

Draft for Discussion

Private Sector Development in Education
in
South East Europe

COUNTRY REPORT

CROATIA

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Foreword

The Kosovo crisis has brought to the forefront the urgent need for sustainable development, lasting peace, prosperity and stability in South Eastern Europe. It has, moreover, placed education at the forefront of the bridging process that will afford South Eastern Europe equal socio-economic opportunities in the 21st century to that of other European nations. However, although the education systems of South Eastern Europe were a 'good fit' with the planned economies of authoritarian political systems, they are a 'bad fit' with the global economic structure of open political systems. To make matters worse, budget pressures on the education sector in conjunction with the increase in price for some education inputs, have led to less public funds for education.

Private sector development in education in South Eastern Europe needs to be seriously considered. Within education there are many private sector investment possibilities, including primary and secondary schools, vocational schools, and universities, as well as supporting activities such as textbook publishing, student loan financing, and computer learning centers.

This study then aims to analyze the current role of private sector activity in the education sector and to project the outlook for private sector investment in education in South East Europe (specifically in: Albania, Bulgaria, Croatia, the Former Yugoslav Republic of Macedonia and Romania). Information currently available from national, regional and international sources will be drawn upon to review the existing structure of private sector participation in the education sector along a number of dimensions including: the present level of private activity; the structure (legal status, size, etc) and kinds (level and focus area/s) of private institutions currently operating; key drivers and expected growth areas for private education; and key issues and constraints faced by the private education sector.

The main source of data for this study is interviews and meetings with government officials, senior politicians, businessmen and women, educationalists, researchers, NGO representatives, directors of educational institutions, bank managers, and others. This data is supplemented by: (a) published data provided by the World Bank, IFC, OECD, UNDP and other national and international organizations; (b) unpublished information provided by public and private local and international organizations; and (c) background information provided locally by government agencies. Information gathered will be used to: (a) analyze the legal and regulatory framework; (b) create an inventory of market opportunities in private education; and (c) develop a regional, on-line information platform for education investment exchange (<http://edco.orama.net>).

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country studies was carried out by Frances Tsakonas (Education Specialist), who is also the author of the country reports.

The findings of this study will be presented at a regional forum in Athens, Greece in June 2002, at which a platform for discussion on policy issues and investment opportunities in education will be established.

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ABBREVIATIONS

CIA	Central Intelligence Agency
EBRD	European Bank for Reconstruction and Development
EU	European Union
FIAS	Foreign Investment Advisory Service
FRY	Federal Republic of Yugoslavia
FYROM	Former Yugoslav Republic of Macedonia
GDP	Gross Domestic Product
GNP	Gross National Product
HDZ	Croatian Democratic Union Party
HRK	Croatian Kuna
IDP	Internally Displaced Persons
IFC	International Finance Corporation
ILO	International Labor Organisation
IMF	International Monetary Fund
MES	Ministry of Education and Sports
MST	Ministry of Science and Technology
NATO	North Atlantic Treaty Organization
OECD	Organization for Economic Co-operation and Development
SFRY	Socialist Federal Republic of Yugoslavia
UNDP	United Nations Development Program
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNICEF	United Nations International Children's Emergency Fund
USD	United States Dollars
VET	Vocational Education and Training
WB	World Bank
WTO	World Trade Organization
ZSE	Zagreb Stock Exchange

Currency: Croatian Kuna (HRK)

Exchange rate: 8.38 HRK = 1 USD (March 2002)

INTRODUCTION

1. Both the Ministry of Education and Sports (MES), which is responsible for pre-school, primary and secondary education, and Ministry of Science and Technology (MST), which is responsible for university education, welcome private education and have, in this respect made a general policy statement indicating that the development of private education is a way to: (a) ease the burden of the state budget; (b) respond to the needs of parents who would like to choose the school their child goes to; and (c) provide inspiration for competition and the development of quality schools. Nevertheless, what is urgently needed if private education is to be further developed is: (1) a policy framework that not only provides guidelines for private education provision but more importantly, for quality assurance; and (2) a strategic plan for the funding and financing of *all* private educational institutions.

COUNTRY BACKGROUND

2. Croatia formed a parliamentary democracy in June 1991, after declaring independence from the Socialist Federal Republic of Yugoslavia (SFRY). It is the second richest of the former Republics of Yugoslavia with a highly educated labor force of about 1.7 million¹, a high GNP per capita in the order of \$ 4,580 (in 1999) and a GDP structure similar to that of an industrial market economy.² Moreover, according to the World Bank Economic Vulnerability and Welfare Study (2001), Croatia's *social indicators, such as infant mortality, literacy and life expectancy are at par with rich countries* [and the *system of social transfers is one of the most extensive in the region*.³
3. Bordering the Adriatic Sea and neighboring Bosnia and Herzegovina, Hungary, Serbia and Montenegro, and Slovenia, Croatia, with its 1,185 islands – of which only 66 are inhabited - occupies a total area of 56,538 sq. km.⁴
4. Croatia has a population of 4,334,142 (July 2001 est.) of which 22 percent reside in Zagreb, the capital.⁵ Population growth rate currently stands at 1.5 percent (2001 est.), with 18.2 percent of the population between the ages of 0-14 years, 66.6 percent between the ages of 15-64 years and 15.2 percent 65 years and over (2001 est.).⁶ There are still however, 50,000 internally displaced persons (IDPs) and 30,000 refugee Croats from Bosnia and Herzegovina.⁷

¹ The illiteracy rate in Croatia has fallen steadily, from 9 percent in 1971, to 5.6 percent in 1981 and 3 percent in 1991.

² World Bank Country Office – Croatia. <http://www.worldbank.hr/>

³ These factors of course, do not preclude the existence of absolute poverty, whose extent depends on how wealth, income and transfers are distributed. (Croatia Economic Vulnerability and Welfare Study. The World Bank. Report No. 22079-HR. April 18, 2001.)

⁴ <http://www.hr/>

⁵ <http://www.hgk.hr/komora/eng/>

⁶ CIA World Factbook – Croatia. <http://www.odci.gov/cia/>

⁷ Croatia – Progress Report. UNICEF. May 2000

5. According to the 1991 census, 78.1 percent of the population is Croat, 12.2 percent Serb, 0.9 percent '*Bosniak*',⁸ 0.5 percent Hungarian, 0.5 percent Slovenian, 0.4 percent Czech, 0.3 percent Albanian, 0.3 percent Montenegrin and 0.2 percent Roma. Other ethnic groups make up 6.6 percent of the population.⁹ The majority of the population (76.5 percent) is Roman Catholic, 11.1 percent is Orthodox, 1.2 percent is Muslim and 0.4 percent is Protestant.¹⁰ Croatian is used as the primary language of communication by 96 percent of the population, while 4 percent uses another language (including Italian, Hungarian, Czech, Slovak, and German).¹¹
6. Demographic trends however, have been greatly affected by the war with Serbia (from 1992 to 1995) and are of primary concern to the Government since emigration and depopulation currently distinguish almost three-quarters of the Croatian state. The Government has therefore embarked on an active population redistribution policy in order to: (a) sustain the current population estimates; (b) promote the return of displaced persons and refugees; (c) promote the settlement of younger people and potential expatriate returnees in areas affected by depopulation, ageing or extinction; and (d) stop the migration of the younger and able-bodied population.¹²
7. The war with Serbia however, also brought economic instability as defence expenditures and financial costs led to rampant inflation.¹³ Nevertheless, the Government was able to implement one of the most successful stabilization programs in the region in 1993 and macro-economic stability was restored by 1994. With the cessation of the armed conflict in 1995 moreover, reconstruction and recovery were subsequently accompanied by growing domestic demand, driven mainly by a surge in consumption and investment, which helped to bring down inflation to a low average of 4 percent between 1995-1999. Although never managing to attain pre-war levels, this macro-economic environment contributed to reasonably high growth between 1994-1997, but economic activity slowed down in 1998 and actually turned negative in 1999 (with GDP growth declining from 6.5 percent in 1997 to -0.3 percent in 1999).¹⁴

⁸ The term "*Bosniak*" has replaced the term "Muslim" as an ethnic term to avoid confusion with the religious term "*Muslim*".

⁹ <http://www.seerecon.org/>

¹⁰ The remaining 10.8 percent respect another (or no) religion. (CIA World Factbook – Croatia).

¹¹ <http://www.seerecon.org/>

¹² Working Program of the Government of the Republic of Croatia for the Period 2000-2004. Zagreb, February 8, 2000.

¹³ Reaching 30 percent per month in 1993. (<http://www.worldbank.org/>)

¹⁴ However, this rapid expansion of domestic demand led to greater external imbalances. Imports increased, while exports remained constant in nominal terms, reflecting an increasingly inward orientation of the economy that led to a current account deficit of 11.6 percent of GDP in 1997. Although the deficit decreased to 7.3 percent in 1999, it is still not sustainable. Increased reliance on external borrowing not only augmented indebtedness, but also created a dependence on access to international capital markets. (<http://www.worldbank.org/>)

8. According to the World Bank, the reason for this downturn can be attributed primarily to *the fact that reform of public finances, including the structural problems of the banking and enterprise sectors and the culture of non-payment in the economy, have not been addressed properly. Concurrently, much of the growth had been based on reconstruction efforts and domestic consumption rather than on private investment.*¹⁵
9. Croatia is therefore currently facing difficult challenges. After several years of growth and recovery, deep structural reforms are now needed to maintain macro-economic stability and sustained growth.
10. The death of President Tudjman in December 1999, and the defeat of his ruling Croatian Democratic Union (or HDZ) party in parliamentary and presidential elections in January 2000, ushered in a new government committed to market-oriented and political reform but faced with the challenge of halting the economic decline.¹⁶ Budget cuts (including cuts to health, education and social welfare¹⁷) were therefore adopted in 2000 to restore macro-economic stability and to initiate structural fiscal reforms.¹⁸ The economy emerged from its mild recession in 2000 with tourism the main factor.¹⁹
11. According to the EBRD Investment Profile (2001), *solid economic recovery began in 2000 when the economy grew by 3.5 percent after good export performance and tourism growth.* Government efforts, along with improvement in the regional situation therefore, could return the country to a path of modest growth. The Government's GDP growth forecast for 2002 however, seems to be far more optimistic (in the range of 3-4 percent²⁰) than estimates by international organisations such as the World Bank and IMF (in the order of 2.0-2.5 percent²¹).
12. Nevertheless, massive unemployment - at 22.6 percent in December 2000²² and averaging 21 percent in 2001 - remains a key negative element.²³ According to the CIA World Factbook, *the Government's failure to press the economic reforms needed to spur growth [and ultimately employment] is*

¹⁵ Sipos, S. "Croatia and the World Bank – New Opportunities and Challenges." The World Bank. <http://www.seerecon.org/>

¹⁶ <http://www.seerecon.org/>

¹⁷ Croatia Progress Report. UNICEF May 2000

¹⁸ Country Report, Croatia. Working Document. Stability Pact for South East Europe. October 2000.

¹⁹ EBRD Investment Profile 2001-Croatia.

²⁰ Developmental Priorities of the Republic of Croatia 2002-2004. Government of the Republic of Croatia. Zagreb, November 12, 2001.

²¹ Memorandum of the President of the International bank for Reconstruction and Development and the International Finance Corporation to the Executive Directors of a Country Assistance Strategy of the World Bank Group for the Republic of Croatia, May 11, 1999. Report No 19280 HR

²² Which is 1.3 percent higher than at the beginning of the same year. (Economic Highlights – Croatia. The World Bank. February 2001)

²³ According to the Ministry of Labor and Social Policy, high unemployment figures are due to the bankruptcy and liquidation of government-owned industries, which used to employ 40,000 but now, only 18,000. Over the next 10 years this number will be reduced to 8,000. War veterans (of which there are 30,000 - representing 10 percent of the present unemployment figure) also add to the unemployment figure.

largely the result of coalition politics and public resistance (particularly by the trade unions), to measures that would cut jobs, wages, or social benefits. However, unemployment data provided by the Croatian Employment Service and the Labor Force Survey differ.

