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2023/0425 (NLE)

Proposal for a

COUNCIL IMPLEMENTING DECISION

amending Implementing Decision (EU) (ST 10687/21 INIT; ST 10687/21 ADD 1) of 28 July 2021 on the approval of the assessment of the recovery and resilience plan for Croatia

{SWD(2023) 380 final}

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THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility¹, and in particular Article 20(1) thereof,

Having regard to the proposal from the European Commission,

Whereas:

- (1) Following the submission of the national recovery and resilience plan ('RRP') by Croatia on 8 July 2021, the Commission has proposed its positive assessment to the Council. The Council approved the positive assessment by means of the Council Implementing Decision of 28 July 2021².
- (2) Pursuant to Article 11(2) of Regulation (EU) 2021/241, the maximum financial contribution for non-repayable financial support of each Member State should be updated by 30 June 2022 in accordance with the methodology provided therein. On 30 June 2022, the Commission presented the results of that update to the European Parliament and the Council.
- (3) On 31 August 2023, Croatia submitted a modified national RRP, including a REPowerEU chapter in accordance with Article 21c of Regulation (EU) 2021/241, to the Commission.
- (4) The modified RRP also takes into account the updated maximum financial contribution in accordance with Article 18(2) of Regulation (EU) 2021/241 and includes a reasoned request to the Commission to amend the Council Implementing Decision in accordance with Article 21(1) of Regulation (EU) 2021/241 considering the RRP to be partially no longer achievable due to objective circumstances. The modifications to the RRP submitted by Croatia concern 43 measures.
- (5) On 14 July 2023, the Council addressed recommendations to Croatia in the context of the European Semester. In particular, the Council recommended that Croatia reduces the reliance on fossil fuel by accelerating the deployment of renewables, finalizing the

¹ OJ L 57, 18.2.2021, p. 17.

² ST 10687/21, ST 10687/21 ADD 1.

incomplete legislative framework, streamlining administrative procedures for permitting, simplifying the procedures for installing renewable energy sources and providing more legal certainty. Additionally, the Council recommended that Croatia supports small-scale renewable energy generation capacity, further upgrades the electricity transmission and distribution grids, and advancing the roll-out of smart meters. Furthermore, the Council called on Croatia to accelerate the implementation of energy efficiency measures, including the installation of heat pumps. Furthermore, the Council recommended to reduce dependence on fossil fuels in the transport sector by promoting sustainable solutions, in particular rail and the electrification of road transport, and step-up policy efforts aimed at the provision and acquisition of the skills needed for the green transition.

- (6) The submission of the modified RRP followed a consultation process, conducted in accordance with the national legal framework, involving local and regional authorities, social partners, civil society organisations, youth organisations and other relevant stakeholders. The summary of the consultations was submitted together with the modified national RRP. Pursuant to Article 19 of Regulation (EU) 2021/241, the Commission assessed the relevance, effectiveness, efficiency and coherence of the modified RRP, in accordance with the assessment guidelines set out in Annex V to that Regulation.

Loan request based on Article 14 of Regulation 2021/241

- (7) The modified RRP submitted by Croatia includes a request for loan support to support 18 additional measures consisting of 13 investments and five reforms.
- (8) Croatia has requested loan support for measures related to financial sector, wastewater and water supply management as well as the primary education, in particular new measures under components 1.1 Resilient, green and digital economy, 1.3 Improving water management and waste management, 1.4 Development of a competitive, energy sustainable and efficient transport system, 2.1 Strengthening capacity to design and implement public policies and projects, C2.2 New wage and working models in civil service and public services, 2.3 Digital transition of society and public administration, 3.1 Reform of the education system, 4.3 Improving the social welfare system, 5.1 Strengthening the resilience of the health care system and initiative 6.1 Renovation of buildings. Some of these new measures build on existing measures included in the initial RRP.
- (9) In component 1.1 (Resilient, green and digital economy) two new reforms (Reform C1.1.1 R5 Diversifying capital markets and improving access to alternative financing and Reform C1.1.1. R7 Establishing the Sustainable Finance Support Forum) address the role of the financial sector in the financing of the economy. The adoption of a strategic framework and action plans for the development of capital markets provides an analysis of the current environment and identifies concrete measures to diversify capital markets and improve access to alternative financing. A further reform strengthens the financial sector's contribution to the green transition, by facilitating the exchange of information with the authorities and other relevant stakeholders and by identifying measures to support sustainable finance in Croatia.
- (10) In component 1.3 (Improving water management and waste management) one reform and two new investments build on existing measures included in the initial RRP (Reform C1.3 R1 Implementation of the water management programme, Investment C1.3 R1-I1 Public sewage development programme and Investment C1.3 R1-I2 Public water supply development programme). The additional investments support

construction and reconstruction of the public water supply and sewerage network and wastewater treatment plants, with the aim of increasing the number of inhabitants benefiting from improved access to wastewater treatment and water supply systems. Croatia also proposed to introduce additional reforms to strengthen the role of the independent water regulator, adopt national and local action plans on reducing water losses and establish a national body for monitoring water losses.

- (11) In component 1.4 (Development of a competitive, energy sustainable and efficient transport system), one measure (Investment C1.4. R1-I1 Electronic tolling system) increases the level of ambition of the investment by providing for the introduction of a new electronic toll system to all highway sections operated by the Croatian Motorways Ltd, as well as to Highway Zagreb-Macelj (AZM) and BINA Istra.
- (12) In component 2.2 (New wage and working models in civil service and public services), Croatia proposed to increase the ambition of one reform (C2.2 R2 New wage and work models in civil and public service) by adding a new milestone providing for the entry into force of bylaws regulating the new wage models and centralised system of selection in civil service and public administration.
- (13) In component 2.3 (Digital transition of society and public administration), the new measure (Investment C2.3 R3-I17 Establishment of the Registry of population, families, and households) concerns the establishment of the Register of Population, Families, and Households, to provide data on income and assets of the population, families and households, by retrieving data from different registers and information systems. The investment aims to provide accurate and updated statistics essential for the work of public bodies in order to unify the procedures and definitions used for assessing the rights and obligations dependent on the income or assets of individuals, families, or households.
- (14) In component 3.1 (Reform of the education system), one measure (Investment C3.1 R1-I4 Construction, upgrading, reconstruction and equipping of primary schools for single shift full-day teaching) builds on an existing measure included in the initial RRP (Investment C3.1 R1-I2) to increase the percentage of students attending primary one-shift schools from 70% to 100%.
- (15) Croatia also proposed to transfer seven measures from the non-repayable support section of the initial plan to the section regarding loan support without affecting their ambition. These measures are investment C1.4 R2-I1 Reconstruction of the existing and construction of second track of railway section Dugo Selo – Novska, sub-section Kutina – Novska (phase D)) provides for the upgrade of the railway infrastructure under component 1.4 (Development of a competitive, energy sustainable and efficient transport system), investment C2.1 R1-I2 Strengthening capacity in strategic planning and better regulation) provides for the development of training modules and delivery of trainings to improve capacities of public servants working on strategic planning and better regulation initiatives under component 2.1 (Strengthening capacity to design and implement public policies and projects), investment C4.3 R3-I2 (Improving the digitalisation of social welfare system and connecting social welfare centres with social service providers) under component 4.3 (Improving the social welfare system) and investment C5.1 R1-I1 (Introduction of mobile pharmacies into primary care), investment C5.1 R1-I2 (Mobile outpatient care units), Investment C5.1 R1-I3 (Construction and equipping of clinical insulation units (3, 4 and 1/5 of buildings) Infectious Disease Clinic ‘Dr Fran Mihaljević), Investment C5.1 R4-I6 (Waste

management at Clinical Hospital Centre KBC Zagreb) under component 5.1 (Strengthening the resilience of the health care system).

