Amendment No. 1 to the Administration Agreement between the European Commission on behalf of the European Union and the International Bank for Reconstruction and Development concerning the Part II Europe 2020 Programmatic Single-Donor Trust Fund (No. TFO72952) (EC Contract No SRSS/S2017/027)

The European Union, represented by the EUROPEAN COMMISSION (the "Donor"), which is represented for the purposes of signing this amendment by Mr Maarten Verwey, Director General, Structural Reform Support Service, of the one part, and

The INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the "Bank"), represented by Mr. Arup Banerji, Regional Director for European Union Countries, on the other part,

Having regard to the above-mentioned Administration Agreement signed on 30 November 2017.

Whereas the Donor has informed the Bank of its intention to amend the above-mentioned Administration agreement for the following reason: the need to expand the scope of Components B and C and to add Component D as activities carried out by the Bank, and allow more time for the implementation of the activities, thus increase the amount of the Contribution and update the indicative timeline of outputs, the installments, revise the indicative Results Indicators and the indicative budget for the activities.

HAVE AGREED AS FOLLOWS:

Article 1

Paragraphs 1 and 3 of the Administration Agreement are modified to read as follows:

1.1. Article 1 of the Administration agreement is replaced by the following Article:

The International Bank for Reconstruction and Development (the "Bank") acknowledges that the European Commission (the "Donor", and together with the Bank, the "Parties" and each a "Party") agrees to provide the sum of Four Hundred Fifty Thousand Euros (€ 450,000) (the "Contribution") for the Part II Europe 2020 Programmatic Single-Donor Trust Fund, No TFO72952 (the "Trust Fund") in accordance with the terms of this Administration Agreement.

The estimated total budget of the Trust Fund is Four Hundred Fifty Thousand Euros (€450,000). The indicative budget set out in Annex 5 shall be used for monitoring purpose only and shall not be binding.

1.2. Article 3 of the Administration Agreement is replaced by the following Article:

The Donor shall deposit the Contribution in accordance with the following schedule and in the currency specified in Section 1 above ("Contribution Currency") into such bank account designated by the Bank (each amount deposited hereinafter referred to as an "Installment") upon submission of a payment request by the Bank:

(A) promptly following countersignature – €147,000
(B) €63,000 subject to the disbursement of 70% of the preceding instalment.
(C) €170,000 subject to the disbursement of 70% of the preceding instalment.
(D) €70,000 subject to the disbursement of 70% of the preceding instalment.

The period for payment of further instalments shall be 60 days.
The period for payment of the balance shall be 60 days.

Article 2

Annex 1 "Part II Europe 2020 Trust Fund Description" to the Administration Agreement is replaced by the Annex 1 attached to the Administration Agreement Amendment.

Article 3

Section 6.1 of the Annex 2 to the Administration Agreement is replaced by the following:

"6.1 It is expected that the funds deposited in the Trust Fund will be fully disbursed by the Bank by March 31, 2020 (the "End Disbursement Date"). The Bank shall only disburse funds deposited in the Trust Fund for the purposes of this Administration Agreement (other than returns to Donor) after such date to the extent such date is changed in accordance with amendments made to the Administration Agreement(s) of the Donor. Following the End Disbursement Date, the Bank shall return any remaining balance of the Trust Fund to the Donor in the Holding Currency in the manner specified in its respective Administration Agreement on a pro rata basis with regard to the total funds deposited in the Trust Fund by such Donor relative to the total funds deposited in the Trust Fund by the Donor, all calculated as Holding Currency amounts."

Article 4

Annex 4 "Indicative Results Indicators for the Activities set forth in section 2 of Annex 1" to the Administration Agreement is replaced by the Annex 4 attached to the Administration Agreement Amendment.

Article 5

Annex 5 "Indicative Budget for the Activities set forth in section 2 of Annex 1" to the Administration Agreement is replaced by the Annex 5 attached to the Administration Agreement Amendment.

Article 6

All other provisions of the Administration Agreement shall remain unchanged.

