

Summary of the assessment of the Croatian recovery and resilience plan

Grants: EUR 6.3 billion

222 measures: 76 reforms and 146 investments divided into 21 components and one initiative

Number of milestones and targets: 371 milestones and targets

Climate target: 40.3%

Digital target: 20.4%

1. Summary of the Commission's assessment of the recovery and resilience plan

Criterion	Commission assessment	Rating A-C
2.1	<p>Croatia's plan represents to a large extent a comprehensive and adequately balanced response to the economic and social situation, therefore contributing appropriately to the six policy pillars referred to in Article 3 of the Regulation. Croatia's recovery and resilience plan has an estimated total cost of EUR 6.4 billion and is structured around five priorities - i) economy, (ii) public administration, judiciary and state, (iii) education, science and research, (iv) labour market and social security, (v) health care - and one initiative for renovating buildings.</p> <p>Green transition The plan supports the green transition through several components by focusing on climate-related and environmental measures and on preserving biodiversity. The largest contribution stands at EUR 789 million dedicated to building renovation (C6.1), representing an important effort in the reconstruction after the 2020 earthquakes.</p> <p>Digital transition Digital measures are included in most of the components of the Croatian plan reflecting the broad and cross-cutting nature of the envisaged digitisation efforts. The various measures throughout the plan, amounting to EUR 575 million in total, represent a significant effort to the digitalisation of public administration and raising digital administrative capacity, notably in the justice system, both for the purpose of internal efficiency and improving public services for citizens.</p> <p>Smart, sustainable & inclusive growth Furthermore, numerous components contribute to smart, inclusive and sustainable growth, including through measures to improve the business environment, support SMEs and large enterprises, innovation and R&D. The Economy component 1.1 includes investments and several regulatory and administrative changes, which are expected to boost the productivity and competitiveness of Croatian businesses. The component includes around EUR 740 million worth of measures, representing 11.5% of Croatia's total allocation.</p> <p>Social and territorial cohesion Moreover, social cohesion is strengthened mainly through active labour market policy measures and by providing support to appropriate skills development tailored for vulnerable groups. The plan is expected to support the territorial cohesion of Croatia through various measures. These include expanding and upgrading network infrastructures to connect regions better, introducing new electronic services and improving the regulatory framework.</p> <p>Health, and economic, social and institutional resilience As one of the critical sectors for achieving crisis preparedness and resilience, the health sector is specifically supported by a dedicated component in the</p>	A

	<p>recovery and resilience plan. Measures to support the development of family and community-based services in the area of long-term care and to strengthen the public administration should contribute significantly to institutional resilience.</p> <p>Policies for the next generation</p> <p>Finally, investments in education, research and innovation target specifically children and the youth and are therefore essential to support the education and future of the next generation. These are most significantly addressed in the two components education (C3.1) and on research and innovation (C3.2).</p>	
2.2	<p>Generally, the plan constitutes a comprehensive package of reforms and investments addressing all or a significant subset of the challenges and recommendations identified in the European Semester. The plan addresses the country-specific recommendations with reforms to reinforce the budgetary framework, active labour market policy measures and the implementation of the education reform by improving access to education and its quality and labour market relevance. The challenges faced by the Croatian healthcare system are addressed by measures to improve the efficiency, quality, accessibility, and financial sustainability, which was especially stricken by the COVID-19 pandemic. Challenges concerning the Croatian social welfare system, both as regards social benefits and social services, are addressed by the plan. Furthermore, through advancing the decarbonisation of the energy sector, increasing overall energy efficiency, and focusing investments on sustainable transport and digital infrastructure and services, the plan addresses country-specific recommendations in those areas. The plan addresses the recommendation on improving corporate governance of SOEs and intensifying the sale of non-strategic assets. Finally, the plan contains far-reaching measures to improve the efficiency of the public administration and justice system, to prevent, detect and correct corruption, to improve the business environment and to support investment in and policy relevance of research and innovation. and to support investment in and policy relevance of research and innovation.</p>	A
2.3	<p>The investments financed by the Recovery and Resilience Facility are expected to foster economic growth already in the short- to medium-term. The much needed boost to Croatia's economy in the aftermath of the COVID-19 crisis will be ensured through numerous investments and consumption worth over EUR 6.3 billion, or more than 11½ % of Croatia's 2019 GDP. The short-term impact of the plan was projected using PACMAN, a simultaneous equation error correction macroeconomic model. The results project GDP to be almost 4% higher in the last year of the plan compared to the no-RRF baseline. This growth estimate in excess of the baseline scenario is somewhat higher than a simulation conducted by the Commission using the QUEST model (although due to methodological differences the two are not fully comparable).</p>	A
2.4	<p>All measures in the Croatian plan have passed the ex-ante assessment of the 'do no significant harm' principle. Croatia has included a detailed DNSH assessment for each measure included in its plan in accordance with the template provided by the Commission, and in line with the DNSH Technical Guidance.</p>	A
2.5	<p>The plan allocates a significant part of reforms and investments to the objective of addressing the challenges of the green transition. The recovery and resilience plan contributes to climate objectives for 40.3% of Croatia's allocation of EUR 6.3 billion, surpassing the climate target of 37%. Planned measures in the Croatian plan are aligned with the National Energy and Climate Plan and are thus expected to directly contribute to reaching EU's 2030 climate targets, but also to support transition towards climate neutrality by 2050. The plan includes support of EUR 3.3 billion to the climate and environmental</p>	A