- (16) Croatia has requested loan support to introduce a new reform C6.1 R7 Circular use of construction waste from buildings with the status of a cultural good: A Pilot project exploring exchange and trade possibilities under Initiative 6.1 Renovation of buildings. Croatia proposed to increase the ambition of the measure C6.1 R1 - I3 Energy renovation of buildings with the status of a cultural good by adding a new milestone regarding the development of Guidelines for the energy renovation of buildings with the status of cultural good (C6.1 R1 -I4).

Updates based on Article 18(2) of Regulation 2021/241

- (17) The modified RRP submitted by Croatia updates four measures to take into account the updated maximum financial contribution. Croatia has explained that, because the maximum financial contribution decreased from EUR 6 295 431 146³ to EUR 5 510 316 213⁴, it is no longer possible to finance all the measures of the original Croatian RRP. Croatia has explained that certain measures should be removed and modified due to the decrease in the allocation.
- (18) The modified RRP no longer contains certain measures under component 1.1 (Resilient, green and digital economy) and 1.2 (Decarbonisation of the energy sector). These modifications concern within component 1.1 (Resilient, green and digital economy), investment C1.1.2 R3-I1 (Preparation of strategic documents for the digital transformation of the economy and artificial intelligence); within component 1.2 (Decarbonisation of the energy sector), investment C1.2 R1-I4 (Biorefinery for the production of advanced biofuels Sisak) to remove milestone 56 and target 58. On this basis, Croatia has requested that the aforementioned measures are removed. The Council Implementing Decision of 28 July 2021 should be amended accordingly.
- (19) Furthermore, the modified RRP submitted by Croatia changes measures under component 1.2 (Decarbonisation of the energy sector), investment C1.2 R1-I2 (Hydrogen use and new technologies) to modify milestone 54 and component 2.6 (Preventing and combating corruption), reform C2.6 R4 (Strengthening judicial redress capacity in public procurement procedures) target 246 to take into account the updated maximum financial contribution by decreasing the level of required implementation. On this basis, Croatia has requested that the aforementioned milestone and target are modified. The Council Implementing Decision of 28 July 2021 should be amended accordingly.

Amendments based on Article 21 of Regulation 2021/241

- (20) The amendments to the RRP submitted by Croatia because of objective circumstances concern 39 measures.
- (21) Croatia has explained that 14 measures are no longer totally achievable within the timeline of the original RRP due to objective circumstances. This concerns target 15 of investment C1.1.1 R4-I1 (Support to enterprises for the transition to an energy- and resource efficient economy) under component 1.1 (Resilient, green, and digital economy) due to unforeseen shortfall in the procurement response; measures under

³ This amount corresponds to the financial allocation after deduction of Croatia of Regulation (EU) 2021/241, calculated in accordance with the methodology of Article 11 of that Regulation.

⁴ This amount corresponds to the financial allocation after deduction of Croatia of Regulation (EU) 2021/241, calculated in accordance with the methodology of Article 11 of that Regulation.

component 1.3 (Improving water management and waste management), respectively, target 61 of reform C1.3 R1 (Implementation of the water management programme) due to procedural difficulties and a Constitutional court decision which prolonged the merger procedure, targets 77 and 78 of investment C1.3 R1-I3 (Disaster risk reduction programme) due to severe and unexpected weather events that delayed the construction works, and targets 85, 86, 87 and 89 of investment C1.3 R2-I1 (Waste disposal reduction programme) due to unexpected delays during public procurement and construction works, and have introduced additional milestones and targets within investment C1.3 R2-I1 to keep the same level of ambition; measures under component 2.3 (Digital transition of society and public administration), respectively, target 178 of reform C2.3 R2-I1 (Establishment of a central interoperability system), due to the delay in procedures on the EU level that are relevant for set up of the system and target 188 of investment C2.3 R3-I7 (Improvement of the system of spatial planning, construction and state assets through digitisation) due to objective circumstances beyond the control of the competent ministry, namely due to earthquakes in Croatia and subsequent necessity to direct resources into the legislation related to earthquake reconstruction., milestone 298 of the reform C4.2 R1 (Increasing pension adequacy through continued pension reform), due to more time needed for the World Bank to prepare the analysis which forms a basis for the legislative work, targets 304 and 306 and milestones 305 and 398 due to the time necessary to develop a better alternative to address the objective circumstances created by unprecedented decline in population and low unemployment rate under reform C4.3.R1 (Transparency and adequacy of social benefits in the social protection system) under component 4.3 (Improving the social welfare system); measure under component 5.1 (Strengthening the resilience of the health care system), respectively, target number 326 of investment C5.1.R1-I7 (Equipping new facilities for day hospital and one-day surgery and integrated emergency hospital admission and adaptation of Neurosurgery Clinic at Clinical Hospital Centre 'KBC Sestre Milosrdnice') due to delay in post-earthquake reconstruction project a precondition for implementation of the modified measure, target number 335 of investment C5.1 R3-I2 (Specialist training of nurses and technicians in emergency medicine), target number 339 of investment C5.1 R4-I1 (Central preparation of parenteral preparations in 8 Croatian hospitals) due to a lack of specialised medical staff on the job market, target number 344 of investment C5.1 R4-I5 (Introducing a treatment outcome monitoring system for outpatient care with a focus on chronic patients in public pharmacies) due to objective circumstances delaying investment C2.3 R3-I4 which is a precondition for implementation of the modified measure, target number 345 of investment C5.1 R4-I6 (Waste management at Clinical Hospital Centre KBC Zagreb) due to the need to develop a new project study that takes into account changed circumstances in project implementation, target number 347 of investment C5.1 R5-I1 (Digital integration of operating theatres and robotic surgery at KBC Split) due to unplanned additional construction work that delayed the overall investment, target number 350 of investment C5.1 R5-I4 (Digitalisation and integration of operating rooms equipped with robotic surgery in Clinical Hospital Centre 'KBC Sestre Milosrdnice') due to delay in post-earthquake reconstruction project a precondition for implementation of the modified measure. On this basis, Croatia has requested that the aforementioned milestones and targets be amended and that the aforementioned changes be made. The Council Implementing Decision of 28 July 2021 should be amended accordingly.

- (22) Croatia has explained that 11 measures are no longer totally achievable due to objective circumstances, namely due to the existence of a better alternative. This

