue exceeded EUR 10 billion, which accounted for 20 percent of Croatian GDP and 35 percent of national exports.** Over the past decade, revenues increased by two-thirds, and the number of visitors nearly doubled (Figures 8.1 and 8.2). Germany, Austria, Slovenia, Italy, Poland, and the United Kingdom were the largest source countries for inbound tourists, together representing 52 percent of all visits by nonresidents.<sup>5</sup> In 2017, tourists spent, on average, EUR 67 per day in Croatia, compared to EUR 111 in Spain and EUR 122 in Italy.<sup>6</sup>

**Figure 8.1** Tourism revenues, 2010–2018



Source: Ministry of Tourism, Croatian National Bank.

**Figure 8.2** Tourist arrivals by type, 2010–2018



Source: Ministry of Tourism.

**Travel agencies serve around one-third of foreign tourists.** In 2018, almost 63 percent of foreign tourists travelled independently to Croatia.<sup>7</sup> These travelers designed their own itineraries and arranged their own travel plans. The remaining 38 percent of visitors used the services of travel agencies, which organize package tours and book transport, accommodation, or activities on behalf of travelers.

**Croatian travel agencies accounted for around 10 percent of tourism revenues.** In 2018, there were between 1,000 and 1,500 local travel agencies. Croatian travel agencies generated revenues of about EUR 1 billion. The largest three firms accounted for approximately 17 percent of revenues, one of the lowest shares among European countries.<sup>8</sup> In 2017, local agencies arranged around 14 million tourist nights for foreigners and 2.3 million overnights for locals (traveling both domestically or abroad).<sup>9</sup> Croatian agencies typically operate as (a) brokers between travelers and service suppliers such as hotels, airlines, and tour operators and (b) organizers of package tours which are marketed through retail travel agencies or directly.

**Croatian travel agencies face strong competition from foreign providers.** The market share of Croatian providers in the market for organized travel has been continuously declining over the last decade and reached 40 percent in 2018.<sup>10</sup> Domestic providers face strong competition

<sup>3</sup> Ibid.

<sup>4</sup> Marušić, Čorak, and Sever 2018.

<sup>5</sup> Ministry of Tourism 2018.

<sup>6</sup> Orsini and Ostojčić 2018.

<sup>7</sup> Croatian Bureau of Statistics 2018.

<sup>8</sup> World Bank staff calculations based on firm-level information from Amadeus and Bisnode databases about 65,000 companies from 44 European countries operating under NACE 79 code.

<sup>9</sup> Trezner and Čorak 2018.

<sup>10</sup> Ibid.

from foreign agencies (for example, TUI) and platforms (for example, Airbnb, Booking.com, Expedia, FindHotel, HolidayCheck, and Trivago). According to firm-level data, Croatian firms are also less profitable than foreign businesses. In 2018, the average Croatian agency had a net profit margin of 2.6 percent, one of the worst results in the EU (Figure 8.3). Only 71 percent of domestic travel agencies ended the year with a net profit.<sup>11</sup>

#### Croatian providers dominate some tourism services.

Foreign service providers have been less successful in penetrating markets in which local knowledge is indispensable. For instance, in 2018, Croatian travel arranged half of all overnights associated with packaged tours.<sup>12</sup> In addition, tourist guide services are almost exclusively provided by local professionals.<sup>13</sup>

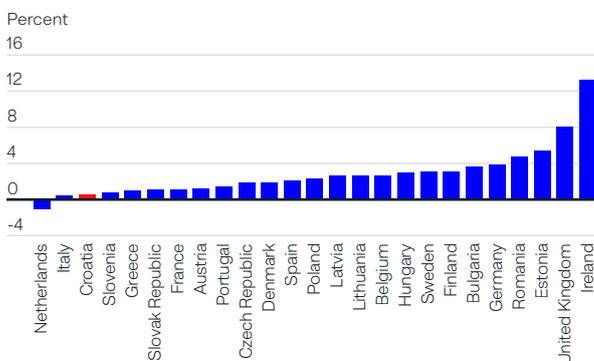
#### Croatian travel agencies are relatively mature, and new entrants struggle to gain a foothold.

The average age of travel agencies in Croatia is 12.9 years, which is close to the European average of 14.6 years. However, there are fewer young firms than in other EU countries. Only 1 percent of agencies are younger than three years, versus 5 percent in the EU; one in four Croatian travel agencies is between three and five years old, compared to one in five in Europe. At the same time, market churn — calculated as the combined birth and death rate of travel agencies — has been above levels noted in other EU member states. This suggests that, recently, younger firms have been less likely to survive, while established firms have been more likely to survive, compared to their peers in other EU countries.

#### The provision of tourism services is regulated in Croatia.

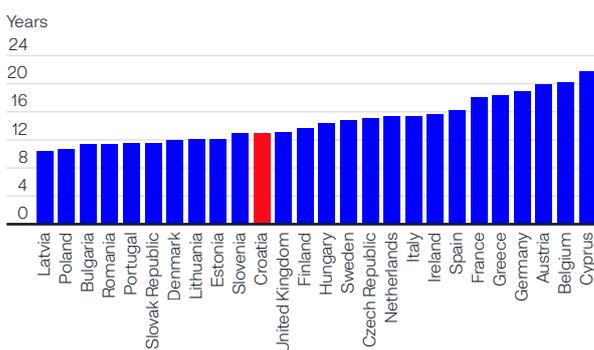
The two main regulations are (a) the Hospitality Act<sup>14</sup> and (b) the Services in Tourism Act.<sup>15</sup> The former stipulates conditions for provision of food, drink, and lodging services in hospitality units such as hotels, camps, catering objects, and restaurants. The latter governs provision of travel services, with a special focus on package and linked travel arrangements, and defines the rights and responsibilities of service providers (notably travel agencies and tourist guides).<sup>16</sup> The Ministry of

**Figure 8.3** Net profit margins of travel agencies in EU countries, 2018



Source: World Bank staff calculations based on Amadeus and Bisnode data.  
Note: Bisnode data represent 70 percent of businesses and 96 percent of firm revenues in Croatia. Smaller firms, such as crafts and trades (obrt) and freelance businesses are underrepresented.

**Figure 8.4** Average age of travel agencies in EU countries, 2018



Source: World Bank staff calculations based on Amadeus and Bisnode data.  
Note: Bisnode data represent 70 percent of businesses and 96 percent of firm revenues in Croatia. Smaller firms, such as crafts and trades (obrt) and freelance businesses are underrepresented.

<sup>11</sup> World Bank staff calculations based on Amadeus and Bisnode data.

<sup>12</sup> Croatian Bureau of Statistics 2018.

<sup>13</sup> There are approximately 4,500 licensed tourist guides in Croatia and around 100 foreign guides operating on a temporary and occasional basis. According to market participants, tourist guides are mainly hired by local travel agencies for organized groups of foreign tourists. Recently, however, there has been an increase in demand for guiding services by individual travelers who buy these services directly or through local agencies. According to the World Federation of Tourist Guide Associations, prices of services provided by Croatian tourist guides are among the lowest in the EU. Typical rates charged by guides are HRK 500–HRK 850 (EUR 65–EUR 115) per day and HRK 150–HRK 300 (EUR 20–EUR 40) per hour. Based on this information, and assuming that an average tourist guide charges for 75 workdays per year, the market size is between EUR 23 and EUR 40 million.

<sup>14</sup> Official Gazette 85/15, 121/16, 99/18, 25/19, 98/19.

<sup>15</sup> Official Gazette 130/17, 25/19, 98/19.

<sup>16</sup> The Services in Tourism Act transposes the EU Package Travel Directive, which strengthens consumer protection for package travel. See Directive (EU) 2015/2302 of the European Parliament and of the Council of November 25, 2015, on package travel and linked travel arrangements, amending Regulation (EC) No 2006/2004 and Directive 2011/83/EU of the European Parliament and of the Council and repealing Council Directive 90/314/EEC, available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32015L2302>.

Tourism also issues bylaws to both acts.<sup>17</sup> In addition to the Ministry of Tourism, some regulatory powers are bestowed upon state administrative offices in Croatia's 21 counties (for example, issuing tourist guide licenses and regulation of some aspects of hospitality services such as working hours of hospitality units) and the Chamber of Commerce (for example, regulation of adventure tourism). The enforcement of relevant laws and bylaws in the tourism sector is supervised primarily by the Tourism Inspection Office, which is part of the State Inspectorate.<sup>18</sup>

## 8.2 Regulated professions

**Two regulated professions operate in the market: travel agency managers and tourist guides.**<sup>19</sup> To offer services, travel agency managers and tourist guides must pass a professional exam in their respective fields.<sup>20</sup> In the case of tourist guides, this exam is preceded by a vocational course.<sup>21</sup> Tourist guides are also required to register with the state administration office of the county in which they would like to provide services.<sup>22</sup> Agency managers have to be employed by travel agencies, and every travel agency needs to have at least one full-time agency manager on staff who is exclusively responsible for the work of that agency.<sup>23</sup> In 2018, around 5,000 people were employed in travel agencies, two-thirds of them on a full-time basis.<sup>24</sup> The number of registered tourist guides is similar, and tourist guides can either be employed by travel agencies or work as freelancers.<sup>25</sup>

**The profession of tour leaders has been deregulated by the Services in Tourism Act.**<sup>26</sup> As of 2018, any citizen of Croatia, other member states of the European Economic Area, or Switzerland can operate as a tour leader in Croatia as long as they hold a high school diploma.<sup>27</sup> Tour leaders accompany tourists during the trip but, unlike tourist guides, are not authorized to show and interpret attractions to tourists.<sup>28</sup> Typically, tour leader services are provided by tourist guides or employees of travel agencies.

---

<sup>17</sup> The Services in Tourism Act (Official Gazette 130/17, 25/19, 98/19) envisages adoption of new rulebooks relevant for tourist guides and travel agency managers. As of November 2019, five rulebooks are awaiting adoption. In the meantime, rulebooks based on previous legislation continue to apply.

<sup>18</sup> For reference see the State Inspectorate Act (Official Gazette 115/18).

<sup>19</sup> While there is no explicit mention of a license for travel agency managers in Croatian regulations, travel agency managers cannot practice until they prove that they have met the relevant qualification requirements. In practice, the qualification process is therefore a licensing process. This broad definition of licensing follows Koumenta and Pagliero (2016).

<sup>20</sup> Articles 18 and 71 of the Services in Tourism Act (Official Gazette 130/17, 25/19, 98/19).

<sup>21</sup> Article 8 of the Ordinance on professional examination of tourist guides and tourist escorts (Official Gazette 50/08, 120/08) and the Ordinance on professional examination of travel agency managers (Official Gazette 81/2019).

<sup>22</sup> Article 73 of the Services in Tourism Act (Official Gazette 130/17, 25/19, 98/19). See Annex C for a detailed overview of requirements to enter and practice tourism professions in Croatia.

<sup>23</sup> Article 16 of the Services in Tourism Act (Official Gazette 130/17, 25/19, 98/19).

<sup>24</sup> Croatian Bureau of Statistics 2018.

<sup>25</sup> According to the Croatian Association of Tourist Guides, roughly 70 percent of tourist guides in Croatia are freelancers, with the remainder working full time for agencies or other companies.

<sup>26</sup> Official Gazette 130/17.

<sup>27</sup> Article 79 of the Services in Tourism Act (Official Gazette 130/17, 25/19, 98/19).

<sup>28</sup> Pursuant to Articles 69 and 79 of the Services in Tourism Act (Official Gazette 130/17, 25/19, 98/19), tour leaders are not authorized to show and interpret natural sites of special significance, cultural and historic landmarks, works of art, ethnographic and other attractions, historical events, persons, legends about these events and persons, and economic and political trends and events. These tasks are the exclusive rights of tourist guides.

## 8.3 Restrictions

**In total five key restrictions to competition were identified in tourism regulations.** The review covered two laws and 13 bylaws and draft bylaws regulating the provision of tourist services and protection of nature (see Annex C for a complete list of restrictions). Most restrictions stem from Rules that limit entry or reinforce dominance, particularly through unnecessary licensing and cumbersome qualification requirements. Rules that discriminate or protect vested interests have been also identified, in particular rules that leave room for discretionary decision making by the Chamber of Commerce on specialist licenses for guides in active and adventure tourism. For each key restriction, the following sections discuss (a) the harm to competition caused by these restrictions; (b) the stated policy rationale for restrictions; and (c) alternative solutions that are either less distortive, more effective, or both.

**Table 8.1** Types of anticompetitive restrictions in tourism regulations

Main types of rules based on market effect	Specific types	Frequency	Examples of restrictions
Rules that limit entry or reinforce dominance	1.1 Monopoly rights and absolute ban for entry	0	Mandatory chamber membership, registration fee, excessive qualification requirements
	1.2 Relative ban for entry and expansion of activities	5	
	1.3 Incumbents participate in entry/exit decisions	1	
	1.4 Requirements for registry (licenses and permits)	28	
Rules that facilitate collusion or increase costs to compete	2.1 Rules that facilitate agreements/reduce firms' choice of strategic variables	17	Limitation on advertising
	2.2 Restrictions on type of products and services/format and location	0	
	2.3 Price control	0	
Rules that discriminate and protect vested interests	3.1 Discriminatory application of rules and standards	6	Nationality requirements for tourist guides
	3.2 Discretionary application of rules	4	
	3.3 Lack of competitive neutrality vis-à-vis government entities	0	
	3.4 State aid/incentives distorting level playing field	0	

Source: World Bank Group staff analysis based on the MCPAT. The MCPAT methodology is presented in Annex A.

Note: Some restrictions have been attributed to and counted as several types. For instance, a license that is allocated in a discriminatory way has been counted as two types of restrictions: requirement for registry (licenses and permits) and discriminatory application of rules and standards.

### 8.3.1 Licensing of travel agency managers

**Only licensed travel agency managers may operate in Croatia.**<sup>29</sup> To obtain licenses, candidates are required to (a) know Croatian and two foreign languages,<sup>30</sup> (b) obtain one year of relevant professional experience,<sup>31</sup> and (c) pass an official exam administered by the Ministry

<sup>29</sup> Articles 18 and 19 of the Services in Tourism Act (Official Gazette 130/17, 25/19, 98/19).

<sup>30</sup> Practical knowledge of Croatian within the needs of the job is considered sufficient, while proficiency in foreign languages at the B2 and A2 levels of the Common European Framework of Reference for Languages (CEFR) are required.

<sup>31</sup> In practice, prior experience which involves sales and customer service is considered relevant but not experience as a tourist guide or tour leader.

of Tourism.<sup>32</sup> The three conditions apply equally to all European Economic Area (EEA) and Swiss nationals.<sup>33</sup>

## Harm to competition

**Licensing requirements for travel agency managers delay entry into the profession and increase costs.** To operate as a travel agency manager, candidates have to submit proof of language proficiency in two foreign languages (at B2 and A2 levels, respectively), which normally entails enrolling in a language course and obtaining a certificate from an accredited institution or school.<sup>34</sup> This requirement prolongs the qualification process and increases costs of entry. The A2 and B2 levels in the English language, for instance, can generally be reached with 180–200 and 500–600 guided learning hours, respectively.<sup>35</sup> Similarly, the one-year experience requirement delays entry into the profession and may deter entry considering the opportunity cost of the traineeship period. Finally, the exam requirement further delays and possibly deters entry as candidates can only enter when exams are conducted, and the time needed to prepare for exams imposes opportunity costs on candidates. Of these requirements, the language and experience requirements have the highest potential of negatively affecting competition.

## Policy objective

**Qualification requirements for travel agency managers are intended to promote quality of service.** Licensing requirements for travel agency managers are an *ex ante* mechanism to protect consumers from low-quality service (for example, being stranded during travel due to poor planning), damage, and fraud. These requirements are in addition to *ex post* mechanisms (for example, penalties for poor service). According to the Ministry of Tourism, the licensing of travel agency managers also protects traveler safety. However, since the risks to traveler safety stem mainly from factors outside the control of travel agency managers, this requirement does not appear effective.

## Alternative

**Licensing of travel agency managers is not necessary to achieve the stated policy objectives.** The Services in Tourism Act, which transposes the EU Package Travel Directive,<sup>36</sup> already protects travelers who buy package holidays primarily through rules on requiring travel agencies to purchase indemnity insurance and financial protection against insolvency.<sup>37</sup> Professional

---

<sup>32</sup> Article 18 of the Services in Tourism Act (Official Gazette 130/17, 25/19, 98/19).

<sup>33</sup> Pursuant to Article 18 of the Services in Tourism Act (Official Gazette 130/17, 25/19, 98/19), third-country nationals can work as agency managers if, in addition to the above requirements, they (a) open a travel agency in Croatia or are granted the permanent resident status by the Croatian authorities and (b) obtain approval from the Ministry of Tourism. EEA and Swiss nationals can also provide services on a temporary and occasional basis if they notify the Ministry of Tourism in advance and submit (a) proof of nationality and a written declaration of intent, (b) evidence of professional qualifications or relevant professional experience, and (c) an attestation certifying that the professional is legally established in a member state for the purpose of pursuing the activities concerned and that he/she is not prohibited from practicing, even temporarily. This attestation should document that the service provider has been a tourist guide for at least 1 year during the previous 10 years. The temporary nature of the service is assessed on a case-by-case basis. Approvals for providing the service on a temporary basis need to be renewed on an annual basis, as the declaration of intent by EEA and Swiss nationals is valid for one year.

<sup>34</sup> Ordinance on professional examination of travel agency managers (Official Gazette 81/19) introduces exceptions to this rule for native speakers, those who hold a bachelor's degree in the foreign language concerned, or have completed primary, secondary, or higher education in the foreign language concerned.

<sup>35</sup> Data from University of Cambridge English Language Assessment.

<sup>36</sup> Articles 7, 26–60, 103, 107–108 of the Services in Tourism Act (Official Gazette 130/17, 25/19, 98/19).

<sup>37</sup> Article 13 of the Services in Tourism Act (Official Gazette 130/17, 25/19, 98/19).

liability and insurance requirements are effective incentives for good behavior by travel agencies because the premiums directly depend on the agencies' claims history (that is, track record of good or bad service). The protection secured through insurance is broad both in terms of the types of packaged holidays covered and the extent of travel agencies' liability (agencies are liable for the whole tour even if service providers are third parties). General and tourism-specific consumer protection rules further protect travelers from damage and fraud. In addition to the general rights laid out in the Croatian Consumer Protection Act (for example, protection against misleading practices such as false use of limited offers), travel agencies are bound to provide precontractual information to their clients about their rights and all the features and characteristics of the package. Travelers are also granted strong cancellation; contract alteration; and refund rights (for example, no cancellation fees for package tours if the price is increased more than 8 percent from the original price, obligation to make alternative arrangements if the travel service cannot be provided as agreed, and obligation to compensate travelers if the service does not reach the agreed standards).<sup>38</sup>

**There are less distortive, market-based mechanisms that can promote quality of service provided by travel agencies and reduce externalities.**

In general, the quality of agency services is observable, and there exist robust reputational systems (for example, reviews, comments, ratings, awards) to distinguish high- and low-quality providers. Online reputational websites (for example, TripAdvisor, Zicasso, Stride Travel, and bookmundi) in the travel industry are common and widely used by customers when selecting providers. Compared to a one-time assessment of travel agency managers' knowledge (for example, an exam), review markets are more effective in achieving the stated policy objectives since they offer more up-to-date information about the quality of operators and adjust more easily to market dynamics and preferences.

**As a result, licensing of travel agency managers or travel agents is rare in the EU as the existing consumer protection laws and insurance requirements are generally considered adequate.**

The profession of travel agency manager/travel agent is regulated in only seven EU countries.<sup>39</sup> The majority of EU member states adopt the stance that the existing national and EU consumer protection laws — as well as market-based reputational systems — are adequate. For instance, France recently abolished professional qualification requirements for travel agents, as professional liability insurance and financial guarantee requirements were deemed sufficient to protect consumers and address traveler risk.<sup>40</sup> Given that insurance requirements are already in place in Croatia and that consumer protection is also ensured through general legislation, the Government of Croatia could consider abolishing licenses for travel agency managers.