	<p>objectives, notably through significant reforms and investments promoting energy efficiency, renewable energy, and sustainable mobility. Significant energy savings in final and primary energy consumption are expected from energy efficiency measures in industrial processes and building renovation addressing earthquake consequences. Legislative reforms addressing administrative and regulatory obstacles to unlock the potential for renewable energy are accompanied by investments upgrading the electricity grid to enable additional uptake of renewable energy sources.</p> <p>The Croatian recovery and resilience plan includes dedicated measures to support biodiversity protection and restoration. Within component 1.3, the plan includes investments to restore rivers, floodplains and lakes, as well as eliminate invasive species in sensitive area of Neretva delta</p>	
2.6	<p>The recovery and resilience plan contributes to the digital objective for 20.4% (close to EUR 1.3 billion) of Croatia's allocation of EUR 6.3 billion, thus achieving the digital target of 20%. Specific support for the digital transition in most components of the recovery and resilience plan reflects the broad and cross-cutting nature of the envisaged digitalisation efforts that will be further embedded in a new strategic framework "Croatia's 2030 Digital Strategy". Tackling the urban-rural digital divide will be pursued by increasing the national broadband coverage with very high-capacity networks (VHCN) where commercial interest is insufficient.</p>	A
2.7	<p>The implementation of the investments and reforms envisaged in the plan is expected to bring a lasting impact, reinforce structural changes in several policies areas and will help strengthen institutional resilience. Investments in clean energy, modernising the transport system, and the digital and green transition will help foster greater sustainability of the economy. Given that the tourism sector is one of the main drivers of growth in Croatia, investments in inland tourism and extending the tourist season together with the transition to a greener tourism sector will strengthen its sustainability. The measures aimed to improve the education system, introduce structural changes in the Croatian R&I ecosystem, and increase employability in youth and vulnerable groups will also positively affect potential growth in the long term.</p>	A
2.8	<p>The milestones and targets of the Croatian plan constitute an appropriate framework to allow the efficient monitoring of its implementation. The proposed qualitative and quantitative indicators used for the milestones and targets are sufficiently clear, realistic and comprehensive to ensure that their completion can be traced and verified. Furthermore, the milestones and targets are relevant, robust and acceptable, as their scope reflects the overall objective of the measures, which are assessed as reasonable and cost-effective.</p>	A
2.9	<p>Based on the assessment of a clear breakdown of costs for each investment and reform and related supporting documents, the estimated total cost of the plan appears reasonable and plausible. The plan provides adequate explanations on the methodology used for establishing the cost estimates for a clear majority of measures. Furthermore, by providing sufficient information and evidence that the estimated total costs of the recovery and resilience plan align with the nature and type of the envisaged investments, the plausibility of costs has been assured. In addition, sufficient information has been provided to prevent such risk in cases of using other funding sources. Nonetheless, the lack of clarity of information and evidence provided on the reasonability and plausibility a limited number of cost estimates precludes the highest rating of this assessment criterion.</p>	B
2.10	<p>The Croatian plan adequately describes the system for the implementation of the audits and controls. The system presents a robust process and structure, where the roles and responsibilities are clearly defined. The proposed measures</p>	A