13. For example, according to data provided by the Croatian Employment Service, there were 261.9 thousand (5.2 percent more than in 1999) newly registered unemployed persons in 2000. The average number of first-time job seekers moreover, was 6.5 percent higher than in 1999 and the stock of persons unemployed due to the termination of employers' activities continued increasing, reaching almost 32 thousand in December 2000 (which is 31.6 percent more than in the same month of 1999). At the same time however, employers registered 148.2 thousand vacancies, (or 10 percent more than in 1999), while 127.7 thousand vacancies, (or 15.7 percent more than in 1999), were filled from the register of the Croatian Employment Service. Furthermore, the average number of unemployment benefit recipients was 16.8 percent higher in 2000 than in 1999, reaching 70.3 thousand people.
14. On the other hand, the Labor Force Survey shows 15.1 percent unemployment for the first half of 2000, which is a big discrepancy to the official statistical unemployment rate of 22.6 percent. The Labor Force Survey for example, gives 79 thousand unemployed people less than that recorded by the Croatian Employment Service. A total of 136 thousand (or 38.6 percent) of registered unemployed persons did not fulfill international criteria of unemployment either because they did not seek and/or are not seeking a job (38 percent), or did not accept a job offer (15.2 percent), or they work unofficially (41.4 percent).²⁴ This moreover, can account for the fact that although unemployment is high, the incidence of absolute poverty in Croatia is not only very low at 4 percent according to the internationally comparable standards, but also at 10 percent according to nationally specific standards (with the average monthly salary at approximately \$ 400 and capable of feeding a family with two children very modestly).²⁵
15. According to the Ministry of Labor and Social Policy, in the 1990s the majority of unemployed were the young educated with no experience. The working population however, is ageing fast and there are no programs available for re-skilling of adults.²⁶
16. One of the key objectives and *absolute priority of the economic policy* of the Government as outlined in the Developmental Priorities of the Republic of Croatia 2002-2004, is *to increase employment, in particular to create favourable conditions for the employment of young people, women, and people*

²⁴ There is in fact a booming "black" and "grey" market. Although there is a lot of underemployment within the sphere of registered unemployed, there are many self-employed amongst the registered unemployed that work in the shadow economy.

²⁵ It would in fact, be affordable for Croatia to eliminate absolute poverty completely as it would cost only 1 percent of GDP! (Croatia Economic Vulnerability and Welfare Study. The World Bank. Report No. 22079-HR. April 18, 2001.)

²⁶ During the socialist period, companies invested 40 percent of their budgets in training of employees, but now only 4 percent is invested. (Ministry of Labor and Social Policy)

living on islands and areas of special state concern. In order to enhance employability however, it is noted that the education system needs to be reformed and the permanent education of employees made possible.

THE EDUCATION SECTOR

The Regulatory Framework

17. According to the Constitution of the Republic of Croatia (Articles 65-66) *primary schooling shall be compulsory and free and everyone shall have access, under the same conditions, to secondary and higher education in accordance with his abilities.* The Constitution (Article 67) also guarantees university autonomy regarding its organisation and activities (in accordance with the law). Furthermore, according to the Law on Primary Education, school attendance is compulsory for 8 years – from age 7 (with the average enrollment age being 6.5 years) to age 15.²⁷
18. The Pre-school Education Act of 1997, places pre-school education as an integral part of the Croatian education system. The Law establishes the principles of equality of access, freedom of parental choice, and a humanistic approach to child development as the basis for pre-school up-bringing and education. Furthermore, it stipulates the variety of educational forms by which pre-school education can be established, including alternative and short-term specialized and school-preparation programs and stipulates that these programs may be carried out by public, private or church organizations, as long as the comprehensive needs of pre-school children are fulfilled, their well-being is upheld and pro-social competencies are maintained at high standards.
19. The Primary Education Act of 1990 (amended in 1996) and the Secondary Education Act of 1992, were amended and passed through Parliament in June 2001. The main reason for these amendments were to support the Government's decentralization policy regarding financing and in turn, the fostering of autonomy of schools and local communities in decision-making and management. However, according to Spajik-Vrkaš (2001) *some of the major systemic strategies that have emerged recently, i.e. a standard driven accountability, whole school reform, market strategies and a horizontally and vertically shared decision-making system, have not been discussed nor legally defined in Croatia yet.*²⁸
20. Both laws however recognize schools as legal entities that can be founded by:
(a) the Republic of Croatia; (b) local and/or regional self-government units; (c) religious communities; and (d) other legal and natural person.²⁹ School

²⁷ The MES is however considering making one year of pre-school (5-6 year olds) before entry to primary school (i.e. Grade 1) compulsory and extending basic/compulsory education to 9 years.

²⁸ Spajik-Vrkaš, V. Stocktaking Research on Policies for Education for Democratic Citizenship and Management of Diversity in South Eastern Europe. Stability Pact for South East Europe. December 2001.

²⁹ Under the conditions provided by law therefore, individuals or legal entities may establish private schools and teaching institutions.

statutes regulate the organization and governing of the school, including the election of the principal and the role of the parents' council, while the main governing body is the school committee comprising of representatives of teachers and teacher assistants, parents' council and the local/regional government.³⁰ Furthermore, the laws stipulate that alternative programs and methods may be used in education and that parents and students have the right to choose the type, form and methods of learning.³¹ The laws also stipulate that central and local/regional governments share in financing public schools.

21. The Law on Education in Languages and Scripts of National Minorities, passed by Parliament in 2000, regulates the education of primary and secondary school minority students. The Law stipulates that national minorities have the right to education in their language and script from pre-school to the university level,³² while other laws regulate the establishment and management of such schools and their legal status.³³
22. A new Law on Higher Education has been drafted in accordance with the Bologna Declaration and is currently being discussed in the academic community. The new Law hopes to target: institutional autonomy; quality; financing, inter-institutional co-operation and in particular, co-operation between the Ministry of Science and Technology (responsible for the tertiary sector, including pre-service teacher education) and the Ministry of Education and Sports (responsible for the pre-tertiary sector and in-service teacher training).³⁴
23. Alongside the new Law on Higher Education, two new laws are also being drafted. These are: (a) a new Law on Scientific Research (which is being discussed by research institutes and universities) as Croatia has no systemic scientific research policy;³⁵ and (b) a new law regulating students' *active* participation in decision-making in higher education.³⁶

Reforms

24. Education reform has been on the Croatian Government's agenda since the country gained its independence in 1991. According to the Economist

³⁰ In the secondary school, representatives of the students' council may participate in the work of the school committee when decisions on students' rights and responsibilities are made. However, they have no right to vote. (Spajik-Vrkaš, V., 2001)

³¹ The public needs in primary education are however determined by pedagogical standards issued by Parliament. (Spajik-Vrkaš, V., 2001)

³² Including regular schools, seminars and summer/winter schools.

³³ An analysis of minority education in Croatia is provided in *Stocktaking Research on Policies for Education for Democratic Citizenship and Management of Diversity in South Eastern Europe* by Spajik-Vrkaš, V. (2001)

³⁴ Article 3 of the current Higher Education Law recognizes academic autonomy and freedom but fails to define the appropriate standards, conditions and control mechanisms for the exercise of such autonomy.

³⁵ One of the key priorities of the Government as noted in the *Developmental Priorities of the Republic of Croatia 2002-2004*, is to ensure the complementarities between the education system, science and employment and to develop these in line with the EU norms and standards in order to ensure that education and science are steered in a direction that matches the needs of a modern labor market, as well as future labor forecasts.

³⁶ The current law allows only for *passive* participation (that is, they have no voting power).

Intelligence Unit (2002), *since the first free elections in 1990, reforms of the curriculum have focused in particular on the humanities, with the intention of expunging any vestiges of Marxist ideology in education and giving the curriculum a more specifically 'Croatian' content. This emphasis on national content has been contentious, as attempts by successive education ministers to introduce reforms based on western European examples have been resisted by hard-line elements of the Croatian Democratic Union (HDZ), which insist on a specifically Croatian system. The education issue has proved especially contentious in Eastern Slavonia. Some accommodation for the region's Serbs, who objected to having the Croatian curriculum imposed on them, has been made, but in the months since the region's reintegration into Croatia, schools have been a focus of tension between Serbs and Croats.*³⁷

25. Up to recently therefore, a coherent national strategy has not been pursued, as education remained a political issue. Nevertheless, the general goal has been to help the country define itself as an independent state with its own culture and language, and as part of Europe.
26. Nevertheless, since the change in Government in early 2000, Croatia has embarked on swift and radical change of policy towards modernization and democracy in all areas of economy and society. The Government's overall country reform goals as outlined in the *Working Program of the Government of the Republic of Croatia for the Period 2000-2004*, foresees a deep and far-reaching reform process - for which education is one of the selected key sectors. It is stated in this document that: *education is a strategic developmental priority for the overall development of Croatian society and that: the new concept of the Croatian educational system will be based on a professional study drawing upon comprehensive professional and public debates and analyses, European country experience and recommendations by international organizations. Thus determined, the concept will be used to draft new laws and regulations and to introduce modern state-of-the-art principles into the educational process – such as, primarily, the principles of freedom, democratization, human rights, openness, innovativeness, tolerance and diversity.*³⁸
27. One of the key developmental priorities therefore, that ensue from the *Development Guidelines of the Republic of Croatia* and the 19 integral studies that make up the strategic plan for the future of Croatia as outlined in the document *Croatia in the 21st Century*, is *thorough reform of the education system*, including: (a) reform of the overall education system focusing on the intensification of acquisition of new skills and the introduction of a flexible system for educating the work force; (b) establishment of a life-long education system which relates to new technologies, products and business procedures; (c) establishment (at both the state and regional level) of an analytical profile of business skills;³⁹ and (d) reform of the university into a modern and

³⁷ <http://www.eiu.com>

³⁸ Working Program of the Government of the Republic of Croatia for the period 2000-2004, Zagreb, February 2000.

³⁹ Due to the alarming need for skilled personnel in the entrepreneurial, managerial and economic sectors.

integrated institution.⁴⁰ The need for *acceleration of the decentralization process in education, health, social welfare, local self-government units and state administration* is also noted.

28. In June 2000 therefore, the Ministry of Education and Sports (MES), prepared a proposal for education reform, which was distributed for public discussion.⁴¹ The outcomes of this public discussion centered on the need to reassess: (1) the duration of compulsory education (by raising the level of compulsory schooling from 11.4 to 14.6 years); (2) student assessment procedures (in favor of numerical grading the introduction of a state final exam to facilitate enrollment into university); (3) management procedures (to support decentralization); financing measures (to involve both public and private resources in education); (4) the curriculum (to include electives); and (5) the mobility within the education system (both vertically and horizontally).⁴²
29. Seven commissions were set up to develop a ‘blue-print’ for the reforms - a commission for standards and finance, for teacher training, for system-planning, for school management, for assessment of teaching and school efficiency (i.e. quality), for national curriculum, and for private education.⁴³ However, there is concern as to whether the MES and the Government will be able to carry out the reforms in light of the country’s financial resources. Nevertheless, consensus seems to lie in the need to adjust the Croatian education system in line with that of EU systems and to make it more efficient.⁴⁴

Structure of the System

30. The education system in the Republic of Croatia is highly centralized with many elements inherited from the Yugoslav approach in which education was considered a “science”, led by the Government.⁴⁵
31. There are three levels of educational governance – the *Central* level comprising of: (a) the Ministry of Education and Sports (responsible for pre-tertiary education – that is, for drafting legislation, defining the curriculum for all schools, approving textbooks, appointing head teachers, approving the number of pupils and school budgets, and settling all payments - salaries, materials costs and capital expenditures, except those met by local authorities); and (b) the Ministry of Science and Technology (responsible for tertiary education – that is, appointing staff and distributing financial resources to each university faculty); the *Regional* level (made up of 21 counties or *županije* of which 5 focus on inspection and evaluation); and the *Local* level (which ultimately comprises of the school units).

⁴⁰ Developmental Priorities of the Republic of Croatia 2002-2004. Growth of Employment and Standard. Government of the Republic of Croatia. Zagreb, November 12, 2001.

⁴¹ The Basis of the Education System in the Republic of Croatia. Proposal for Discussion. June 2000. <http://www.prosvjeta.hr/eng/index.htm>

⁴² Ministry of Education and Sports.

⁴³ Ibid.

⁴⁴ Better teacher preparation and continuing education/training has been noted in the MES policy reform document as being the core element for the improvement of the education provision.

⁴⁵ Croatia. A Policy Agenda for Reform and Growth. Overview. Vol. 2. The World Bank. February 2000.

32. The structure of the education system comprises of 4 main levels: pre-primary (i.e. pre-school) education; basic/compulsory education; secondary education; and tertiary/higher education. Pre-primary/pre-school programs are available for children from 6 months of age to 7 (when they enter primary school). Basic/compulsory education lasts 8 years (from age 7 until age 15) and is divided into lower primary school (Grade 1 to 4) and upper primary school (Grades 5 to 8). Secondary education (from age 15 to 19), is not compulsory and comprises of grammar schools, vocational schools and art schools lasting three or four years. Tertiary education includes university education (lasting 4-6 years) and non-university education (lasting 2 to 4 years).
33. There are no formal exams at the end of Grade 4 and approximately 94 percent of the students continue on to Grade 5 or upper primary school. At the end of Grade 8 there is an internal school-leaving test leading to a certificate of completion of primary school. At the end of secondary grammar school (Grade 12) there is a 'maturity' exam (or 'Matura'). Technical and vocational schools set final exams, which are internally prepared and assessed. Entrance exams to higher education institutions are set by the receiving institutions and/or faculties.