concerns, respectively, milestone 38 of reform C1.2 R1 (Decarbonisation of the energy sector) under component 1.2 (Energy transition for a sustainable economy) due to the objective of the milestone being achieved with a less complicated procedure, milestone 108 of investment C1.4 R2-I7 (Upgrading of the IT and sales system and modernization of trains with the IT system) due to recent technological advances and users' habits on the market of railways IT services and target 116 of investment C1.4 R4-I1 (Procurement of alternative-fuel-powered vehicles for public urban and suburban regular transport) due to merging of public procurement for the original measure and scaled up part of the measure under component 1.4 (Development of a competitive, energy sustainable and efficient transport system), milestone 137 of investment C1.5 R3-I3 (Establishment of a traceability information system) under component 1.5 (Improving the use of natural resources and strengthening the food supply chain) due to extending the scope of the coverage of the IT system to encompass larger number of products, while maintaining the same level of cost, target 145 of investment C1.6. R1-I1 (Regional diversification and specialization of Croatian tourism through investments in the development of high added value tourism products) under component 1.6 (Developing sustainable, innovative and resilient tourism) due to the authorities strengthening the commitment to complete the implementation of the investment projects, target 147 of investment C1.6. R1-I2 (Strengthening the competitiveness of entrepreneurs and fostering the green and digital transition of the tourism sector) under component 1.6 (Developing sustainable, innovative and resilient tourism) due to the authorities strengthening the commitment to complete the implementation of the investment projects, target 287 of reform C4.1 R1 (Development and implementation of new targeted active employment policy measures for the needs of green and digital labour market transition) and target 292 of investment C4.1 R3-I1 (Implementation of voucher schemes to educate employed and unemployed people) under component 4.1 (Improving employment measures and the legal framework for a modern labour market and the economy of the future) due to positive trends in the labour market, target 331 of investment C5.1 R2-I1 (Purchase of equipment for the prevention, diagnosis and treatment of cancer patients) based on an updated analysis of future needs that takes into account changes in population and healthcare requirements. under component 5.1 (Strengthening the resilience of the health care system), target 334 and new milestone 399 of investment C5.1 R3-I1 (Central funding for specialisations) due to objective circumstances related to an unexpected increase in the dropout rate from specialist medical training under component 5.1 (Strengthening the resilience of the health care system), target 361 of the reform C6.1 R2 (Developing a framework for ensuring adequate skills in the context of green jobs needed for post-earthquake reconstruction) under initiative 6.1 (Renovation of buildings), where a target on a number of persons completing expert study programs has been replaced by setting-up and launching a new master program, targets 356 and 357 under C6.1 R1-I2 (new C7.2 I2) Renovation of buildings damaged in earthquakes with energy renovation where Croatia proposed to change the target description widening the list of eligible counties struck by the earthquakes.

- (23) On this basis, Croatia has requested that the aforementioned milestones and targets be amended and that the aforementioned changes be made. The Council Implementing Decision of 28 July 2021 should be amended accordingly.
- (24) Croatia has explained that seven measures are no longer totally achievable due to objective circumstances, namely due to supply chain issues. This concerns, respectively, target 51 of investment C1.2 R1-I3 (Hydrogen use and new technologies) under component 1.2 (Energy transition for a sustainable economy), targets 119 and

121 of investment C1.4 R5-I2 (Research, development and production of new mobility vehicles and supporting infrastructure) under component 1.4 (Development of a competitive, energy sustainable and efficient transport system), milestone 184 of investment C2.3 R2-I4 (Consolidation of CEZIH health information infrastructure systems), target 200 of investment C2.3 R3-I15 (Setting up tourism application solutions with the aim of administratively relieving entrepreneurs and transforming the tourism model towards sustainability), target 201 of investment C2.3 R3-I16 (Digitalisation of processes in sport and recreation at local and regional level) under component 2.3 (Digital transition of society and public administration), target 320 of investment C5.1 R1-I1 (Introduction of mobile pharmacies into primary care) under component 5.1 (Strengthening the resilience of the health care system), target 321 of investment C5.1 R1-I2 (Mobile outpatient care units) under component 5.1 (Strengthening the resilience of the health care system). On this basis, Croatia has requested that the aforementioned milestones and targets be amended. The Council Implementing Decision of 28 July 2021 should be amended accordingly.

- (25) Croatia has explained that three measures are no longer totally achievable due to objective circumstances, because high inflation has increased the estimated costs of the measures considerably. High inflation has been mainly caused by energy prices, which increased notably due to Russia's aggression against Ukraine. However, other prices have also increased fast. For example, growth in construction prices accelerated significantly in 2021 mainly due to supply disruptions. This concerns target 71 of investment C1.3 R1-I2 (Public water supply development programme) under component 1.3 (Improving water management and waste management) where the amount of constructed or reconstructed kilometres of water supply network has been reduced, investment C3.1 R1-I3 (Construction, upgrading, refurbishment and equipping of secondary schools) under component 3.1 (Reform of the education system), whose cost estimate was updated accordingly without changing the overall envelope for the measure, and milestone 288 of reform C4.1 R2 (Strengthening the system of inclusion and monitoring of vulnerable groups in the labour market by improving the CES business processes) under component 4.1 (Improving employment measures and the legal framework for a modern labour market and the economy of the future) where more time is needed to account for new economic circumstances, in particular for high inflation and new trends in the labour market, in the analysis of the adequacy of unemployment benefits. On this basis, Croatia has requested to amend the level of required implementation of the aforementioned measures by amending certain milestones or targets, or their cost estimates, and to extend the timeline of milestone 288. The Council Implementing Decision of 28 July 2021 should be amended accordingly.
- (26) Croatia has explained that two measures are no longer totally achievable due to objective circumstances beyond the control of the competent ministry and the beneficiary, namely due to the complexity and the length of the procedures to set up crucial components of the projects. This concerns measures under component 1.4 (Development of a competitive, energy sustainable and efficient transport system), namely target 107 of investment C1.4 R2-I6 (Use of green technologies in rail passenger transport) and target 118 of investment C1.4 R5-I1 (Electrification and greening of the ground handling and power supply system at the Zadar airport). On this basis, Croatia has requested to amend the level of required implementation of the aforementioned measures by amending the aforementioned targets, and to extend their timelines. The Council Implementing Decision of 28 July 2021 should be amended accordingly.

- (27) Croatia has explained that one measure is no longer totally achievable due to objective circumstances, namely due to the lack of demand for remote qualified electronic signature. This concerns target 185 of investment C2.3 R3-I5 (Digital Identity Card Deployment Project) under component 2.3 (Digital transition of society and public administration). On this basis, Croatia has requested to amend the aforementioned measure by extending the timeline of the aforementioned target. The Council Implementing Decision of 28 July 2021 should be amended accordingly.
- (28) Croatia has further requested to use the remaining resources freed up by the removal of measures under Article 21 of Regulation 2021/241 to amend one measure. This concerns new targets 376 and 377 of investment C1.2 R1-I1 (Revitalising, building and digitising the energy system and supporting infrastructure to decarbonise the energy sector) under component C1.2 (Energy transition for a sustainable economy). On this basis, Croatia has requested to amend the level of required implementation of the aforementioned measure by adding the aforementioned targets. The Council Implementing Decision of 28 July 2021 should be amended accordingly.
- (29) The Commission considers that the reasons put forward by Croatia justify the update pursuant to Article 18(2) of Regulation (EU) 2021/241 and the amendment pursuant to Article 21(2) of that Regulation.

Corrections of clerical errors

- (30) Eleven clerical errors have been identified in the text of the Council Implementing Decision of 28 July 2021, affecting three milestones, five targets and nine measures. The Council Implementing Decision should be amended to correct those clerical errors that do not reflect the content of the RRP submitted to the Commission on 14 May 2021, as agreed between the Commission and Croatia. Those clerical errors relate to the measure description of target 185 of investment C2.3 R3-I5 (Digital Identity Card Deployment Project) under 2.3 (Digital transition of society and public administration); measure description of reform C2.5 R1 (Increasing the efficiency of the justice system to increase citizens' trust) and milestone 226 of investment C2.5 R1-I3 (Development of a tool for the publication and search of court decisions) under component 2.5 (Modern justice fit for future challenges); measure description of investment C1.3 R1-I1 (Public sewage development programme) and investment C1.3 R1-I3 (Disaster risk reduction programme) under component C1.3 (Improving water management and waste management); milestone 142 of reform C1.6 R1 (Enhancing the resilience and sustainability of the tourism sector) and milestone 148 and target 149 of investment C1.6 R1-I3 (Strengthening system capacity for resilient and sustainable tourism) under component 1.6 (Developing sustainable, innovative and resilient tourism); target 272 of investment C3.1 R1-I3 (Construction, upgrading, refurbishment and equipping of secondary schools) under component 3.1 (Reform of the education system); Reform C5.1 R1 (Improving the efficiency, quality and accessibility of the health system); target 343 of investment C5.1 R5-I5 (Digitalisation and equipping of Clinical Hospital 'KB Merkur' diagnostic units) under component 5.1 (Strengthening the resilience of the health care system). These corrections do not affect the implementation of the measures concerned.
- (31) To fully align the cost estimates of investment C3.1 R1-I3 (Construction, upgrading, refurbishment and equipping of secondary schools) under component 3.1 (Reform of the education system) with the amended description of target 272, a new target was added in terms of classrooms built or renovated.