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	give assurance that there is an adequate level of control to prevent, detect, and correct irregularities identified when using funds provided by the Facility.	
2.11	The plan's components and one initiative represent a package of coherent reforms and investments, which are mutually reinforcing or complementary, since they aim to act in synergy while considering Croatia's development potential and development challenges at regional, national, European and global levels.	A

2. Horizontal principles and additionality (length: max 1/2 page)

Horizontal principle	Commission assessment
Complementarity with EU programmes 2021-2027	The measures in the plan are consistent with and complementary to other EU programmes in the period 2021-2027. While the Partnership Agreement, Programmes and Territorial Just Transition Plans under the Common Provisions Regulation for the period 2021-2027 are still at a preparatory stage, the recovery and resilience plan aims to be aligned with the Just Transition Mechanism and other funds and programmes under the Common Provision Regulation as well as with the Innovation and Modernisation Funds under the EU Emissions Trading System.
Principle of additionality	The measures in the plan respect the principles of additionality.
Recurring costs	The budget breakdown contains the estimated cost excluding value added tax, and includes information regarding the duration of the measure, assurances that none of the costs have been incurred before February 2020 as well as information regarding recurrence of the cost. Some of the investment projects are expected to create recurrent cost, due to the nature of the investment, but these cases are limited in number and duly justified and well explained.

3. Reply to the European Parliament's questions (length: max 1 page)

Contribution to equality and gender equality: The recovery and resilience plan includes measures that could help increase female labour market participation. The reform of labour legislation is expected to help improve female labour market participation by facilitating work-life balance, and to contribute indirectly to the reduction of the gender pay gap and the currently high gender pension gap. The plan includes a reform of education system which aims to ensure equal opportunities for all children, mainly by increasing the participation in early childhood education and care and the mandatory instruction hours in primary school. Croatia will develop social mentoring services that support hard-to-reach groups of beneficiaries such as persons with disabilities, victims of violence, homeless people, migrants, Roma and young people leaving the social welfare system to assist them with employment.

Contribution to high-quality employment creation: The implementation of the investments and reforms in the plan will help address Croatia's key economic weaknesses – its comparatively low employment and growth potential. In the short run, the sheer volume of investments will mechanically translate into stronger growth and job creation. In the medium and long run, those effects will be bolstered by the positive spill-over effects stemming from the structure of investments (i.e. type and quality of projects) and a positive impact of reforms on productivity and value creation. The plan envisages the adoption of active labour market policies (ALMP) to boost employment and self-employment linked to the green and digital transitions.

Contribution to the implementation of the European Pillar of Social Rights: The recovery and resilience plan submitted by Croatia addresses a multitude of employment and social challenges relevant for the implementation of the Pillar. To foster equal opportunities and access to the labour market, the plan envisages a new strategy for adult learning and a modernisation of the upskilling and reskilling system. The reform would redesign and upgrade the current fragmented programmes, establishing new curricula linked to labour market needs and an assessment framework for the providers of upskilling programmes. To improve labour market dynamics and working conditions, Croatia also plans significant investments in active labour market policies that will complement activation programmes supported by the ESF. Although the proposed investments also target the inactive population and those facing multiple employment barriers, the need to develop a comprehensive activation strategy remains relevant. In this sense, an integrated approach to providing employment and social services should be strengthened. The aforementioned measures would also be complemented by a labour law reform aimed at improving the labour market functioning, including via the establishment of a framework to fight undeclared work. Reform proposals aimed at tackling the critically low adequacy of pensions are expected to induce a limited positive impact.