### 8.3.2 Licensing of tourist guides

**Only licensed tourist guides are allowed to provide guide services in Croatia.** There are two types of tourist guide licenses: (a) national licenses, which enable license holders to operate in areas not designated as tourist areas/sites and (b) regional licenses, which allow license holders to also operate in tourist areas/sites for which they have passed the regional exam. Regional licenses are issued at the county level (there are 21 counties in Croatia) and cover sites classified as tourist areas/sites within each county. As of November 2019, tourist areas/sites account

<sup>38</sup> Articles 7, 26–60, 103, 107–108 of the Services in Tourism Act (Official Gazette 130/17, 25/19, 98/19).

<sup>39</sup> According to data from the EU Regulated Professions database, the seven countries are Austria, the Slovak Republic, Slovenia, Italy, Cyprus, Croatia, and the Czech Republic.

<sup>40</sup> Article 16 of the Ordinance No. 2015–1682 of December 17, 2015, simplifying certain prior authorization and declaration schemes for businesses and professionals (Official Journal of December 18, 2015). See also information from the Government of France on the implementation of the National Action Plan on Regulated Professions, submitted in February 2016 to the European Commission and available at <https://ec.europa.eu/docsroom/documents/31943/attachments/10/translations/en/renditions/pdf>.

for about 30 percent of the territory of Croatia, including more than 300 historical; cultural; and memorial sites (for example, historic town centers, castles, and museums) and more than 70 natural sites (including 8 national and 11 nature parks).<sup>41</sup> In practice, such designated sites cover so many areas of interest that holding at least some regional license(s) is a de facto requirement for tourist guides, as evidenced by the high number of tourist guides with regional licenses (Table 8.2).

**Table 8.2** Number of licensed tourist guides, 2017

License holders, of which:	All tourist guides	Coastal counties (Adriatic Croatia)	Continental counties
National license	4,618	n.a.	n.a.
Regional license for 1 county	2,740	2,385	355
Regional license for 2 counties	1,144	470	674
Regional license for 3 or more counties	734	436	298

Source: Agency for Commercial Activity<sup>a</sup>

Note: n.a. = Not available.

a. The Agency for Commercial Activity is a limited liability company founded by the Croatian Ministry of Interior, which is tasked, among others, with designing, manufacturing, and issuing tourist guide identification cards.

**To obtain licenses, tourist guides are required to (a) complete vocational training, (b) pass licensing exams, and (c) know the Croatian language.** Prospective tour guides must first obtain vocational training by attending at least 90 hours of lectures and tutorials in history, geography, basics of tourism legislation, guiding, and so on.<sup>42</sup> Then, they must pass exams taken before an examination commission at a higher education institution offering courses in tourism.<sup>43</sup> There are two layers of exams, corresponding to the two types of licenses. First, all candidates must take a general exam, which qualifies them to receive national licenses. Then, candidates must pass site-specific exams if they wish to receive regional licenses.<sup>44</sup> Exams are typically offered twice per year, and examination fees for the national and one county exam range from HRK 3,000 to HRK 6,600 (EUR 405 to EUR 890). Exam pass rates are high (typically above 80 percent), and the exam can be retaken.<sup>45</sup> Candidates need to have a good working knowledge of the Croatian language regardless of the language in which they provide services.<sup>46</sup> These conditions equally apply to all EEA and Swiss nationals.<sup>47</sup>

<sup>41</sup> Ordinance on the list of tourist areas (sites) by county (Official Gazette 76/08). According to Article 4 of this Ordinance, guided tours in national and nature parks are allowed only with permission of the Ministry of Environment. This requirement is abolished in the draft Ordinance on the list of tourist areas (sites) in counties, which is currently awaiting adoption. However, the Protection of Nature Act (Official Gazette 80/13, 15/18, 14/19, 127/19) envisages that special permissions can be required for economic use of protected areas (the list of activities that fall under this notion is yet to be determined). Currently, according to the internal rules of some national and nature parks, guided tours cannot be provided by external guides or a special permission of the institution managing the conservation area is needed.

<sup>42</sup> According to the Ordinance on professional examination of tourist guides and tourist escorts (Official Gazette 50/08, 120/08), vocational training for the general exam lasts around 90 hours, while the training duration for the site-specific exam is set by each examination institution. The draft Ordinance on professional examination of tourist guides extends the duration of vocational courses for tourist guides to over 140 hours.

<sup>43</sup> Article 71 of the Services in Tourism Act (Official Gazette 130/17, 25/19, 98/19).

<sup>44</sup> Furthermore, to provide services in national and nature parks, tourist guides are required to obtain approval from the Ministry of Environment. For reference, please see the Ordinance on the list of tourist areas (sites) by county (Official Gazette 76/08). The draft Ordinance on the list of tourist areas (sites) in counties abolishes this requirement.

<sup>45</sup> Reported by four institutions authorized to conduct examinations.

<sup>46</sup> Article 73 of the Services in Tourism Act (Official Gazette 130/17, 25/19, 98/19).

<sup>47</sup> Article 69 of the Services in Tourism Act (Official Gazette 130/17, 25/19, 98/19).

## Harm to competition

**The licensing regime for tourist guides limits entry to the profession.** Exams — and fees related to taking exams — make it harder and more expensive for candidates to become tourist guides. There are multiple layers of exam-related barriers as passing only the general exam does not allow guides to take tourists around many of the most-visited tourist areas in Croatia, making site-specific exams a de facto requirement.<sup>48</sup> The cost and time required to take exams increase monetary and opportunity costs to practice the profession, which may in turn discourage some candidates from qualifying as tourist guides or limit the areas in which they practice. Travel agencies report that there are shortages of tourist guides during the high season in coastal counties and that their services must be booked far in advance.

**Language requirements make it more difficult to meet the growing demand for guide services in some foreign languages** (Table 8.3). For example, in 2013–2018, the number of tourists from Korea and China increased rapidly, with annual growth rates exceeding 40 percent.<sup>49</sup> However, the number of tourist guides providing services in East Asian languages remains low. Evidence also suggests that similar gaps exist for Central European languages (for example, Polish, Czech, Hungarian, and Slovak), whose speakers accounted for 15 percent of foreign tourists in 2018. Finally, the number of German-speaking tourists guides relative to the number of tourists from German-speaking countries is three to four times smaller than for French-, Italian- or Spanish-speaking countries.<sup>50</sup>

**Table 8.3** Guides per 1,000 tourists by language group, 2018<sup>a</sup>

Language group	Tourist arrivals (thousands, 2018)	Share of total (2018) (%)	Growth (CAGR 13–18) (%)	Total guides (2018)	Guides per 1,000 tourists
Estonian	26	0.2	16.7	0	0.00
Icelandic	7	0.0	18.5	0	0.00
Latvian	24	0.1	9.9	0	0.00
Korean	408	2.5	40.7	3	0.01
Finnish	113	0.7	15.9	2	0.02
Hebrew	65	0.4	11.9	2	0.03
Romanian	114	0.7	11.9	4	0.04
Danish	134	0.8	8.3	5	0.04
Slovakian	431	2.6	5.0	20	0.05
Norwegian	180	1.1	6.1	9	0.05
Hungarian	599	3.6	12.9	38	0.06
Czech	755	4.5	3.0	49	0.06
Polish	929	5.6	7.9	71	0.08
Bulgarian	63	0.4	7.0	6	0.10
Dutch	486	2.9	7.7	50	0.10
Japanese	160	1.0	0.0	19	0.12
Chinese	234	1.4	41.7	32	0.14

<sup>48</sup> The ratio of national to regional licenses confirms that out of over 4,500 license holders, only 8 tourist guides have only the national license, while the remaining guides all have regional licenses for at least one county.

<sup>49</sup> World Bank staff calculations based on data from the Croatian Ministry of Tourism and Bureau of Statistics.

<sup>50</sup> Idem.

Language group	Tourist arrivals (thousands, 2018)	Share of total (2018) (%)	Growth (CAGR 13–18) (%)	Total guides (2018)	Guides per 1,000 tourists
Swedish	297	1.8	10.8	41	0.14
Lithuanian	42	0.3	10.1	6	0.14
Greek	36	0.2	1.1	7	0.19
Ukrainian	101	0.6	14.2	22	0.22
German	4,430	26.6	7.4	1,124	0.25
Turkish	32	0.2	0.0	9	0.28
Portuguese	120	0.7	7.7	84	0.70
French	793	4.8	5.4	596	0.75
Italian	1,148	6.9	2.5	1,001	0.87
Spanish	401	2.4	15.4	425	1.06
English	1,918	11.5	17.7	3,545	1.85
Russian	138	0.8	-2.7	298	2.16

Source: World Bank calculations based on data from the Ministry of Tourism and Croatian Bureau of Statistics.

Note: CAGR = Compound annual growth rate.

a. The analysis excludes ex-Yugoslav countries, representing 11.7 percent foreign tourists in 2018, and tourists from regions with insufficient data to map to specific language group representing 3.1 percent of foreign tourists in 2018.

**Mandatory licensing also dampens incentives for tourist guides to innovate and improve their offerings.** The cumbersome licensing process creates de facto barriers to the type of service tourist guides offer. The mandatory examinations implicitly define the types of information that tourist guides share with clients. Tourist guides wishing to offer alternative tours such as wine tours, shopping tours, or ghost tours — which are not necessarily aligned with exam standards — must invest in acquiring knowledge that may not be relevant to their offerings. Consumer surveys suggest that tourists were moderately satisfied with the presentation of Croatia’s cultural heritage and excursions, while sports activities, cultural events, and ‘bad weather’ programs were ranked low or very low.<sup>51</sup>

## Policy objective

**The qualification requirements for tourist guides are designed to protect consumers from poor-quality service.** According to the Ministry of Tourism, the general exam aims to ensure that guides have threshold theoretical and practical knowledge to lead tourists around unknown areas and interpret sites. Site-specific exams aim to build on this foundation by ensuring that guides possess adequate knowledge of particularly significant sites, where the risks of wrong information being disseminated (for example, memorial sites, places of remembrance) and/or safety risks (for example archeological sites or wilderness areas) are higher.

## Alternatives

**Licensing of tourist guides is generally not necessary to promote quality of service.** While it is not desirable, low-quality services generally do not have serious repercussions for tourists and do not justify licensing. Moreover, the quality of tourist guides is partly observable (for example, guides’

<sup>51</sup> Marušić, Čorak, and Sever 2018, 40–56.

language and communication skills), limiting the need to address information asymmetry through licensing, especially given the rise of reputation-based systems such as review websites. Tourist guides are not licensed in most EU countries, while voluntary certification systems for tourist guides exist in Belgium (Flanders region), Norway, the United Kingdom, Estonia, and Germany. In Germany, for instance, the National Tourist Guide Association administers the voluntary certification of guides in cooperation with regional and municipal training providers. In the United Kingdom, the Institute of Tourist Guiding, a private body, awards accredited tourist guides special badges that serve as a mark of quality to consumers. Under voluntary certification, high-quality providers could still signal their quality and consumers could still rely on third-party verification to screen providers. Tourist guides would also have added incentives to improve their offerings to differentiate themselves in the market.

**Switching from licensing to certifying tourist guides on a voluntary basis could grow the market.** The market for guide services could expand if more providers were allowed to offer services (including in languages less commonly spoken by current guides) and if prices decreased as a result of increased competition. In Poland, where the licensing of city guides was abolished in January 2014, the number of tour leaders and tourist guides increased by 21 percent between 2014 and 2017, reversing the previous downward trend.<sup>52</sup>

**Moving to voluntary licensing could also promote innovation.** Compared to mandatory licensing regimes — which impose a specific vision of tours — moving to more flexible voluntary certification could encourage diversification of guiding services and boost innovation. Although some alternative tours are being offered in Croatia (for example, wine and gastro tours), the offer is limited to tours provided by licensed guides. Moving to voluntary licensing could allow uncertified guides to experiment and develop new offerings. Countries which have liberalized the tourist guide profession (for example, Greece and Poland) have seen also the emergence of new forms and business models of guiding (for example, guiding on a donation basis).<sup>53</sup>

**The Government of Croatia could consider keeping mandatory licensing for guides in memorial sites.** The licensing of tourist guides may be justified for places of remembrance as conveying inaccurate information about tragic historical events may be an unacceptable risk. Licensing of tourist guides could be organized by institutions which maintain and manage memorial sites in Croatia under supervision by regional or national authorities.

### 8.3.3 Licensing guides in active and adventure tourism

**The Croatian Chamber of Commerce plays a role in deciding which activities are subject to additional adventure tourism licensing and how they should be licensed.** A committee that includes the Ministry of Tourism and Chamber of Commerce representatives decides on the activities subject to additional licensing.<sup>54</sup> Currently, the following activities require specialist licenses: canoeing, caving, free climbing, deep water solo climbing, mountaineering, cycling, horse riding, river/sea kayaking, stand-up paddling, rafting and inline raft, canyoning, zipline, paragliding/parasailing, kite surfing, activities in adrenaline parks, and bungee jumping. For each of the activities on the list, the committee decides on specific licensing requirements and can change these requirements at any time.<sup>55</sup> For 12 out of 15 activities on the list, it is sufficient

<sup>52</sup> Rojek and Masiór 2016, 107–117.

<sup>53</sup> Kruczek (2018). See also OECD (2016).

<sup>54</sup> Article 93 of the Services in Tourism Act (Official Gazette 130/17, 25/19, 98/19). In practice, the Ministry of Tourism's role is limited; only one representative of the ministry sits on the relevant committee and takes part in the decision-making process.

<sup>55</sup> The Committee consists of seven members—two representatives of the Chamber of Commerce, one representative of Chamber of Trades and Crafts, one representative of the Croatian Mountain Rescue Service, one representative of the Ministry of Tourism, one representative of the state administration authority in charge of sports, and one representative of the state administration authority in charge of education. For reference, please see Article 93 of the Services in Tourism Act (Official Gazette 130/17, 25/19, 98/19).

to obtain the license issued by the Croatian Mountain Rescue Service following a two-day first aid and orientation course, the price of which ranges from EUR 20 to EUR 40.<sup>56</sup>

## Policy objective

**Specialist licenses for guides in active and adventure tourism aim to protect the lives, health, and safety of service recipients.** To varying degrees, risks to life and safety are an inherent feature of most adventure tourism experiences. For this reason, operators need to be trained to protect the safety and well-being of those under their guidance. Engaging in adventure tourism under the supervision of qualified professionals makes these experiences available and safer for a wider range of customers.

**The Chamber of Commerce is engaged in regulating adventure tourism to help reduce information asymmetries and overcome capacity issues.** The Chamber acts as an intermediary between the regulator and service providers in active and adventure tourism. Leveraging Chamber resources, the committee that decides on specialist licenses for adventure tourism guides gathers representatives of both private and public bodies, allowing it to source vital information from the private sector that public regulators may not have (for example, risks inherent to some types of activities). The issue of public regulators' limited capacity to oversee adventure tourism licensing is especially pronounced considering the fast-changing nature of the adventure tourism field. Nevertheless, to ensure some level of public accountability, representatives of the Ministry of Tourism and other ministries (for example the Ministry of Sports) participate in the committee and supervise the decision-making process.

## Harm to competition

**The Chamber of Commerce's involvement in licensing adventure tourism potentially facilitates the protection of vested interests.** The Chamber of Commerce represents the interests of existing providers and may face demands to protect the businesses of its members. Because the rules for adding new activities/licenses to the list are vague, there is a risk that the Chamber of Commerce may have incentives to add activities which do not pose health and safety risks for tourists to the list or impose unnecessary conditions on existing activities to protect the interests of existing providers. Doing so would favor incumbents and limit entry of new providers by raising the cost (both in terms of course time and fees) to become authorized to offer a particular service.

## Alternatives

**The Ministry of Tourism could assume full decision-making power over additional certification requirements for adventure sports.** Doing so would ensure sufficient scrutiny and avoid possible conflicts of interest. While the Chamber of Commerce and existing market participants could still be consulted, they would not have formal decision-making authority over licensing regimes. To avoid unnecessarily burdensome licensing, the Government of Croatia could further stipulate that a risk assessment is a necessary precondition for any new activity to be added to the list or for a new requirement to be imposed on an existing listed activity.

---

<sup>56</sup> Except for parasailing and paragliding, caving, and climbing/mountaineering with special equipment.

### 8.3.3.1 Licensing of mountain guides

**The licensing process for mountain guides varies depending on the type of activity.** Basic licenses that cover activities such as summer mountaineering and winter mountaineering without equipment can be obtained from the Croatian Mountain Rescue Service following a two-day first aid and orientation course.<sup>57</sup> More advanced activities (that is, winter mountaineering with equipment, climbing, alpinism, and ice skiing) require licenses from the Croatian Mountaineering Association (CMA) or the Croatian Mountain Guide Association (CMGA) which are more difficult to obtain. The CMA issues most advanced licenses and organizes the qualification process through B-G standards (Table 8.4). To qualify under each of these standards candidates must (a) complete a general three-year traineeship; (b) join the CMA and a local mountaineering association; (c) pass an exam preceded by a mandatory vocational course; (d) acquire experience as an independent climber/mountaineer and/or assistant guide on relevant terrain; and (e) obtain previous-level qualifications (for example, holding a B standard license is required to obtain a C standard license).<sup>58</sup> Mountain guide certificates issued by member associations of the Union of International Mountain Leader Associations (UIMLA) or the International Climbing and Mountaineering Federation (UIAA) are also recognized in Croatia.<sup>59</sup>

**Table 8.4** Number of guides with A-G standard licenses, 2020

Summer mountaineering (A standard)	708
Winter mountaineering (B standard)	69
Sports climbing (C standard)	16
Rock climbing (D standard)	129
Ice climbing (E standard)	0
Alpinism (F standard)	1
Mountain skiing (G standard)	0
Trainees	163

Source: CMA.

**CMA licenses are typically valid for three years, require renewal, and are subject to revocation under certain circumstances.** Renewal requires active work in the mountaineering association (engagement in guided tours and field trainings lasting at least 10 days on any terrain plus 5 days spent on terrain specific to the license), as well as continuous professional development and participation in first aid courses. Licenses can be revoked if the guide puts the life or health of a group member in serious jeopardy, or if he/she does not follow internal rules on organizing and leading guided tours.<sup>60</sup> Mountain guides are also periodically required to show proof of medical fitness. Licenses issued by the CMGA are renewed every two years.

### Harm to competition

**The licensing process for mountain guides is fragmented, lengthy, and limits entry to the profession.** Individuals who take visitors on equipped mountain, ski, or climbing tours need to obtain multiple terrain-specific licenses in a particular sequence. For example, to become a CMA-licensed alpine guide (F standard), candidates first have to complete the three-year general traineeship and then obtain qualifications for summer mountaineering (A standard), sport climbing (C standard), rock climbing (D standard), and ice climbing (E standard). Each of these qualifications requires experience in specific terrain which needs to be obtained over the course of two to three years. The long and cumbersome qualification process delays entry

<sup>57</sup> Candidates can also opt for the A standard license (summer mountaineering) issued by the CMA or mountain leader license issued by the CMGA.

<sup>58</sup> The only exceptions are sport climbing, where A (and not B) standard license is required to obtain the C standard license, and ice skiing where B (and not F) standard license is required to obtain the G standard license. Alternatively, candidates may opt for the CMGA licensing process which is divided into three categories — mountain leader, ski guide, and mountain guide — each covering specific types of terrain/activities. Three-year experience in mountaineering (or alternatively completion of a mountaineering school) is one of the prerequisites for taking the mountain leader course.

<sup>59</sup> List of activities and licenses in adventure tourism published by the Croatian Chamber of Commerce.

<sup>60</sup> Rulebook on Licensing of Mountain Guides published by the Croatian Mountaineering Association.

into the profession and may limit the number of providers. Burdensome licensing also means that tourism operators who specialize in mountain tourism must draw from a smaller pool of professionals, increasing costs and potentially compromising quality.