The REPowerEU chapter based on Article 21c of Regulation 2021/241

- (32) The REPowerEU chapter includes one new reform and five new investments. Reform C7.2 R4 (Introduction of a new model for the preparation, organisation and implementation of adult learning programmes aimed at developing green skills and competences in the construction sector for workers from third countries) is expected to introduce a new model of adult learning programmes aimed at developing green skills and competences in the construction sector for non-EU workers, thereby contributing to the REPowerEU objective under Article 21c(3) point (f) of Regulation (EU) 2021/241.
- (33) Investment C7.1 R1-I6 (Strengthening the transmission and distribution capacities of the electricity network) is expected to increase the electricity transmission capacity, and improve the evacuation of electricity from south to north, thereby contributing to the REPowerEU objectives under Article 21c(3) point (e) of Regulation (EU) 2021/241. Investment C7.1 I3 (Increasing the capacity of the LNG terminal on the island of Krk and strengthening the gas infrastructure) concerns the expansion of the LNG terminal on the island of Krk and the expansion of relevant gas pipelines towards Slovenia and Hungary, thereby contributing to the REPowerEU objective under Article 21c(3) point (a) of Regulation (EU) 2021/241. Investment C7.1 R1-I2 (Establishment of a hydrogen-based economy (through the North Adriatic Hydrogen Valley)) concerns co-financing of renewable hydrogen projects, designating Croatian Hydrocarbon Agency as the hydrogen coordinating body in Croatia, adoption of the hydrogen development plan and program, retrofitting of five diesel locomotives to hydrogen and construction of hydrogen charging stations, thereby contributing to the REPowerEU objectives under Article 21c(3) points (b) and (e) of Regulation (EU) 2021/241. Investments C7.1 R1-I3 and C7.1 R1-I4 (Strengthening the use of renewable energy sources in transport and heating) concerns geothermal exploration for the purpose of district heating, production of sustainable biomethane, preparation of the geothermal potential development plan and certification of biogas, and construction of new charging infrastructure for electric buses, thereby contributing to the REPowerEU objectives under Article 21c(3) points (b) and (e) of Regulation (EU) 2021/241. The contribution of the REPowerEU measures to deploying renewable energy sources, strengthening the electricity distribution network, but also improving diversification of Union's supply of gas, is expected to assist reducing the risk of high energy prices. This is expected to benefit all consumers including the most vulnerable ones. The REPowerEU chapter also includes scaled-up measures affecting seven measures under components 1.2 (Energy transition for a sustainable economy), 1.4 (Development of a competitive, energy sustainable and efficient transport system) and 6.1 (Renovation of buildings). The scaled-up measures included in the REPowerEU chapter introduce a substantive improvement in the level of ambition of the measures already included in the national RRP.
- (34) In accordance with Article 21c(2) of Regulation (EU) 2021/241, considering the decrease in the maximum financial contribution of EUR 785 million, Croatia has included in the REPowerEU chapter three measures which were already contained in the Council Implementing Decision of 28 July 2021. Those measures were reflected in that Implementing Decision under component 1.2 (Energy transition for a sustainable economy), investment C1.2 R1-I2 (Hydrogen use and new technologies), investment C1.2 R1-I4 (Biorefinery to produce advanced biofuels Sisak) and component 6.1 (Renovation of buildings), investment C6.1 R1-I2 (Renovation of buildings damaged in earthquakes with energy renovation).

- (35) The Commission has assessed the modified RRP including the REPowerEU chapter against the assessment criteria laid down in Article 19(3) of Regulation 2021/241.

Balanced response contributing to the six pillars

- (36) In accordance with Article 19(3), point (a), of and Annex V, criterion 2.1, to Regulation (EU) 2021/241, the modified RRP including the REPowerEU chapter represents to a large extent (Rating A) a comprehensive and adequately balanced response to the economic and social situation, thereby contributing appropriately to all of the six pillars referred to in Article 3 of that Regulation, taking into account the specific challenges faced by and the financial allocation for the Member State concerned.
- (37) Croatia's revised plan reaches the green and digital targets of Regulation (EU) 2021/241, therefore significantly contributing to the first two pillars of the Article 3 of that Regulation. The measures contributing to those two pillars are distributed among different components. The REPowerEU chapter contains a balanced set of new reforms and investments throughout several components that, along with several existing measures, contribute substantially to the green transition. The contribution to the smart, sustainable and inclusive growth and social and territorial cohesion pillars is confirmed by the introduction of new measures and the scaling up the existing ones. Modified measures from various components continue to contribute to the health, economic, social and institutional resilience pillar, while the scale-up of investments in education strengthens the contribution to the pillar of policies for the next generation by significantly increasing the level of ambition in the reform of the primary education system.

Addressing all or a significant subset of challenges identified in country-specific recommendations

- (38) In accordance with Article 19(3), point (b), of and Annex V, criterion 2.2, to Regulation (EU) 2021/241, the modified RRP including the REPowerEU chapter is expected to contribute to effectively addressing all or a significant subset of challenges (Rating A) identified in the relevant country-specific recommendations addressed to Croatia, including fiscal aspects thereof, or challenges identified in other relevant documents officially adopted by the Commission in the context of the European Semester.
- (39) In particular, the modified RRP takes into account country-specific recommendations formally adopted by the Council prior to the assessment of the modified plan by the Commission. Given that the support requested by Croatia increased following the additional loan request to support measures not exclusively addressing REPowerEU objectives, all 2022 and 2023 structural recommendations are considered in the overall assessment. Structural recommendations in the 2022 and 2023 CSRs are related to the energy sector.
- (40) Having assessed progress in the implementation of all relevant country-specific recommendations as part of the 2023 European Semester, the Commission finds that the recommendation on maintaining measures to provide liquidity to small and medium-sized enterprises and the self-employed 2020 CSR 3.1 was fully implemented. Substantial progress has been achieved with respect to the recommendations on reducing the most burdensome parafiscal charges 2019 CSR 4.4, 2020 CSR 3.2.