Addressing regional disparities: The plan is expected to support the reduction of economic and social inequalities and territorial disparity. Several sizable investments will particularly benefit remote and less developed areas. Notable examples include investments in rail infrastructure, island connectivity and energy production (biorefinery). Substantial investments in agriculture infrastructure will help increase the productivity and competitiveness of farmers, who are most concentrated in the disadvantaged eastern part of the country, which has also been hit hardest by outward migration in recent years. Furthermore, investments in reconstruction and energy efficiency of buildings damaged in the 2020 earthquakes will benefit five counties, of which three (Sisak-Moslavina, Krapina-Zagorje and Karlovac) are among the least developed ones. Moreover, energy efficiency gains benefit lower-income households the most, since energy costs represent a disproportionately high share of their consumption. Residents in remote areas, including islands, will also benefit from the introduction of mobile clinics and pharmacies aimed to improve access to healthcare.

Contribution to upward economic and social convergence: A substantial share of measures include provisions and considerations that specifically cater to the disadvantaged groups in society. The most prominent examples include commitments to improve the adequacy and broaden the coverage of social benefits towards the most vulnerable citizens, to focus upskilling measures and outreach activities on those farthest away from the labour market and to increase the minimum pension. Job creation has been on the rise in the several years before the pandemic and is expected to resume as the economy recovers and the Recovery and Resilience Facility investments materialise. Furthermore, the economy should add jobs as reforms increase competition in the market and free up resources of the more productive private sector. Meanwhile, active labour market policies should help reduce skills gaps and mismatches. The additional investments will increase the capital stock in the economy while requiring additional employment. These developments will raise the capital and labour contribution to potential growth, respectively. Finally, the aforementioned positive impact of reforms on productivity should contribute to lifting the growth potential through the total factor productivity contribution, allowing Croatia to increase its rate of convergence.

[Contribution to CSRs on taxation and anti-money laundering: [N/A]]

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Annex

Table 1: Illustration of the plan's contribution to the six policy pillars

	Green transition	Digital transition	Smart, sustainable & inclusive growth	Social and territorial cohesion	Health, and economic, social and institutional resilience	Policies for the next generation
1.1 Resilient, green and digital economy	●	○	●	○		
1.2. Energy transition for a sustainable economy	●	○	○	○	○	
1.3 Improving water management and waste management	●			●	○	
1.4. Development of a competitive, energy sustainable and efficient transport system	●	●	○	○		
1.5. Improving the use of natural resources and strengthening the food supply chain	○	●	○		○	
1.6. Developing sustainable, innovative and resilient tourism	○	○	●	○		
2.1 Strengthening the capacity to design and implement public policies and projects	●	○	●	○	●	
2.2. Further improving the efficiency of the public administration		●	○	○	●	
2.3. Digital transformation of society and public administration		●	○			
2.4. Improving the management of state property		○		○	●	
2.5. Modern justice fit for future challenges	○	○			●	
2.6. Preventing and combating corruption		○		○	●	
2.7. Strengthening the fiscal framework					●	
2.8 Strengthening the anti-money laundering framework					●	
2.9. Strengthening the public procurement framework			●		○	
3.1 Reform of the education system			○	○		●
3.2. Boosting research and innovation capacity	○	○	●	○		●
4.1 Improving employment measures and the legal framework for the modern labour market and the economy of the future	○	○		●	○	○
4.2 Improving the pension system through increased pension adequacy				●	○	
4.3. Improving welfare systems		○		●	●	
5.1 Strengthening the resilience of the health system		●		○	●	
6.1 Renovation of buildings Initiative: Renovation of buildings	●	○	○		○	
Total number of components that significantly contribute to pillar	6	5	5	4	9	2

Key: “●” investments and reforms of the component significantly contribute to the pillar; “○” the component partially contributes to the pillar