**Croatia could face a shortage of mountain guides.** The Croatian Government has been actively promoting mountain tourism as part of its 2013–2020 Tourism Development Strategy. Paklenica National Park, for instance, has been attracting around 120,000 visitors per year, of which around one-third are climbers and mountaineers.<sup>61</sup> However, the number of B-G standard mountain guides registered near Paklenica NP is limited (Table 8.5).

**Table 8.5** Number of CMA guides stationed in Lika, Rijeka, Sibenik and Zadar, 2020

Winter mountaineering (B standard)	31
Sports climbing (C standard)	8
Rock climbing (D standard)	37
Ice climbing (E standard)	0
Alpinism (F standard)	0
Mountain skiing (G standard)	0

Source: CMA.

## Policy objective

**Mountain guide licensing requirements are in place to ensure tourist safety.** Mountaineering and climbing involve high-risk factors and physical challenges. In addition, the level of risk and physical fitness requirements vary, as most challenges in the mountain originate from the specific terrain's characteristics (avalanches, rockfall, glaciers, crevasses, and so on). While different types of mountain and climbing guides share a number of competencies, they must also possess terrain-specific skills and knowledge to adequately protect their clients.

## Alternative

**It is possible to achieve the policy objective in less distortive ways.** Qualification requirements for mountain guides are essential. However, the process of obtaining licenses can be streamlined to facilitate access to the profession. Alternatives to be considered include shortening the traineeship. For instance, in Slovenia, one of the preconditions for obtaining the mountain guide license is a one-year internship (compared to more than three years in Croatia). In addition, for activities that require different skills (for example, B and D standards), candidates could be allowed to obtain the relevant qualifications in parallel. These changes would ensure that candidates acquire the necessary skills to protect tourist safety while shortening training time and encouraging entry of new mountain guides.

### 8.3.3.2 Licensing of caving/potholing guides

**Caving/potholing guides must complete speleology courses to operate in Croatia.**<sup>62</sup> In both caving and potholing, there are two categories of guides, lead guides and assistant guides. To operate as a lead guide for caving (that is, transit of mainly horizontal routes, often walkable passages), one must complete a course for speleological trainees organized by the Croatian Speleological Association or the CMA. To become a lead guide for potholing (that is, transit of vertical passages that include abseiling), one must complete a course for speleologists organized by the Croatian Speleological Association or the CMA. Both courses presuppose membership in a mountaineering/speleological association and cover topics such as communication; emergency procedures; and the science of speleology (geology, biology, hydrology, history, speleogenesis, speleomorphology, and so on).

<sup>61</sup> Valjak 2017.

<sup>62</sup> List of activities and licenses in adventure tourism published by the Croatian Chamber of Commerce.

## Harm to competition

**Excessive qualification requirements for caving and potholing guides limit entry to the profession.** Speleological education is required for all caves and pits in Croatia, irrespective of the level of risk associated with different caving systems. The speleological trainee course for caving guides usually takes two months and costs HRK 700 (around EUR 90). On top of this course, potholing guides must obtain additional experience and develop skills in speleological expeditions, measurements, and topographic scanning. Furthermore, compulsory membership in a professional association mandates that caving/potholing guides follow the internal rules and standards of their association, including participation in mountaineering/speleological activities, explorations, rescue actions, and so on. These requirements harm competition by prolonging the qualification process and increasing costs of entry and operation, in turn limiting the number of providers, and allowing competitors to vet new entrants.

## Policy objective

**Allowing only qualified speleology experts to organize guided tours in caves and potholes promotes visitor safety and the environment.** Speleologists are well-acquainted with caving and potholing risks (rockfall, drowning, exhaustion, and so on) and methods to mitigate those risks. Their trainings include implementation of underground safety and orientation techniques such as preventing hypothermia and cave rescue. Furthermore, speleologists are trained to minimize visitors' impact on the cave environment, cave resources, and cave life.

## Alternatives

**While licensing requirements for caving and potholing guides are essential, they can be streamlined and improved.** The Government of Croatia could consider simplifying the licensing requirements for caving and potholing guides who serve only tourists by explicitly stating that they are not required to attend courses on or obtain experience in scientific exploration of caves and potholes (for example, experience in measurement and topography). Doing so would limit requirements for guides to basic underground safety and orientation techniques (for example, ascending and descending, basic and advanced rope rescue, orientation in caves, and typical hazards). It could also remove the requirement that guides be members of a speleological/mountaineering association as they are not professional speleologists. Under this alternative, the safety of cavers would be protected without putting unnecessary burdens on guides. For example, in Slovenia (one of the two EU countries that regulate potholing guides<sup>63</sup>), there is a special exam for potholing guides which tests candidates' theoretical and practical knowledge, preceded by a short vocational course typically encompassing 15 hours of lectures and 15 hours of field training focused on safety and orientation matters. This exam does not cover subjects related to scientific measurement and data-gathering as these skills are not necessary for guiding tourists.

---

<sup>63</sup> According to data from the EU Regulated Professions Database.

## 8.4 Recommendations

Recommendation	Regulation	Justification	Responsible institution and target date <sup>a</sup>
<b>Rules that limit entry or reinforce dominance</b>			
<p><b>1. Abolish the licensing of travel agency managers</b></p>	<p>Articles 17 (2), 18 and 19 of the Services in Tourism Act (Official Gazette 130/17, 25/19, 98/19)</p> <p>Ordinance on professional examination of travel agency managers (Official Gazette 81/19)</p> <p>Ordinance on recognition of professional qualifications of tourist guides and travel agency managers (Official Gazette 58/19)</p>	<p><b>Licensing of travel agency managers is not necessary to promote quality of service.</b> Travel agency managers are required to pass an exam, complete one year of professional experience, and speak two foreign languages to run an agency. These requirements are primarily designed to protect travelers from low-quality service. However, in most EU countries, travel agency managers are not licensed, as traveler risk is sufficiently addressed through consumer protection laws, primarily the EU Package Travel Directive. Also, since quality of agency services is observable, it can be better promoted through online review mechanisms.</p> <p><b>The licensing of travel agency managers harms competition.</b> It increases the time and cost of entering the market and is likely to deter some professionals from starting a business. The language and experience requirements have the highest potential of negatively affecting market competition.</p>	<p>Ministry of Tourism January 2021</p>
<p><b>2. Abolish national and regional licenses for tourist guides and encourage voluntary certification of tourist guides</b></p>	<p>Articles 69 to 77 of the Services in Tourism Act (Official Gazette 130/17, 25/19, 98/19)</p> <p>Ordinance on professional examination of tourist guides and tourist escorts (Official Gazette 50/08, 120/08)</p> <p>Ordinance on the list of tourist areas (Sites) in counties (Official Gazette 68/07)</p> <p>Article 188 of the Protection of Nature Act (Official Gazette 80/13, 15/18, 14/19)</p> <p>Internal rules for national parks/nature parks</p>	<p><b>Licensing of tourist guides is generally not necessary to promote quality of service.</b> Tourist guides are required to complete trainings, pass national and regional exams, and have certified knowledge of the language in which they wish to provide services. According to the Ministry of Tourism, licenses ensure that tourists obtain accurate information about visited sites. While it is not desirable, low-quality services generally do not have serious repercussions for tourists.<sup>b</sup> Further, the quality of tourist guides is partly observable (for example, the guide's language skills), limiting the need to address information asymmetry. Tourist guides are not licensed in most EU countries.</p> <p><b>Licensing of tourist guides harms competition.</b> Qualification requirements delay entry and de facto create barriers to the type of service that guides offer to tourists. According to travel agencies interviewed by the World Bank Group, the licensing requirements create difficulties in responding to new demand (for example, for tourist guides with command of Asian languages). As a result, incentives to offer new and improved services to consumers are dampened.</p> <p><b>There are other, more effective means to achieve the policy objective.</b> The quality of service provided to tourists can be promoted through voluntary certification of tourist guides that would equally allow tourists to differentiate between quality and non-quality guides and at the same time foster market growth and innovation.</p>	<p>Ministry of Tourism Ministry of Environmental Protection and Energy January 2021</p>
<b>Rules that discriminate or protect vested interests</b>			
<p><b>3. Transfer the authority to license adventure tourism from the Chamber of Commerce to the Ministry of Tourism</b></p>	<p>Article 93 of the Services in Tourism Act (Official Gazette 130/17, 25/19, 98/19)</p>	<p><b>The Chamber of Commerce is effectively in charge of licensing adventure guides in Croatia.</b> The Chamber and the committee of experts set up under its auspices decide over the range of activities that are licensed and the relevant requirements. Specialist licenses in adventure tourism serve to protect health and safety of tourists, as adventure tourism is inherently risky and may lead to injuries.</p> <p><b>The Chamber's involvement in regulating adventure tourism may harm competition.</b> Apart from acting in public interest, the Chamber of Commerce also represents the interests of tourism providers and</p>	<p>Ministry of Tourism January 2021</p>

Recommendation	Regulation	Justification	Responsible institution and target date <sup>a</sup>
		may face demands for regulatory protection from its members. As a result, the Chamber may be led to limit competition and market operations by licensing activities which do not pose risks to health and safety.	
<b>4. Streamline the licensing process for mountain guides: shorten the mandatory traineeship and allow candidates to qualify for different terrains at once</b>	List of activities and licenses in adventure tourism Rulebook on Licensing of Mountain Guides rendered by the Croatian Mountaineering Association A-G standard training programs	<b>The licensing process for mountain guides is cumbersome and limits entry.</b> Guides who take visitors on equipped mountain tours are required to complete a traineeship and obtain terrain-specific qualifications (B-G standards), all of which entail mandatory courses, relevant experience, and exams. The traineeship and all terrain-specific qualifications need to be obtained in a specific sequence. The requirements are in place to protect tourist safety.  <b>It is possible to achieve the policy objective in less distortive ways.</b> The list of activities and licenses in adventure tourism could allow, among others, for shortening the traineeship. Further, for some terrains, candidates could be allowed to obtain the relevant qualifications in parallel. This would ensure tourist safety while shortening the training time and encouraging entry of new mountain guides.	Ministry of Tourism CMA June 2021
<b>5. Simplify the licensing requirements for caving/potholing guides</b>	List of activities and licenses in adventure tourism Rulebook of the Speleological Committee of the Croatian Mountaineering Association Rulebook on Speleological Categories of the Croatian Speleological Association	<b>Licensing of caving/potholing guides is cumbersome and limits entry to the profession.</b> To qualify as a caving/potholing guide, one needs to complete the course for a speleologist (potholing) or a speleological trainee (caving). Qualification requirements include, among other, experience in speleological explorations and membership in a speleological association. These requirements create high opportunity costs and limit the number of providers.  <b>The qualification process could be simplified.</b> Caving and potholing guides should not be burdened by the membership requirement, or required to obtain expert knowledge/experience, but only training in basic underground safety and orientation techniques. This would reduce the licensing requirements to a necessary minimum and facilitate entry.	Ministry of Tourism CMA Croatian Speleological Association June 2021
<b>6. Abolish nationality requirements for travel agency managers, tourist guides, and tour leaders</b>	Articles 18, 69 and 79 of the Services in Tourism Act (Official Gazette 130/17, 25/19, 98/19)	<b>The nationality requirements in the Services in Tourism Act are not necessary to promote hiring of local workers.</b> The Services in Tourism Act requires that travel agency managers and tourist guides be EEA or Swiss nationals. Third-country nationals can work as agency managers and tourist guides if they meet additional requirements. <sup>c</sup> These requirements are in excess of the general rules on the employment of foreign nationals. Croatia issues work permits and determines quotas for non-EU citizens by sector/job. <sup>d</sup> The requirements outlined in the Services in Tourism Act unnecessarily restrict the ability of service providers to staff operations and limit competition from professionals with the right to work in Croatia.	Ministry of Tourism January 2021

Note:

a. For the entry into force of the regulatory change.

b. The licensing of tourist guides may be justified for memorial sites as conveying inaccurate information about tragic historical events may be an unacceptable risk.

c. Such as place of residence or registered business in Croatia and approval by the Ministry of Tourism.

d. Foreigners Act (Official Gazette 130/11, 74/13, 69/17, 46/18).

## References

### Travel agency and guiding regulations

- Services in Tourism Act (Official Gazette 130/17, 25/19, 98/19)
- Ordinance on professional examination of tourist guides and tourist escorts (Official Gazette 50/08, 120/08)
- Draft Ordinance on professional examination of tourist guides
- Ordinance on recognition of professional qualifications of tourist guides and travel agency managers (Official Gazette 58/19)
- Ordinance on the list of tourist areas (sites) in counties (Official Gazette 76/08)
- Draft Ordinance on the list of tourist areas (sites) in counties
- Ordinance on tourist guide identity card (Official Gazette 50/08, 90/08, 112/09, 33/10, 62/10)
- Draft Ordinance on tourist guide identity card
- Ordinance on professional examination of travel agency office managers (Official Gazette 50/08)
- Ordinance on professional examination of travel agency managers (Official Gazette 81/19)
- List of activities and licenses in adventure tourism (published by the Chamber of Commerce)
- Rulebook of the Speleological Commission of the Croatian Mountaineering Association
- Specialist training program in speleology - speleological school (published by the Croatian Mountaineering Association)
- Rulebook on speleological categories of the Croatian Speleological Association
- Training program for summer mountaineering guides (A standard) (published by the Croatian Mountaineering Association)
- Training program for winter mountaineering guides (B standard) (published by the Croatian Mountaineering Association)
- Training program for guides on frozen ground and glacial terrain (B+ substandard) (published by the Croatian Mountaineering Association)
- Training program for sport climbing guides (C standard) (published by the Croatian Mountaineering Association)
- Training program for rock climbing guides (D standard) (published by the Croatian Mountaineering Association)
- Training program for ice climbing guides (E standard) (published by the Croatian Mountaineering Association)
- Training program for alpine guides (F standard) (published by the Croatian Mountaineering Association)
- Training program for mountain skiing guides (G standard) (published by the Croatian Mountaineering Association)
- Rulebook on licensing of mountain guides (published by the Croatian Mountaineering Association)
- Zakon o pružanju usluga u turizmu (NN 130/17, 25/19, 98/19)
- Pravilnik o stručnom ispitu za turističke vodiče i ispitnom programu za turističke pratitelje (NN 50/08, 120/08)
- Nacrt Pravilnika o stručnom ispitu za turističke vodiče
- Pravilnik o priznavanju inozemnih stručnih kvalifikacija turističkog vodiča i voditelja poslova turističke agencije (NN 58/19)
- Pravilnik o popisu turističkih cjelina (lokaliteta) po županijama (NN 76/08)
- Nacrt Pravilnika o popisu zaštićenih cjelina (lokaliteta) po županijama
- Pravilnik o iskaznici turističkog vodiča (NN 50/08, 90/08, 112/09, 33/10, 62/10)
- Nacrt Pravilnika o iskaznici turističkog vodiča
- Pravilnik o stručnom ispitu za voditelja poslovnice (NN 50/08)
- Pravilnik o stručnom ispitu za voditelja poslova u turističkoj agenciji (NN 81/19)
- Popis odgovarajućih uvjerenja/certifikata i uvjeti za obavljanje pojedinih aktivnosti aktivnog i pustolovnog turizma (objavljen od strane Hrvatske gospodarske komore)
- Pravilnik Komisije za Speleologiju Hrvatskog planinarskog saveza
- Program specijalističkog školovanja u speleologiji - speleološka škola (objavljen od strane Hrvatskog planinarskog saveza)
- Pravilnik o speleološkim kategorijama Hrvatskog speleološkog saveza
- Program školovanja vodiča na ljetno planinarenje (A standard) (objavljen od strane Hrvatskog planinarskog saveza)
- Program školovanja vodiča na zimsko planinarenje (B standard) (objavljen od strane Hrvatskog planinarskog saveza)
- Program osposobljavanja vodiča za vođenje na ledenjačkom terenu (B+ podstandard) (objavljen od strane Hrvatskog planinarskog saveza)
- Program školovanja vodiča na sportsko penjanje (C standard) (objavljen od strane Hrvatskog planinarskog saveza)
- Program školovanja vodiča na stijensko penjanje (D standard) (objavljen od strane Hrvatskog planinarskog saveza)
- Program školovanja vodiča na ledno penjanje (E standard) (objavljen od strane Hrvatskog planinarskog saveza)
- Program školovanja vodiča na alpinizam (F standard) (objavljen od strane Hrvatskog planinarskog saveza)
- Program školovanja vodiča na planinsko skijanje (G standard) (objavljen od strane Hrvatskog planinarskog saveza)
- Postupak licenciranja vodiča (objavljen od strane Hrvatskog planinarskog saveza)

### Other references

- Beldowski, Jaroslaw, Wiktor Wojciechowski, and Łukasz Dąbroś. 2019. "The Impact on Competition by Deregulation of Professions (Reducing Occupational Licenses): The Case of Three Professions in Poland from 1989 to 2018." In *New Developments in Competition Law and Economics*, edited by Klaus Mathis and Avishalom Tor, 69–90. Springer International Publishing.
- Bentley, Tim A., Stephen J. Page, and Keith A. Macky. 2007. "Adventure Tourism and Adventure Sports Injury: The New Zealand Experience." *Applied Ergonomics* 38 (6): 791–6.
- Bureau of Statistics of the Republic of Croatia. 2019. 2018 Statistical Report on Tourist Activity in Croatia. Zagreb. [https://www.dzs.hr/Hrv\\_Eng/publication/2019/04-03-07\\_01\\_2019.htm](https://www.dzs.hr/Hrv_Eng/publication/2019/04-03-07_01_2019.htm).
- Bureau of Statistics of the Republic of Croatia. 2020a. Statistical Report on Tourist Activity in November 2019. Zagreb. [https://mint.gov.hr/UserDocsImages/AA\\_2018\\_c-dokumenti/191211\\_tpromet-X\\_19.pdf](https://mint.gov.hr/UserDocsImages/AA_2018_c-dokumenti/191211_tpromet-X_19.pdf).
- Bureau of Statistics of the Republic of Croatia. 2020b. Statistical Report on Tourist Activity in December 2019. Zagreb. [https://mint.gov.hr/UserDocsImages/AAA\\_2020\\_ABC\\_c\\_dokumenti/200210\\_DZS\\_Turizam%20u%20prosincu\\_019.pdf](https://mint.gov.hr/UserDocsImages/AAA_2020_ABC_c_dokumenti/200210_DZS_Turizam%20u%20prosincu_019.pdf).
- Department of the Treasury Office of Economic Policy, the Council of Economic Advisers, and the Department of Labor. 2015. "Occupational Licensing: A Framework for Policymakers." [https://obamawhitehouse.archives.gov/sites/default/files/docs/licensing\\_report\\_final\\_nonembargo.pdf](https://obamawhitehouse.archives.gov/sites/default/files/docs/licensing_report_final_nonembargo.pdf).
- Escuela, Marcel Manuel Bonnet, Carmen D. Wehbe-Herrera, and Ángel Lobo Rodrigo. 2019. "Analysis of the Regulation of Active Tourism in Spain." *Revista de Estudios Empresariales* 2:28–56.
- European Commission. 2016. "Mutual Evaluation of Regulated Professions. Overview of the Regulatory Framework in the Tourism Sector by Using the Professions of Tourist Guides and of Travel Agents as Example." [https://ec.europa.eu/growth/single-market/services/free-movement-professionals/transparency-mutual-recognition\\_en](https://ec.europa.eu/growth/single-market/services/free-movement-professionals/transparency-mutual-recognition_en).