- (41) Overall, the modified RRP complements the initial plan in addressing the challenges identified in the country-specific recommendations. It includes an extensive set of mutually reinforcing reforms and investments that contribute to effectively addressing all or a significant subset of the economic and social challenges outlined in the country-specific recommendations addressed to Croatia by the Council in the context of the European Semester, notably challenges linked to the energy sector identified through the new country-specific recommendations from 2022 and 2023. Croatia's REPowerEU chapter includes scaled up and new measures in energy networks (addressing CSRs 2022.3.3 and 2023.3.4), uptake of renewable energy sources, renewable hydrogen (addressing CSRs 2019.3.3, 2020.3.8, 2022.3.2 and 2023.3.1 and 3.2), energy renovation of buildings (addressing CSRs 2019.3.3, 2022.3.4 and 2023.3.1. and 3.5), LNG and gas infrastructure (addressing CSR 2022.3.1), zero-emission transport (addressing CSRs 2019.3.3, 2020.3.7, 2022.3.5 and 2023.3.1 and 3.6) and green skills (addressing CSR 2023.3.7). More specifically, scaled-up and new reforms under the REPowerEU chapter, namely the introduction of a new system for self-consumption of small renewable production, a set of studies for geological CO₂ underground storage in Croatia, the designation of the Croatian Hydrocarbon Agency as the hydrogen coordinating body in Croatia, the hydrogen development plan and program, the geothermal potential development plan, plan for the production and use of biofuels in transport, and the certification of biogas address the CSRs 2019.3.3, 2020.3.8, 2022.3.2 and 2023.3.1 and 3.2.
- (42) The modified RRP contains other investments and scaled up measures that further aim at addressing challenges identified in the CSRs. The increase of the budget to be allocated to C3.1 R1-I4 Construction, upgrading, reconstruction and equipping of primary schools for one-shift and full-day teaching, by EUR 1 billion significantly strengthens the contribution to addressing CSRs 2019.2.1, 2020 2.4. Additional scale up of investments in public sewage and water supply address CSRs 2019.3.3 and 2020.3.6.

Contribution to growth potential, job creation and economic, social and institutional resilience

- (43) In accordance with Article 19(3), point (c), of and Annex V, criterion 2.3, to Regulation (EU) 2021/241, the modified RRP including the REPowerEU chapter is expected to have a high impact (Rating A) on strengthening the growth potential, job creation, and economic, social and institutional resilience of Croatia, contributing to the implementation of the European Pillar of Social Rights, including through the promotion of policies for children and youth, and on mitigating the economic and social impact of the COVID-19 crisis, thereby enhancing the economic, social and territorial cohesion and convergence within the Union.
- (44) The modified RRP including the REPowerEU chapter contains investments aimed at accelerating the green transition, ensuring resilience against further energy shocks and reaching the REPowerEU objectives. In particular, Croatia included new measures to promote the use of renewable energy, increase the electricity system capacity, accelerate the hydrogen economy, improve energy efficiency and attract capital to sustainable activities.
- (45) The modified RRP including the REPowerEU chapter also includes additional resources to scale up existing measures in transport, water management and education which are envisaged to further contribute to green transition and boost economic and social resilience.

- (46) The modified RRP is expected to reinforce economic growth already in the short- to medium-term, with the estimated sizeable impact on GDP of productive investments, including training and education, and with further positive effects from the proposed reforms. The modified RRP adjusts the allocation of resources to achieve their higher efficiency in facilitating the life-long learning and the acquisition of green and digital skills, including of the vulnerable groups.

Do no significant harm

- (47) In accordance with Article 19(3), point (d), of and Annex V, criterion 2.4, to Regulation (EU) 2021/241, the modified RRP including the REPowerEU chapter is expected to ensure that no measure (Rating A) for the implementation of reforms and investments projects included in this RRP does significant harm to environmental objectives within the meaning of Article 17 of Regulation (EU) 2020/852 of the European Parliament and of the Council⁵ (the principle of ‘do no significant harm’).
- (48) The modified plan assesses compliance with the ‘do no significant harm’ principle following the methodology set out in the Commission’s technical guidance on the application of ‘do no significant harm’ under the Recovery and Resilience Facility Regulation (2021/C58/01). Changes introduced in measures through the modification of the RRP do not affect the assessment carried out for the original version of the RRP. The information provided allows to conclude that the modified plan is expected to ensure that no measure does significant harm within the meaning of Article 17 of Regulation (EU) 2020/852.
- (49) In accordance with Article 21c (6) of Regulation (EU) 2021/241, on the basis of the information provided by Croatia, the Commission considers that the principle of “do no significant harm” should not apply to the investment C7.1 I3 including the expansion of the LNG terminal on the island of Krk, as well as expansion of Zlobin - Bosiljevo pipeline, Bosiljevo – Sisak – Kozarac evacuation pipeline towards Hungary, and section Lučko-Zabok of the Croatia - Slovenia interconnector.
- (50) In particular, the Commission considers that the expansion of the LNG terminal on island of Krk from 250 000 m³/h to 700 000 m³/h (2.9 billion m³ annually (bcm/y) to 6.1 bcm/y) helps to mitigate dependency on the supply of Russian gas in the South-East Europe, in particular Slovenia and Hungary, which both have limited gas supply routes options. The expansion of the LNG terminal is to be done in full synchronisation with the expansion of the internal Croatian gas pipeline infrastructure to ensure the increased capacity of gas transmission to Slovenia and Hungary. The contribution of the measure to mitigating Russian supply dependence, thereby improving the security of supply has been also confirmed in the Annex III of the Communication on the REPowerEU Plan⁶, based on the assessment of the European Network of Transmission System Operators for Gas (ENTSOG). Considering that the yearly demand of Croatia, Slovenia, and Hungary of 14 bcm/y is more than double compared to the expanded LNG terminal capacity of 6.1 bcm/y, the measure is proportionate. Cleaner alternatives such as renewable hydrogen, were taken into account, but cannot be considered a technologically and economically feasible alternative that could be deployed within a comparable timeline, by end 2026. Taking

⁵ Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 (OJ L 198, 22.6.2020, p. 13).

⁶ Communication on REPowerEU Plan, COM(2022) 230 final, (18.5.2022).

into account that all gas transmission projects are to be technically prepared to transport hydrogen, and that limited additional capacity of the LNG terminal is the minimum necessary to contribute for the phasing out of Russian gas imports by Croatia's neighbours, the risk of lock-in effect is considered mitigated. Therefore, based on the analysis of the supporting documents provided by Croatia, the Commission positively assesses that the measure is necessary and proportionate to meet immediate security of supply needs, taking into account cleaner feasible alternatives and the risk of lock-in effects, in line with Article 21c (6), point (a) of Regulation (EU) 2021/241.

- (51) Results of the relevant environmental impact assessments confirm that the projects are to be implemented in compliance with the applicable EU and national environmental legal framework, in order to help mitigate harm in particular by protecting air quality, water bodies, soil and biodiversity. A waste management plan is envisaged by the environmental impact assessments, providing for separate collection of municipal waste and hazardous materials. Physical climate risks to the gas network infrastructure project are to be identified by performing a robust climate risk and vulnerability assessment. The scale of the measure is not larger than necessary in order to meet the EU security of energy supply needs. Based on the analysis of the supporting documents provided by Croatia, the Commission considers that satisfactory efforts have been undertaken to limit the potential harm to environmental objectives, where feasible, in line with Article 21c (6), point (b) of Regulation (EU) 2021/241.
- (52) The expansion of the LNG terminal on the island of Krk and of the relevant gas pipeline infrastructure is envisaged to meet only the strictly necessary security of supply needs and does not increase further gas consumption within the Union as it aims at replacing the gas capacity originally imported from Russia. The measure is aligned with broader energy and climate policy set out by Croatia in the draft of the updated National Energy and Climate Plan. Based on the analysis of the supporting documents provided by Croatia, the Commission considers that the measure does not jeopardise the achievement of the Union's 2030 climate targets and the objective of EU climate neutrality by 2050, in line with Article 21c (6), point (c) of Regulation (EU) 2021/241.
- (53) According to the supporting documents provided by Croatia, the measure is planned to be in operation by 31 December 2026, in line with Article 21c (6), point (d) of Regulation (EU) 2021/241.
- (54) The total estimated costs of the investment C7.1 I3 is EUR 559 000 000 which represents 19% of the estimated costs of the measures included in the REPowerEU chapter, in line with Article 21c(9) of Regulation (EU) 2021/241.
- (55) In accordance with Article 21c (8) of Regulation (EU) 2021/241, the revenues made available in accordance with Article 10e(1) of Directive 2003/87/EC will not contribute to the investment C7.1 I3 subject to the DNSH derogation, given that the estimated costs of the other reforms and investments of the REPowerEU chapter exceed the amount available to Croatia under Article 21a of Regulation (EU) 2021/241.