Participation and Enrollment Rates

34. Participation in pre-school education for 2001 stood at 34.9 percent; for primary/compulsory education at 98 percent; and for secondary education at 63 percent. Participation in tertiary education (both university and non-university programs) stood at 31.3 percent (of which 22.9 percent was in university programs).⁴⁶
35. As can be seen from **Table I** (below), trends in gross enrollment rates by level of education have been fairly stable at each level of education during the second half of the last decade, although tertiary education has shown an upward trend.

Table 1: Trends in Gross Enrollment Rates by Level of Education, 1995-1999

Level of Education	1995	1996	1997	1998	1999
Preschool	19.7	20.5	20.5	21.5	21.5
Primary	81.8	83.4	80.8	83.0	81.8
Secondary	74.5	79.6	78.2	78.9	76.7
Tertiary	25.6	28.0	27.5	29.9	30.1

Source: Central Bureau of Statistics, Republic of Croatia.

36. However, the percentage of drop-outs is rising – starting from primary school and becoming problematic at both secondary and tertiary levels. At some university faculties for example, only 50 percent of the enrolled finish the first year.⁴⁷ Furthermore, although a more in-depth analysis into the drop-out phenomenon still needs to be carried out, the lack of guidance at schools, the undefined labor market, a wrong type of university entrance examinations, as

⁴⁶ OECD Thematic Review of National Policies for Education – Croatia. 2001

⁴⁷ Report on the Vocational Education and Training System. National Observatory Country Report. Croatia. 2001

well as the very heavy programs are certainly amongst the reasons for dropping out.⁴⁸

37. According to UNICEF data, the education system lags behind other transition economies with respect to post-primary schooling. Household survey data also show that the access of children from poor families to secondary and higher education is severely limited.⁴⁹ Moreover, the recent World Bank Poverty Report (2001) finds lack of education to be *one of the most important determinants of poverty and unemployment*. The study finds *relatively high returns to education in Croatia, which combined with a relatively wide spread of education achievements, contributes to highly inequitable outcomes*. This indicates a stratified education system that fails to operate as a mechanism for social mobility.

Pre-school Education

38. Pre-school education is part of the education system and is therefore under the supervision of the MES. The goal of the Government is to increase pre-school enrollments from its current 34.9 percent to about 60 percent by the year 2005,⁵⁰ and by the year 2010 make one year of pre-school compulsory for all children aged 5 to 6 years.⁵¹
39. Children from the age of six months until they enter elementary school (six or seven years of age) have the opportunity to participate in pre-school programs. Programs for children below the age of three years are organized in nurseries; for children three, four, or five years in kindergartens; and for children five or six years of age in (non-mandatory) elementary preparatory schools (known as “little schools”).⁵²
40. Pre-school programs run between 5 and 10 hours per day, with the 10-hour programs being the norm.⁵³ However, both the 5- and the 10-hour programs are enriched with ‘*special*’ supplementary programs (such as: foreign languages, art, music, sports, etc.), which can be taken separately from the 5- and 10- hour programs.
41. State/public pre-schools generally accept children whose parents both work. The cost of a child’s attendance at state/public pre-schools is covered partly by local government⁵⁴ and partly by parents, depending on family income.

⁴⁸ Report on the Vocational Education and Training System. National Observatory Country Report. Croatia. 2001.

⁴⁹ Croatia Economic Vulnerability and Welfare Study. The World Bank. Report No. 22079-HR. April 18, 2001.

⁵⁰ The Development of Education. National Report on Educational Development in the Republic of Croatia. Ministry of Education and Sports. May 2001.

⁵¹ The Basis for the Education System in the Republic of Croatia. Ministry of Education and Sports. 2000

⁵² Although according to the law, every child has the right to at least one year of pre-school before entering primary school. Currently, only about 45 percent of 5-6 year olds attend “little” schools.

⁵³ The shorter programs are offered primarily in the smaller towns and municipalities.

⁵⁴ For example, the local government of the City of Zagreb spent 339,000,000 HRK (approximately \$4.5 million) for public programs in pre-schools in Zagreb and co-financed 18 private kindergartens (16 of which are owned by religious communities) catering for 1,270 children.

However, local government funding is not assured in all regions, which means that in many cases educational services are unequally allocated. The cost of nursery schools has grown while many pre-school programs that have been free for a long time ceased to be such, and thus have become inaccessible to children from low-income families.

42. Parents pay about \$ 40 to \$ 80 per month at state kindergartens for 10-hour programs and \$ 30 to \$ 65 for 5-6 hour programs.⁵⁵ Enrollment in the 'special' programs is an extra cost of about \$ 10 to \$ 15 per month per 'special' program (for twice weekly sessions of 45 minutes each). These 'special' programs operate on open-market principles.⁵⁶
43. All pre-school institutions are requested to submit proposals of their 'special' programs for approval to the MES (i.e. the Institute for Educational Development).
44. According to the Bureau of Statistics, in the school year 1999/2000 there were 1,034 pre-school institutions in the Republic of Croatia, of which 124 were private.⁵⁷ Pre-schools can be founded by units of local self-government (towns and municipalities), religious communities (and other organizations), and individuals, or organized in primary schools (and other institutions).⁵⁸
45. As mentioned above (see par. 34) only 34.9 percent of the age cohort (3 to 7 years) is enrolled in pre-school programs. Out of a total of 242,199 children in Croatia in the age group 3 to 7 years therefore, only 86,755 participate in the pre-school education system. However, 95 percent of the 6 year old age cohort is accepted into pre-school programs – free of charge⁵⁹ - in order to prepare them for entry to primary school. In the school year 1999/2000 therefore, 71,381 6-year olds participated in such programs.
46. According to the MES, pre-school education employs 11,371 people – 7,192 nursery-school teachers, 492 supplementary professional staff (school counselors, psychologists, special-education teachers, nurses) and 3,687 other staff. The average number of children in a group is 20, and each teacher is in charge of 12 children.⁶⁰
47. Large urban areas offer a much wider variety of pre-school programs than small towns and villages. In big cities there are long waiting lists due to lack of space, while in the smaller communities, a lack of understanding about the care of children, along with economic difficulties, hinder the extension of the pre-school education network.

⁵⁵ At private kindergartens parents pay \$ 80 to \$ 120 per month.

⁵⁶ About 20 percent of children in the regular pre-school program (either the full 10-hour program or the 5-6 hour program) of larger communities also participate in 'special' programs of their choice.

⁵⁷ Croatian Bureau of Statistics. <http://www.dzs.hr>

⁵⁸ The Development of Education. National Report on Educational Development in the Republic of Croatia. Ministry of Education and Sports. May 2001

⁵⁹ Financed by the local government.

⁶⁰ The Development of Education. National Report on Educational Development in the Republic of Croatia. Ministry of Education and Sports. May 2001.

Basic/Compulsory Education

48. Primary school is divided into lower primary school (Grades 1-4), where students have only one teacher that provides instruction in all subjects, and upper primary school (Grades 5-8), where multiple teachers provide specialized instruction. However, the school is obliged to accelerate gifted students through primary school by allowing them to complete two grades in one year.
49. The MES sets a national curriculum of obligatory and optional subjects. Both public and private primary school programs are developed in compliance with the curricula and syllabi set by the MES.⁶¹
50. According to the Central Bureau of Statistics, in the school year 1999/2000, there were 2,147 state/public primary schools and 6 private ones (3 of which are in Zagreb) catered for by 26,921 teachers, all of which, according to the MES, are qualified.⁶² However, in most (73.3 percent) primary schools teaching takes place in two shifts and in some (6.9 percent) in three shifts. This indicates a serious need for structural changes in the educational system and calls for greater investment in the construction of school buildings.⁶³
51. Parents pay for school supplies and textbooks – a cost ranging from \$ 65 to \$105 per student per year.

Secondary Education

52. Secondary education is not compulsory in the Republic of Croatia. Parents and/or students can choose the secondary school they wish to attend. About 94 percent of primary school graduates continue at secondary school.⁶⁴ In the school year 1999/2000, there were a total of 192,769 students enrolled in the secondary education (that is 63 percent of the 15-19 year age cohort), of which 16 percent were enrolled in general secondary schools (i.e. grammar schools or '*gimnazije*') and 47.1 percent in vocational education and training (VET) schools.
53. According to the Central Bureau of Statistics, in the school year 1999/2000, there were 607 public/state secondary schools (129 general secondary schools and 478 VET schools) and 26 private secondary schools (18 general and 8 VET schools) catered for by a total of 4,205 general secondary teachers and 14,231 VET teachers all of which, according to the MES, are qualified.⁶⁵

⁶¹ All curricula and syllabi of all areas and subjects for primary school were published by the Institute for Educational Development of the MES, in June 1999.

⁶² As the law requires that all teachers in formal education, teaching in approved programs must be qualified. According to the MES, 56.9 percent of teaching staff has two-year post-secondary education, 35.9 percent university education and 7.23 percent secondary education.

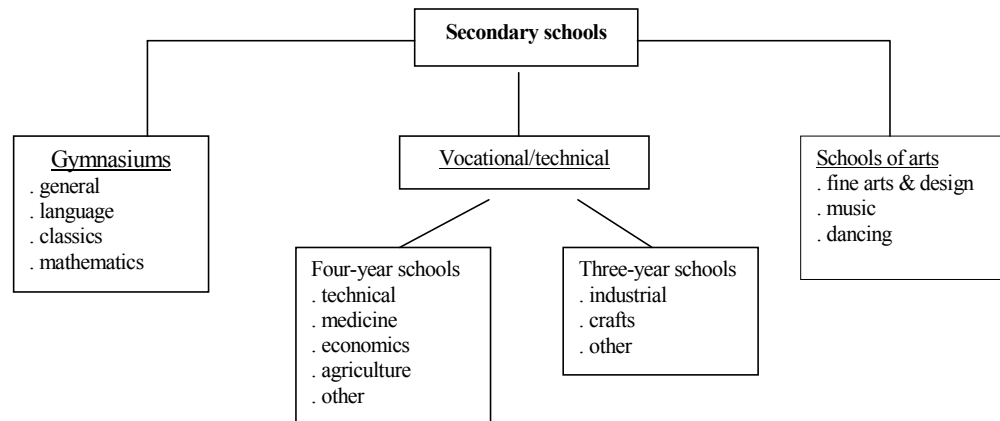
⁶³ The Development of Education. National Report on Educational Development in the Republic of Croatia. Ministry of Education and Sports. May 2001.

⁶⁴ Report on the Vocational Education and Training System. National Observatory Country Report. Croatia, 2001.

⁶⁵ All teachers in formal education approved programs must be qualified.

54. Secondary education programs are carried out in 3 types of secondary education schools (depending on the program offered) – grammar schools, secondary vocational schools and art schools as can be seen from **Chart 1** (below). Grammar schools offer 4-year programs; vocational schools offer 3- and 4- year programs for technical/vocational qualifications; 1- and 2- year programs for lower vocational qualifications; and short vocational courses (up to 1-year) for training and up-grading of skills.

Chart 1: Types of Secondary Schools



Source: Ministry of Education and Sports.

55. Grammar schools or ‘*gimnazije*’ were reintroduced into the system in 1990.⁶⁶ They offer an increased number of teaching hours and subjects compared to other types of secondary schools. There are general and language ‘*gimnazije*’, classical schools and science schools. Graduates of the ‘*gimnazije*’ can continue on to higher education. However, about one-third of general secondary school leavers do so.

56. Vocational/technical schools offer one to four year programs. Those graduating from one and two year programs earn lower education qualifications and enter directly into the job market. Those graduating from three or four-year programs earn secondary school qualifications – however only graduates of four-year vocational/technical (VET) programs can enrol in institutions of higher education (or either enter the labor market directly or proceed to post-secondary professional programs). Graduates of three-year VET programs can work in the field they have trained and have the option to continue their training (to gain specialization in the field they have trained) at post-secondary training colleges.

57. However, the 1993-1994 reforms to secondary VET that created such three- or four- year VET programs produced inequalities in the system. For example, a third of all secondary enrollments and 44 percent of those enrolled in VET are enrolled in the three-year programs that preclude access to university.⁶⁷ In

⁶⁶ Croatian Education System. Interim Report. Ministry of Education and Sports. Institute for Educational Development. Zagreb, June 2000.