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Table 2: Mapping of country challenges identified in 2019-20 country-specific recommendations and the Croatia RRP components

Country challenges (as identified in Section 2)	Associated CSR (2019-2020)	C1.1. Strengthening competitiveness and green transition of the economy	C1.2. Energy transition for a sustainable economy	C1.3. Improving water and waste management	C1.4. Development of a competitive, energy sustainable and efficient transport system	C1.5. Improving the use of natural resources and strengthening the food supply chain	C1.6. Development of sustainable, innovative and sustainable tourism	C2.1. Capacity building for the development and implementation of public policies and projects	C2.2. Further improvement of the efficiency of public administration	C2.3. Digital transition of society and economy	C2.4 Improving the management of State Assets	C2.5. Enhancing the efficiency of the judiciary system	C2.6. Strengthening of the framework for corruption prevention	C2.7. Enhancing the fiscal framework	C2.8. Building up the anti-money laundering framework	C2.9. Public procurement	C3.1. Education system reform	C3.2. Increasing research and innovation capacity	C4.1. Improving employment measures and legal framework for modern labour market	C4.2. Development and improvement of the pension system	C4.3. Improving the social welfare system	C5.1. Strengthening the resilience of the health system	C6.1. Decarbonisation of buildings	
<i>Public Finances</i>																								
Fiscal policy and fiscal governance	2019 1.1								●						●									
<i>Financial Sector</i>																								
Access to finance	2020 3.1	●	○	○	○	○	○																	
<i>Labour market, education and social policies</i>																								
Active labour market policies	2019 2.3, 2020 2.1																		●					
Wages & wage setting	2019 2.4								●															
Poverty reduction & social inclusion	2019 2.2, 2020 2.2																		●	●	●			
Education, skills & life-long learning	2019.2.1, 2020 2.4	○					○			○							●		●		○	○		
<i>Health care</i>																								
Health care	2020 1.2																				●	●		
<i>Green and digital transition and other structural policies</i>																								
Research & innovation	2019 3.1	○			○														●					
Energy, resources & climate change	2019 3.3, 2020 3.8		●	○																				●
Transport	2019 3.2, 2020 3.7		○		●																			
Green and digital transition	2020 3.6, 2020 3.9, 2020 2.3	●	●	●	●	●	○			●												●	●	
<i>Public administration, judiciary & business environment</i>																								
Business Environment	2019 4.4, 4.5 and 2020 3.2, 3.3, 3.4, 3.5	●	●	●	●		○																	
Public administration	2019 1.2, 2019 3.4, 2020 4.1							●	●	●						●								

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Country challenges (as identified in Section 2)	Associated CSR (2019-2020)	C1.1. Strengthening competitiveness and green transition of the economy	C1.2. Energy transition for a sustainable economy	C1.3. Improving water and waste management	C1.4. Development of a competitive, energy sustainable and efficient transport system	C1.5. Improving the use of natural resources and strengthening the food supply chain	C1.6. Development of sustainable, innovative and sustainable tourism	C2.1. Capacity building for the development and implementation of public policies and projects	C2.2. Further improvement of the efficiency of public administration	C2.3. Digital transition of society and economy	C2.4 Improving the management of State Assets	C2.5. Enhancing the efficiency of the judiciary system	C2.6. Strengthening of the framework for corruption prevention	C2.7. Enhancing the fiscal framework	C2.8. Building up the anti-money laundering framework	C2.9. Public procurement	C3.1. Education system reform	C3.2. Increasing research and innovation capacity	C4.1. Improving employment measures and legal framework for modern labour market	C4.2. Development and improvement of the pension system	C4.3. Improving the social welfare system	C5.1. Strengthening the resilience of the health system	C6.1. Decarbonisation of buildings	
State-owned enterprises	2019 4.1										●													
Civil justice	2019 4.3, 2020 4.2											●												
Corruption	2019 4.2												●			●								

Key: “●” investments and reforms of the component significantly address the challenge; “○” the component partially addresses the challenge