- European Commission. 2017. "Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee, and the Committee of the Regions on Reform Recommendations for Regulation in Professional Services." <https://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX:52016DC0820>.
- Koumenta, Maria, and Mario Pagliero. 2016. Measuring Prevalence and Labor Market Impacts of Occupational Regulation in the EU. Report for the Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs of the European Commission. [https://ec.europa.eu/growth/content/measuring-prevalence-and-labour-market-impacts-occupational-regulation-eu\\_o\\_en](https://ec.europa.eu/growth/content/measuring-prevalence-and-labour-market-impacts-occupational-regulation-eu_o_en).
- Kruczek, Zygmunt. 2018. Rynek pracy przewodników turystycznych, pilotów wycieczek i animatorów czasu wolnego. Krakow: Folia Turistica 15/2019.
- Marušić, Zrinka, Sanda Čorak, and Ivan Sever. 2018. TOMAS Summer: Attitudes and Expenditure of Tourists in Croatia. Zagreb: Tourism Institute. <https://htz.hr/sites/default/files/2019-07/Tomas-Ljeto-2017-Stavovi-i-potrosnja-turista-u-Hrvatskoj.pdf>.
- Ministry of Tourism of the Republic of Croatia. 2019. 2018 Statistical Report on Tourist Traffic in Croatia. Zagreb. [https://mint.gov.hr/UserDocsImages/AA\\_2018\\_c-dokumenti/190212\\_stat2018.pdf](https://mint.gov.hr/UserDocsImages/AA_2018_c-dokumenti/190212_stat2018.pdf).
- OECD (Organisation for Economic Co-operation and Development). 2016. OECD Tourism Trends and Policies 2016. Paris: OECD Publishing. <https://doi.org/10.17877/tour-2016-en>.
- Orsini, Kristian, and Vukašin Ostojić. 2018. "Croatia's Tourism Industry: Croatia's Tourism Industry: Beyond the Sun and Sea." European Commission's Directorate General Economic and Financial Affairs European Economy Economic Briefs, no. 36.
- Rojek, Miłosz, and Michał Masior. 2016. The Effects of Reforms Liberalizing Professional Requirements in Poland. Report for the EC/DG Internal Market, Industry, Entrepreneurship and SMEs. [https://ec.europa.eu/growth/content/effects-reforms-regulatory-requirements-access-professions-country-based-case-studies-o\\_en](https://ec.europa.eu/growth/content/effects-reforms-regulatory-requirements-access-professions-country-based-case-studies-o_en).
- Trezner, Željko, and Sanda Čorak. 2018. Tourist Agencies and Tour Operator's Business Activity Analysis 2007-2017. Zagreb: Tourism Institute. <https://www.hgk.hr/documents/analiza-poslovanja-turistickih-agencija-i-turoperatora-u-razdoblju-2007-2017-20075b67f9c2bd56e.pdf>.
- Valjak, Viktorija. 2017. Improvement in Presenting Natural Properties in Croatian National Parks. Zagreb.
- Zirnstein, Elizabeta, and Valentina Franca. 2016. "Professions in Tourism: Regulation vs. Deregulation." Management International Conference Pula, Croatia.



# **Health professions**

# Pharmacists and pharmaceutical technicians

Competition between pharmacies in Croatia is severely limited by restrictive regulations. These regulations are designed to promote access to health care and quality of services but undermine incentives to improve services. In most locations, new pharmacies can only open business if existing operators cease to provide services. Pharmacies cannot sell their products online or advertise freely and set the prices of nonreimbursable medicines and devices themselves. In addition, the operating costs of Croatian pharmacies are higher than in other EU countries because pharmacy premises, exclusive rights of professionals, and their licensing process are overregulated. While several of these restrictions are common across the EU, countries that reformed pharmacy regulations achieved not only a more competitive retail sector but also better access to care.

## 9.1 Market overview

**Pharmacies are primarily engaged in the retail of pharmaceutical products.** This activity encompasses the retail of prescription medicines and over-the-counter drugs. Pharmacies are the exclusive retailers of prescription medicines in Croatia and one of the retailers of over-the-counter medicines (alongside specialist stores). Pharmacies in Croatia also sell other products, such as medical devices, homeopathic products, dietetic products, cosmetics, and toiletries.<sup>1</sup>

**The pharmacy market in Croatia is fragmented and some players are publicly owned.** There are approximately 1,200 community pharmacies in Croatia. The largest five pharmacy chains account for approximately 20 percent of revenues. Two of the top five pharmacies and approximately 25 percent of all community pharmacies are publicly owned. Several large players are vertically integrated and also operate as wholesalers.

**The Croatian Health Insurance Fund is the largest buyer of pharmacy services in Croatia.** According to firm-level data, pharmacy revenues totaled around HRK 6.5 billion in 2017 (around US\$1 billion) and profits accounted for 4 percent of revenues. The sales of prescription drugs covered by public health insurance accounted for half of all pharmacy revenues (and a smaller portion of profits). The Croatian Health Insurance Fund (*Hrvatski zavod za zdravstveno osiguranje*, HZZO), the country's sole payor, reimburses pharmacies directly for drugs covered by insurance and in addition pays them a fixed fee for their dispensing service.

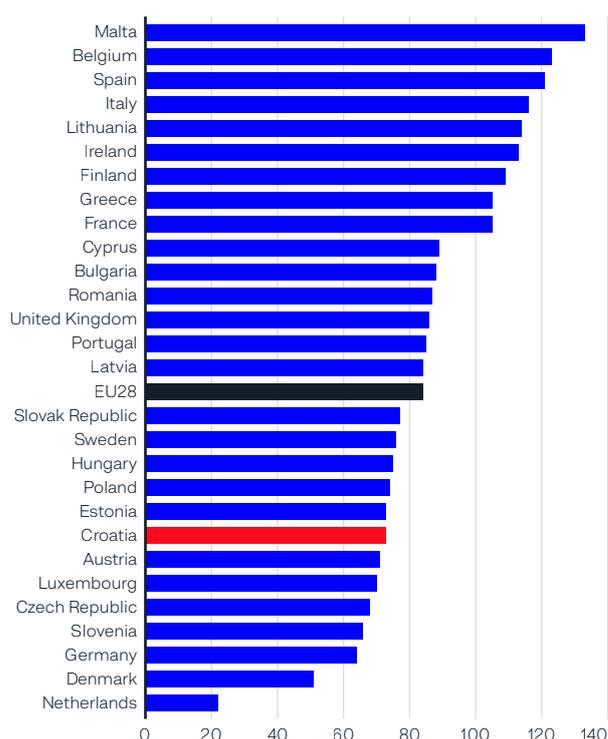
---

<sup>1</sup> Article 5 of the Pharmacy Act (Official Gazette No. 121/03, 142/06, 35/08, and 117/08).

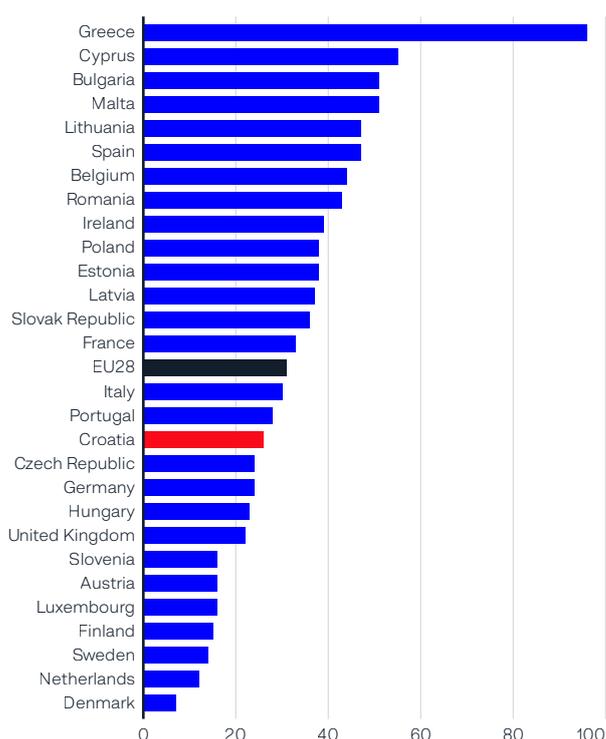
**Pharmacies are regulated in Croatia.** Four main laws govern their operation: the Health Care Act, the Mandatory Health Insurance Act, the Pharmacy Act, and the Medical Products Act. These regulations are detailed in bylaws issued by the Ministry of Health, the Chamber of Pharmacists, and the Agency for Medical Products and Medicinal Devices. New entrants are required to meet location requirements<sup>2</sup> and obtain a license from the Ministry of Health. Pharmacies can be operated as a company or a health care institution. They need to be managed by pharmacists but can be owned by non-pharmacists. The range of products sold by pharmacies is limited by law and the prices of most products are regulated. Market participants tend to follow regulations quite closely given the enforcement and oversight powers of the Ministry of Health and the Chamber of Pharmacists.

**Several market outcomes suggest limited competition between pharmacies.** The number of pharmacists and pharmacy density in Croatia is below the average in other EU countries (see Figures 9.1 and 9.2). Pharmacy-level data also suggest limited market churn as 90 percent of operators have been active for more than 10 years and there are few recent newcomers (Figure 9.3). The range of additional services offered by pharmacies is also limited (Figure 9.4). At the same time, no representative data are available to evaluate other indicators of quality, such as the range of products, wait times for drugs, or opening hours of pharmacies.

**Figure 9.1** Pharmacists per 100,000 inhabitants, 2017



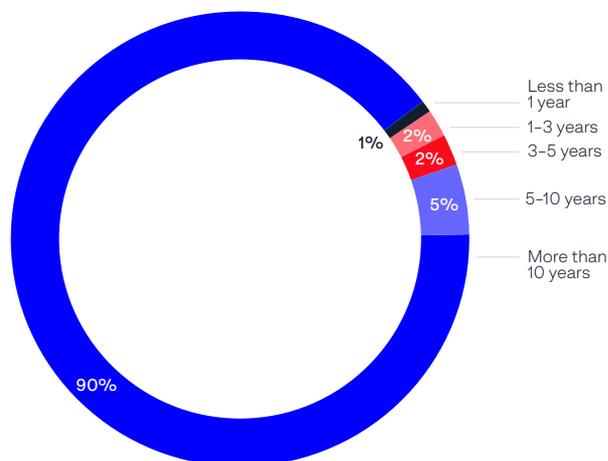
**Figure 9.2** Pharmacies per 100,000 inhabitants, 2017



Source: Eurostat, Federal Union of German Associations of Pharmacists 2017.

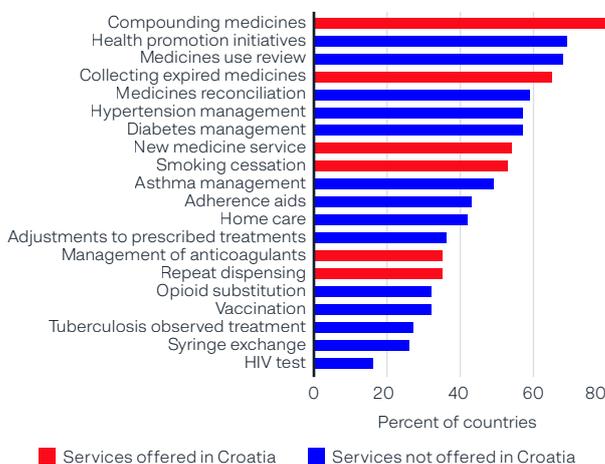
Note: The comparison includes countries that allow for online distribution of medicines (for example, Denmark, the Netherlands) and therefore face lower demand for brick-and-mortar retail.

<sup>2</sup> Pharmacies can only be opened in municipalities with low pharmacy density and if they are located 200–300 m from existing operators. In practice, the opening of new pharmacies is only possible if an existing pharmacy closes or if the population in the respective city or municipality increases. The rules for pharmacy location are explained in detail on page 15.

**Figure 9.3** Age of pharmacies in operation, 2017

Source: World Bank staff calculations based on Bisnode data

Note: The data represent about 80 percent of pharmacy revenues.

**Figure 9.4** Non-dispensing services provided by community pharmacies, 2015–2018

Source: International Pharmaceutical Federation, Croatian Chamber of Pharmacists.

## 9.2 Regulated professions

**Two regulated professions operate in the market: pharmacists and pharmaceutical technicians.** Both professions are essential to the provision of pharmacy services in Croatia. The opening and day-to-day management of pharmacies and the dispensing of prescription medicines are restricted to pharmacists. Over-the-counter drugs and other products sold in pharmacies can be sold by pharmacists and pharmaceutical technicians.<sup>3</sup> Given these limitations, most employees of pharmacies are pharmacists and pharmaceutical technicians.<sup>4</sup> In comparison, in other developed countries, such as in the United States and the United Kingdom, most employees of drug stores are assistants although they are not allowed to dispense prescription medicines.<sup>5</sup>

## 9.3 Restrictions

**In total, eight key restrictions to competition were identified in pharmacy regulations.** The review entailed three laws and 11 bylaws regulating the provision of pharmacy services (see Annex D for a complete list of restrictions). Most restrictions stem from rules that limit entry or reinforce dominance, in particular the involvement of incumbents in entry and exit decisions and cumbersome licensing requirements. Rules that are conducive to collusive outcomes or increase costs to compete, notably by restricting the types and formats of services, have also been identified. Rules that discriminate or protect vested interest also exist but are less prominent (Table 9.1). The following sections discuss individually the (a) harm to competition caused by these restrictions; (b) the stated policy rationale for restrictions; and (c) alternative solutions that are either less distortive, more effective, or both.

<sup>3</sup> Article 18 and 19 of the Pharmacy Act (Official Gazette No. 121/03, 142/06, 35/08, and 117/08).

<sup>4</sup> According to 2016 data from the Croatian Employment Service (*Hrvatski zavod za zapošljavanje*), the following professions work in pharmacies: pharmacists, clinical pharmacists, herbs pharmacists, wholesale pharmacists, and pharmaceutical technicians. See <http://llcg.dev.teched.hr/ALMIS-Dev/Occupation>.

<sup>5</sup> The dispensing of prescription medicines in these countries is restricted to pharmacists and pharmaceutical technicians.

**Table 9.1** Types of anticompetitive restrictions in pharmacy regulations

Main types of rules based on market effect	Specific types	Frequency	Examples of restrictions
Rules that limit entry or reinforce dominance	1.1 Monopoly rights and absolute ban for entry	1	Location rules, chamber membership
	1.2 Relative ban for entry and expansion of activities	6	
	1.3 Incumbents participate in entry/exit decisions	14	
	1.4 Requirements for registry (licenses and permits)	14	
Rules that facilitate collusion or increase costs to compete	2.1 Rules that facilitate agreements/ reduce firms' choice of strategic variables	2	Ban on distance selling, advertising restrictions, price control, requirements for premises, requirements for pharmaceutical technicians, exclusive right of pharmacists and pharmaceutical technicians
	2.2 Restrictions on type of products and services/format and location	11	
	2.3 Price control	1	
Rules that discriminate and protect vested interests	3.1 Discriminatory application of rules and standards	2	
	3.2 Discretionary application of rules	3	
	3.3 Lack of competitive neutrality vis-à-vis government entities	0	
	3.4 State aid/incentives distorting level playing field	0	

Source: World Bank Group staff analysis based on the MCPAT. The MCPAT methodology is presented in Annex A.

Note: Some restrictions have been attributed to and counted as several types. For instance, a license that is allocated in a discriminatory way has been counted as two types of restrictions: requirement for registry (licenses and permits) and discriminatory application of rules and standards.

### 9.3.1 Location rules

**Pharmacies in Croatia can only operate if their location meets demographic and geographic rules.** These rules are stipulated in the Pharmacy Act and its bylaws. The demographic rule<sup>6</sup> effectively allows for the establishment of one pharmacy per about 5,000 inhabitants in cities and municipalities with more than 20,000 inhabitants and one pharmacy per 3,000–5,000 inhabitants in smaller municipalities. The geographic rule requires pharmacies to be located at least 500 metres apart in cities and municipalities of less than 100,000 inhabitants. Pharmacies in cities between 100,000 and 500,000 inhabitants can be located 300 m from each other, and the distance between pharmacies in cities with more than 500,000 inhabitants must be at least 200 metres.<sup>7</sup>

### Harm to competition

**The rules on pharmacy location effectively create a quota on the number of pharmacies in Croatia.** The opening of new pharmacies is only possible if an existing pharmacy closes or if the population in the respective city or municipality increases. The quota effectively precludes operators from creating new pharmacy services and expanding existing ones. The geographic

<sup>6</sup> Articles 2 and 5 of the Ordinance on the conditions that determine the area in which a pharmacy will be established (Official Gazette 26/07, 118/07, 81/08, 98/12, and 116/15).

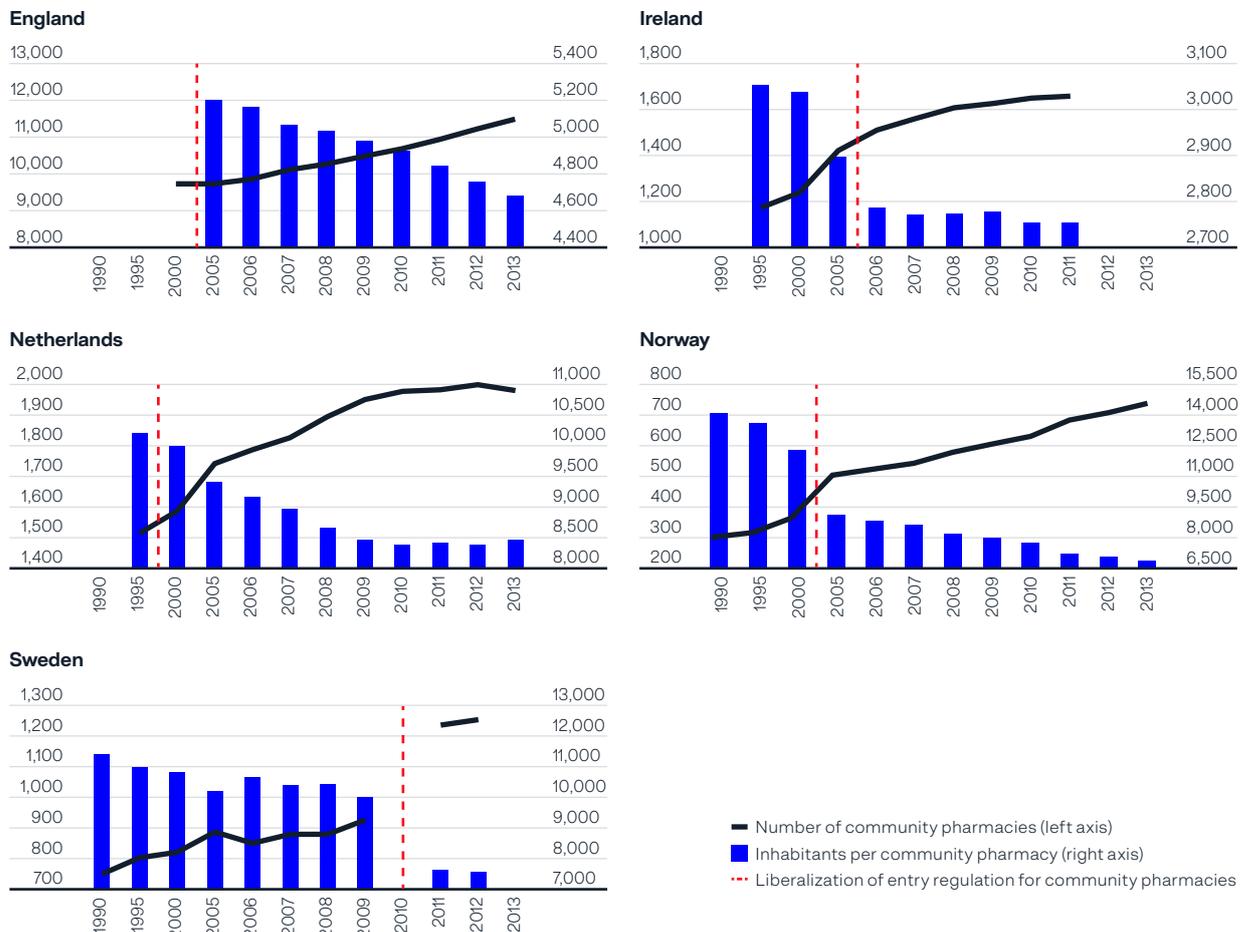
<sup>7</sup> Articles 5 of the Ordinance on the conditions that determine the area in which a pharmacy will be established (Official Gazette 26/07, 118/07, 81/08, 98/12, and 116/15).

rule grants exclusivity in the perimeter around one pharmacy and further reinforces local market power. These restrictions to competition explain lower pharmacy density in Croatia than in other countries of the European Union (including in countries that limit the sales of medicines to brick-and-mortar stores). The pharmacy coverage in Croatia is also lower than in Serbia, which has no location rules and where one pharmacy serves on average around 2,500 inhabitants. The restriction on the number of pharmacies is particularly relevant as demand for pharmaceuticals is growing in Croatia due to aging population and rising incomes.