⁶⁷ Bureau of Statistics.

terms of creating the human capital needed in a modern economy therefore, this reform was biased against the poor. In fact, students from poorer families are more apt to enrol in VET and more apt to enrol in the three-year vocational programs – having weak academic content and representing fewer years of total education for those that complete these programs - than in the four-year VET programs.⁶⁸

58. Parents pay for secondary-school supplies and textbooks, which can amount to \$ 145 to \$160 per students per year. Furthermore, students who have to take public transport to school have to buy a monthly bus pass, which can cost as much as \$ 7 per month.⁶⁹

Tertiary Education

59. According to the Central Bureau of Statistics, in the academic year 1999/2000, there were 4 state universities and 16 tertiary, non-university institutions, no private universities,⁷⁰ but 4 private colleges, with about 97,000 students enrolled in tertiary (university and non-university) programs.

60. Every year, about 26,000 students enrol in colleges and universities, which is about half of all eligible secondary school graduates.⁷¹ This compares favourably with the European average but the difference arises not in the numbers enrolled but in the drop out rate, which is exceptionally high in Croatia with about 22 percent of students not completing their studies and only 13 percent of students graduating on time.⁷²

61. Admission to (state/public) higher education institutions is based on the results of entrance examinations organised by the higher education institutions or faculties themselves and (to a lesser extent) the results of the secondary school diploma. The procedure is highly selective and only about one-third (31.3 percent) of the relevant age cohort enrolled in university or non-university programs in the academic year 1999/2000. The majority (73 percent) of those that did enrol study at one of the four state universities.⁷³

62. Those students who are admitted to higher education institutions based on the above (see par. 61) admissions criteria, have their expenses covered by the state.⁷⁴ However, other students (i.e. students who do not fulfil this admissions criteria) can also attend state/public higher education institutions – although

⁶⁸ Berryman, S. et. als. The Croatian Education System: Public Expenditure and Institutional Review. The World Bank. December 21, 2000.

⁶⁹ Considering that the average monthly salary is about \$ 400 (see par. 14), this is quite a large amount for parents to have to pay.

⁷⁰ Although the current legislation provides for the establishment of non-state universities.

⁷¹ Report on the Vocational Education and Training System. National Observatory Country Report. Croatia. 2001.

⁷² On average, the duration for the completion of a 4-year undergraduate curriculum is 7 years, and 5 years for a 2-year curriculum. (Report on the Vocational Education and Training System. National Observatory Country Report. Croatia. 2001)

⁷³ OECD Thematic Review of National Policies for Education – Croatia. 2001

⁷⁴ The Government also subsidizes accommodations for tertiary-level students from poor families and food for all regular students.

their expenses are not covered by the state and must be met with by individual students (through the payment of tuition fees).⁷⁵

63. Needless to say, this creates two categories of students in Croatian state/public higher education institutions – state-funded students and privately-funded students.⁷⁶ Currently about 40 percent of students at state/public institutions pay tuition fees (which can range from \$ 250 to \$ 1000 per academic year depending on the program of study). The income from tuition fees forms a substantial part of the budgets of the higher education institutions.⁷⁷
64. As is to be expected then, higher education institutions are opposed to admission based solely on the results of the entrance examinations, partly because they fear their autonomy in selection will be curtailed, but also because there is now a flourishing (and lucrative) private tutoring system preparing secondary school students for university entrance examinations.⁷⁸
65. Moreover, the new draft Bill on Institutions of Higher Education proposes that all students pay tuition and that a student loan scheme be introduced to help families finance these costs. However, as the poor are more reluctant to borrow, income contingent loans could be considered.
66. Such issues as informal education, continuing education, post-secondary education - outside formal higher education - and life-long learning, will need to be considered in order to meet the growing demands of the personal and professional development of the population.
67. Recently however, intensive business management programs have been introduced in Croatia and many Croatian business people are being trained at home and abroad. In recent years, special attention has been given to informal forms of knowledge improvement and training of employees in Croatian companies, with a special emphasis on the education of managers. Related programs are conducted by companies, chambers of commerce, various consulting companies and institutions.

Textbooks

68. A new Bill on textbooks has recently been passed by the *Sabor* (Parliament). This law emphasises the privatization of textbook provision - but with the approval of the MES. Until 1995 the only provider of textbooks was the state-owned publishing company (*Školska Knjiga*) and textbooks were distributed free of charge.

⁷⁵ Part-time students pay 60 percent of fees charged full-time students; and foreign students pay higher fees than Croatian citizens.

⁷⁶ Although 10 percent of fee-paying students per year, with the best grades, can convert to free-tuition status. However, such ‘conversion’ is at the expense of existing free-tuition status students, who can lose their ‘free’ status if their grades fall below the required level.

⁷⁷ Approximately 50 percent of the annual budget of the University of Zagreb comes from this source. (Ministry of Science and Technology)

⁷⁸ OECD Thematic Review of National Policies for Education – Croatia. 2001.

69. The average price of textbooks ranges from about \$ 2.5 to \$ 5, but can be as expensive as \$ 10 per textbook (depending on the subject and level). The average cost for parents for schoolbooks can range from \$ 65 to \$ 105 per student per year for primary school (as mentioned above – see par. 51) and \$145 to \$ 160 for secondary school - which is a large amount for some families to pay considering the average monthly salary is about \$ 400 (as already mentioned above - see par. 14).⁷⁹

Teachers

70. There is an adequate supply of well-qualified teachers in Croatia. However, shortages exist in specialized areas such as foreign languages (e.g. German and English), classical languages (e.g. Greek and Latin), music and visual arts. Secondary school teachers earn approximately \$ 460 per month, as they are university graduates. Primary school teachers who are graduates of teacher colleges earn (in Zagreb), approximately \$ 350 per month. Pre-school teachers earn about \$ 130 per month for 5 hours work per week.

Financing

71. The financing of education is centralized. The MES receives almost all money allocated to education from public funds and then allocates it according to a preset rigid system that relies on the allocations based on incremental budgets of previous years. The education system is treated as a single bundle of services subject to the same incentive regime, instead of disaggregating the system into goods and services according to the optimal incentives for delivering them. Furthermore, there are no medium-term planning and strategic investment targets.⁸⁰
72. The Ministry of Finance prepares a proposal for all levels of education after collecting the relevant data and allocating the state budget according to specific criteria. The MES sets the line budgets for pre-tertiary education and the MST for tertiary education. However, there are no mechanisms in place to reallocate money from one budget line to another.
73. The resources from the state budget are allocated, inter alia, to teachers' salaries, in-service teacher training, additional expenditures for minority programs and the programs for the gifted, information provision to schools, co-financing of private schools and for capital investments. According to information provided by the MES, 85 percent of the education budget goes for salaries (paid out of current accounts from the State budget⁸¹), 11 percent for material expenses, and 4 percent for capital investment (e.g. upkeep and investment in equipment).⁸²

⁷⁹ Textbooks are free for certain social categories (e.g. unemployed parents, IDPs, etc).

⁸⁰ OECD Thematic Review of National Policies for Education – Croatia. 2001.

⁸¹ Even under the new decentralization law, teachers will be paid directly by the State.

⁸² Capital investments will also continue to be paid directly by the State (i.e. even under the new decentralization law).

74. According to the Ministry of Finance, Croatia's expenditures on education increased during the period 1995 to 1999, not only as a share of GDP (at the same rate as GDP), representing *on average* about 2.65 percent, but also as a share of total expenditure on education in the budget funds averaging 8.65 percent.⁸³ Nevertheless, according to *the Public Expenditure and Institutional Review (2001)*, Croatia's spending on education is moderate both as a percent of GDP and as share of total public expenditure. While average education spending for OECD countries stands at 5.5 percent of GDP, or 14 percent of the total public expenditure, Croatia spent a moderate 4.8 percent of GDP or 9.7 percent of total public expenditure in 2000.⁸⁴
75. The budget is therefore low considering the country's needs in education and training to develop a market economy.⁸⁵ This low level spending moreover, could limit long-term productivity with negative implications on long-term growth. The Government seems to be aware of this however, and in the Working Program of the Government of the Republic of Croatia for the Period 2002-2004, it has noted that *funding for education will gradually increase and come closer to European country standards.*
76. Croatia's allocations between recurrent and capital costs however, are quite typical for developing economies. Nevertheless, according to Berryman (2000), relative to the mean allocation for OECD countries, Croatia currently allocates a larger share of total expenditures to recurrent costs - especially to labor (i.e. teachers and non-teaching staff) - than to capital costs at all levels of education. At the primary and secondary levels for example, Croatia allocates about half as much to capital costs as OECD countries. At the tertiary level the average allocation is about a fifth of the OECD allocation.⁸⁶ However, of concern is the fact that the expenditure share being allocated to labor relative to other recurrent costs is increasing across time, indicating that important non-labor costs that affect student learning (e.g. professional development of teachers, equipment, etc.) are being squeezed out.⁸⁷
77. According to the Public Expenditure and Institutional Review (2001), *[u]nit cost for pre-school relative to unit cost for basic education in Croatia is higher⁸⁸ than in OECD signalling potential inefficiencies at pre-school level. In contrast, Croatia appears to be under spending at the secondary level relative to OECD ratios,⁸⁹ even though student/teacher ratios are declining*

⁸³ Croatian Education System. Interim Report. Ministry of Education and Sports. Institute for Educational Development. Zagreb, June 2000.

⁸⁴ Croatia – Regaining Fiscal Sustainability and Enhancing Effectiveness: A Public Expenditure and Institutional Review. A World Bank Country Study. Report No 22155-HR. 2001

⁸⁵ Croatia – A Policy Agenda for Reform and Growth. Overview. Vol. 1. World Bank. 2000.

⁸⁶ Berryman, S. et. als., The Croatia Education System: Public Expenditure and Institutional Review. 2000.

⁸⁷ Croatia – Regaining Fiscal Sustainability and Enhancing Effectiveness: A Public Expenditure and Institutional Review. A World Bank Country Study. Report No 22155-HR. 2001.

⁸⁸ Almost double, as noted by Berryman (2000).

⁸⁹ Unit costs at this level are only about 75 percent of the average OECD unit cost even though a larger percent of Croatia's students in secondary education are enrolled in vocational and technical programs than the OECD average and these programs are generally more costly than academic secondary education.

and staff costs as a percent of total recurrent costs are increasing. Unit costs for tertiary education, relative to the unit cost of basic education moreover, are below, but roughly comparable to the OECD mean unit cost for this level of education.⁹⁰

78. Relative to enrollment shares moreover, expenditure shares are greater for pre-school, basic education (which receives 47.9 percent of the state education budget) and tertiary education, but significantly less for secondary education relative to the OECD mean, signalling, according to Berryman (2000) that Croatia may be under-spending at the secondary level.
79. Although there are some private contributions to public education, the existing data is too fragmentary or unreliable to yield useful estimates of private financing. As already noted above (see par. 42), parents pay fees for pre-school, although it is impossible to estimate the total private costs at this level of education because the percent of cost recovery is set by the town/municipality and varies across the 542 towns and municipalities.⁹¹ In primary and secondary education (as noted in par. 51 and par. 59) parents pay for school supplies, textbooks, and if a student takes public transport to school, for subsidized bus passes. Again, data on cost recovery for publicly provided services are too incomplete to calculate estimates of total public and private expenditures at the primary and secondary level. At the tertiary level however, based on the fact that as already noted (see par. 64), 40 percent of full-time students at state/public tertiary institutions pay tuition fees and part-time students pay 60 percent of tuition charged full-time students (see par. 63), it has been calculated that for 1999/2000, private fees totalled about 12 percent of public expenditures for higher education.⁹²
80. Furthermore, schools are allowed to generate additional income (by renting/leasing premises, organizing extra-curricula activities for students, community programs, etc.) for use by the individual school. This 'extra' school income is currently taxed. However, under the new regulations for decentralization, not only will the financing of pre-schools be the duty of the local government, but so will the financing of primary and secondary schools, according to the Ministry of Finance. Incentives will therefore be put in place in order to activate schools to generate additional income (e.g. reduced tax on 'extra' income generated by the school), since schools will be responsible to raise 20 percent of their budget.⁹³
81. As can be seen from **Box 1** (below), the City of Zagreb is already mobilizing extra resources for local schools. In 2000 for example, the City of Zagreb

⁹⁰ Berryman, S. et. als., *The Croatia Education System: Public Expenditure and Institutional Review*. 2000.

⁹¹ Croatia – Regaining Fiscal Sustainability and Enhancing Effectiveness: A Public Expenditure and Institutional Review. A World Bank Country Study. Report No 22155-HR. 2001.