Article 7

The present amendment shall form an integral part of the Administration Agreement. It shall enter into force on the date on which it is signed by the last party.
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By: 
Name: Anup Banerji
Title: Regional Director, European Union
Date: Nov 8, 2018

EUROPEAN UNION represented by the EUROPEAN COMMISSION

By: 
Name: Maarten Verwey
Title: Director General, SRSS
Date: 12-11-2018
PART II EUROPE 2020 PROGRAMMATIC SINGLE-DONOR TRUST FUND DESCRIPTION

This Annex shall be applicable to and form an integral part of the Administration Agreement for the Trust Fund between the Bank and the Donor.

1. Objectives

The objectives of the Trust Fund are:

The European Commission and the Bank share a common objective of building competitive and sustainable economies and reducing poverty and social exclusion – goals of the Europe 2020 Agenda which is built on three pillars of smart, sustainable and inclusive growth. The European Commission and the Bank concur that direct interaction is beneficial to both institutions and through them to the beneficiary countries. This applies particularly to the provision of analytical, advisory and knowledge services and technical assistance.

The European Commission has expressed an interest in ensuring that the Bank continues to provide technical assistance in the framework of the Trust Fund in furtherance of the common objective set forth above.

2. Activities

The European Commission, particularly the Structural Reform Support Services (SRSS), has expressed an interest in ensuring that the Bank provides analytical, advisory and knowledge services in the framework of the Trust Fund to support the Government of Croatia in reforming the regulation of professions in Croatia.

The regulatory environment for services has been highlighted as a barrier to investment and growth in the 2017 Country report on Croatia prepared by the European Commission. Moreover, according to the Bank’s fall 2016 EU Regular Economic Report, services liberalization in Croatia can also bring about larger productivity gains than in other EU economies.

A key concern is restrictive regulation of professions which constrains competition between service providers and leads to allocative, productive, and dynamic inefficiencies in services but also in subdued output and high prices in other sectors. According to the Communication on reform recommendations for regulation in professional services, regulation in this area “creates obstacles for the functioning of the Single Market and holds back the potential for growth and job creation in the EU economies”. At the individual level this translates into higher costs for businesses and consumers and fewer employment opportunities and reduced worker mobility.

Croatia is among the countries with the largest payoffs to reform. In 2015, 31% of Croatian workers required certification, licenses, or an exam to practice their profession – compared to an average of 22% for all EU countries. The European Commission’s regulated professions database records close to 300

1 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, COM (2016) 820 final.
regulated professions in Croatia compared to 200 on average in EU countries. In six out of seven professions covered by the European Commission's indicators existing requirements were found by the Commission services to be overly restrictive. Similarly, the Organization for Economic Cooperation and Development found through its Product Market Regulation indicators (PMR) more obstacles to provide services in Croatia than on average in OECD countries.

The Government of Croatia has committed to lift unnecessary restrictions in regulated professions as part of the National Reform Program. The general need to reduce administrative burden and implement other business environment reforms features also strongly in the 11th thematic objective of the Partnership Agreement between Croatia and the European Union. In January 2017, the Croatian government adopted the Action Plan on Administrative Burden Reduction which foresees among other measures incremental reforms in four professions. The Ministry of Economy, Entrepreneurship and Crafts has been also leading efforts to widen reforms to additional professions.

The Ministry of Economy, Entrepreneurship and Crafts has requested additional support in screening the stock of professional services regulation as well as identifying and recommending concrete new measures which could be taken by the Croatian government to make it easier to enter and practice in selected professions with high economic relevance.

The specific objective to be carried out under this Agreement is to support Croatia in its reform of the regulation of professions by identifying unnecessary requirements (restrictions) to enter and practice in selected professions with high economic relevance and to provide the Government of Croatia with actionable information that will enable the Government to remove regulatory barriers for service providers.

Accordingly, the Bank will provide technical assistance to the government of Croatia on professional services liberalization and occupational regulation reform as follows:

**Component A. Stocktaking of regulated professions**

As a starting-point for reforming the regulation of professions and considering that knowledge on regulated professions in Croatia is incomplete, the Bank will carry out a stock-taking exercise of regulated professions. This work will build on existing indicators, such as the OECD Product Market Regulation indicators, the restrictiveness indicators compiled by the European Commission, as well as data published in the EU Regulated Professions Database. This component will provide the Croatian authorities with the additional base-line information for further reform of regulated professions as most professions are not covered by in-depth tools such as the PMR indicators or the restrictiveness indicators, and there have been also confirmed instances of economically vital professions not listed in the Regulated Professions Database. Restrictions for professional services restrictions are also insufficiently covered by conventional measurements of administrative burden, such as the Standard Cost Model.