Contribution to the REPowerEU objectives

- (56) In accordance with Article 19(3), point (da), of and Annex V, criterion 2.12, to Regulation (EU) 2021/241, the REPowerEU chapter is expected to effectively contribute to a large extent (Rating A) to energy security, the diversification of the

Union's energy supply, an increase in the uptake of renewables and in energy efficiency, an increase of energy storage capacities or the necessary reduction of dependence on fossil fuels before 2030.

- (57) The new investment C7.1 I3 (Increasing the capacity of the LNG terminal on the island of Krk and strengthening the gas infrastructure) is expected to contribute to the REPowerEU objectives of improving security of supply and diversification of Union's supply for gas under Article 21c(3) point (a) of Regulation (EU) 2021/241 by mitigating dependency on the supply of Russian gas in the South-East Europe, in particular Slovenia and Hungary, which both have limited supply routes options. This investment includes the expansion of LNG terminal Krk to 700 000 m³/h (6.1 billion m³ annually (bcm/y)), and expansion of Soobin - Bosiljevo pipeline, evacuation pipeline towards Hungary, Bosiljevo – Sisak – Kozarac, section Lučko - Zabok of the Croatia – Slovenia interconnector. This investment aims at providing an alternative gas route to Croatia's neighbouring Member States such as Slovenia, Hungary, since the LNG terminal Krk already has sufficient capacity (2.9 bcm/y) to meet the annual Croatian gas demand.
- (58) The scaled-up part of the investment C7.2 I1 (Energy renovation of buildings) and scaled-up investment C7.2 I2 (Renovation of buildings damaged in earthquakes with energy renovation) are expected to contribute to the REPowerEU objectives of boosting energy efficiency in buildings under Article 21c(3) point (b) of Regulation (EU) 2021/241. These investments provide additional funds for energy renovation of public and multi-dwelling buildings, energy renovation of public buildings under the ESCO model, as well as for the energy renovation of buildings damaged by the earthquakes.
- (59) The investment C7.1 R1-I5 (Biorefinery for the production of advanced biofuels Sisak), scaled up reform C7.1 R1 (Decarbonisation of the energy sector), investment C7.1 R1-I1 (Hydrogen use and new technologies), as well as new investments C7.1 R1-I2 "Establishment of a hydrogen-based economy (through the North Adriatic Hydrogen Valley)" and investments C7.1 R1-I3 "Strengthening the use of renewable energy sources in transport and heating" and C7.1 R1-I4 "Strengthening the use of renewable energy sources in transport and heating", are expected to contribute to the REPowerEU objectives of reducing the dependency on fossil fuels by increasing the production and uptake of renewables such as sustainable biomethane, renewable hydrogen and geothermal and increasing the share and accelerating the deployment of renewable energy under Article 21c(3) point (b) of Regulation (EU) 2021/241. These measures concern the entry into operation of a biorefinery facility in Sisak, setting up of a new system of self-consumption that would accelerate the uptake of renewables sources of energy, such as solar photovoltaics on single family houses and multiapartment buildings, new hydrogen production of 10 MW, construction of six hydrogen charging stations and a set of studies for geological CO₂ underground storage in Croatia. The measures also concern co-financing of renewable hydrogen projects in the context of the North Adriatic Hydrogen Valley and the designation of the Croatian Hydrocarbon Agency as the hydrogen coordinating body in Croatia, the hydrogen development plan and program as well as geothermal exploration and drilling for the purpose of district heating, production of sustainable biomethane, geothermal potential development plan and certification of biogas.
- (60) The scaled-up investment C7.2 I1 "Energy renovation of buildings" is expected to contribute to the REPowerEU objective of addressing energy poverty, under Article

21c(3) point (c) of Regulation (EU) 2021/241, by providing additional allocation for the ongoing Energy Poverty Programme.

- (61) The scaled-up reforms C7.2 R1 “Increasing efficiency, reduction of administrative burden and digitalisation of the renovation process” and reforms C7.2 R2 and C7.2 R3 “Introduction of a new model of green urban renewal strategies and implementation of pilot projects for the development of green infrastructure and the circular management of buildings and space”, are expected to contribute to the REPowerEU objective of reduction of energy demand, under Article 21c(3) point (d) of Regulation (EU) 2021/241, by increasing public awareness of the benefits of the green transition, and supporting the development of green infrastructure projects.
- (62) The new investment C7.1 R1-I6 “Strengthening the transmission and distribution capacities of the electricity network” is expected to contribute to the REPowerEU objectives of increasing energy security and addressing bottlenecks in electricity distribution under Article 21c(3) point (e) of Regulation (EU) 2021/241. This measure is expected to improve the electricity transmission capacity, and better evacuation of electricity from south to north of Croatia.
- (63) The scaled-up investments C7.1 I1 “Procurement of alternative-fuel-powered vehicles for public urban and suburban regular transport” and C7.1 I2 “Co-financing programme for the purchase of new alternative fuel vehicles and the development of alternative fuel infrastructures in road transport”, as well as new investments C7.1 R1-I2 “Establishment of a hydrogen-based economy (through the North Adriatic Hydrogen Valley)” and C7.1 R1-I4 “Strengthening the use of renewable energy sources in transport and heating”, and investment C7.1 R1-I5 “Biorefinery for the production of advanced biofuels Sisak” are expected to contribute to the REPowerEU objectives of supporting zero-emission transport, under Article 21c(3) point (e) of Regulation (EU) 2021/241. These measures include the procurement of additional 103 electric or hydrogen buses and on hydrogen energy unit for powering electric locomotives (HERMES), faster electric charging stations in road transport, retrofitting of five diesel locomotives to hydrogen and five charging stations for trains, buses or maritime transport, new electric buses infrastructure and charging stations, as well as adoption of a plan for the production and use of biofuels in transport.
- (64) The new reform C7.2 R4 “Introduction of a new model for the preparation, organisation and implementation of adult learning programmes aimed at developing green skills and competences in the construction sector for foreign workers from third countries” is expected to contribute to the REPowerEU objective of accelerated requalification of the workforce towards greens skills under Article 21c(3) point (f) of Regulation (EU) 2021/241, by introducing a new model of adult learning programmes aimed at developing green skills and competences in the construction sector for non-EU foreign workers.
- (65) The REPowerEU chapter is coherent with Croatia’s policy framework aimed at reducing greenhouse gas emissions and increasing the share of renewable energy sources. The measures also reinforce those included in the original RRP on promoting energy efficiency, zero-emission transport, and increasing the share of renewables.
- (66) The REPowerEU chapter addresses the need to improve energy security by strengthening the electricity grid, with the new investment C7.1 R1-I6 “Strengthening the transmission and distribution capacities of the electricity network”.

- (67) The REPowerEU chapter also addresses the need for diversification of the Union's energy supply through an investment in liquefied natural gas and gas infrastructure, namely the expansion of LNG terminal Krk to 700 000 m³/h (6.1 billion m³ annually (bcm/y)) and construction of relevant pipelines to export the gas to neighbouring members states, in the new investment C7.1 I3 "Increasing the capacity of the LNG terminal on the island of Krk and strengthening the gas infrastructure".