⁹² Analyses of the *Household Budget Survey* found that a weighted sample of about 88,000 individuals reported private costs for tertiary education average about \$ 450 per year for a total private cost of about \$ 4 million. However, data from the *Survey* cannot be used to estimate cost recovery at the tertiary level since the survey question on tertiary costs did not ask the respondent to differentiate among types of costs, such as fees, accommodation, food, books, transport, and so forth.

⁹³ Ministry of Finance.

earmarked 37,000,000 HRK (about \$ 4.4 million) in its budget for the public needs in primary and 9,000,000 HRK (about \$ 1.1 million) for secondary education. The City of Zagreb also plans to invest considerable amounts in order to raise pedagogical standards in schools within the City's jurisdiction. Moreover, according to the Mayor's office, the MES has not built or reconstructed any schools in Zagreb for the past seven years. However, this is not characteristic of all local governments. The City of Zagreb is the wealthiest in the country and has the ability to mobilize such resources.

Box 1: Program Innovations in the Schooling System in the City of Zagreb

The freedom of choice of upbringing and education, the type of training, the establishment of schools with a variety of programs, the right of every individual to education under equal conditions at all levels, maximum flexibility of the school system in which each student can progress according to his/her abilities and desires, are the fundamental characteristics and values of the schools in the City of Zagreb. The City of Zagreb offers a variety of privately financed or co-financed educational programs and opportunities for young people. These include:

Elementary Waldorf School, which offers a different approach to teaching and learning than that in traditional Croatian schools. It opened in 1993 and advocates 'natural learning and free upbringing'.

English Language Elementary School. Upon approval issued by the MES, since 1995/1996 the Croatian curriculum is provided in English for children of foreign diplomats and citizens.

Program for students of Hungarian ethnic community. One elementary school has been conducting, for the fourth year, bilingual instruction (for Grades 1 to 4) partially financed by the City of Zagreb.

International Baccalaureate Middle Years Program (IBMYP) and International Baccalaureate (IB). Since the City of Zagreb has become a seat of various diplomatic, consular and other international institutions, one secondary (grammar) school has introduced a four-year program in English. The school was admitted to the IB organization in 1991.

Sports Grammar School. This school uses grammar school curricula, but its program is adapted to the training of students for sports competitions. Students are accepted according to their sports achievements.

School of Nature. This is available for third and fourth graders in the facilities at the seaside or in the mountains. Students spend one week out of school in nature. This program is co-financed by the City of Zagreb and the parents.

Elective and Extra-Curricula Programs. These are additional programs (beyond the regular curricula). Students show greatest interest in studying foreign languages (Spanish Japanese, Chinese). The City of Zagreb supports the provision of a number of out-of-school activities for students.

Source: City of Zagreb Information Pamphlet

THE PRIVATE EDUCATION SECTOR

82. According to the Croatian Constitution *private schools and teaching institutions may be established by citizens in accordance with the conditions defined by law.* The establishment of private primary schools (according to the 1991 law on primary/compulsory education) and private secondary schools (according to the 1992 law on secondary education) are under the jurisdiction of the MES. The draft Bill on Institutions of Higher Education (2000) permits the establishment of private institutions of higher education (which are under

the jurisdiction of the MST)⁹⁴ and specifies the process by which private institutions are entered into the Register of Institutions of Higher Education. Such institutions are also permitted to provide public education – that is, they can accept state-funded students. The establishment and operation of pre-schools, depends on the authorization of the local community (rather than the MES).

83. Although there are specific rules and regulations outlined in the above (see par. 83) laws, as laid down in the Rulebook on Norms for Direct Educational Activities per Subjects and Methods for Calculation of Number of Employees in Primary Schools, the Rulebook on Norms for Direct Educational Activities per Subjects and Methods for Calculation of Number of Employees in Secondary Schools, and the Rulebook on the Financing of Higher Education in Public Institutions of Higher Education,⁹⁵ there is currently no separate law that deals specifically with private education. For this reason, a new (separate) law for private education is currently being developed. A Commission as already noted above (see par. 29) has therefore been set up and charged with the task of developing a policy document. This Commission has analyzed data on: (a) existing private education providers in Croatia, and (b) private education models (especially with regard to financing) in the EU. It has already been proposed that 75 percent of the private school staff will be the school's own staff – that is, will not be public school teachers. Another issue that is being considered is the relationship between standards and assessment and it is proposed that a state final examination will be introduced so that there is external assessment of private education.
84. Private education started in Croatia in 1991, when the *'Law on Independent Commercial Activities by Engaging Proper Labour Forces'* was passed. At that time, a private enterprise named *'Pitagora'* was founded in Pula and provided education services. Upon the approval of the MES, *Pitagora* established in September 1993, the first private primary school "*Juraj i Dobrila*". The school follows the common core national curriculum but its teaching and learning strategies are based on problem solving, individualization and team-work activities. The school records additional extra curricular activities like "early learning" of foreign languages. The first private (economics) secondary school was also established in the same year (1993) in Split.
85. As can be seen from **Table 2** (below), the number of private pre-schools (as well as those founded by religious communities) is increasing, but is both limited and changing little at the primary and secondary levels.⁹⁶ Private

⁹⁴ Private higher education institutions are also permitted to provide *public* education – that is, they can accept state-funded students.

⁹⁵ For example, the *'Rulebooks'* for primary and secondary education, specify the number of weekly teaching hours for teachers by level of education and subject and the expected hours for non-instructional duties. The *'Rulebook'* for higher education defines the size of teaching groups for lectures, seminars, and practical exercises.

⁹⁶ **Appendix 1** provides a list of pre-schools, primary, secondary (licensed by the MES) and tertiary institutions (accredited by the MST).

schools in Croatia, include those categorized as: (a) privately owned; and (b) owned by religious communities.⁹⁷

Table 2: Number of Institutions, by Origin of Funding

	Pre-school				Primary Schools			Secondary Schools			
	Total	State-owned	Privately owned	Privately owned (religious)	Total		Privately Owned	Total	State-owned	Privately owned	Privately owned (religious)
1990	936	-	-	-	2,703	-	-	247	-	-	-
1991	930	-	-	-	2,114	-	-	226	-	-	6
1992	763	-	-	-	1,947	-	-	490	-	-	5
1993	831	-	-	-	2,025	-	-	543	-	-	5
1994	846	808	18	20	2,034	-	-	498	-	-	4
1995	871	832	17	22	2,026	-	-	522	-	-	4
1996	902	849	24	29	2,073	-	-	538	-	-	4
1997	960	870	48	42	2,109	-	-	573	556	9	8
1998	980	886	52	42	2,192	2,183	9	605	584	14	7
1999	1,003	899	58	46	2,211	2,200	11	619	596	15	8
2000	1,034	910	72	52	2,143	2,137	6	627	601	18	8

Source: Republic of Croatia, Central Bureau of Statistics.

86. According to Berryman (2000), *at the pre-tertiary level the primary obstacles to private provision seem to be bureaucratic. Those trying to establish private pre-schools and primary and secondary schools encounter confusing and inaccessible standards and regulations. Processes seem somewhat chaotic, in that the proper sequence for meeting regulations is not clear, nor is it clear which public authorities have to be approached to certify that the private provider has met a standard or regulation.* Needless to say, the MES can easily solve this problem by establishing an office (or separate directorate) within the MES to deal with: (a) simplifying, rationalizing and publishing standards, regulations and processes for private education; and (b) the public (i.e. the applicants or potential providers of private education) by providing information and facilitating the ‘smooth’ progression of steps necessary in establishing a private school.

87. Private provision at the tertiary level is constrained mainly due to the start-up costs that are dependant upon the capital and recurrent costs of the programs to be offered. Furthermore, private higher education institutions must compete with their public counterparts that are also charging tuition, but provide greater security and certainty. The question therefore arises as to why should students that can obtain a publicly financed education pay for a private education?⁹⁸ Without information about the payoffs to the individual from a degree earned in one versus another institution, consumers do not have the basis for informed choice.⁹⁹

⁹⁷ There are no private primary schools owned by religious communities.

⁹⁸ Furthermore, tuition at private institutions is higher than tuition payable by self-financed students at public institutions.

⁹⁹ Berryman, S. et. als. *The Croatia Education System: Public Expenditure and Institutional Review.* 2000.

88. Private pre-school tuition ranges between \$ 80 to \$120 per month; private primary schools between \$ 145 to \$ 250 per month¹⁰⁰; and secondary schools between \$ 160 to \$ 300 per month.¹⁰¹ Tuition fees of private schools do not draw public attention as they are not that costly (considering parents pay at least \$ 250 per month just for home-based child care!). Nevertheless, these amounts are high considering the average monthly salary is \$ 400 as already noted above (see par. 14), but parents seem prepared to pay these amounts for private education.
89. Both the MES and the MST welcome private education as a way to: (1) ease the burden of the state budget; (2) respond to the needs of parents who would like to choose the school their child goes to; and (3) provide inspiration for competition and the development of quality schools. The *Classical Private School - Privatna Klasična Gimnazija* (see **Box 2** below) is a good example of one such private school.

Box 2: CASE STUDY - Privatna Klasična Gimnazija

Privatna Klasična Gimnazija is a private (secondary) classical school for students aged 15-18 years. Emphasis is on Latin and Ancient Greek. Such classical schools have a strong tradition in Croatia. There are 6 primary schools with an emphasis on classical studies and 3 secondary schools. In 1996 when *Privatna Klasična Gimnazija* opened, only the state or an independent person could establish a private school. Since the changes in the law in 1999-2000, various groups (e.g. chambers, companies, etc) can start a private school - but primary and secondary schools must be established as non-profit organizations. Training centers (e.g. for computers, languages, etc) on the other hand, can be set up as for-profit organizations.

Each year *Privatna Klasična Gimnazija* has about 90 applications and accepts 40-42 students only. Nevertheless, there are no plans to expand the school since it has reached its full potential given the space it has. Furthermore, there is the intent to keep the school small. Even if the premises could be expanded, the intent would still be not to expand since there is a limited target group and there are already other classical schools in Zagreb –there is a state/public classical school and a religious one. The target-market is therefore being catered for. However, when and if the economy changes, expansion could be reconsidered. The first graduates of *Privatna Klasična Gimnazija* were last year. All students got into university except one – who did not intend to go to university. Students come from far and near. One student travels from Slovenia (by train 2 hours in the morning and 2 in the evening).

Tuition is \$200 per month (which is considered average), but the school population comprises of students from the upper and upper-middle class. The most expensive private school is the *First Private Gymnasium*, which costs \$ 400 per month and caters mainly to the elite. From 2001, the government has said it will support private schools but up to now, costs are being met through tuition. There are some minimal donations but this is not a reliable source of income. Teachers' salaries average \$ 500 per month, which is 15-20 percent more than at public/state schools.

The curriculum used is the same as that used at the public/state classical school. Students need to follow this curriculum in order to prepare for university entry examination. It is possible for the school to design its own curriculum but in that case, it would need to go through an 'experimental (or pilot) stage' and then approval from the MES. So it's easier to adopt the public/state school curriculum and adapt it as need be. The MES does not have criteria for the premises used by private schools. It only looks at academic part – curriculum, teaching materials, teachers.

¹⁰⁰ The Waldorf schools charge between \$ 70 and \$120 per month.

¹⁰¹ (Private) Catholic secondary schools do not charge tuition fees; moreover, most Catholic secondary schools are boarding schools. (Matijević, 2001)

The initial investment to start up the *Privatna Klasična Gimnazija* was \$ 30,000. This money was obtained through the Soros foundation. A grant of \$ 30,000 was given to the School to set up. The School started in rented space – a small house – with rent at \$ 4,600 per month). There were 31 students and 2 classrooms. A Soros grant of \$ 50,000 was received for each of the two subsequent years. (In total therefore, *Privatna Klasična Gimnazija* received \$ 130,000 in the form of grants from the Soros Foundation, for which financial reports, etc had to be provided to show how the money was used). Now the School is self-dependent. Some other schools were also set up with money from the Soros Foundation. Some private schools received money or buildings from the State to set up, but this depends on ‘connections’ rather than any set formula. (The Waldorf School for example, got their building from the State.) The biggest problem in Zagreb is finding suitable facilities and when these are found, they are very expensive. Unfortunately, the public is not used to the idea that private schools can be outside city, since cheaper facilities could be found in suburbs (i.e. the city center). Some communities support private schools by giving them facilities, but most private schools rent space from public schools. The building that *Privatna Klasična Gimnazija* is currently in costs \$ 140,000 per year. It was a business building, which was refurbished. A long-term credit (10 years) loan was received from Hypo Bank (with Austrian connections) with an interest of 11 percent. Negotiations took one year. (In Austria, the same loan can be obtained for 5-6 percent interest.). Commercial loans in Croatia are given for 2 years for an interest of 11 percent. Bank loans are possible but there is no favorable treatment for education projects.