Component A will include the following activities:

(a) The Bank will verify and update the list of regulated professions in Croatia compiled as part of the reporting requirements under Professional Qualifications Directive 2005/36/EC, amended by Directive 2013/55/EU.

(b) The Bank will identify sectors or industries, in which regulatory restrictions to competition can be particularly detrimental for markets. This analysis will use as reference the World Bank Group Market Competition Policy Assessment Toolkit and depend on the availability of data on basic economic and competition-related indicators.
(c) The Bank will prepare a first prioritization of listed professions based on sectoral analysis and most readily available statistics, e.g., number of professionals. The prioritization will result in a longlist covering at least 60 regulated professions, which will be then subject to more detailed stock-taking on the basis of a questionnaire. The first prioritization will require to group professions by relevant market and substitutability, instead of legal designations.

(d) The Bank will develop a questionnaire to collect information on barriers to enter and practice professions. The questionnaire will build on the ex-ante proportionality test proposed in January 2017 by the European Commission\(^2\), as well as the questionnaire used by the Organization of Economic Cooperation and Development for the Product Market Regulation indicators. The Bank will rely on the Ministry of Economy, Entrepreneurship and Crafts to distribute the questionnaire to Croatian regulators and if needed other respondents. The Bank will also rely on the Ministry of Economy, Entrepreneurship and Crafts to ensure questionnaires are completed by authorized staff and returned to the Bank within up to three weeks of receipt. The questionnaire should be directed to central and local government as well as private sector organizations, such as licensing boards and professional bodies, that stipulate rules on professional entry and conduct. The Bank will pro-actively follow up with the main counterpart(s) at the Ministry to ensure that the questionnaire is dispatched and will on needs-basis provide guidance on its purpose and content in order to facilitate high response rate.

(e) The Bank will validate the questionnaires completed by Croatian regulators to ensure information is accurate, up-to-date, and complete. The validation will entail interviews with Croatian regulators as well as desk research. The Bank will validate questionnaires for up to 60 regulated professions for which Croatian authorities have provided a completed questionnaire.

Output 1: Inventory of entry/conduct requirements in up to 60 regulated professions\(^3\)

Component B. Analysis and identification of unnecessary restrictions to enter/practice in selected professions and preparation of reform recommendations

The Bank will use the inventory of entry/conduct requirements in regulated professions (output of Component A) to identify unnecessary requirements and issue detailed and actionable recommendations for changes in regulations. Component B will be focused on a sub-set of professions listed under Component A and cover 24 regulated professions of relevance to the Croatian economy. The Bank will carry out the activities under different phases, which will focus on unnecessary requirements raising the cost for or otherwise limiting the supply of service providers.

Component B will include the following activities:

(a) The Bank will identify two shortlists of 12 regulated professions, each on the basis of the following criteria:

(i) relevance for the Croatian economy (as corroborated by available data on, among others, value added, number of professionals, vacancies);\(^2\)

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\(^3\) For which Croatian authorities have provided a completed questionnaire.
(ii) restrictiveness of existing requirements (as proxied by comparison with international best practice); and

(iii) reform ownership (as indicated by regulators and the Ministry of Economy, Entrepreneurship and Crafts).

(b) The Bank will identify unnecessary restrictions to entry/conduct in shortlisted professions based on:

(i) collecting background information, including administrative data, on requirements;

(ii) evaluating the legality of requirements;

(iii) evaluating the necessity of requirements by identifying public policy rationale, including risks from non-compliance and benefits from compliance;

(iv) evaluating the proportionality of requirements, including review of potential anti-competitive effects and regulatory costs;

(v) comparing with international regulatory best practice.

(c) Based on the above, the Bank will prepare two separate proposed action plans. The proposed action plans will include recommendations for changes in existing regulations listed in a table together with provisions in existing regulations that should be changed, details of proposed changes, and justification/supporting evidence.