Measures having a cross-border or multi-country dimension or effect

- (68) In accordance with Article 19(3), point (d) and (b), of and Annex V, criterion 2.13, to Regulation (EU) 2021/241, the measures included in the REPowerEU chapter are expected to a large extent (Rating A) to have a cross-border or multi-country dimension or effect.
- (69) The investments with a multi-country and cross-border dimension included in the REPowerEU chapter concern the expansion of the LNG terminal on the island of Krk and of the relevant gas pipeline infrastructure since it should increase the security of supply, by providing alternative gas route to the South-East Europe, in particular Slovenia and Hungary. The investments in the upgrade of the electricity network also have a cross-border dimension, as they are expected to enable connection of a higher share of renewables to the network and decrease the demand for fossil fuels.
- (70) Hydrogen related investments and the investment in biorefinery for the production of advanced bioethanol, the investments in geothermal energy and sustainable biomethane have a cross-border dimension since they should increase the share and uptake of renewable energy, thereby reducing demand for fossil fuels. The investments in deployment of alternative fuel buses and alternative fuels infrastructure are expected to reduce dependency on fossil fuels. The investments in renovation of buildings are expected to increase energy efficiency, thereby reducing energy demand and dependency on fossil fuels.
- (71) Therefore, these measures should contribute to securing energy supply in the Union as a whole, including by addressing challenges identified in the Commission's most recent needs assessment, in line with the objectives set out in Article 21c(3) of Regulation (EU) 2021/241, taking into account the financial contribution available to the Member State concerned and its geographical position and reducing dependency on fossil fuels and to reducing energy demand.
- (72) The total costs of these measures account for a total of EUR 2 904.99 million representing more than 30% of the estimated costs of the REPowerEU chapter.

Contribution to the green transition including biodiversity

- (73) In accordance with Article 19(3), point (e), of and Annex V, criterion 2.5, to Regulation (EU) 2021/241, the modified RRP including the REPowerEU chapter, contains measures that contribute to a large extent (Rating A) to the green transition, including biodiversity, or to addressing the challenges resulting therefrom. The measures supporting climate objectives account for an amount which represents 39.02% of the RRP's total allocation and 62.63% of the total estimated costs of measures in the REPowerEU chapter calculated in accordance with the methodology set out in Annex VI to that Regulation. In accordance with Article 17 of Regulation (EU) 2021/241, the modified RRP including the REPowerEU chapter is consistent with the information included in the National Energy and Climate Plan 2021-2030.
- (74) Given the decreased financial contribution of Croatia's RRP and the inclusion of new measures in the RRP which do not support climate objectives, the climate contribution

of the plan was decreased from 40.03% to 39.02%. However, the REPowerEU chapter provides an additional support to the green transition of Croatia, since the reforms and investments contribute integrally to boosting energy efficiency in buildings thereby reducing energy consumption, reducing the dependency on fossil fuels by increasing the production and uptake of renewables, contributing to increasing energy security and addressing bottlenecks in electricity distribution, and supporting decarbonisation of the transport sector.

- (75) Regarding the contribution of the measures of the REPowerEU chapter in Croatia's RRP to achieving the 2030 climate targets and the objective of EU's climate neutrality by 2050, these measures aim to encourage the uptake of renewable energy sources by introducing a new self-consumption model and expanding hydrogen production capacity. Moreover, Croatia has also included measures to improve greening of public transport, by procuring additional electric and hydrogen-powered vehicles and improving the quality of alternative fuel infrastructures in road transport, as well as to allocate significant additional funds to renovate buildings thereby improving their energy efficiency and addressing energy poverty in the long term.
- (76) These measures are expected to have a lasting impact by accelerating the phase-out of fossil fuels towards a durable renewable energy system in Croatia. They are expected to reduce the greenhouse gas emissions and facilitate the uptake of renewable energy in Croatia and thus contribute to the attainment of the 2030 climate targets and the objective of the Union climate neutrality by 2050.

Contribution to the digital transition

- (77) In accordance with Article 19(3), point (f), of and Annex V, criterion 2.6, to Regulation (EU) 2021/241, the modified RRP contains measures that contribute to a large extent to the digital transition or to addressing the challenges resulting from it. The measures supporting digital objectives account for an amount which represents 20.09% of the modified RRP's total allocation calculated in accordance with the methodology set out in Annex VII to that Regulation.
- (78) The positive assessment regarding the contribution to the digital transition provided for in the Council Implementing Decision of 28 July 2021 remains valid. The modified RRP continues to significantly contribute to the digital transition, including by increasing digitalisation of the public administration, number of digital services for citizens and business as well as investments in e-health and digitalisation of transport sector.
- (79) The REPowerEU chapter is expected to contribute to the digital transition and to addressing the resulting challenges by digitalising the management of the electric power system and by continuing the modernisation of the Croatian transmission electric power network through the implementation of reform C7.1 R1-I6, aimed at improving the electricity grid system, increasing electricity transmission capacity, and better evacuation of electricity from south to north of Croatia. In accordance with Article 21c(5) of Regulation (EU) 2021/241, reforms and investments in the REPowerEU chapter were not to be taken into account when calculating the plan's total allocation for the purpose of applying the digital target requirement set by that Regulation.

Lasting impact

- (80) In accordance with Article 19(3), point (g), of and Annex V, criterion 2.7, to Regulation (EU) 2021/241, the modified RRP including the REPowerEU chapter is expected to have a lasting impact on Croatia to a large extent (Rating A).
- (81) The modified plan increases investments in renewable energy sources, the greening of transport, and energy renovation of buildings, as well as introducing new investments in renewable energy, in particular hydrogen and electric charging infrastructure, geothermal energy and sustainable biomethane production. The modified plan thereby maintains the ambition of the initial Plan while increasing the focus on the green transition, in line with the REPowerEU objectives. The modified plan also contributes to long-term sustainable development through additional investments in waste management infrastructure and (re)construction of the public water supply network.
- (82) The modified plan strengthens the reform of public administration by incentivising a performance-based system of evaluation and rewards in civil service. It also increases the effort to reform the education system towards one-shift teaching, by supporting the required primary school infrastructure. New reforms in the construction sector focus on the circular economy, sustainable urban planning and developing green skills. The revised plan also includes new reforms to strengthen the role of the financial sector in sustainable finance and further develop capital markets. The reforms and investments in the revised plan should further enhance the lasting impact of the plan on Croatia's productivity and its economic, social and institutional resilience.

Monitoring and implementation

- (83) In accordance with Article 19(3), point (h), of and Annex V, criterion 2.8, to Regulation (EU) 2021/241, the arrangements proposed in the modified RRP including the REPowerEU chapter are adequate (Rating A) to ensure effective monitoring and implementation of the RRP, including the envisaged timetable, milestones and targets, and the related indicators.
- (84) Croatia's modified RRP does not negatively affect the level of ambition of the original RRP. The relevant verification mechanisms, data collection systems and responsibilities can be qualified as clear, robust and effective to ensure full and timely completion of milestones and targets. The assessment of the adequacy of the Recovery and Resilience Plan's implementation structure, arrangements for the monitoring of progress and reporting, and the overall organisational arrangements remains unchanged.