In 2001/2002 due to the improvement in the economic situation of the country, the banks are offering better conditions for loans. The loan the School therefore has, has been adjusted (by the special Department for non-economical investments) and interest is now at 6.5 percent for about \$ 1,200,000 over the next 13 years.

Source: Interview with Director of School

90. In the spirit to support private education, many private schools have been given buildings (that are not in use or are abandoned) by the MES to lease or simply to occupy. Those that lease space from state schools pay rent either to the school, thus providing extra income for the state schools, or to the local government.¹⁰² Nevertheless, there is no policy or strategy in place to regulate such matters.
91. Furthermore, the decentralization law that was recently passed (2001) will make the local community responsible for private primary and secondary schools. According to the MES, the goal was that the State and the local communities would subsidize all private schools with about 20 percent per capita of the unit cost of students at state/public schools. However, according to a Member of the Parliamentary Education Committee, for 2001, the State subsidized private schools with a per capita subsidy of 25 percent for private primary schools and 11 percent for private secondary schools. In total, this amounted to 3 million HRK (about \$360,000) out of the 4 billion HRK (about \$ 500 million) State education budget (i.e. about 0.075 percent).¹⁰³ However, although this amount (in total) is considered to be very small, at present there is opposition by the public to State financing of private schools as this measure is perceived as money being taken from state/public schools.

¹⁰² The situation varies according to who has jurisdiction over the property.

¹⁰³ This calculation however, does not include: (a) subsidies to Catholic schools, since they are completely (100 percent) funded by the State through a special deal with the Catholic Church; and (b) subsidies received from local governments, since local governments are currently not in a position to subsidize private schools in an organized and systematic fashion.

92. Nevertheless, it is hoped that State financing will give private providers the incentive to invest in education. This may be working, since requests for the establishment of private schools have increased in the last year. In the year 2000, there were also two requests for the establishment of private colleges offering 2-year programs with the right of certification and recognition by the State. Although the MST is currently trying to develop criteria for accreditation, the curriculum of these 2 colleges has been approved and the MST intends to provide 30 percent funding for these projects (the remaining 70 percent will come from tuition).
93. Furthermore, it is hoped that the process of decentralization will help to instill the idea that there are different founders of schools and different types of schools.¹⁰⁴ Up to now, only the State or private individuals could found schools. Now local communities, chambers, companies, etc. will be able to found schools. The role of the founder will therefore be important. What needs to be done immediately therefore, is for the State to set up standards concerning its relations with the founder of the school (regardless of who the founder is - the State, the local community, a company or a private person). According to a member of the Parliamentary Committee for Education, *as long as private schools are set up as non-profit entities, public and private schools should be treated equally by the State (and local government). Furthermore, tax regulations need to be adjusted in order to distinguish for-profit and not-for-profit entities, since at present not-for-profit entities have no tax incentives and are treated (for tax purposes) as any for-profit entity.*
94. As noted above (see par. 68) recently, intensive business management programs have been introduced in Croatia and special attention has been given to informal forms of knowledge improvement and training. Private training colleges offering a variety of subject areas and duration of study are therefore on an increase – and according to such providers - a profitable business. There are for example, 78 foreign language schools in Zagreb alone, charging tuition of approximately \$465 per semester (for 9 hours of instruction per week).
95. There are also numerous private training centers running courses on business, computer skills, etc. Continuing education courses are also available at universities or other higher education institutions for a fee (at the rate part-time students are charged). Those undertaking such a course are classed as “*personal needs*” students. It is important to note that if the course has MES approval, then it can be documented on the ‘*labor identification card*’ and is taken into consideration for employment (and salary) purposes.
96. There is also a large private tutoring market. More than 75 percent of the students are tutored for one subject or another. The average cost for tutoring is approximately \$ 5 per hour.

¹⁰⁴ MES.

INVESTMENT CLIMATE

General Characteristics

97. Following the political changes that took place at the beginning of 2000, Croatia embarked on the road of key political and economic changes. Important steps have been taken towards improving the investment climate, progressing with privatization, and enhancing fiscal sustainability through a Stand-by Agreement reached with the IMF.
98. According to the IFC, Croatia provides a good investment climate. Good economic performance over the last five years, with an average 5 percent real growth, while macro-economic stability has been maintained.

Government Commitment to Change

99. The *Program of the Government of the Republic of Croatia* proposes legislative changes (for the period 2000-2004) that will bring Croatia in line with EU prototypes - based on the fundamental commitment to a civil, democratic and market-oriented State.¹⁰⁵ This *Program* envisages stabilisation of public finance and efficient budget management, along with the reduction of public spending and structural changes in the use of resources to the benefit of activities which have so far been neglected and which represent the basis for the identity, faster growth and development of the Republic of Croatia (such as entrepreneurship, education, science and technology, culture, etc).
100. The fundamental economic policy goals of the Government moreover, include: (a) the creation of conditions for the achievement of economic growth, (b) higher output and employment, and (c) greater exports. The Government also intends to put in place special incentives to promote the inflow of foreign capital to new production activities, in competition with other states in the region, in order to make the Croatian market competitive and attractive for direct foreign investment.¹⁰⁶
101. Moreover, the Government hopes that through its budget and public finance policies to reduce budgetary expenditure in certain areas (e.g. the armed forces and police), while adjusting the shares of budgetary expenditure of education, science/technological development and culture, to the level prevailing in other European countries.
102. Moreover, the equitableness of the existing tax system will be improved by raising non-taxable income to the amount matching the required spending of an average Croatian family. Ultimately, families in the lower income bracket will be exempt from direct taxation. Furthermore, tax incentives such as non-taxation of reinvested profits or exemption from income tax for amounts invested into new development and new job openings, will speed up the

¹⁰⁵ Working Program of the Government of the Republic of Croatia for the period 2000-2004.

¹⁰⁶ Ibid.

development of the economy and reduce social costs.¹⁰⁷ Most importantly, the Government is designing the new tax policies so that they will stimulate investment into culture, science, education, social welfare, amateur sports, NGO's, etc.¹⁰⁸ In this way, independent private wealth will also stimulate activities of general social interest. These measures will be enforced gradually depending on the rate of economic recovery and budget capabilities.

103. The Government also hope to reduce the scale of “grey” economy and to prevent taxpayer defaults. Moreover, customs dues and VAT will be reduced systematically and gradually.
104. The budget will support market-oriented firms and their technological reconstruction, and promising firms in war-affected areas, on the islands and in the underdeveloped parts of Croatia. Incentives will be given to small-scale entrepreneurship, stimulating fiscal measures and the activity of the Croatian Guarantee Agency will be focused along such lines. The establishment of the Ministry of Trades, Small and Medium Businesses will, in co-operation with other Ministries, mark a major breakthrough for new employment and the promotion of economic activity in the Republic of Croatia.

Regulatory Framework

105. Foreign investments in Croatia are regulated by the Croatian Company Act (*Zakon o Trgovačkim Družtvima*).¹⁰⁹ According to this Act, foreign investors have the same rights, obligations and legal status within an enterprise as domestic investors, provided the condition of reciprocity is met. Foreign investors can acquire rights to additional guarantees, which are not given to domestic investors. The Croatian Constitution states that: “*rights acquired through capital investments cannot be withdrawn by law or any other legal act*”. It also ensures free repatriation of profits and free repatriation of capital on disinvestment.¹¹⁰
106. To conduct business as a legal entity in Croatia, the Law stipulates that the company must take one of the following five basic forms: (a) Limited Liability Company – minimum share capital is the kuna equivalent of about \$2,500; (b) Joint Stack Company – minimum share capital is the kuna equivalent of about \$ 15,500; (c) Limited Partnerships; (d) Unlimited Partnerships; and (e) Economic Interest Groupings.

¹⁰⁷ Profit tax, income tax, and tariffs within the scope of the agreement with the WTO, will also be reduced.

¹⁰⁸ Working Program of the Government of the Republic of Croatia for the period 2000-2004.

¹⁰⁹ The Croatian Company Act inherited from former Yugoslavia, is one of key legal documents on which Croatian economic system is based. It has however been adapted (based mainly on the German and Austrian company laws) and incorporates the applicable directives of the EU. It is a modern law, permitting the organization of all company forms known to the European legal tradition. The philosophy of the law allows the parties substantial flexibility in the way companies are organized. It accommodates the needs of individual entrepreneurs and small companies, as well as those of large companies with substantial capital.

¹¹⁰ Total foreign investments in Croatia from 1993 until 2000 amounted to \$ 4,680.54 million.

Barriers to Foreign Investment

107. The *Foreign Investment Advisory Service (FIAS) Report*¹¹¹ discusses in detail the administrative barriers to foreign investment in Croatia and looks in detail at the procedures an investor would have to go through in order to legally establish and operate a business in Croatia today. It is a very informative document for anyone planning to start a business in Croatia as it breaks the investment process into four generic areas: (a) entry procedures (immigration procedures, work permits, and related procedures); (b) business establishment (company registration and various licensing procedures); (c) locating procedures (land acquisition, land registration and construction); and operating (paying taxes, customs procedures, labor regulations and government inspections).
108. Moreover, some of Croatia's key legislation has been translated from Croatian for the purposes of EU Association and WTO membership. There is also an extremely impressive collection of Croatia's legal documents already on the website (www.nn.hr). Furthermore, the Zagreb Guide¹¹² provides a good overview of what to expect, but it does not provide "tips" on bottlenecks, shortcuts or problems in the procedures that could help investors in practical terms.
109. Regarding entry procedures for foreign investors, there are a number of redundant steps and repeated and duplicative interaction with the Ministry of Internal Affairs and Ministry of Labour (in particular) that an investors or expatriate employee wishing to work legally in Croatia, must follow. However, the company registration process is relatively straightforward and does not present private enterprise with any significant barriers.¹¹³ Tax, customs and inspection procedures, along with various labor issues pose only few problems in Croatia.

Investment Promotion

110. The Investment Promotion Act regulates the promotion of investments of domestic and foreign legal or physical persons with the aim of stimulating the economic development of Croatia, its integration into international trade through the increase of exports and the competitiveness of the Croatian economy.
111. Incentive measures in place to stimulate investments of domestic and foreign legal or physical persons, are divided into three groups. The *first group* includes: leasing, granting of construction rights and sale or usage of real estate or other infrastructure facilities owned by the Republic of Croatia, local government or self-government units under commercial or favourable conditions, including or without a fee. The *second group* of incentive measures refers to assistance granted for the creation of new jobs. The beneficiary of incentive measures may be granted an amount of up to \$ 1,500 per employee for covering the cost of job creation and re-training on a one-

¹¹¹ "Croatia: Administrative Barriers to Foreign Investment", Draft Report, FIAS, January 2001.

¹¹² Zagreb: Guidebook for Foreign and Domestic Investors, Chamber of Commerce, Zagreb, Croatia

¹¹³ The basic registration requirements moreover, are in line with standard practice throughout the EU.

time basis. The incentive can be used only for new job creation, provided that the number of new employees is not reduced during a period of at least three years. The *third group* comprises incentive measures related to assistance granted for vocational training or re-training. *If the investor invests in vocational training or re-training of his/her employees, he/she may be granted an amount covering up to 50 percent of related costs.*

Banking and Finance

112. The monetary independence of Croatia has been established and Croatia's own central monetary institution, *the National Bank of Croatia*, has been organized and modelled after those in the most developed countries.¹¹⁴
113. The interest rates applied by national commercial banks are very high and amount to 13-16 percent.
114. The financial system of Croatia is generally characterized by the dominance of the banking institutions while capital markets are much less developed. Another factor is that banks have a universal structure and for the time being are permitted to engage in the full range of capital market operations.
115. Capital transactions and transfers by non-residents into Croatia are not subject to any restrictions and are freely made. Non-residents can freely take capital out of Croatia, which as a rule, is not subject to any restrictions. Taking capital out of Croatia is not allowed for domestic residents. A major part of capital restrictions is applicable to international capital transactions and transfers by domestic residents.
116. Control of capital transfers is exercised by the banks licensed to perform international transactions.

