

Are all restrictions equally important for competition?

Lessons from the review of occupational regulation in Croatia

Maciej Drozd | Senior Economist | MCT Unit
TIC Directorate | FCI Global Practice | WB



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Summary

- A recent review of occupational regulation in Croatia shows that **not all regulatory restrictions are equally important**:
 - Absolute and relative bans on entry, such as monopoly rights or restrictions on number of providers, stand out among entry restrictions.
 - Price controls as well as restrictions on advertising stand out among conduct restrictions.
- **PMR is a useful screening tool** that does not replace in-depth review of market characteristics and government interventions:
 - As the case of tax advisors in Croatia shows, other restrictions such as excessive qualification requirements can also constrain competition in major ways.

Background

- According to 2016 World Bank research, Croatia could gain more than **5% in total factor productivity** if it removed regulatory barriers to competition in services sectors.
- OECD PMR indicators (2013 vintage) identified professional services as key area for reform.
- EC data also indicated **potential for reforms in professional services**:
 - 31% of Croatian workers in regulated professions vs 22% in the EU (2016)
 - Around 300 regulated professions compared to average of around 200 in EU countries (2018)
 - Requirements stricter in Croatia than rest of EU in 6 out of 7 professions benchmarked by the EC (2018)
- The Government of Croatia requested **technical assistance from World Bank** in reforming occupational regulation.
- Jointly with the Government, the World Bank prioritized **10 groups of professions** for in-depth review and recommended changes in 19 laws and 52 by-laws.
- The Government of Croatia implemented **reforms in 5 professions** and plans additional reforms.
- Technical assistance delivered as part of the **Structural Reform Support Program of the European Commission**.

Scope

PMR professions

- Attorneys (1 regulated profession in Croatia)
- Notaries (1 reg. profession in Croatia)
- Architects (1 reg. profession in Croatia)
- Engineers (9 reg. professions in Croatia)
- Accountants (not licensed in Croatia)
- Real estate agents (not prioritized in Croatia)



Additional professions

Selected based on economic relevance, restrictiveness, and feasibility of reforms.

- Tax advisors (1 reg. profession in Croatia)
- Land surveyors (3 reg. professions in Croatia)
- Tourism professions (3 reg. professions in Croatia)
- Pharmacists (2 reg. professions in Croatia)
- Physiotherapists (3 reg. professions in Croatia)

Methodology

- Motivation: need to distinguish “key” restrictions for competition
 - Regulatory reviews frequently scan product market regulations for “restrictions” (regulatory requirements that restrict competition)
 - Some restrictions constrain market directly while others have more nuanced impact on markets (e.g., price ceiling below or above equilibrium price)
 - Impact expected to depend on local supply and demand conditions and type of regulation
- Approach: comparing relevance of different restriction types across professional services
 - Step 0: Scanning market regulations and long-listing restrictions – for each professional service (~500 anti-competitive provisions)
 - Step 1: Classifying ~50 main restrictions based on market effect – for each professional service
 - Step 2: Distinguishing between restrictions that are binding for market vs other restrictions – for each professional service
 - Step 3: Aggregating and comparing relevance of different restriction types – across professional services
- Scope: 10 services provided by licensed professionals in Croatia that were subject to review of occupational regulation
- Qualitative analysis due to data limitations: desk research, interviews with market participants