### Policy objective

**The location rules for pharmacies do not serve the stated policy objective of access to pharmaceutical care.** International evidence demonstrates that liberalizing the location rules for pharmacies is associated with higher pharmacy density (Figure 9.5). The number of pharmacies increased by at least 10 percent and up to 50 percent five years after the reform in European countries which removed restrictive location rules for pharmacies in the last two decades. International evidence also suggests that access to pharmacies in remote and rural areas does not become more sparse than the Croatian target of 3,000–5,000 inhabitants per pharmacy. In Serbia, for instance, the number of pharmacists in small regions located in rural and remote areas of the country has increased over time and currently one pharmacist serves on average 2,600 residents in such regions.

**Figure 9.5 Pharmacy density in five European countries, 1990–2013**



Source: Vogler, Habimana, and Arts 2014.

**The location rules do not support the policy objective of increasing the quality of pharmaceutical care.** Limiting the number of pharmacies reduces incentives for pharmacies to compete on such aspects as opening hours, customer response times, or the range of products and services offered. An evaluation of 2005 reforms in the United Kingdom demonstrated extended opening hours, improved consumer choice, shorter travel and wait times, increased availability of collection and delivery services, and other service enhancements after the liberalization of the economic needs test for pharmacy establishment.<sup>8</sup> In addition, evidence from nine European countries shows that countries with location rules do not record better results on quality of service indicators such as wait times for drugs.<sup>9</sup>

## Alternatives

**Removing location rules will help achieve the stated policy objectives of access to and quality of pharmaceutical care.** Currently, Croatian regulations do not leverage market competition to achieve public policy objectives. Unlocking market forces for the benefit of consumers is therefore the best alternative to the harmful regulations currently in place. Quality of pharmaceutical care can also be ensured through standard setting.

**In addition, the Government of Croatia can consider other less distortive and more effective measures.** For instance, the sale of pharmaceuticals online is currently not allowed in Croatia.<sup>10</sup> Authorizing distance selling would allow leveraging mail services to deliver medicines to remote areas and benefit in particular patients with foreseeable medication needs, such as patients with chronic diseases. In addition, the Ministry of Health could consider reducing the cost of doing business for pharmacies by removing unnecessary requirements for pharmacy premises and staff. A more detailed discussion of additional measures supporting the development of pharmacy services in Croatia is included in the following sections.

### 9.3.2 Requirements for premises

**Pharmacy premises in Croatia are regulated in detail.** The Ordinance on the minimal requirements regarding the space, staff, and medical technical equipment, for instance, stipulates that a pharmacy has to include the following facilities: dispensary, laboratory, washing room, storage room, manager room, storage space for flammable substances, wardrobe, and toilet. The ordinance also specifies the size of these rooms in square meters. In addition, the ordinance regulates in detail the requirements regarding equipment for both medical and office appliances.<sup>11</sup>

## Policy objective and harm to competition

**Several requirements for pharmacy premises unnecessarily harm competition by raising the cost of entering and competing in the market.** While some requirements are justified to ensure quality of care (for example, the requirement for the patient consultation room to be separate from the dispensary ensures patient privacy) or safety (for example, the separation of the lavatory and laboratory), other requirements go beyond the required minimum (such as surface requirements and the requirement for a separate room for the pharmacy manager).

<sup>8</sup> Office of Fair Trading 2010.

<sup>9</sup> Vogler, Habimana, and Arts 2014.

<sup>10</sup> Article 22 of Pharmacy Act (Official Gazette No. 121/03, 142/06, 35/08, 117/08).

<sup>11</sup> See Annex D for a detailed list of the relevant requirements.

Coupled with the strict requirements on location, these restrictions make the choice of pharmacy location, its establishment, and operation unnecessarily difficult. These requirements also limit innovation and the creation of new retail formats, such as mini-pharmacies or the sale of drugs in convenience stores.

## Alternatives

### **The Government of Croatia can replace unnecessary requirements with guidelines.**

In other EU countries, such as Ireland, the legal requirements for pharmacy premises are limited to essential aspects of pharmaceutical care, such as ensuring that the laboratory is separate from the dispensary.<sup>12</sup> Other aspects of pharmacy care, such as the size of pharmacy premises, are left to the discretion of pharmacy operators but supported through guidelines. This approach allows for more flexible and more competition-friendly implementation of the requirements.

### **The Government of Croatia can also adopt performance standards for pharmacies.**

Performance standards should be indicator based. Examples of indicators that are observable and therefore easy to monitor include the availability of drugs, time to fill prescriptions, or the number of medication incidents. Performance standards allow moving the enforcement of requirements from the control of inputs to the control of outcomes and thus allow operators to choose the most efficient means of ensuring quality of care. Such standards do not harm competition as long as they are applicable in a uniform way to all market players and they do not impose disproportional costs on market players. Performance standards can be voluntary or mandatory. Certifying the quality of services on a voluntary basis leverages market forces to ensure higher quality of services by providing consumers with the information needed to refine their preferences and operators with incentive to differentiate and improve their offering. Mandatory quality standards (for example, provisions to keep a minimum amount of medicines on stock and rules to fill prescriptions within a specific time) may harm competition and so care should be exercised that they are not overly restrictive. Quality standards can be monitored by consumer bodies, industry associations, and/or public authorities through adequately staffed inspection services.

### 9.3.3 Exclusive rights

**Pharmacists hold at least five exclusive rights.** Pharmacists are the only profession entitled to (a) prepare prescription medicines with strong effect and narcotic products in the pharmacy; (b) retail prescription medicines; (c) provide patients with advice related to prescription medicines; (d) manage the pharmacy (including supervise pharmaceutical technicians); and (d) lease premises within health institutions. Together with pharmaceutical technicians, pharmacists are also the only professionals entitled to (a) prepare prescription medicines (other than products with strong effect or narcotic products) and nonprescription medicines; (b) sell homeopathic products; and (c) use the pharmacy premises to sell and provide advice on over-the-counter drugs, medicinal devices, dietetic products, and other products offered in the pharmacy.

## Harm to competition

**Exclusive rights reduce competition between providers and increase the cost of doing business.** Pharmacy operators must ensure that prescription medicines are dispensed by pharmacists. Other products sold in pharmacies can be sold by pharmacists and pharmaceutical

---

<sup>12</sup> Pharmaceutical Society of Ireland 2017.

technicians but not other professionals, such as assistants in the United Kingdom. This increases labor costs for pharmacy operators and limits entry of new operators into the market. Exclusive rights also make it harder for pharmacy operators to compete in market segments in which pharmacies compete with other stores (such as the market for medical devices or the market for over-the-counter drugs).

## Policy objective

**Exclusive rights are established to ensure patient safety.** Low-quality pharmaceutical care can lead to complications. Requirements on the qualifications of pharmacists and pharmaceutical technicians help minimize this risk and ensure minimum standards of care. These standards allow the market for drug retail to function more smoothly and address the problem of information asymmetry between the patient and health care professionals.

**However, limiting dispensing of prescription medicines and other pharmaceutical care to pharmacists is not necessary to achieve patient safety.** In most developed countries, for which there are comparative data, pharmaceutical technicians are allowed to dispense prescription medicines (see Table 9.2). Pharmaceutical technicians can be entrusted with more tasks in the pharmacy because their training covers information that is essential to inform patients on the use of prescription medicines for common illnesses. In cases where their qualifications are insufficient to advise patients, they can refer a patient to a pharmacist. Pharmaceutical technicians work under the supervision of pharmacists, and pharmacists can specify in which situations they need to be involved personally. Pharmaceutical technicians should also participate in continuing professional development to further their knowledge about prescription medicines. Generally, pharmaceutical technicians should share the responsibility for adequate pharmaceutical care with the pharmacist and be held to similar professional standards as pharmacists.

**Table 9.2** Professionals entitled to dispense prescription medicines

England	Pharmacists
Ireland	Pharmacy technicians/assistants
Netherlands	
Norway	Pharmacists
Sweden	Prescriptionists/pharmacoeconomists
Finland	(Bachelor in Pharmacy)
Denmark	
Austria	Pharmacists only
Spain	

Source: Vogler, Habimana, and Arts 2014.

Note: No data available for remaining European countries.

**Limiting the sale of other products than prescription medicines to pharmacists and pharmaceutical technicians is also not necessary.** Dispensing over-the-counter medicines and other products, such as cosmetics and some types of medical devices, does not require specialist knowledge. Shop assistants in specialized stores that sell over-the-counter medicines are already entitled to dispense nonprescription drugs. This is justified because the sale of over-the-counter drugs is associated with fewer health risks than the sale of prescription medicines. Drug abuse, for instance, is generally less harmful in the case of over-the-counter drugs than in the case of prescription medicines.

## Alternatives

**Pharmaceutical technicians should be authorized to dispense prescription drugs and other professionals should be allowed to distribute the remaining products sold in pharmacies.** Sharing the exclusive right to dispense prescription drugs between pharmacists and pharmaceutical technicians and removing the exclusivity on the sales of other products offered in Croatian pharmacies are best alternatives because they allow ensuring of patient safety at a lower cost. Pharmaceutical technicians should also participate in continuing professional development to learn how to provide full-fledged pharmaceutical care.

**The Government of Croatia can also adopt other measures to support patient safety and quality of care.** Pharmacies should be encouraged to adopt performance and risk management systems to ensure effective supervision of pharmacy staff by pharmacists. There are also system-wide alternatives to improve and monitor quality of care in specific areas. Examples of such alternatives include (a) requiring insurance against medical incidents caused by malpractice; (b) adopting and monitoring performance standards (for example, monitoring dispensing errors through electronic pharmacy records); and (c) detecting fraud through e-prescription systems and HZZO inspections.

#### 9.3.4 Chamber membership

**To work in a pharmacy, pharmacy graduates are required to join the Chamber of Pharmacists and receive a license from the chamber.** The Pharmacy Act names entry into the registry of the Chamber of Pharmacists and authorization for independent work as two conditions for offering pharmacy services.<sup>13</sup> Chamber members are required to pay annual membership fees of HRK 500 (around US\$75). The professional license is granted for six years and is renewable provided the pharmacist completes professional development. The chamber can revoke licenses. Pharmacists who open a pharmacy are also required to notify the chamber about the new establishment. Unlike pharmacists, pharmaceutical technicians are not required to be members of a professional body.

### Harm to competition

**The central role of the Chamber of Pharmacists in registration and licensing harms competition in three ways.** First, both processes allow incumbents to decide over entry and exit of service providers and thus reinforce the position of existing market players. Second, the compulsory membership in the chamber makes it easier for pharmacy operators to collude on strategic variables, such as opening hours or the range of products and services that are offered, and it raises the cost of operating in the market. Third, the chamber's regulations are discretionary and open the room for discrimination. For instance, the chamber can demand 'other proofs' when reviewing applications for licenses<sup>14</sup> and the President of the chamber can refuse to grant the professional license for a wide range of reasons.<sup>15</sup>

### Policy objective

**The policy objective of chamber membership and authorization is to promote patient safety and quality of care.** Alongside the right to issue professional licenses, the chamber is responsible for formulating and enforcing professional standards for its members. These standards emphasize the well-being of patients. For instance, pharmacists are required to refuse to dispense drugs which they suspect will harm the health of patients. In the opinion of the Ministry of Health and the Chamber of Pharmacists, these standards ensure that pharmacists prioritize patients over profits. The Ministry of Health and the Chamber of Pharmacists enforce these standards by inspecting

---

<sup>13</sup> Article 20 of the Pharmacy Act (Official Gazette No. 121/03, 142/06, 35/08, 117/08).

<sup>14</sup> Article 7 of the Ordinance on the issue, renewal, and revocation of authorization for independent work (general act of the chamber).

<sup>15</sup> Articles 12, 16, 21, and 25 of the Ordinance on the issue, renewal, and revocation of authorization for independent work give the President of the Chamber the right to refuse the issuing of work authorization for reasons foreseen by 'positive legal provisions'. In practice, this means, for instance, that the Chamber President can reject the application from a candidate who is qualified but received a traffic ticket. Articles 33-35 of the ordinance allow for wide discretion in decisions regarding the suspension or revocation of licenses.

pharmacies; collecting complaints; and, where necessary, sanctioning pharmacists who have violated professional standards. The sanctions at the disposal of the chamber include 'soft' measures, such as warnings, and 'hard' measures, such as fines and withdrawal of the work authorization.

**However, compulsory chamber membership is not the most effective means to achieve the above objectives.** The enforcement of professional standards relies on deterrence on the one hand and guidance to pharmacists on the other hand. Both enforcement strategies are compromised when they are carried out by the professional body. The Chamber of Pharmacists does not have an incentive to issue sanctions against its members because doing so is in conflict with its role as integrator of the professional community. In practice, the Croatian Chamber of Pharmacists investigates less than 10 complaints per year and its most frequent sanction is a warning letter. The chamber provides guidance to its members but does not assist new entrants in obtaining a license and complying with regulatory requirements.

## Alternatives

**Membership in the professional chamber could be optional.** While professional chamber membership may serve as a signal of high-quality services, it is more effective when membership is voluntary because then high-quality providers can self-select into the professional association. This selection can be encouraged through objective screening criteria, such as qualifications or years of practice. To avoid conflicts of interest, licensing should be the responsibility of independent institutions, such as the Ministry of Health. In Denmark, for instance, pharmacists are not licensed by the professional body but by the Danish Medicines Agency and in Sweden no chamber membership is required to practice as a pharmacist. Also, in Croatia, pharmacy graduates who work in pharmaceutical companies are not required to be members of the chamber to practice their profession, even though they play a crucial role in ensuring that drug production is safe and follows EU-wide quality standards.

**Patient safety can also be promoted by requiring professional liability insurance and indicator-based quality monitoring.** Professional liability and insurance requirements are more effective than compulsory chamber membership as the insurance premium directly depends on the claims history of individual providers. Currently, per chamber regulations, pharmacists in Croatia are partially liable for dispensing prescription drugs.<sup>16</sup> The Ministry of Health or the Chamber of Pharmacists could also be more proactive in promoting risk management in pharmacies through tools such as voluntary audits or periodic practice reviews. These tools should incorporate the indicator-based performance standards proposed as alternatives to the requirements on pharmacy premises and exclusive rights of pharmacists and pharmaceutical technicians.

### 9.3.5 Qualification requirements for pharmaceutical technicians

**To work in pharmacies, pharmaceutical technicians are required to complete (a) vocational education, (b) traineeship, and (c) an exam.** The vocational education is at the secondary level and lasts five years. In the case of candidates who have completed general secondary education or hold another vocational education, retraining is available to become a pharmaceutical technician. The traineeship for pharmaceutical technicians lasts one year and takes place in pharmacies. At the end of the traineeship, candidates take the professional exam. The exam is oral and consists of a general and specialist part. The general part covers essential regulations and the specialist part covers knowledge of pharmaceutical products and conditions of their storage as well as the preparation of galenic and magistral preparations. There are no further requirements for pharmaceutical technicians.

---

<sup>16</sup> Article 12 of the Code of Ethics of the Croatian Chamber of Pharmacists.

## Harm to competition

**The separation of the vocational education, the traineeship, and the professional exam harms competition by raising the cost for technicians to enter the profession.** Despite completing the four-year vocational education, candidates for technicians are required to spend an additional year in training before becoming pharmaceutical technicians. As a result, pharmacy operators have a smaller pool of professionals they can employ to dispense nonprescription medicines and other products. This raises costs of pharmacy operators and makes it more difficult to compete due to a shortage of qualified personnel. In addition, examining technicians orally creates unnecessary room for discretionary and discriminatory treatment of candidates.

## Policy objective

**Qualification requirements for pharmaceutical technicians promote patient safety and reduce information asymmetry.** Pharmaceutical technicians are trained in important aspects of pharmaceutical care, such as how to avoid contamination of drugs produced in the pharmacy and how to store pharmaceutical products. The professional exam for pharmaceutical technicians is conducted by the Ministry of Health and takes place after the completion of the vocational education and traineeship. Owing to the testing of qualifications, patients can trust pharmaceutical technicians to be prepared to sell and advise on products offered in pharmacies.

## Alternatives

**Qualification requirements for pharmaceutical technicians can be streamlined and improved.** In practice there is no need to separate the traineeship and professional exam from the vocational education of pharmaceutical technicians. Until recently, pharmacists have also been required to complete a traineeship and a professional exam after their university education, but these requirements were integrated into the program of pharmacy studies. The same can be done for qualification requirements of pharmaceutical technicians. In addition, the exam of the pharmaceutical technicians should be written and not oral to ensure objectivity and equal treatment of candidates.

### 9.3.6 Ban on distance selling

**The distance selling of medicines in Croatia is not allowed.** Mail order and online distribution are strictly prohibited by the Pharmacy Act.<sup>17</sup> The ban applies to prescription medicines and over-the-counter drugs.<sup>18</sup>

## Harm to competition

**The ban on distance selling limits the ability of pharmacy operators to compete across distribution channels.** Mail order and online distribution are established in the United States and increasingly common in European countries, with most EU countries allowing the sales of nonprescription medicines and 10 North and Central European countries allowing the sales of both prescription and nonprescription pharmaceuticals.<sup>19</sup> Distance selling allows, among others, for

---

<sup>17</sup> Article 22 of the Pharmacy Act (Official Gazette No. 121/03, 142/06, 35/08, and 117/08)

<sup>18</sup> Article 136 of Medicinal Products Act allows distance selling of over-the-counter drugs but according to available information such option is not used in practice.

<sup>19</sup> International Pharmaceutical Federation 2017.

more efficient packaging and distribution of drugs, in particular drugs for patients with chronic conditions. Distance selling allows to leverage mail services and technology to deliver medicines to remote areas. The delivery of medical supplies via drones has also been tested in several countries, such as the United States.<sup>20</sup>

## Policy objective

**The Ministry of Health restricts the distribution of drugs to pharmacies to ensure traceability.** Tracing pharmaceuticals from production to final retail allows to ensure safety standards and protects patients against falsified medicines. The traceability of medicines is one of the cornerstones of the Falsified Medicines Directive of the European Union.<sup>21</sup> According to the directive and accompanying regulations,<sup>22</sup> the outer packaging of prescription medicines is required to carry as safety features a unique identifier and an antitampering device. The Ministry of Health stresses that the control of these safety features is more difficult for drugs distributed online.

## Alternative

**Medicines can be sold remotely and be safe.** Traceability is an essential requirement for patient safety, but it does not apply to nonprescription medicines as these medicines are generally less likely to be falsified.<sup>23</sup> In addition, prescription medicines can also be traced when distributed through mail order and traditional pharmacies. To support the monitoring of online sales, the Falsified Medicines Directive established a common EU-wide logo to certify legally operating online pharmacies. This regulation could also apply to online pharmacies in Croatia.

### 9.3.7 Price control

**The prices of products sold in pharmacies are regulated in Croatia.** About half of the revenues of Croatian pharmacies are linked to sales of prescription medicines which are covered by public health insurance. For these products, the Croatian Health Insurance Fund, Croatia's sole public payor, determines a retail price and a reference price at which it caps reimbursement. The retail and reference prices are determined for therapeutic classes in negotiations with pharmaceutical companies and on the basis of comparator prices from other European countries. The reference price for all drugs in the therapeutic class can be lowered if a producer applies for coverage by the Croatian Health Insurance Fund with a therapeutically equivalent drug that is cheaper than competing products. Croatia's drug reimbursement system follows general practice for drug reimbursement adopted by countries with sole payors. The prices of medical devices reimbursed by the Croatian Health Insurance Fund are also fixed. The prices of prescription drugs and medical devices not covered by public health insurance, and the prices of over-the-counter drugs are currently not regulated, but the chamber has the authority to regulate these prices.<sup>24</sup> The prices of the remaining products offered in pharmacies (for example, cosmetics) are not regulated.