The Zagreb Stock Exchange

117. The Capital Market in Croatia begins in the early twenties. The *Zagreb Stock & Commodities Exchange* was established on December 3rd, 1918 by a small group of entrepreneurs. It was the central Croatian trading institution for trading in commodities, securities, foreign exchange, precious metals and coins.
118. The communist regime, that seized the power in 1945, rejected and denied the role Stock Exchange had played in the national economy, rejecting market economy for ideological reasons. So, in 1946, they closed down the Zagreb Stock and Commodities Exchange and confiscated its property.
119. In July 1991, 25 banks and insurance companies gathered to revive the stock exchange in Zagreb. The present Zagreb Stock Exchange was thus established as a 'non-governmental, not-for-profit' institution. It is the premier stock and debt securities trading institution in Croatia.

¹¹⁴ It is independent of the Government in its operation, coordinates its work with the Government to the extent that this is necessary, and it is directly responsible to the Parliament.

120. The activities of the Zagreb Stock Exchange (ZSE) are principally financed by annual fees paid by members, dues paid by the issuers of securities traded on the Exchange, subscription charges for information services provided by the Exchange, and commissions.

121. A new, electronic trading system was introduced in 1999.

Land Ownership

122. Land acquisition, registration and site-development are the most complicated parts of the investment process in Croatia. There are problems of restitution, predatory land speculation, unnecessary and time-consuming bureaucratic procedures, and discriminatory application of regulations (common to many transition and other economies). The difficulty of ascertaining the ownership of land and property, and purchasing (especially larger plots of) land over which it is possible to establish legal title, is a growing cause of concern to the many investors beginning to assess the investment potential of Croatia. Even once land has been acquired and registered from either private or municipal owners, which may take many years, a new investor is still faced with construction-related constraints, including the need for unofficial payments. Of the three construction-related permits, the building permit is the most expensive and problematic to secure, involving numerous approvals from different local and central government departments and utilities.

123. The State is currently buying back land at \$ 100 per sq.m. to give to foreign investors at a cost of about \$ 1 million in total.

POLICY RECOMMENDATIONS

124. As already noted above (see par. 16), one of the key objectives of the Government of Croatia is to increase employment. However, in order to do so, the Government recognizes that the education system needs to be reformed and the permanent education of employees made possible, since the country's future economic prosperity depends on the skills of its population. The establishment of a modern education system therefore, that will not only serve the needs of Croatia, but will also be consistent with European (and international) standards, is vital.¹¹⁵ Consequently, greater priority needs to be given to the education sector in order to improve the quality and equity of Croatia's education services by: (a) providing the type of skills and knowledge required by the global economy; and (b) making the system more broadly accessible to the poorest segments of the population.¹¹⁶

¹¹⁵ Developmental Priorities of the Republic of Croatia 2002-2004. Government of the Republic of Croatia. Zagreb, November 12, 2001.

¹¹⁶ Currently, relatively high returns to education combine with high dispersion of education achievement to contribute to a highly inequitable income distribution. This points to the existence of a stratified education system, which fails to operate as a mechanism for social mobility – especially since access to higher education by the poorest segments of the population is severely limited. (Berryman, 2000)

125. The Government needs to recognize that a strong private sector is necessary if it is to meet its educational and broader social and economic objectives. It will therefore need to adopt an *active* policy stance toward private sector involvement in education that is designed to: (a) create a streamlined and more enabling policy framework conducive to private sector development; (b) improve the targeting of Government spending; and (c) establish a strong and effective policy framework for monitoring performance and raising standards. In doing so, it will need to introduce reforms to some of the key policy levers such as the funding, taxation and quality assurance processes. A paper entitled *The Third Wave of Privatization: Privatization of Social Sectors in Developing Countries* (1996)¹¹⁷ would serve as a useful guide to the Government as it provides practical information for policy-makers and practitioners in their efforts to enhance private sector participation in the social sectors (e.g. education and health). As noted in this paper: “*It must be kept in mind that an enhanced role for the private sector does not necessarily imply a smaller role for the state.... Rather, the opposite is the case. The state must continue to play an important role. The key difference lies in the nature, rather than the degree, of the state’s intervention. Specifically, the Government’s role of being the principal financier and producer of education services needs to be changed.*”
126. An increasing number of developing countries have undertaken privatization programs as a key component in their effort to restructure and modernize their economies. Initiatives to increase private sector involvement in education can take the form of private financing, private management, private ownership, or a combination of the three. Accordingly, the degree of private sector involvement can vary from complete ownership, financing, and management to a more limited private sector role such as cost recovery via user charges. Between these two extremes lies a range of possibilities that depend on varying degrees of private sector participation.
127. What needs to be kept in mind however, is that the private sector can serve as an important ally to the MES in achieving its policy objectives for education reform¹¹⁸ and to the Government in achieving its overall country objectives for comprehensive economic development as stated in the *Working Program of the Government of the Republic of Croatia for the Period 2000-2004* (see par. 26 above). For example, if the MES proceeds with its proposal to extend compulsory schooling by (a) making the year before entry to primary school mandatory (see par 17 above) and (b) adding Grade 9 to the compulsory education structure (see par 17 above), then it is difficult to see how the Government will carry out these measures, *without* the input of the private sector to offset some of the costs since, according to Berryman (2000), the pre-school proposal (i.e. of adding over 10,000 pre-school places) alone may cost up to 95 million HRK per year (i.e. about \$11.5 million)¹¹⁹ and together

¹¹⁷ Torres, G. and S. Mathur. *The Third Wave of Privatization. Privatization of Social Sectors in Developing Countries.* The World Bank, Washington, D.C., 1996.

¹¹⁸ As outlined in: *The Basis for the Education System in the Republic of Croatia. Proposal for Discussion.* Ministry of Education and Sports. Council of Education. Zagreb 2000.

¹¹⁹ Even if the *current* population estimates (for the five-year old cohort) and recurrent unit costs for pre-school (excluding the investment or rental costs) are used.

with the Grade 9 addition, it would mean an expense to the Government of about 40 million HRK per year (i.e. almost \$ 5 million). It is clear that Croatia's severely constrained public finances cannot simultaneously support such education reforms and at the same time address all the urgent and widespread rehabilitation needs of the country.

128. The Government therefore, needs to look to the private sector as a collaborator rather than an added administrative burden since: “[t]he private sector can inform, challenge and potentially re-engineer the public sector.”¹²⁰ Furthermore, as noted in the very useful resource for policy-makers, *Contracting for Public Services: Output-based Aid and its Applications (2001)*, what the Government needs to consider is: “how to deliver and target public services in ways that promote efficiency and innovation, increase accountability for performance and – in a world of limited budgets – leverage public resources with private financing.”¹²¹ In doing so however, some administrative reforms will be necessary. For example, a separate directorate needs to be established at the MES, appropriately staffed, that will in the long-term not only register, evaluate and license private education providers, but will formulate strategic approaches, with the goal of incorporating the private education sector - *as an integral component* - within the overall education reform framework of the MES. Such strategic approaches could include financing arrangements and incentives for private education provision with a view to reducing the state's unit costs for education. However, this requires that the Government shift the balance of the tools used in achieving its policy objectives from complete *ownership* of education products and services (e.g. owning the school), to *purchasing* such products and services (e.g. providing vouchers), while at the same time focusing on regulating the market (e.g. ensuring quality, safety, etc).
129. By moving from a system focused less on *ownership* therefore, the Government could utilize the private sector to help solve some of the problems the education system currently faces. One of these problems, the two- and three- shift basic/compulsory schools (see par. 50), could serve as the first step in this direction. For example, the Government could provide per capita funding or vouchers in order to enable public-school students to attend private schools, thus relieving the system of the two- and three- shifts of basic/compulsory schools (as well as some secondary schools). Needless to say, this will be far more cost-efficient for the Government than building new schools and, funds that would have been used to build new schools could instead be used as incentive measures for investment in private education (e.g. by subsidizing private education provision).
130. However, such a system (i.e. one that is focused less on *ownership*) will need to be carefully and strategically planned, since use of other policy instruments requires that there be an infrastructure (e.g. for targeted expenditure and funding mechanisms) in place and this is not the case at present. As noted in

¹²⁰ Tooley, J. *The Global Education Industry: Lessons from Private Education in Developing Countries*. IEA and IFC, London, 1999.

¹²¹ *Contracting for Public Services: Output-based Aid and its Applications*. P. J. Brook and S. M. Smith, Eds. The World Bank, Washington, D.C., September, 2001.

the *Public Expenditure and Institutional Review* (2001) for example, by focusing on recurrent expenses at the central level, the Government may not be able to introduce incentives for efficient service delivery. Meanwhile, the split of capital investments between local and central offices fragments the already constrained opportunities to follow central or local priorities or implement development projects on either level. At the central level, no adequate management information system exists to assist in developing an appropriate investment strategy.¹²²

131. The Government will therefore need to introduce a new budgetary allocation system (including block grants and student-based allocation schemes). As noted by Berryman (2000), *this would lead to improvement in local and school level financial management and increase financial capacity at the central level to finance national priorities and investments, and reward performance*. However, incentives will also need to be put in place for targeting efficient spending and service delivery for user fees at least in tertiary, but also in certain vocational forms of post-compulsory education.
132. This however, will require clear knowledge and understanding of the total per-student costs in both the public and private sectors (including operating costs, teaching and related costs, the cost of capital, etc.) in order to not only set a benchmark for per capita funding, but moreover, to re-evaluate the financing formulas currently in place, thus potentially increasing the efficiency and equity of allocating resources. Local needs (in terms of private education provision) will therefore need to be taken into consideration, as will local characteristics (such as economic development of the local area/region, numbers of employed/unemployed, available infrastructure).
133. Accordingly, a move to a demand-side financing system (i.e. use of vouchers, stipends, and capitation grants) targeted on the basis of characteristics other than who owns the provider is important not only for the long-term sustainability and growth of the private education sector, but more importantly, as a tool for the Government in the long-term sustainability of the reform process. Demand-side financing is a pragmatic choice for the Government in introducing needed reforms according to local needs and available resources. It is moreover, the key to building effective partnerships between the private sector and the State and to opening up access to private schools to those with fewer financial resources, while at the same time recognizing the financial constraints that the Government is facing. A useful resource on demand-side financing is *Decentralization of Education: Demand Side Financing* (1997), which is designed to assist policymakers and practitioners in developing countries interested in exploring alternative financing mechanisms.¹²³
134. The Government however, could also work *with* the private sector in ensuring quality. For example, quality assurance functions could be provided by the

¹²² Croatia – Regaining Fiscal Sustainability and Enhancing Effectiveness: A Public Expenditure and Institutional Review. A World Bank Country Study. Report No 22155-HR. 2001

¹²³ Patrinos, H. and D. Lakshmanan Ariasingam. *Decentralization of Education: Demand-Side Financing*. The World Bank, 1997.

private sector, with the Government continuing to play a role in terms of guaranteeing that quality is promoted in the sector. In this respect, the recognition of private quality assurance bodies to monitor the education sector could be explored in the long term. In the short term however, the association of private providers could play an important role in developing a broader, more sophisticated set of performance indicators that could be used to supply information to parents and to schools on school performance.

135. Beyond assisting the Government in its efforts to control quality, the association of private education providers could be actively engaged in helping to shape Government policy on private education more generally. Moreover, it could help sensitize banks and other financing agencies about the needs of the private education sector (e.g. providing credit lines for private education investors and student loans.). For example, a student loan scheme could be devised with the help of the private sector (e.g. private banks and/or other financing agencies) as a way to overcome the capital market failure in meeting this need and to ensure that students continue to have access to advanced training and education. Access to capital moreover (and at interest rates conducive to the education business), is an issue that will require particular attention in the medium and long term so that the expansion of the private education sector is not constrained.
136. The private education sector could be further stimulated through the provision of education specific tax and duty concessions. Currently, all private education providers are treated as any business and regardless of their status as for-profit or non-profit. Here again, an association of private education providers could play an important role in consulting with the MES (or MST accordingly) and the Ministry of Finance to design a framework (for tax and duty concessions for private education providers) that is conducive to the development of the sector. In the long term moreover, tax concessions might be considered for tuition fees paid by parents and donations to private educational institutions. However, this will need to be weighed against reforms in the tax system generally, and the sophistication level (i.e. monitoring, etc) attained.

EDUCATION INVESTMENT OPPORTUNITIES

137. The potential for growth in the private school education (i.e. pre-school, primary and secondary) sector in Croatia is promising if support (i.e. financing) from the Government is forthcoming. Greater potential for growth and investment however, exists at the post-secondary and tertiary level (university and non-university) education - and especially training - sectors. Furthermore, provision of ancillary services such as private student loan provision, supplementary textbooks and other school materials and supplies present promising investment opportunities for the future.
138. Specific areas with the greatest potential include:
 - **Provision of pre-school and basic/compulsory education.** As already noted above (see par. 128), if the Government proceeds with its proposal to extend compulsory schooling by (a) making one year

before entry to primary school and (b) adding Grade 9 to the compulsory education structure, then the private sector will need to be mobilized in order to realize this goal. Public-private partnerships therefore, present the greatest investment potential.