Classification of restrictions based on market effect

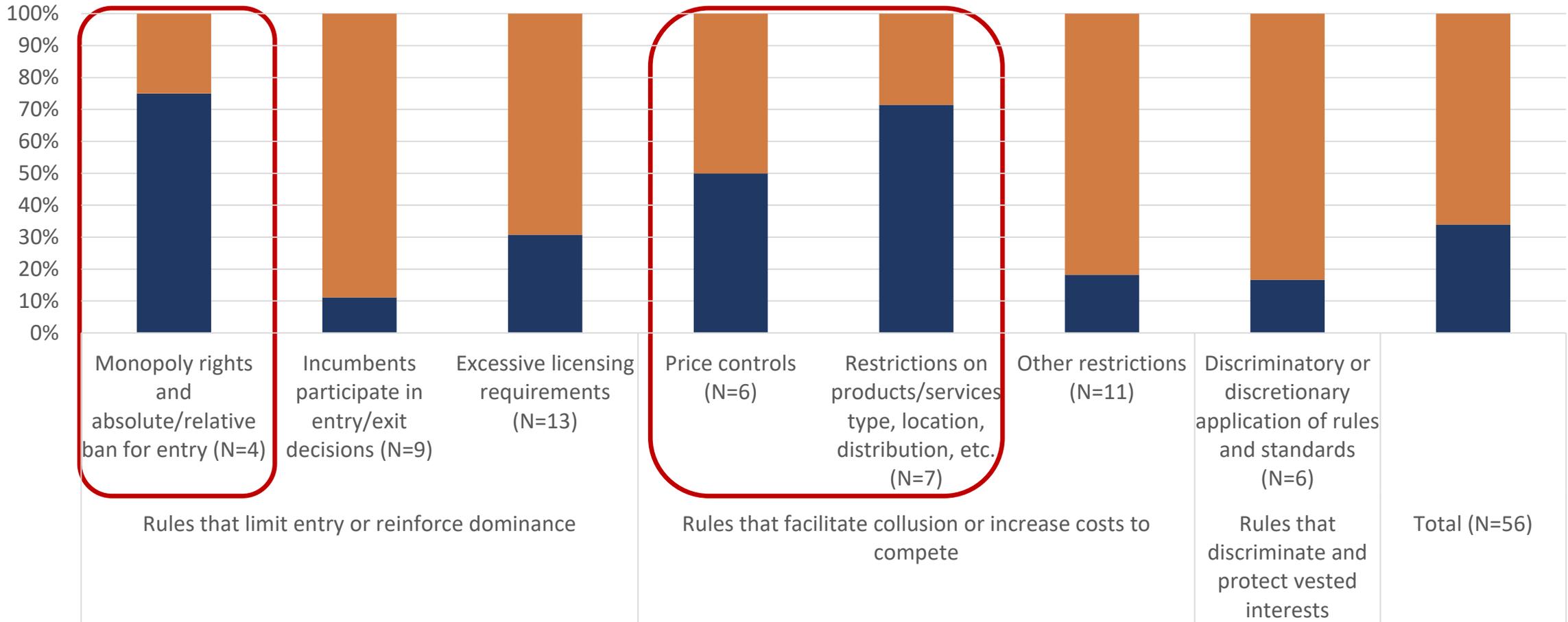
Types of restrictions based on market effect		Examples of restrictions In professional services in Croatia
Level 1	Level 2	
Rules that limit entry or reinforce dominance	Monopoly rights and absolute/relative ban for entry	Restrictions on number of providers, exclusive rights, temporary/geographic exclusivity, etc.
	Incumbents participate in entry/exit decisions	Mandatory membership in professional chamber
	Excessive licensing requirements	Excessive qualification requirements
Rules that facilitate collusion or increase costs to compete	Price controls	Prices mandated by gov't or chamber
	Restrictions on products/services type, location, distribution, etc.	Restrictions on advertising
	Other restrictions	Involvement of professional association in business decisions
Rules that discriminate and protect vested interests	Discriminatory or discretionary application of rules and standards	Preferences for domestic providers

Source: World Bank Group Markets & Competition Policy Assessment Tool

Results

Above-average relevance!

Above-average relevance!



Rules that limit entry or reinforce dominance

Rules that facilitate collusion or increase costs to compete

Rules that discriminate and protect vested interests

Total (N=56)

■ Key restrictions ■ Other restrictions

Some Caveats

- **While some restrictions may be systematically less relevant for market outcomes, they can be still very important in specific market.**
- For instance, excessive qualification requirements can determine how markets for professional services function.
- Application to professional services: auditors and tax advisors in Croatia
 - In the case of both professions Croatia has significantly more stringent entry requirements than EU countries:
 - Auditors: 3-4 years difference in minimum time to qualify in Croatia vs EU Audit Directive.
 - Tax advisors: 2-4 years difference in minimum time to qualify in Croatia vs EU average
 - The supply for audit services is well developed while the supply of specialized tax advisory services is lagging behind.
 - Auditors: There were around 20 auditors per 100,000 inhabitants in Croatia, below the EU average of 40 but above the levels in France or Germany.
 - Tax advisors: There were 2 tax advisors per 100,000 inhabitants in Croatia, the lowest level of all EU member states which regulate this profession (next-ranked Slovakia has 14 tax advisors per 100,000 inhabitants).
 - According to market participants the lengthy qualification period is more of a binding constraint for the development of the tax advisory market:
 - There is currently no critical mass of buyers for specialized services to receive the quality signal that demanding qualification requirements could send ...
 - ... while at the same time demanding qualification requirements and limited demand deter new entrants from becoming licensed tax advisors and developing the market.

Summary (repeated)

- A recent review of occupational regulation in Croatia shows that **not all regulatory restrictions are equally important**:
 - Absolute and relative bans on entry, such as restrictions on number and location of providers, and far-reaching exclusive rights, stand out among entry restrictions.
 - Price and quantity restrictions as well as restrictions on advertising stand out among conduct restrictions.
- **PMR is a useful screening tool** that does not replace in-depth review of market characteristics and government interventions.
 - As the case of tax advisors in Croatia shows, other restrictions such as excessive qualification requirements can also constrain competition in major ways.

Contact Details & Further Reading

Maciej Drozd, Senior Economist
Global Markets, Competition & Technology
Trade, Investment & Competitiveness Directorate
Finance, Competitiveness & Innovation Global Practice
International Bank for Reconstruction and Development
mdrozd@worldbank.org

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