(d) The Bank will involve Croatian regulators in the review of requirements in shortlisted professions.

Output 2a and 2b: Proposals of two separate action plans on regulated professions including recommendations and justification for regulatory changes covering 12 professions each, as well as a technical note detailing the process of selection of the professions for in-depth review

Component C. Support in reform delivery

The Bank will provide support to the Government of Croatia on a demand-driven basis in the process of adopting the proposed action plan on regulated professions (output of Component C) and amending relevant regulations in line with the action plan

(a) The Bank will participate in up to six public and inter-ministerial consultations on proposed modifications to regulations taking place during the implementation of this Agreement.

(b) Provide technical assistance to the Ministry of Economy, Entrepreneurship and Crafts to support competent authorities carry out stakeholder consultations, assess the results of these consultations and monitor the implementation of the proposed action plan on regulated professions. The Bank will not be responsible for drafting the amendment to regulations or new regulations.

(c) The Bank will organize at least two knowledge-sharing events to support the Ministry of Economy, Entrepreneurship and Crafts and to maximize buy-in to reform recommendations and readiness by stakeholders to implement them.

Output 3a and 3b: At least two knowledge exchange events supporting the adoption of the proposed action plans on regulated professions
Output 4a and 4b: Two sets of up to three consultation matrices and communication materials to support stakeholder consultations of the proposed action plans led by competent authorities

Component D. Competition assessment in selected services market

The Bank will assess the level of competition in one relevant services market in which providers are required to hold an occupational license to offer their services. The market to be covered by the competition assessment will be selected from the markets in which the 24 regulated professions shortlisted, under component B, operate. The Bank will select the market in consultation with the European Commission and the Ministry of Economy, Entrepreneurship and Crafts on the basis of data availability and reform needs. The competition analysis carried out by the Bank will focus on comparing the price trends in the selected market in Croatia with the prices in comparable markets in other countries (subject to data availability). The analysis will also entail, where possible, a review of other market characteristics, such as transaction volume, product differentiation, bargaining power of customers (e.g., demand elasticity/substitutability), bargaining power of suppliers, rivalry (e.g., market concentration), as well as interactions between regulations and market outcomes. The analysis will be based on the technical assistance conducted under component C.

Output 5: Policy note presenting the results of the competition assessment in one selected services market
### Indicative outputs and timeline table

| Month | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 | 21 | 22 | 23 | 24 | 25 | 26 | 27 | 28 | 29 |
|-------|---|---|---|---|---|---|---|---|---|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|
| **Component/activity** |   |   |   |   |   |   |   |   |   |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| **A** Methodology development |   |   |   |   |   |   |   |   |   |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| **Long-listing professions** |   |   |   |   |   |   |   |   |   |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| **Information collection** |   |   |   |   |   |   |   |   |   |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| **Validation and compilation** |   |   |   |   |   |   |   |   |   |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| **B** Short-listing professions |   |   |   |   |   |   |   |   |   |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| **Analysis** |   |   |   |   |   |   |   |   |   |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| **Preparation of recommendations** |   |   |   |   |   |   |   |   |   |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| **C** Participation in inter-ministerial consultations |   |   |   |   |   |   |   |   |   |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| **D** Market selection |   |   |   |   |   |   |   |   |   |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| **Data collection** |   |   |   |   |   |   |   |   |   |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| **Competition assessment** |   |   |   |   |   |   |   |   |   |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |

**Note:** O1 stands for Output 1, O2a/O2b for Output 2a/2b, O3a/O3b for Output 3a/3b, O4a/O4b for Output 4a/4b and O5 for Output 5.
### INDICATIVE RESULTS INDICATORS FOR THE ANNEX 1 ACTIVITIES