- **‘Specialist’ secondary schools.** At the secondary education level, the market potential for the provision of high-quality ‘specialist’ private secondary schools (such as schools for the ‘gifted’, the applied arts and crafts, foreign languages.) offer a more promising investment potential than general or ‘classical’ private secondary schools.
- **Tertiary sector.** Although the establishment of *specialist* colleges (e.g. for business studies, applied arts, tourism) present a promising investment, the establishment of self-standing private universities on the other hand, is not advisable at present due to the high up-front cost of investment for such a venture, there is nonetheless, *great* potential for private investment in tertiary programs established as: (a) ‘branches’ of foreign institutions (including distance programs); (b) franchising and licensing arrangements; and (c) joint-ventures with local partners (public-private partnerships and/or private-private partnerships). Programs offering high potential returns to investment (in the short- and medium- term) include: all areas of general business studies (e.g. marketing, advertising, management, finance, banking, etc.) at both undergraduate and graduate level, and graduate level programs linked to the major sectors of the economy (such as tourism, shipping and ship-building, telecommunications, agribusiness and food processing) as well as EU law (including international accounting procedures and taxation).
- **Provision of training programs to meet labor market needs.** A wide range of courses are necessary since businesses in Croatia have little experience in free-market processes and face every kind of difficulty as a result of the drastic changes in economical activities, occupations and the fluidity of the labor market. The challenge then, is to directly link the needs of the existing and newly established enterprises, with training opportunities that address the individual possibilities of the target group. Furthermore, redeployment is necessary due to the bankruptcy and liquidation of government-owned industries (e.g. rail way, ports, smelting plants¹²⁴). In designing training programs, the Government’s investment priorities for the immediate future should be kept in mind. These include primarily: tourism, telecommunications, agribusiness, the food industry and SME development. Training programs focusing on these sectors will therefore be in great demand. Tourism, for example, is one of the main priorities of the Government of Croatia as it is expected to bring in half of the country’s income in the near future. Programs in tourism management, hospitality, hotel

¹²⁴ There used to be 40,000 employed in these industries; currently there are 18,000; over the next 10 years this number will be reduced to 8,000. (Ministry of Labor and Social Policy)

services, and the like, will be great demand. Furthermore, executive training and continuing professional development courses for middle managers will also be in great demand in the coming years as Croatia enters the globalised economy and international or multinational companies expand into the Croatian market. There are also a large number of enterprises requiring pre- and post- privatization restructuring that will make a heavy demand on management consultants. While the reliance on international consultants cannot be avoided at this transition phase, a long-term strategy will be needed in order to develop a national management consulting capability.

- **Provision of school materials, textbooks and equipment.** With the addition of one year before primary school and Grade 9 to the compulsory education structure, the demand for school textbooks (especially for the pre-school year before entry to primary school), supplementary workbooks (for teachers and students), learning materials and school supplies will increase. Investors might also consider the establishment of second-hand book markets and book banks – to make books available to poor students.
- **Utilization of abandoned school buildings on coastal region.** The Government could consider giving some abandoned school buildings on the coast to private investors to establish private (boarding) schools, colleges or ‘seasonal’ conference/training centers (with residential facilities). These could be leased back to international and national educational entrepreneurs and/or the State as demand requires or collaborations sought with EU and international education/training providers, universities, research centers, etc. for the development of seasonal and/or short-term seminar, conference and training programs.

CONCLUSIONS

139. The market potential in Croatia for private education and training is promising for investors that are creative and flexible in acquiring a share of the market they wish to access. Priority development sectors of the economy and overall country reforms will need to be supported by education and training provision if the Government’s goals and objectives for EU accession are to be achieved. Public-private partnerships therefore will be important due to the Government’s limited resources to carry out its proposed development reforms.
140. The Government will need to look to the private sector as a collaborator in facilitating the necessary education/training needs in order to achieve its key policy reforms and goals as stated in *Croatia in the 21st Century*. The private sector moreover, will need to be more pro-active in mobilizing resources and carving out a niche for its services and products.

APPENDIX 1

**PRIVATE PRE-SCHOOLS, PRIMARY & SECONDARY SCHOOLS
LICENSED BY THE MINISTRY OF EDUCATION AND SPORTS
&
TERTIARY INSTITUTIONS
ACCREDITED BY THE MINISTRY OF SCIENCE AND TECHNOLOGY**

2000/2001

PRE-SCHOOLS

ZAGREB COUNTY

1. "Izvor"

SISAK-MOSLAVAK COUNTY

2. SOS Dječji vrtć Lekenik (SOS Children's Village)

VARAZDIN COUNTY

3. Zvezdice
4. "Panda"
5. "Palčić"
6. "Dječji Svijet"
7. "Zečić"
8. "Zeko"
9. "Zeko" – Sračinec
10. "Iskrica"
11. "Bajka"
12. "Pčelica Maja"
13. "Škrinjica"

KOPRIVNIK-KRIZEVAK COUNTY

14. "Smiješak"
15. "Lastavica"

PRIMOR-GORAN COUNTY

16. "Pčelice"
17. Waldorf Mala Vila
18. Maza
19. Pinokio
20. Malik
21. "Poneštrica"
22. "Grobnički Tići"

POZE-SLAVON COUNTY

23. "Radost"

ZADAR COUNTY

24. "Čuperak"
25. "Maslačak"
26. "Bubimir" - closed on May 2, 2000
27. "Smiješak"
28. "Mali Raj"
29. "Pinokio"
30. "Kućica"

OSJEK-BARANJ COUNTY

31. Zvezdice
32. Zlatni Danci
33. Durda Vukšić

SIBEN-KNIN COUNTY

34. "Oršula"

VUKOVAR-SRIJEM COUNTY

35. Kolijevka

SPLIT-DALMATIN COUNTY

36. Montessori Dječja Kuća
37. Montessori Dječja Kuća I
38. Montessori Dječja Kuća II
39. "Disneyland"
40. "Calimero"
41. "Guliver"
42. "Duga"
43. "Princeza"
44. "Bajka"
45. "Kremenko"
46. "Čarobni Pianino"
47. "Petar Pan"
48. "Veseli Kutak"
49. "Antonija"
50. "Hugo"
51. "Hugo - Mama Roza"
52. "Vrtuljak"
53. Waldorf "Iskrica"

ISTAR COUNTY

54. "Ćupko"
55. "Bubamara"
56. "Gloria"
57. "Cipelići"
58. "Pinki"
59. "Bambi"
60. "Topolino"
61. "Snoopy"
62. "Šiljo"
63. "Pinokio"
64. "Veseljko"
65. "Oblutak"
66. "Vjeverica"
67. "Cipelići"

68. "Dado"
69. "Pčelice"
70. "Maslačak"
71. "Igrograd Popy"
72. "Ciciban"
73. "Sunčica"
74. "Dobrilići"
75. "Pčelica Maja"

DUBROVAK-NERETVAN COUNTY

76. "Petar Pan"

MEDIMURS COUNTY

77. "Dječja Mašta"
78. "Dječja Mašta - Mursko Središće"
79. "Dječja Mašta - Bambi"
80. "Loptica"
81. "Pribislavec"
82. "Žibeki"
83. "Obledalce" - religious

TOWN OF ZAGREB COUNTY

84. Montessori
85. Waldorf "Trnoružica"
86. "Srčko - Montessori"
87. "Šuma Striborova"
88. "Buba Mara"

PRIMARY SCHOOLS

ZAGREB

1. Glazbena Škola "Dešpalj" – musical school
2. "Kreativni Razvoj" – considered the most elite schools in Croatia.
3. "Nandi" – 68 students
4. Birotehnika-Osnovna Škola Za Mladež I Odrasle – technical school.
5. Waldorf School "Sveti Jurja" – 167 students

LOVRAN

6. Glazbena Škola "Mirković" – musical school

RIJEKA

7. "Aleksandre Matić"
8. "Grivica" –70 students
9. Waldorf School –25 students

SPLIT

10. Borisa Papandopula – musical school

PULA

11. "Jurja Dobrila" – 72 students

SECONDARY SCHOOLS

Catholic Private Secondary Schools

1. Ženska opća gimnazija Družbe sestara milosrdnica, Zagreb – Catholic school, girls only, 350 students
2. Nadbiskupska klasična gimnazija, Zagreb – Catholic classical gymnasium, 401 students
3. Pazinski kolegij – klasična gimnazija, Pazin – Catholic classical gymnasium, 235 students
4. Franjevačka klasična gimnazija, Sinj – Catholic classical gymnasium, 142 students
5. Nadbiskupska klasična gimnazija u Zadar - Catholic classical gymnasium, 72 students
6. Isusovačka klasična gimnazija u Osijek - Catholic classical gymnasium, 146 students
7. Klasična gimnazija i Kolegij fra Marijana Lanosovića u Slavonski Brod – Catholic gymnasium and college, 241 students
8. Salezijanska klasična gimnazija, Rijeka – Catholic classical gymnasium, 200 students
9. Klasična gimnazija “Ruder Bošković”, Dubrovnik – Catholic classical gymnasium, 92 students
10. Nadbiskupska klasična gimnazija, Split – Catholic classical gymnasium, 137 students.

Other Religious Private Schools

11. Zagrebačka Medresa “Dr. Ahmet Smajlović”, Zagreb – Islamic school, 54 students
12. Adventističko učilište u Maruševcu – Adventist high school, 107 students

Non-Religious Private Secondary Schools

13. Privatna Klasična Gimnazija, Zagreb – classical gymnasium, 156 students
14. Prva Privatna Gimnazija, Zagreb – first private gymnasium in Zagreb, 61 students
15. Zagrebačka Škola Mode I Dizajna, Zagreb– school for fashion and design, 80 students
16. Srednja Ekonomska Škola “Benedikta Kotruljevića”, Zagreb – economics school, 213 students
17. “Linigra” Privatna Jezična Gimnazija, Zagreb – language school, 62 students
18. Druga Opća Privatna Gimnazija, Zagreb – second general private gymnasium of Zagreb, 57 students
19. Privatna Srednja Ekonomska Škola “Katarina Zrinski”, Zagreb – economics school, 170 students
20. Srednja Škola u Maruševcu, Varazdin – general high school
21. Privatna Gimnazija u Varaždin – Gymnasium, 88 students
22. Srednja Glazbena Škola "Mirković" Lovran - musical high school, 172 students
23. Zadarska Privatna Gimnazija, Zadar – gymnasium, 26 students
24. Prva Privatna Srednja Škola "Gaudeamus" Osijek – first private high school in Osijek, 55 students
25. Srednja Ekonomska Škola "Big" Split - economics school
26. Srednja Zubotehnička Škola -Dental Centar Marušić, Split - school for dental technicians, 145 students
27. Privatna Jezična Gimnazija “Pitagora” Split – language gymnasium, 44 students
28. Srednja Gospodarska Škola Sv. Dujam – economics school
29. Privatna Hotelijersko-Turistička Škola “Manero”, Višnjan – school for hotel and tourism, 50 students

TERTIARY INSTITUTIONS

LOVRAN

1. “Ino Mirković” Accredited School of Professional Higher Education in Music - Licensed by Moscow State Conservatory “P.I. Tchaikovsky” (<http://www.iridis.com/villa-frappart/academy/>)

DUBROVNIK

2. American College of Management and Technology - accredited (<http://www.acmt.hr/>)

ZAGREB

3. Accredited School of Professional Higher Education for Work Safety – received funding from Croatian Government (<http://www.fsb.hr/vssr>)
4. School of Professional Higher Education for Entrepreneurship and Economics
5. Higher School for Tourism

VIŠNJAN

6. Business School of Professional Higher Education – 2-year post-secondary school (extension of secondary school in Višnjan)

PULA

7. Technical School of Professional Higher Education – accredited polytechnic course of study. (<http://www.politehnika-pula.hr>)

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8. School of Professional higher Education for Business and Management.

Note: Lists of private schools, colleges and other education/training institutions can be found at the following web sites:

<http://www.hr/hrvatska/academia.en.html>
<http://www.hr/wwwhr/education/index.en.html>
<http://www.hr/wwwhr/education/colleges/index.en.html>
<http://www.hr/wwwhr/education/eschool/index.en.html>
<http://www.hr/wwwhr/education/elementary/index.en.html>
<http://www.hr/wwwhr/education/kiner/index.en.html>
<http://www.hr/wwwhr/education/high/index.en.html>
<http://www.mzt.hr/mzt/eng/activites/highedu/independ.htm>

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