<sup>20</sup> Howell et al. 2016.

<sup>21</sup> Directive 2011/62/EU of the European Parliament and of the Council of 8 June 2011 amending Directive 2001/83/EC on the Community code relating to medicinal products for human use, as regards the prevention of the entry into the legal supply chain of falsified medicinal products.

<sup>22</sup> Commission Delegated Regulation (EU) 2016/161 of 2 October 2015 supplementing Directive 2001/83/EC of the European Parliament and of the Council by laying down detailed rules for the safety features appearing on the packaging of medicinal products for human use.

<sup>23</sup> Omeprazole, a drug against ulcers and heart burn, is an example of a frequently falsified over-the-counter medicine.

<sup>24</sup> Article 35 of the Pharmacy Act (Official Gazette No. 121/03, 142/06, 35/08, and 117/08).

**The margins charged by pharmacies for dispensing prescription medicines and medical devices are fixed.** Fixed margins apply to the distribution of prescription medicines and medical devices reimbursed by the Croatian Health Insurance Fund. The margins on other products sold in pharmacies are also regulated.<sup>25</sup> According to rules issued by the chamber, pharmacies can set the margins for these products between 10 percent and 35 percent of the retail price.<sup>26</sup> The retail margins for other products offered in pharmacies (for example, cosmetics) are not regulated.

## Harm to competition

**Regulated prices and margins limit the ability of pharmacies to compete.** If the prices and margins were not regulated, pharmacies could attract customers with lower prices. They could achieve lower prices by (a) obtaining drugs or medical devices at a lower cost or (b) operating more efficiently than their competitors. Given that the buyer power of insurance providers is more concentrated and given that there are shared purchasing schemes for drugs covered by public insurance in place, it seems unlikely that pharmacy operators would be able to negotiate lower drug prices than the Croatian Health Insurance Fund. Drugs and devices, for which the Chamber may set prices, are the main exception and a key area where Chamber price controls may hinder competition. There also remains room for lowering retail prices through more efficient wholesale and retail operations, including through vertical integration and inventory management.

## Policy objective

**The objective of price and margin regulation are aggregate savings in the cost of pharmaceutical care.** Since most pharmaceutical care is financed by the public payor, it wields significant buyer power compared to pharmaceutical companies and can use this power to negotiate better prices on behalf of patients. The procedures currently in place allow the Croatian Health Insurance Fund to leverage this buyer power.<sup>27</sup> Regulating retail and reference prices of publicly reimbursed prescription medicines and medical devices encourages price competition between producers of therapeutically equivalent drugs as lower-price providers can influence the reference price paid by the insurer and thus ensure that their product is fully reimbursed while higher-priced products are only partially reimbursed.

## Alternatives

**The Chamber of Pharmacists should not have the authority to regulate the prices of medicines and medical devices.** The determination of retail and reference prices for publicly reimbursable prescription medicines and medical devices by the Croatian Health Insurance Fund serves the objective of aggregate savings in the cost of pharmaceutical care in Croatia. However, apart from the price setting role of the Croatian Health Insurance Fund, the Pharmacy Act gives the Chamber of Pharmacists the right to regulate prices of medicines and medical devices not covered by public health insurance. Since there is no shared purchasing scheme in place for these products, there is no need to limit competition in this segment of the market.

---

<sup>25</sup> Article 35 of the Pharmacy Act (Official Gazette No. 121/03, 142/06, 35/08, and 117/08).

<sup>26</sup> Decision on the retail price formation method for medicinal products and other medical devices not contracted with the Croatian Health Insurance Fund (general act of the chamber).

<sup>27</sup> Information on the effectiveness and results of this policy could not be obtained.

**The regulation of pharmacy margins could be reconsidered to allow pharmacies to compete on the efficiency of retail.** The contribution of fixed pharmacy margins to aggregate savings is not evident. If pharmacies were free to determine the margins on the sale of prescription medicines and medical devices, and if they were free to advertise prices, they may be able to find more efficient ways to distribute products. As a result, the public payor may be able to negotiate with individual pharmacy operators lower fees than the fixed fees which it currently pays to all pharmacies in Croatia. The regulation of pharmacy margins should also be reconsidered for products not reimbursed by the Croatian Health Insurance Fund, as there is currently no policy for shared purchasing of these products and thus pharmacies should be allowed to compete freely on the level of margins that they charge.

### 9.3.9 Advertising restrictions

**Pharmacies are limited by law in what and how they can advertise.** The Chamber of Pharmacists issues rules on advertising and provides opinions in response to questions from its members. Advertising is generally restricted to the pharmacy premises. Outside advertising is only allowed on an exceptional basis, for instance, when conducted by the Chamber of Pharmacists on behalf of all pharmacies or by an individual pharmacy within two weeks of its opening. In addition, the information conveyed to the public is principally limited to information on the address and opening hours of the pharmacy. Pharmacies are generally not allowed to inform about other attributes (for instance, shorter wait times for drugs that are not held in store). Discounts and loyalty programs related to prescription medicines are not allowed.

### Harm to competition

**Pharmacies cannot effectively compete and grow because they have no means to attract customers.** The advertising restrictions severely limit the incentives of pharmacies to improve their services. Higher-quality pharmacies cannot communicate their offering and cannot vie for customers. Consequently, they cannot increase their turnover and push lower-quality pharmacies out of the market. Customers have no means of obtaining information on high-quality providers and rely on proximity and personal experience when choosing their pharmacy. As a result, there is limited market churn and few service improvements over time.

### Policy objective

**The main objective of advertising restrictions is to prevent pharmacies from misleading customers.** Misleading information can be particularly harmful in the case of drug retail because of the health risk associated with inappropriate drug use. The regulations of the Chamber of Pharmacists ban advertising that is deceptive, exploitative, or not transparent. At the same time, the chamber also prohibits “advertising [some] pharmacies as better pharmacies,” advertisements that may “create unfair competition and damage to other pharmacies,” and advertisements “that is marketed and in violation of ethical standards”.<sup>28</sup>

### Alternatives

**There is no need for pharmacy-specific rules on advertising.** Misleading advertising is regulated in economy-wide business regulation. The Consumer Protection Act, which also applies to pharmacies, defines unfair business practices and the definition of such practices includes

---

<sup>28</sup> Article 11 of the Ordinance on the method of advertising the work of pharmacies (general act of the chamber).

the provision of misleading information or the misleading omission of information.<sup>29</sup> The pharmacy-specific regulations that go beyond general business rules (such as the restriction of advertising to pharmacy premises) are unnecessary and harmful to competition and public health as they do not allow pharmacies to compete on the quality of pharmaceutical care and limit the ability of consumers to maximize welfare.

## 9.4 Recommendations

Recommendation	Regulation	Justification	Responsible institution and target date <sup>a</sup>
<b>Rules that limit entry or reinforce dominance</b>			
<b>1. Abolish location rules for pharmacies</b>	<p>Articles 7 and 9 of the Pharmacy Act (Official Gazette 121/03, 142/06, 35/08, 117/08)</p> <p>Articles 36 and 37 of the Health Care Act (Official Gazette 150/08, 155/09, 71/10, 139/10, 22/11, 84/11, 154/11, 12/12, 35/12, 70/12, 144/12, 82/13, 159/13, 22/14, 154/14, 70/16, and 131/17)</p> <p>Ordinance on the conditions that determine the area in which a pharmacy will be established (Official Gazette 26/07, 118/07, 81/08, 98/12, 116/15)</p>	<p><b>The requirement is not necessary to ensure the policy objective of access to pharmaceutical care, including in rural and remote areas.</b> There is generally no evidence of market failure in the direct provision of pharmaceutical care in Croatia and thus no basis for government intervention.<sup>b</sup></p> <p><b>At the same time the requirement severely harms competition and by doing so undermines access to pharmaceutical care.</b> The location rules are effectively a quota on the number of pharmacies in Croatia. This precludes operators from creating new and expanding existing pharmacy services. The restriction to competition results in lower pharmacy coverage than in comparator countries.</p>	Ministry of Health January 2021
<b>2. Abolish compulsory professional chamber membership for pharmacists and chamber authorization for independent work<sup>c</sup></b>	<p>Articles 20, 21, and 34 of the Pharmacy Act (Official Gazette 121/03, 142/06, 35/08, and 117/08)</p> <p>Statute of the Chamber of Pharmacists (internal regulation of the Chamber of Pharmacists)</p> <p>Ordinance on the issue, renewal, and revocation of authorization for independent work (internal regulation of the Chamber of Pharmacists)</p> <p>Ordinance on the conditions, manner, entry, keeping and content of the register (internal regulation of the Chamber of Pharmacists)</p>	<p><b>Mandatory professional chamber membership is not the most effective means to promote patient safety.</b> Membership in professional chambers is required to ensure compliance with professional standards. However, in practice the Croatian Chamber of Pharmacists rarely sanctions members for breaching chamber regulations. There is an inherent conflict of interest between representing the professional community on the one hand and licensing/supervising members of this community on the other hand. Pharmacists are not required to be members of professional chambers in several EU countries (for example, Denmark).</p> <p><b>Professional chamber membership restricts competition because it allows competitors to vet new entrants.</b> The requirement of chamber membership also facilitates agreement between competitors and may make it easier to coordinate on strategic variables, such as location or opening hours.</p> <p><b>There are alternative, more effective means of ensuring that pharmacists follow professional standards.</b> While professional chamber membership may serve as a signal of high-quality services, it is more effective when membership is voluntary because then high-quality providers can self-select into the professional association. This selection can be encouraged through objective screening criteria, such as qualifications or years of practice. Patient safety can also be more effectively promoted through mandatory professional liability insurance as the insurance premium directly depends on the claims history of individual providers. The chamber could be more proactive in promoting risk management in pharmacies through tools such as voluntary audits or periodic practice reviews.</p>	Ministry of Health Chamber of Pharmacists January 2021

<sup>29</sup> Articles 30–35 of the Consumer Protection Act (Official Gazette: 41/2014, 110/2015, and 14/2019).

Recommendation	Regulation	Justification	Responsible institution and target date <sup>a</sup>
<b>Rules that facilitate collusion or increase costs to compete</b>			
<p><b>3. Abolish redundant requirements for premises (such as the regulation of the surface area) and issue guidelines with best practices on premises and performance standards</b></p>	<p>Ordinance on the minimal requirements regarding the space, staff, and medical technical equipment for providing health care (Official Gazette 61/11, 128/12, 124/15, 8/16, 77/18)</p> <p>Issuance of guidelines with best practices on premises and performance standards</p>	<p><b>Not all requirements for pharmacy premises are necessary to achieve the policy objective of patient safety, privacy, and convenience.</b> While some requirements are justified to ensure quality of care (such as the availability of a patient consultation room that is separate from the dispensary) or safety (such as the separation of the lavatory and laboratory), other requirements go beyond the required minimum (such as surface requirements, the requirement for a separate room for the supervising pharmacist).</p> <p><b>At the same time, the requirements for premises harm competition by raising the cost of entry into the market.</b></p> <p><b>There are less distortive alternatives available to meet the policy objective.</b> Some requirements could be included in guidelines with best practices on premises. Compliance with guidelines could be the subject of audits/inspections and their results made publicly available to encourage consumer choice and voluntary compliance. Pharmacies could be also encouraged to compete on the quality of care through performance standards.</p>	<p>Ministry of Health January 2021</p>
<p><b>4. Authorize pharmaceutical technicians to sell prescription medicines and provide other pharmaceutical care; promote professional development of pharmaceutical technicians</b></p>	<p>Articles 1, 5, 6, 18, and 20 of the Pharmacy Act (Official Gazette 121/03, 142/06, 35/08, 117/08)</p> <p>Article 32 of the Act on Regulated Professions and Recognition of Foreign Professional Qualifications (Official Gazette 82/15)</p> <p>Article 32 of the Ordinance on the criteria for the classification of medicines and prescribing and issuing prescription drugs (Official Gazette 86/13, 90/13, 102/14, 107/15, 72/16)</p>	<p><b>Limiting dispensing of prescription medicines to pharmacists is not necessary to achieve patient safety.</b> In other countries, pharmaceutical technicians are allowed to dispense prescription medicines. Pharmaceutical technicians work under the supervision of pharmacists and their training allows them to advise patients on the use of prescription medicines for common illnesses. In cases where they cannot provide reliable information or have doubts, they should direct the patient to the pharmacist.</p> <p><b>Exclusive rights of pharmacists harm competition and thus access to pharmacies.</b> Croatian pharmacies can only stay open if a pharmacist is present on the premises. Exclusive rights also limit innovation because pharmacy operators cannot explore new retail formats for pharmacy operations.</p> <p><b>There are alternative, more effective means to promote quality of care.</b> Pharmaceutical technicians should participate in continuing professional development and have the option to upgrade their qualifications to be able to dispense a wide variety of prescription medicines. In addition, pharmacies should be encouraged to adopt performance and risk management systems to ensure effective supervision of pharmaceutical technicians by pharmacists. Finally, there are system-wide alternatives to improve and monitor quality of care in specific areas. Examples of such alternatives include (a) adopting and monitoring performance standards (for example, monitoring dispensing errors through electronic pharmacy records); (b) requiring insurance against medical incidents caused by malpractice; and (c) detecting fraud through e-prescription systems and HZ-ZO inspections.</p>	<p>Ministry of Health January 2021</p>

Recommendation	Regulation	Justification	Responsible institution and target date <sup>a</sup>
5. Authorize other professionals than the pharmaceutical technician and the pharmacist to sell over-the-counter medicines and other non-pharmaceutical products in pharmacies	<p>Articles 1, 2, 3, 5, 18, 19, and 20 of the Pharmacy Act (Official Gazette 121/03, 142/06, 35/08, 117/08)</p> <p>Article 32 of the Act on Regulated Professions and Recognition of Foreign Professional Qualifications (Official Gazette 82/15)</p> <p>Article 49 of Medical Devices Act (Official Gazette 76/13)</p> <p>Article 4 of Ordinance on conditions for performing retail trade and granting the license to specialized retail stores for medical devices (Official Gazette 133/13)</p>	<p><b>The requirement is not necessary to ensure the policy objective of patient safety.</b> Dispensing over-the-counter medicines and other products, such as cosmetics and some types of medical devices, does not require specialist knowledge. Shop assistants in specialized stores that sell over-the-counter medicines are already entitled to dispense non-prescription drugs.</p> <p><b>The requirement harms competition because it unlevels the playing field between pharmacies and other stores offering over-the-counter drugs, medical devices, cosmetics, and other products sold in pharmacies.</b> Retail chains, for instance, are not required to employ staff with health care qualifications. As a result, pharmacies face a disadvantage compared to their competitors in the segments for over-the-counter drugs and non-pharmaceutical products.</p>	Ministry of Health January 2021
6. Integrate traineeship and exam with training of pharmaceutical technicians	<p>Articles 3 and 13 of the Ordinance on traineeships for health professionals (Official Gazette 2/11, 14/13, 114/13, 145/13, 126/14, 135/15)</p>	<p><b>It is not necessary to separate the professional exam and traineeship from vocational education.</b> Pharmaceutical technicians are required to pass a professional exam and complete a one-year traineeship to ensure that they hold the necessary knowledge and skills to dispense drugs and advise on drug use. These requirements are necessary to ensure that pharmaceutical technicians are qualified to dispense drugs. However, the traineeship and exam for pharmaceutical technician is separated from their vocational training. This was also the case for pharmacists but the exam and practice was integrated into the university curriculum. As in the case of pharmacists, the traineeship and exam can be part of professional training. This will shorten the time needed to obtain a professional license by approximately one year. Implementing this recommendation will require changes in the curriculum for pharmaceutical technicians.</p>	Ministry of Health Ministry of Science and Education January 2021
7. Authorize online sales of pharmaceutical products	<p>Article 22 of the Pharmacy Act (Official Gazette No. 121/03, 142/06, 35/08, 117/08)</p>	<p><b>The requirement is not necessary to ensure the policy objective of traceability of pharmaceutical products.</b> Traceability is essential to ensure the monitoring of drugs across the value chain and safe and secure drug provision. However, in most EU countries pharmaceutical products can be sold online and traceability of products sold online is also ensured under the Falsified Medicines Directive.</p> <p><b>The ban on online sales harms competition by restricting the distribution of medicines.</b> Online stores cannot compete with physical pharmacy operators on the efficiency of drug delivery. This particularly affects access to medicines of patients with chronic diseases, especially patients in remote locations.</p>	Ministry of Health January 2021
8. Remove advertising restrictions for pharmacies	<p>Ordinance on the method of advertising the work of pharmacies (internal regulation of the Chamber of Pharmacists)</p>	<p><b>The requirement is not necessary to ensure the policy objective of patient safety.</b> General business rules apply to the advertising of pharmacy services and prevent undesirable outcomes, such as misleading advertising. There is no need for additional restrictions specific to pharmacies.</p> <p><b>Advertising restrictions harm competition by limiting the ability of suppliers to communicate their offer.</b> The possibility to advertise strategic variables, such as shop opening hours or wait times for drugs, gives pharmacies incentives to attract customers and improve access to services.</p>	Chamber of Pharmacists January 2021

Recommendation	Regulation	Justification	Responsible institution and target date <sup>a</sup>
<b>9. Abolish the right of the Chamber of Pharmacists to regulate prices of medicines and medical devices not covered by public health insurance and reconsider the regulation of pharmacy margins for all products offered in pharmacies</b>	<p>Article 35 of the Pharmacy Act (Official Gazette 121/03, 142/06, 35/08, and 117/08)</p> <p>Article 87 of the Mandatory Health Insurance Act (Official Gazette No. 80/13 and 137/13)</p> <p>Decision on the retail price formation method for medicinal products and other medical devices not contracted with the Croatian Health Insurance Fund (internal regulation of the Chamber of Pharmacists)</p> <p>Decisions of the Croatian Health Insurance Fund</p>	<p><b>The regulation of prices is not necessary in the case of products not covered by public health insurance.</b> The determination of retail and reference prices for publicly reimbursable prescription medicines and medical devices by the Croatian Health Insurance Fund serves the objective of aggregate savings in the cost of pharmaceutical care in Croatia. However, apart from the price-setting role of the Croatian Health Insurance Fund, the Pharmacy Act gives the Chamber of Pharmacists the right to regulate prices of medicines and medical devices not covered by public health insurance. Since there is no shared purchasing scheme in place for these products, there is no need to limit competition in this segment of the market.</p> <p><b>The regulation of margins is not necessary in general.</b> The contribution of fixed pharmacy margins to aggregate savings is not evident. If pharmacies were free to determine the margins on the sale of prescription medicines and medical devices and if they were free to advertise prices, they may be able to find more efficient ways to distribute products. As a result, the public payor may be able to negotiate with individual pharmacy operators lower fees than the fixed fees which it currently pays to all pharmacies in Croatia. The regulation of pharmacy margins should also be reconsidered for products not reimbursed by the Croatian Health Insurance Fund.</p> <p><b>The regulation of prices and margins harms competition between pharmacies because pharmacies cannot compete on the efficiency of drug distribution.</b></p>	<p>Ministry of Health Chamber of Pharmacists Croatian Health Insurance Fund January 2021</p>

Note:

a. For the entry into force of the regulatory change.

b. Such a market failure may occur on islands or remote areas inhabited by small communities. Where this is the case, government intervention is justified but should be implemented in a way that allows for market competition.

c. Should the Government of Croatia decide to keep the requirement for professional chamber membership, it should consider allowing pharmaceutical technicians to enter the chamber and access professional courses facilitated by the chamber.