<table>
<thead>
<tr>
<th>Expected Results (logic of intervention)</th>
<th>Indicators</th>
<th>Baselines</th>
<th>Result goals</th>
<th>Sources of data</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Impact</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>More competition among professional</td>
<td>Mark-ups and output in services sector</td>
<td>n/a</td>
<td>n/a</td>
<td>Methodology: Roeger (1995), Thum-Thyssen/Canton (2015) Data: EU-KLEMS/WIOD database OECD PMR</td>
<td>Product market regulation is a binding constraint for competition between service providers in Croatia Imperfect competition increases mark-ups and lowers output Impacts are detectable</td>
</tr>
<tr>
<td>service providers leading to output,</td>
<td>Productivity gap from regulatory barriers in</td>
<td>5.71%</td>
<td>↓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>efficiency, and equity gains in services and linked sectors</td>
<td>services (average)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Outcome</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fewer and lower restrictions in</td>
<td>Product Market Regulation indicators</td>
<td>3.7 (2013)</td>
<td>↓</td>
<td>OECD</td>
<td>Reform recommendations will be implemented by Government of Croatia</td>
</tr>
<tr>
<td>regulated professions in Croatia</td>
<td>Licenses removed (change in the number of</td>
<td>0</td>
<td>4</td>
<td>Project</td>
<td></td>
</tr>
<tr>
<td></td>
<td>professions for which certification, license, or exam is known to be required to practice</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Annual compliance cost savings (US$) for service providers</td>
<td>0</td>
<td>500,000</td>
<td>Project</td>
<td></td>
</tr>
<tr>
<td><strong>Outputs</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A. Inventory of entry/conduct requirements</td>
<td>Inventory of entry/conduct requirements in up to 60 regulated professions for which Croatian authorities completed questionnaires</td>
<td>0</td>
<td>1</td>
<td>Project</td>
<td>Relevant ministries and agencies are cooperative, willing to provide information and participate in activities</td>
</tr>
<tr>
<td>------------------------------------------</td>
<td>---------------------------------------------------------------------------------------------------------------------------------</td>
<td>---</td>
<td>---</td>
<td>--------</td>
<td>--------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>B. Action Plans</td>
<td>Proposal of two separate action plans on regulated professions including recommendations/justification for regulatory changes in 12 professions each and technical note</td>
<td>0</td>
<td>2</td>
<td>Project</td>
<td></td>
</tr>
<tr>
<td>C. Knowledge-exchange events</td>
<td>At least two knowledge exchange events supporting the adoption of the proposed action plans on regulated professions</td>
<td>0</td>
<td>2</td>
<td>Project</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Two sets of up to three consultation matrices and other communication materials to support stakeholder consultations of the proposed action plans led by competent authorities</td>
<td>0</td>
<td>2</td>
<td>Project</td>
<td></td>
</tr>
<tr>
<td>D. Competition assessment</td>
<td>Policy note presenting the results of the competition assessment in one selected services market</td>
<td>0</td>
<td>1</td>
<td>Project</td>
<td></td>
</tr>
</tbody>
</table>
ANNEX 5

INDICATIVE BUDGET FOR THE ACTIVITIES SET FORTH IN SECTION 2 OF ANNEX 1 TO THIS ADMINISTRATION AGREEMENT

<table>
<thead>
<tr>
<th>Expenditure Category</th>
<th>Number</th>
<th>Amount in Euro</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staff and individual consultant services</td>
<td>10</td>
<td>337,500</td>
</tr>
<tr>
<td>Cost of travel</td>
<td>12 missions</td>
<td>50,000</td>
</tr>
<tr>
<td>Cost of training and workshop</td>
<td>2</td>
<td>20,000</td>
</tr>
<tr>
<td>Other services including translation</td>
<td>n/a</td>
<td>20,000</td>
</tr>
<tr>
<td><strong>Sub-total</strong></td>
<td></td>
<td>427,500</td>
</tr>
<tr>
<td>Administration fee (5%)</td>
<td></td>
<td>22,500</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>450,000</td>
</tr>
</tbody>
</table>

The amount estimated for personnel is calculated taking into account different levels of expertise estimated to be required for carrying out the activities described in Annex 1.

The World Bank Group entity may transfer amounts between categories of the indicative budget. This does not require an amendment of the Administration Agreement if the Action is carried out as described in Annex I – Trust Fund Description.

The number of units and amounts indicated in the budget are not binding and reflect the means envisaged for the implementation of the Action. The number of units indicated in the estimated initial budget may not be used to question the actual number of units reported during and at the end of action.