## References

### Pharmacy regulations

- Health Care Act (Official Gazette 150/08, 71/10, 139/10, 22/11, 84/11, 154/11, 12/12, 35/12, 70/12, 144/12, 82/13, 159/13, 22/14, 154/14, 70/16)
- Pharmacy Act (Official Gazette 121/03, 124/06, 35/08, 117/08)
- Ordinance on traineeships for health professionals (Official Gazette 2/11, 14/13, 126/14)
- Ordinance on specialist training for pharmacists (Official Gazette 73/08)
- Ordinance on the conditions that determine the area in which a pharmacy will be established (Official Gazette 26/07, 118/07, 81/08, 98/12, 116/15)
- Ordinance on the minimum requirements for space, workers and medical and technical equipment for performing health care activities (Official Gazette 61/11, 128/12, 124/15, 8/16)
- Decision on the grounds for concluding a contract on providing health protection from compulsory health insurance (Official Gazette 56/17)
- Ordinance on conditions for determining the area in which pharmacies will be established (Official Gazette 26/07, 118/07)
- Ordinance on the issue, renewal, and revocation of authorisation for independent work of October 18, 2013. (Internal regulation of the Croatian Chamber of Pharmacists)
- Ordinance on the content, time limits, and procedures for the professional training of pharmacists (Internal regulation of the Croatian Chamber of Pharmacists)
- Ordinance on the manner of advertising the pharmacy of May 11, 2017
- The decision on how to design the retail price of medicines and other assets not subject to contract with Croatian Health Insurance Fund of December 21, 2006.
- Zakon o zdravstvenoj zaštiti (NN 150/08, 71/10, 139/10, 22/11, 84/11, 154/11, 12/12, 35/12, 70/12, 144/12, 82/13, 159/13, 22/14, 154/14, 70/16)
- Zakon o ljekarništvu (NN 121/03, 124/06, 35/08, 117/08)
- Pravilnik o pripravničkom stažu zdravstvenih radnika (NN 2/11, 14/13, 126/14)
- Pravilnik o specijalističkom usavršavanju magistara farmacije (NN 73/08)
- Pravilnik o uvjetima za određivanje područja na kojem će se osnivati ljekarne (NN 26/07, 118/07, 81/08, 98/12, 116/15)
- Pravilnik o minimalnim uvjetima u pogledu prostora, radnika i medicinsko-tehničke opreme za obavljanje zdravstvene djelatnosti (NN 61/11, 128/12, 124/15, 8/16)
- Odluka o osnovama za sklapanje ugovora o provođenju zdravstvene zaštite iz obveznog zdravstvenog osiguranja (NN 56/17)
- Pravilniku o uvjetima za određivanje područja na kojem će se osnivati ljekarne (NN 26/07, 118/07)
- Pravilnik o izdavanju, obnavljanju i oduzimanju odobrenja za samostalan rad od 18. listopada 2013. (Interna regulativa Hrvatske ljekarničke komore)
- Pravilnik o sadržaju, rokovima i postupku stručnog usavršavanja magistara farmacije (Interna regulativa Hrvatske ljekarničke komore)
- Pravilnik o načinu oglašavanja rada ljekarni od 11. svibnja 2017.
- Odluka o načinu oblikovanja maloprodajnih cijena lijekova i drugih sredstava koji nisu predmet ugovaranja s HZZO-m od 21. prosinca 2006.

## Other references

- Federal Union of German Associations of Pharmacists. 2017. "German Pharmacies. Figures. Data. Facts." Federal Union of German Associations of Pharmacists, Berlin.
- Howell, Charles T., III, Frank Jones, Taylor Thorson, Richard Grube, Cecil Mellanson, Lee Joyce, John Coggin, and Jack Kennedy. 2016. "The First Government Sanctioned Delivery of Medical Supplies by Remotely Controlled Unmanned Aerial System (UAS)." Conference paper for 'Xponential 2016', New Orleans, LA, United States, May 2–5. <https://ntrs.nasa.gov/search.jsp?R=20160009120>
- International Pharmaceutical Federation. 2017. Pharmacy at a Glance 2015–2017. The Hague: The Netherlands International Pharmaceutical Federation.
- Office of Fair Trading. 2010. "Evaluating the Impact of the 2003 OFT Study on the Control of Entry Regulations in the Retail Pharmacies Market." [https://webarchive.nationalarchives.gov.uk/20140402214527/http://www.offt.gov.uk/shared\\_offt/reports/Evaluating-OFTs-work/OFT1219.pdf](https://webarchive.nationalarchives.gov.uk/20140402214527/http://www.offt.gov.uk/shared_offt/reports/Evaluating-OFTs-work/OFT1219.pdf).
- Pharmaceutical Society of Ireland. 2017. "Guidelines on the Premises Requirements of a Retail Pharmacy Business." [https://www.thepsi.ie/Libraries/Folder\\_Pharmacy\\_Practice\\_Guidance/01\\_6\\_Premises\\_Requirements\\_V1.sflb.ashx](https://www.thepsi.ie/Libraries/Folder_Pharmacy_Practice_Guidance/01_6_Premises_Requirements_V1.sflb.ashx).
- Seiter, Andreas. 2010. A Practical Approach to Pharmaceutical Policy. Washington, DC: World Bank. <http://documents.worldbank.org/curated/en/751541468325451548/pdf/552030PUBoPhar10Box349442B-01PUBLIC1.pdf>.
- Vogler, Sabine, Katharina Habimana, and Danielle Arts. 2014. "Does Deregulation in Community Pharmacy Impact Accessibility of Medicines, Quality of Pharmacy Services and Costs? Evidence from Nine European Countries." *Health Policy* 117 (3): 311–327.

# Physiotherapists and physiotherapy technicians

Croatia has fewer physiotherapists than the EU average and needs to improve access to services to meet the needs of an aging population. However, becoming a physiotherapist in Croatia takes about three years longer and three more steps than in the United Kingdom. In Croatia, physiotherapists must have a university degree and one year of work experience, take a professional exam, join the professional chamber, and obtain additional approvals. Physiotherapists also face difficulties in selling their services. Most physiotherapy is financed by public health insurance, but tenders are rare and preference is given to providers with prior contracts. Physiotherapists can provide services to private patients, but they need to charge them high minimum prices. Price lists and advertisements are subject to paid authorization by the Chamber of Physiotherapists. While qualification requirements for practitioners are justified, most rules for physiotherapists in Croatia harm patients and providers because they go beyond minimum standards of safety and quality of services.

## 10.1 Market overview

**Physical therapy is primarily rehabilitative in Croatia.** Physical therapy is the assessment, planning, and implementation of programs that improve or restore human motor functions, maximize movement ability, relieve pain syndromes, and treat or prevent physical challenges associated with injuries, diseases, and other impairments.<sup>1</sup> Physical therapy may be preventive and/or rehabilitative. According to information from market participants, most physical therapy performed in Croatia is rehabilitative and therefore this analysis focuses on treatment after and not before a medical condition is diagnosed.

**Physiotherapy is performed primarily by public health care institutions.** In total, there are around 70 public and 200 private providers of physiotherapy in Croatia.<sup>2</sup> Public operators account for more than 80 percent of revenues. Inpatient and outpatient services are offered mainly by public health care institutions. In-home care is offered primarily by private operators. Providers have not consolidated and operate locally.<sup>3</sup>

---

<sup>1</sup> International Standard Classification of Occupations.

<sup>2</sup> The estimate of private providers includes entities operating as a private health institution, a limited liability company, or a private practice.

<sup>3</sup> Information from market participants.

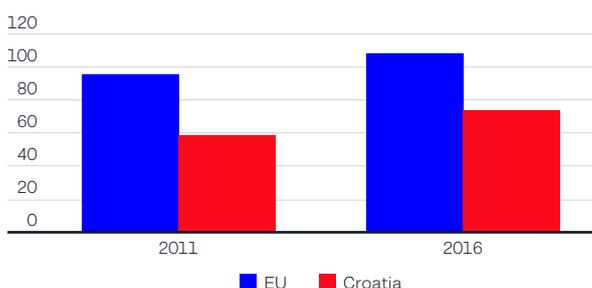
### More than 90 percent of spending on physiotherapy is covered by health insurance.

Outpatient and in-home care covered by insurance cost around HRK 292 million (around US\$45 million) in 2018.<sup>4</sup> Providers are reimbursed by the Croatian-Health Insurance Fund based on the number of treated cases classified by therapeutic procedure.<sup>5</sup> While no detailed data on private spending are available, market participants estimate user fees to account for less than 10 percent of spending on physiotherapy. These estimates exclude small copayments for services covered by public health insurance, which patients can opt out of by purchasing supplementary insurance. Out-of-pocket payments are most common for in-home care.

**Physiotherapy is regulated in Croatia.** Three laws are key for the provision of rehabilitative care: the Health Care Act, the Mandatory Health Insurance Act, and the Physiotherapy Profession Act. The Health Care Act authorizes private provision of physiotherapy services, subject to registration with the Chamber of Physiotherapists. The Mandatory Health Insurance Act specifies that physiotherapy services are covered by public insurance and outlines the terms of contracting with and payment by the Croatian Health Insurance Fund. The Physiotherapy Profession Act defines physiotherapy and describes standards of care. These primary regulations are further detailed in bylaws issued by the Ministry of Health and the Chamber of Physiotherapists. According to market participants, most providers adhere closely to the regulations.

**Competition between providers is limited by contracting practices.** Since public health insurance is universal in Croatia, private providers rely to a large degree on contracts with the Croatian Health Insurance Fund. However, there is generally no competitive bidding process for public contracts because the majority of contracts are de facto rolled over.<sup>6</sup> In practice, new entrants can only compete for private patients. The number of physiotherapists in Croatia has been consistently below the EU average (Figure 10.1).

**Figure 10.1** Number of physiotherapists per 100,000 inhabitants



Source: Eurostat.

## 10.2 Regulated professions

**Physiotherapy is mainly provided by two regulated professions: physiotherapists<sup>7</sup> and physiotherapist technicians.<sup>8</sup>** Physiotherapists are university graduates with a master's or bachelor's degree in physiotherapy. Technicians are graduates of vocational schools or vocational training courses. Both are allowed to treat patients, but physiotherapists are exclusively entitled to plan therapy and run a private practice. Physiotherapists and technicians are required to be members of the Chamber of Physiotherapists to practice their profession. Rehabilitative care is also provided by medical doctors (for example, rheumatologists and physical and rehabilitation medicine specialists) and unregulated professions, such as chiropractors, but competition from these professionals is limited.<sup>9</sup>

<sup>4</sup> Croatian Health Insurance Fund. No data available for spending on inpatient physiotherapy.

<sup>5</sup> Physiotherapy services are included in the Croatian diagnostic-related group (DRG) system developed since 2002.

<sup>6</sup> Tender documentation published by the Croatian Health Insurance Fund.

<sup>7</sup> The term physiotherapist is used jointly for masters and bachelors of physiotherapy. It covers the fizioterapeut (diplomirani fizioterapeut ili magistar fizioterapije) and the prvostupnik fizioterapije.

<sup>8</sup> See Annex C for a detailed overview of requirements to enter and practice physiotherapy professions in Croatia.

<sup>9</sup> According to the Association of Croatian Physicians, there are around 50 rheumatologists in Croatia and around 250 specialists in physical rehabilitation and medicine. According to the Croatian Association of Chiropractors, there are 11 chiropractors in Croatia and they have all been educated abroad.

### 10.3 Restrictions

**In total, five key restrictions to competition were identified in physiotherapy regulations.**

The review entailed two laws and nine bylaws regulating the provision of physiotherapy services (see Annex D for a complete list of restrictions). Most restrictions stem from rules that limit entry or reinforce dominance mainly because of the participation of incumbents in entry and exit decisions and cumbersome qualification and licensing procedures. Rules that discriminate or protect vested interests have also been identified, in particular discretionary decision making by the Chamber of Physiotherapists. Instances of discriminatory public procurement practices by the Croatian Health Insurance Funds have also been confirmed. Rules that facilitate collusion and increase costs to compete are present but less common (see Table 10.1). The following sections discuss individually the (a) harm to competition caused by these restrictions; (b) the stated policy rationale for restrictions; and (c) alternative solutions that are either less distortive, more effective, or both.

**Table 10.1** Types of anticompetitive restrictions in physiotherapy regulations

Main types of rules based on market effect	Specific types	Frequency	Examples of restrictions
Rules that limit entry or reinforce dominance	1.1 Monopoly rights and absolute ban for entry	4	Chamber membership, cumbersome qualification requirements
	1.2 Relative ban for entry and expansion of activities	0	
	1.3 Incumbents participate in entry/exit decisions	10	
	1.4 Requirements for registry (licenses and permits)	8	
Rules that facilitate collusion or increase costs to compete	2.1 Rules that facilitate agreements/reduce firms' choice of strategic variables	1	Price control, advertising restrictions
	2.2 Restrictions on type of products and services/format and location	5	
	2.3 Price control	3	
Rules that discriminate and protect vested interests	3.1 Discriminatory application of rules and standards	1	Discriminatory public procurement
	3.2 Discretionary application of rules	8	
	3.3 Lack of competitive neutrality vis-à-vis government entities	0	
	3.4 State aid/incentives distorting level playing field	0	

Source: World Bank Group staff analysis based on the MCPAT. The MCPAT methodology is presented in Annex A.

Note: Some restrictions have been attributed to and counted as several types. For instance, a license that is allocated in a discriminatory way has been counted as two types of restrictions: requirement for registry (licenses and permits) and discriminatory application of rules and standards.

#### 10.3.1 Chamber membership

**To treat patients, physiotherapists and technicians are required to join the Chamber of Physiotherapists and obtain a license from the chamber.**<sup>10</sup> Membership is mandatory for independent practitioners and employees of health care providers. To become members, physiotherapists must meet professional qualification requirements. The Chamber of Physiotherapists charges a monthly membership fee of HRK 50 (around US\$8). In addition, members of the chamber are required to obtain a professional license (the so-called authorization for independent work) from the chamber, for which they pay a one-time processing fee of HRK 500 (around US\$80).

<sup>10</sup> Articles 2, 14, and 24 of the Physiotherapy Profession Act (Official Gazette No. 120/08).

**The Chamber of Physiotherapists issues separately opinions on the opening of a private practice.** The Health Care Act allows physiotherapists (but not technicians) to provide services independently by opening a private practice, health care institution, or company. Before starting operations, physiotherapists are required to seek the opinion of the Chamber of Physiotherapists.<sup>11</sup> The Chamber of Physiotherapists charges a fee of HRK 2,500 (around US\$390) for providing the opinion. The fee is lower for physiotherapists who are members of the Chamber of Physiotherapists.<sup>12</sup>

## Harm to competition

**Mandatory chamber membership and authorizations harm competition in three ways.** First, registration and licensing allows incumbents to decide over entry of new service providers and thus reinforces the position of existing market players. Second, since all providers are members of the chamber it is easier for them to coordinate on strategic variables, such as prices, location, or opening hours. The Chamber of Physiotherapists is already active in setting minimum prices and providing opinions on the opening of independent practices.<sup>13</sup> Members of the chamber are also instructed not to make public statements on the chamber's acts and decisions.<sup>14</sup> Third, the chamber's regulations may create an unlevel playing field because they allow for discrimination. For instance, the chamber reserves the right to issue a negative opinion on the opening of private practice, health care institution, or company when the founder is not a physiotherapist.<sup>15</sup> While such a negative opinion may not prevent start-ups, it may harm the reputation of providers and disadvantage them on the market.

## Policy objective

**Chamber membership is mandatory to protect patient safety and reduce information asymmetry.** Membership in professional chambers is required to minimize the risk of adverse medical events. Members of the chamber are expected to follow professional standards set by the chamber and to participate in continuing professional development. In addition, membership is a seal of approval for high-quality service providers which can reduce information asymmetry in the market for physiotherapy services.

## Alternatives

**The risk of medical errors can be sufficiently minimized through qualification requirements.** Existing qualification requirements ensure that physiotherapists have the necessary skills when they enter the profession. Physiotherapists in Croatia are also required to update their qualifications through continuous professional development. Physiotherapists and physiotherapy technicians are not required to be members of professional chambers in several EU countries (for example, Denmark, Germany, and Austria). In addition, the risk of adverse events

---

<sup>11</sup> Article 47, paragraph 1, indent 10 of Health Care Act (Official Gazette No. 100/18), Article 9, paragraph 3, indent 10 of Statute of Croatian Chamber of Physiotherapists (internal regulation of the Chamber of Physiotherapists) and provisions of Ordinance on the procedure for issuing the opinion on the justification for establishment of private practices, health institutions, and companies providing physiotherapy (internal regulation of the Chamber of Physiotherapists).

<sup>12</sup> Decision on service fee issued by the Council of the Chamber of Physiotherapists (internal regulation of the Chamber of Physiotherapists).

<sup>13</sup> Decision on the minimum prices of physical therapy outside the Public Health Service Network, Ordinance on the procedure and manner of issuing opinions on the justification for establishing private practices, health institutions, and companies providing physiotherapy (internal regulation of the Chamber of Physiotherapists).

<sup>14</sup> General principle 14 of the Ethics Code of the Chamber of Physiotherapists (internal regulation of the Chamber of Physiotherapists).

<sup>15</sup> Article 10 of the Ordinance on the procedure and manner of issuing opinions on the justification for establishing private practices, health institutions, and companies providing physiotherapy (internal regulation of the Chamber of Physiotherapists).

can be assumed to be lower in the case of physiotherapists than in the case of other medical professionals, such as surgeons, and most complications should be remediable. As a result, entry requirements for these professionals can also be lower than for medical doctors.

**Making chamber membership voluntary and introducing professional liability insurance could further improve outcomes.** While professional chamber membership may serve as a signal of high-quality services, it is more effective when membership is voluntary because then high-quality providers can self-select into the professional association. This selection can be encouraged through objective screening criteria, such as qualifications or years of practice. In addition, physiotherapists could be required to purchase professional liability insurance. Professional liability and insurance requirements are more effective than compulsory chamber membership as the insurance premium directly depends on the claims history of individual providers.

### 10.3.2 Qualification requirements

**Physiotherapists and physiotherapy technicians are required to complete (a) specialist education, (b) traineeship, and (c) an exam.** Physiotherapists must have a university degree in physiotherapy and physiotherapist technicians must have vocational school/training diplomas. The traineeship for physiotherapists and technicians lasts one year and takes place after the specialist education. The professional exam is conducted by the Ministry of Health and covers a general part mandatory for all health care professionals and a specialist part on kinesiotherapy and physical therapy. The exam is oral and takes place after the completion of the traineeship.

#### Harm to competition

**The long qualification process delays entry into the profession and may limit the number of providers.** It takes at least 4–6 years to meet all qualification requirements for physiotherapists in Croatia. The long qualification process may discourage some candidates from qualifying as physiotherapists and it limits the number of professionals who are entitled to open a private practice. Hospitals, clinics, and private practices also have a smaller pool of professionals compared to the pool that would be available if qualification requirements were streamlined.

#### Policy objective

**Qualification requirements for physiotherapists and technicians are essential to ensure a high quality of care and reduce information asymmetry.** Physiotherapists and technicians are trained to rehabilitate patients with musculoskeletal, neuromotor, cardiopulmonary, and other dysfunctions. Their training includes, among others, study of human anatomy, pathology, physiopathology, and biomechanics. The qualifications of physiotherapists and technicians are verified by independent examiners appointed by the Ministry of Health. The qualification process promotes quality of care and assures patients.

#### Alternative

**While qualification requirements are essential, they can be streamlined and improved.** The qualification process for physiotherapists is long because the specialist education, work experience, and the professional exam take place in sequence. However, there is no need to separate the traineeship and professional exam from education. In the case of other medical professionals in Croatia, these requirements have been merged. Pharmacists, for instance, complete their traineeship and professional exam during their university studies. Similarly, in other countries, such

as the United Kingdom, it is possible to acquire an apprenticeship degree in physiotherapy based on practical, work-based learning. In addition, the exam for physiotherapist and physiotherapist technicians should be written and not oral to ensure objectivity and equal treatment of candidates.

### 10.3.3 Public procurement

**The procurement process for physiotherapy services is generally based on public tenders.** The Croatian Health Insurance Fund is the country's public payor and accounts for more than 90 percent of spending on physiotherapy. In general, the fund contracts health services through tenders.<sup>16</sup> To ensure country-wide coverage, the Ministry of Health and the Croatian Health Insurance Fund aim to contract in each municipality one in-home physiotherapist per 15,000 insured persons<sup>17</sup> and one inpatient specialist team<sup>18</sup> per 35,000 insured persons.<sup>19</sup>

#### Harm to competition

**Physiotherapy providers cannot bid effectively for public contracts.** While public tenders are held and private providers are eligible to bid in these tenders, bidders do not face a level playing field.<sup>20</sup> This is because the length of prior contracts with the Croatian Health Insurance Fund is mentioned as the most important selection criterion in tender documents. In addition, in some areas, the public health network includes more physiotherapists than planned and it is not clear to market participants how these areas have been selected and how to compete for these additional contracts.

**As a result, some providers are favored over others.** In inpatient and outpatient services, public providers have an advantage over new entrants (private or public), and in in-home care, private incumbents have an advantage over entrants. Given the high share of public spending on physiotherapy, the preference for public and existing providers in public contracts precludes new operators from entering the market. It also increases the likelihood of collusion among existing providers and limits their incentives to improve the offering and increase efficiency.

#### Policy objective

**The objective of public procurement is cost-effectiveness.** Cost-effective purchasing of goods and services is necessary to make more and better health care available to patients and to improve health outcomes. As the sole public payor for health services in Croatia, the Health Insurance Fund pools resources and contracts services directly from providers. To streamline payments, physiotherapy services are categorized and invoiced by providers in DRGs. There are 2 DRGs for in-home physiotherapy services and 23 DRGs for outpatient physiotherapy. The Croatian Health Insurance Fund also aims to ensure access to physiotherapy services in the entire country. To this end, the fund standardizes across municipalities the ratio of contracted physiotherapists and medical teams to the number of insured persons.

<sup>16</sup> Articles 87 and 88 of Mandatory Health Insurance Act (Official Gazette No. 80/13 and 137/13) and Articles 3, 4, 5, and 50 of the Decision on the Basis for Concluding the Contracts on the Implementation of Health Care from Mandatory Health Insurance (Official Gazette No. 56/17, 73/17, 30/18, 35/18, and 119/18).

<sup>17</sup> Table II.2 of the Public Health Network Plan (Official Gazette No. 101/12, 31/13, 113/15, 20/18).

<sup>18</sup> One medical doctor, one nurse, and five physiotherapists.

<sup>19</sup> Articles 51 and 52 of the Decision on the Basis for Concluding the Contracts on the Implementation of Health Care from Mandatory Health Insurance (Official Gazette No. 56/17, 73/17, 30/18, 35/18, and 119/18).

<sup>20</sup> Interview with Ministry of Health officials and HZZO tenders on conclusion of the contracts on the implementation of health care from mandatory health insurance available on the HZZO website.

## Alternative

**Providers should compete on price and quality of care, not tenure.** Tenders are open when all suppliers are publicly invited to submit bids and when there are no unjustified impediments for suppliers to compete for the public contract (such as preferential tendering criteria or excessively high security deposits). Generally, efficiency and quality increases with the number of suppliers participating in the tender. To this end, private participation in public tenders should be encouraged and it is important that all participants face a level playing field when competing for public contracts. Increasing the number of market participants who can participate in tenders can not only help achieve savings but also raise the quality of public services.

### 10.3.4 Price control

**The prices of physiotherapy services are regulated in Croatia.** For services contracted individually by patients, the Chamber of Physiotherapists sets minimum prices.<sup>21</sup> The chamber also requires that practicing physiotherapists submit price lists and their changes (for example, the addition of a new service) for approval by the chamber.<sup>22</sup> The chamber's consent is required for rates that private insurance companies pay providers.<sup>23</sup> For services covered by public health insurance, the Croatian Health Insurance Fund sets prices for different types of treatment after consultations with the chamber.<sup>24</sup> The chamber charges its members a fee of HRK 250 (around US\$40) for reviewing price lists.

## Harm to competition

**The price regulation limits the ability of providers and insurance companies to differentiate themselves.** Price is one of the strategic variables which providers use to attract patients. Minimum price regulation may lead to the underprovision of physiotherapy services, in particular in areas with below-average purchasing power such as Slavonija, Baranja, and Srijem. This is because some consumers may be willing to pay and some providers may be willing to accept lower prices than the prices set by the chamber, but these transactions will not materialize if providers and patients are bound by the chamber's minimum price. The mandatory consent of the chamber for prices paid by private insurers also limits their ability to differentiate themselves and compete vigorously in the market for insurance.

## Policy objective

**Price regulation in different market segments has been introduced for distinct reasons.** The Ministry of Health introduced the minimum price regulation for physiotherapy services purchased directly by patients because competition between providers will force some of them to stop providing services. The Chamber of Physiotherapists sets and recommends prices at levels which it considers necessary to ensure the viability of high-quality care. The Croatian Health Insurance Fund regulates prices for services covered by public health insurance to leverage its buying power and achieve aggregate savings in the cost of health care.

---

<sup>21</sup> Article 26 of the Physiotherapy Profession Act (Official Gazette No. 120/08).

<sup>22</sup> Decision on the minimum prices of physical therapy outside the Public Health Service Network (internal regulation of the Chamber of Physiotherapists).

<sup>23</sup> Article 151 of the Health Care Act (Official Gazette 150/08, 71/10, 139/10, 22/11, 84/11, 154/11, 12/12, 35/12, 70/12, 144/12, 82/13, 159/13, 22/14, 154/14, 70/16).

<sup>24</sup> Article 87 of the Mandatory Health Insurance Act (Official Gazette No. 80/13 and 137/13), Decision on the Basis for Concluding the Contracts on the Implementation of Health Care from Mandatory Health Insurance (Official Gazette No. 56/17, 73/17, 30/18, 35/18, and 119/18).

## Alternatives

**Abolishing the regulation of prices paid by patients and private insurers could improve access to care.** The Chamber of Physiotherapists as a professional association serves primarily the interests of its members. It therefore has incentives to set the minimum price at a level above the free market price. Price setting by the chamber may lead to underprovision of services and therefore harm the policy objective of access to care. Allowing prices to develop freely could allow more patients to purchase physiotherapy services at a lower price and access to health care would improve. Similarly, access to care could improve if private insurers could freely set the prices paid to physiotherapy providers and manage their costs.

**The Croatian Health Insurance Fund could also consider introducing competitive bidding in its DRG system.** The DRG system allows to organize a wide range of products and services into standard categories. It is general payor convention to set one price for each of these categories. However, if providers could discount the price of these services (or their bundles) to serve a larger volume of patients, they would have incentives to achieve economies of scale. As a result, the Croatian Health Insurance Fund may be able to reimburse more treatments under the same budget. Testing and implementing this alternative will take considerable preparation and should not be limited to physiotherapy services only.

### 10.3.5 Advertising restrictions

**The Chamber of Physiotherapists regulates advertising of physiotherapy services.**<sup>25</sup> Advertising in print media is generally allowed, but advertising in other media is subject to authorization by the chamber. The chamber reviews whether the draft text and layout of the advertisement comply with the professional code and charges a fee for this review. The approval of the chamber is valid for one year and the distribution of the advertisement is not limited, provided the advertisement displays the reference number of the chamber's approval.

## Harm to competition

**Physiotherapists are limited in their ability to reach customers.** Since advertisements are vetted by the Chamber of Physiotherapists, potential competitors may be involved in the decision on how providers communicate with customers. Competitors have incentives to block communication with the public. Members of the chamber have limited recourse against any biased decisions as the chamber's Code of Ethics does not allow practicing physiotherapists to make public statements on the chamber's decisions. Chamber approval also costs time and money. High-quality providers are limited in their ability to grow their operations and patients may be relying on other information, such as location, to choose their provider.

## Policy objective and alternative

**Restrictions on advertising of physiotherapy services are not necessary.** The restrictions on advertising physiotherapy services have been adopted to prevent misleading information. Misleading information may induce patients to seek unnecessary or ineffective treatment. However, misleading advertising is regulated in general business regulation and there is no need for additional rules on physiotherapy services. The Consumer Protection Act defines

---

<sup>25</sup> Article 26 of the Physiotherapy Profession Act (Official Gazette 120/08), Ordinance on the manner of physiotherapist advertising (internal regulation of the Chamber of Physiotherapists).

unfair business practices and the definition of such practices includes the provision of misleading information or the misleading omission of information.<sup>26</sup>

These rules are also not proportional as misleading advertisements can be challenged effectively after their publication and do not require ex ante approvals.

## 10.4 Recommendations

Recommendation	Regulation	Justification	Responsible institution and target date <sup>a</sup>
<b>Rules that limit entry or reinforce dominance</b>			
<p><b>1. Abolish compulsory professional chamber membership for physiotherapists and physiotherapy technicians, chamber authorization for independent work, and chamber opinion on the opening of the private practice</b> Introduce professional liability insurance in lieu of the above requirements</p>	<p>Articles 2, 4, 14, 15, 24, 25, 26, and so on of the Physiotherapy Profession Act (Official Gazette No. 120/08)</p> <p>Ordinance on the issue, renewal, and revocation of authorization to work independently (internal regulation of the Chamber of Physiotherapists)</p> <p>Ordinance on the procedure and manner of issuing opinions on the justification for establishing private practices, health institutions, and companies providing physical therapy (internal regulation of the Chamber of Physiotherapists)</p>	<p><b>Mandatory professional chamber membership is not necessary to promote patient safety and to reduce information asymmetry.</b> Membership in professional chambers is primarily required to minimize the risk of adverse medical events. Members of the chamber are required to follow professional standards set by the chamber and to participate in continuing professional development. However, physiotherapists and physiotherapy technicians are not required to be members of professional chambers in several EU countries (for example, Denmark, Germany, and Austria). In practice, the risk of adverse events can be assumed to be lower in the case of physiotherapists than in the case of other health care professionals, such as surgeons. Complications should be remediable. As a result, existing requirements on professional qualifications and development appear sufficient to ensure patient safety.</p> <p><b>Professional chamber membership restricts competition because it allows competitors to vet entry and exit.</b> The requirement of chamber membership also facilitates agreement between competitors and makes it easier to coordinate on strategic variables, such as prices, location, or opening hours. The Chamber of Physiotherapists is already engaged in setting minimum prices and providing paid opinions on the opening of independent practices. It also issues and renews licenses and while doing so uses potentially discriminatory criteria that go beyond the criteria specified in the primary legislation.<sup>b</sup></p> <p><b>There are alternative, more effective means of ensuring that physiotherapists follow professional standards.</b> While professional chamber membership may serve as a signal of high-quality services, it is more effective when membership is voluntary because then high-quality providers can self-select into the professional association. This selection can be encouraged through objective screening criteria, such as qualifications or years of practice. Patient safety can also be more effectively promoted through mandatory professional liability insurance as the insurance premium directly depends on the claims history of individual providers.</p>	<p>Ministry of Health Chamber of Physiotherapists January 2021</p>

<sup>26</sup> Articles 30–35 of the Consumer Protection Act (Official Gazette 41/2014, 110/2015, and 14/2019).

Recommendation	Regulation	Justification	Responsible institution and target date <sup>a</sup>
2. Integrate traineeship and exam with training of physiotherapists and physiotherapy technicians	Articles 3 and 13 of the Ordinance on traineeships for health professionals (Official Gazette No. 2/11, 14/13, 114/13, 145/13, 126/14, and 135/15)	<b>It is not necessary to separate the professional exam and traineeship from education.</b> Physiotherapists and physiotherapy technicians are required to pass a professional exam and complete a one-year traineeship after they graduate from university (physiotherapists) or finish their vocational training (technicians). These requirements are necessary to ensure that physiotherapists and technicians are qualified to treat patients. However, the traineeship and exam for physiotherapists is separated from university education. The traineeship and exam for physiotherapy technicians is also separate from their vocational training. In other health care professions, for instance pharmacists, the professional exam and traineeship are an integral part of tertiary education. This shortens the time needed to obtain a professional license by approximately one year, while ensuring that professionals have the necessary skills to practice. Implementing this recommendation will require changes in the curricula for physiotherapy technicians and physiotherapists.	Ministry of Health Ministry of Science and Education January 2021
<b>Rules that facilitate collusion or increase costs to compete</b>			
3. Abolish the right of the Chamber of Physiotherapists to regulate prices of physiotherapy services	Article 151 of the Health Care Act (Official Gazette 150/08, 71/10, 139/10, 22/11, 84/11, 154/11, 12/12, 35/12, 70/12, 144/12, 82/13, 159/13, 22/14, 154/14, 70/16) Article 26 of the Physiotherapy Profession Act (Official Gazette No. 120/2008) Decision on the minimum prices of physical therapy outside the Public Health Service Network (internal regulation of the Chamber of Physiotherapists)	<b>The regulation of prices by the Chamber of Physiotherapists harms access to health care.</b> The Chamber of Physiotherapists sets a price floor for privately contracted physiotherapy services and enforces this price floor through controls. In addition, the chamber's consent is required for prices paid by private health insurers. This minimum price regulation may lead to underprovision of physiotherapy services, in particular in areas with below-average purchasing power such as Slavonija, Baranja, and Srijem. This is because some consumers may be willing to pay and some providers may be willing to accept lower prices than the prices set by the chamber, but these transactions will not materialize if providers and patients are bound by the chamber's minimum price. Price formation should be left to the market. <b>The regulation of prices also limits the ability of providers and insurers to differentiate themselves from competitors.</b> This lack of competition may prevent operators from improving efficiency or developing new services. Price is one of the strategic variables for providers and insurance companies.	Ministry of Health Chamber of Physiotherapists January 2021
4. Remove advertising restrictions for physiotherapy	Article 26 of the Physiotherapy Profession Act (Official Gazette No. 120/08) Ordinance on the manner of physiotherapist advertising (internal regulation of Chamber of Physiotherapists)	<b>The requirement is not necessary to ensure the policy objective of patient safety.</b> General business rules apply to the advertising of physiotherapy services and prevent undesirable outcomes, such as misleading advertising. There is no need for additional restrictions specific to physiotherapists. There is also no need to seek paid authorization of advertising by the Chamber of Physiotherapists, as foreseen by the Ordinance on the manner of physiotherapists advertising. <b>Advertising restrictions harm competition by limiting the ability of suppliers to communicate their offer.</b> The possibility to advertise strategic variables, such as type of services offered and opening hours, allows operators to attract customers and improve access to services.	Ministry of Health Chamber of Physiotherapists January 2021
<b>Rules that discriminate or protect vested interests</b>			
5. Introduce competitive bidding for public contract	Decisions of the Ministry of Health and the Croatian Health Insurance Fund	<b>The process for awarding and signing contracts with the Croatian Health Insurance Fund harms competition by favoring existing providers of physiotherapy services.</b> The Croatian Health Insurance Fund is the country's single public payor and it	Ministry of Health Croatian Health Insurance Fund January 2021

Recommendation	Regulation	Justification	Responsible institution and target date <sup>a</sup>
		<p>accounts for the bulk of health spending in the country. New providers of physiotherapy services are limited in their ability to compete with existing providers for a contract with the Croatian Health Insurance Fund. This is because the length of prior contracts with the fund is the number one selection criterion named in the tendering documentation.</p> <p><b>Introducing open and competitive bidding for public contracts could help achieve savings and raise the quality of care.</b> The budget of the Croatian Health Insurance Fund is limited and there is a need to ensure that patients have access to services throughout the country. At the same time, there is no need to limit the eligibility of providers who meet service standards. Allowing all providers to compete for contracts with the Croatian Health Insurance Fund on equal terms would create incentives to lower prices and improve quality of care. Such competition can also be encouraged by the Health Insurance Fund through alternative bidding criteria, such as the range of equipment and services offered by providers.</p>	

#### Notes:

a. For the entry into force of the regulatory change.

b. For instance, the Chamber of Physiotherapists requires in Article 53 of the Statute of the Croatian Chamber of Physiotherapists that education of physiotherapists applying for the authorization of independent work is harmonized with the regulations of the Chamber of Physiotherapists. At the same time, Article 7 of the Physiotherapy Profession Act (Official Gazette 120/08), which lists the tasks of the chamber, does not grant the chamber the powers to determine such conditions.

## References

### Physiotherapy regulations

Physiotherapy Profession Act (Official Gazette 120/08)

Health Care Act (Official Gazette 100/18)

Ordinance on traineeships for health professionals (Official Gazette 2/11, 14/13, 126/14)

Statutes of Croatian Chamber of Physiotherapists (consolidated text, comprises the Statutes adopted on January 28, 2009, the amendments of December 6, 2009, July 2, 2011, October 21, 2012 and November 21, 2016)

Ordinance on the content, deadlines, and procedure for the verification of expertise (general act of the Croatian Council of Physiotherapists of November 4, 2010, amendments of September 2012, amendments of April 18, 2015, amendments of September 23, 2017) (Internal regulation of the Croatian Chamber of Physiotherapists)

Ordinance on the procedure and manner of issuing opinions on the justification for establishing private practices, health institutions, and companies providing physical therapy of March 23, 2009 (Internal regulation of the Croatian Chamber of Physiotherapists)

Ordinance on the manner of physiotherapist advertising of December 21, 2012 (Internal regulation of the Croatian Chamber of Physiotherapists)

Decision on the minimum prices of physical therapy outside the Public Health Service Network of December 21, 2012 (Internal regulation of the Croatian Chamber of Physiotherapists)

Zakon o fizioterapeutskoj djelatnosti (NN 120/08)

Zakona o djelatnostima u zdravstvu (NN 100/18)

Pravilnik o pripravnikom stažu zdravstvenih radnika (NN 2/11, 14/13, 126/14)

Statut Hrvatske komore fizioterapeuta (pročišćeni tekst sadrži Statut usvojen 28. siječnja 2009., izmjene i dopune od 6. prosinca 2009., 2. srpnja 2011., 21. listopada 2012. i 21. studenog 2016.)

Pravilnik o sadržaju, rokovima i postupku provjere stručnosti fizioterapeuta, fizioterapeutskih tehničara I masera-kupeljara (opći akt Hrvatske komore fizioterapeuta od 4. studenoga 2010., amandmani od rujna 2012., amandmani od 18. travnja 2015., izmjene i dopune od 23. rujna 2017.) (Interna regulativa Hrvatske komore fizioterapeuta)

Pravilnik o postupku i načinu davanja mišljenja o opravdanosti osnivanja private prakse, zdravstvene ustanove i trgovačkog društva koje obavljaju djelatnost fizikalne terapije od 23. ožujka 2009. (Interna regulativa Hrvatske komore fizioterapeuta)

Pravilnik o načinu oglašavanja djelatnosti fizikalne terapije od 21. prosinca 2012. (Interna regulativa Hrvatske komore fizioterapeuta)

Odluka o najnižim cijenama za pojedine poslove iz fizioterapeutske djelatnosti izvan Mreže javne zdravstvene službe od 21. prosinca 2012. (Interna regulativa Hrvatske komore fizioterapeuta)

### Other references

McPake, Barbara, Anthony Scott, and Ijeoma Edoaka. 2014. Analyzing Markets for Health Workers : Insights from Labor and Health Economics (English). Washington, DC: World Bank. <http://documents.worldbank.org/curated/en/78704146815118598/Analyzing-markets-for-health-workers-insights-from-labor-and-health-economics>.

McPake, Barbara, Allison Squires, Agya Mahat, and Edson C. Araujo. 2015. The Economics of Health Professional Education and Careers. Washington, DC: World Bank. <http://documents.worldbank.org/curated/en/570681468190783192/pdf/99535-PUB-Box393201B-PUBLIC-PUBDATE-9-16-15-DOI-10-1596-978-1-4648-0616-2-EPI-210616-SERIES-World-Bank-Studies.pdf>.