Costing

- (85) In accordance with Article 19(3), point (i), of and Annex V, criterion 2.9, to Regulation (EU) 2021/241, the justification provided in the modified RRP including the REPowerEU chapter on the amount of the estimated total costs of the RRP is to a medium extent (Rating B) reasonable and plausible, is in line with the principle of cost efficiency and is commensurate to the expected national economic and social impact.
- (86) The assessment of the original RRP was that the estimated total cost of the RRP was to a medium extent (Rating B) reasonable and plausible, is in line with the principle of cost efficiency and was commensurate to the expected national economic and social impact.
- (87) Croatia has provided individual cost estimates for all modified and new investments and reforms with an associated cost included in the modified RRP, relying on several sources to justify them. These include calls of interest specifically launched for the purposes of the RRP, procurement contracts referring to similar services or past

investments of similar nature. The cost information provided by Croatia is mostly sufficiently detailed and substantiated. Croatia provided estimates and assumptions on costs using the standard template table, which was intended to summarize the key information and evidence on costing, including the methodology underlying the cost calculations. Croatia also submitted additional documents and materials intended to clarify costing estimates and provide costing data and benchmarks on comparable investments done in the past or in other countries for most of the new measures. These documents include descriptions and explanations of the main drivers and changes in the costs of the modified measures and their proportionality.

- (88) The amount of the estimated total costs of the RRP is in line with the nature and type of the envisaged reforms and investments. As a result, cost estimates for all measures in the RRP are deemed plausible to either a high or medium extent. Croatia has provided sufficient information and evidence that the amount of the estimated total costs is not covered by existing or planned Union financing. Finally, the estimated total cost of the RRP is in line with the principle of cost-efficiency and commensurate to the expected national economic and social impact.

Protection of the financial interests of the Union

- (89) In accordance with Article 19(3), point (j), of and Annex V, criterion 2.10, to Regulation (EU) 2021/241, the arrangements proposed in the modified RRP including the REPowerEU chapter are adequate (Rating A) to prevent, detect and correct corruption, fraud and conflicts of interests when using the funds provided under that Regulation, and the arrangements are expected to effectively avoid double funding under that Regulation and other Union programmes. This is without prejudice to the application of other instruments and tools to promote and enforce compliance with Union law, including for preventing, detecting and correcting corruption, fraud and conflicts of interest, and for protecting the Union budget in line with Regulation (EU, Euratom) 2020/2092 of the European Parliament and of the Council⁷.
- (90) The original assessment had concluded on the adequacy of the control and audit arrangements proposed by Croatia (Rating of A) under criterion 2.10 of Annex V to the RRF Regulation, subject to the timely fulfilment of four milestones pertaining to a repository system for monitoring the implementation of the recovery and resilience plan, adoption of legal mandate for the Directorate for Macroeconomic Analysis within the Ministry of Finance as Coordinating Body, and the Agency for the audit of the EU programme implementation system as the Audit Authority, as well as to the monitoring and control system and update of procedures. The statute of the Agency for the Audit of European Union Programmes Implementation System (ARPA) has been adapted to bring it in line with Regulation (EU) 2021/241 and provides the legal mandate for carrying out audits in the scope of the NRRP.
- (91) Since the original assessment, which was established on the proposed audit and control system, the Commission has had access to information on the actual implementation of the different control procedures for the prevention, detection and correction of fraud, corruption, and conflict of interests. This includes the preliminary findings of the audit on the protection of the financial interests of the Union performed

⁷ Regulation (EU, Euratom) 2020/2092 of the European Parliament and of the Council of 16 December 2020 on a general regime of conditionality for the protection of the Union budget (OJ L 433 I, 22.12.2020, p. 1).

by the Commission in Croatia. The Croatian authorities took adequate steps to address the recommendations in this report, including a thorough update of the rules ensuring the protection of the financial interests of the Union.

- (92) In light of this information, the Commission considers that the internal control system of Croatia's recovery and resilience plan is overall adequate. The internal control system described in Croatia's modified recovery and resilience plan is based on robust processes and structures and identifies clear actors and their roles and responsibilities for the performance of the internal control tasks. For each component/sub-component, the competent authority at ministry and central government office level has been appointed for the implementation of reforms and investments. The internal control system and other relevant arrangements in Croatia's modified recovery and resilience plan, including for the verification mechanisms, data collection and storage, the responsibilities of relevant actors are adequate with respect to preventing, detecting, and correcting corruption, fraud, conflict of interests when using the funds under Regulation (EU) 2021/241 and to avoid double funding under that Regulation and other Union programmes.

Coherence of the RRP

- (93) In accordance with Article 19(3), point (k), of and Annex V, criterion 2.11, to Regulation (EU) 2021/241, the modified RRP including the REPowerEU chapter includes to a high extent (Rating A) measures for the implementation of reforms and public investment projects that represent coherent actions.
- (94) Croatia's original Recovery and Resilience Plan is structured around five coherent components, one initiative, and the REPowerEU chapter, all of which contribute to the general and specific objectives of the RRF. Each component is built around consistent packages of both reforms and investments, with mutually reinforcing or complementary measures.
- (95) The wide range of measures supports the common objectives of stimulating the recovery of Croatia's economy and strengthening its resilience against future shocks. The Plan includes important reforms to improve water and waste management, education, renewable energy sources uptake and further support the green and digital transition, providing for sustainable and inclusive growth.
- (96) The modified recovery and resilience plan includes changes in all existing five components and initiative 6.1 while bringing in additional reforms and investments under the REPowerEU chapter. The revised Plan does not alter the complementarity of the five components and one initiative and continues pursuing consistent and coherent objectives. The scaled-up and newly introduced measures under the REPowerEU chapter provide a new complementarity layer on the energy transition and decarbonisation effort by complementing or reinforcing existing measures on clean energy, sustainable mobility, and renovation of buildings.

Consultation process

- (97) During the preparation of the modified RRP, including the REPowerEU chapter, Croatia conducted a consultation process mostly through a written feedback procedure for individual RRP components. Stakeholders (representatives of ministries, organisations and associations in the fields of capital markets, energy, transport,) had the opportunity to submit their project proposals for the revised RRP and REPowerEU chapter. The responsible national bodies incorporated the feedback received during the consultation and harmonised the content of the new REPowerEU chapter.

- (98) Stakeholders, local authorities, social partners and the general public have been regularly updated on the progress of the implementation of the plan in Croatia's annual event on the implementation of the recovery and resilience plan. The modified plan envisages further consultations with social partners or relevant stakeholders on its implementation, in particular before the adoption of relevant legislation on key reforms. To ensure ownership by the relevant actors, it is crucial to involve all local authorities and stakeholders concerned, including social partners, throughout the implementation of the investments and reforms included in the modified recovery and resilience plan including the REPowerEU chapter.

Positive assessment

- (99) Following the positive assessment of the Commission concerning the modified RRP including the REPowerEU chapter, with the finding that the plan satisfactorily complies with the criteria for assessment set out in Regulation (EU) 2021/241, in accordance with Article 20(2) of and Annex V to that Regulation, the reforms and investment projects necessary for the implementation of the modified RRP including the REPowerEU chapter, the relevant milestones, targets and indicators, and the amount made available from the Union for the implementation of the modified RRP including the REPowerEU chapter in the form of non-repayable financial and loan support should be set out.

Financial contribution

- (100) The estimated total costs of the modified RRP including the REPowerEU chapter of Croatia is EUR 10 040 701 600. As the amount of the estimated total costs of the modified RRP is higher than the updated maximum financial contribution available for Croatia, the financial contribution calculated in accordance with Article 11 allocated for Croatia modified RRP including the REPowerEU chapter should be equal to the amount of the estimated total costs of the modified RRP. This amount is equal to EUR 5 510 316 213.
- (101) Pursuant to Article 21a(5) of Regulation (EU) 2021/241, on 31 August 2023 Croatia submitted a request for the allocation of the revenue referred to in Article 21a (1) of that Regulation, shared between Member States on the basis of the indicators set out in the methodology in Annex IVa to Regulation (EU) 2021/241. The estimated total costs of the measures referred to in Article 21c(3), points (b) to (f) included in the REPowerEU chapter is EUR 2 366 650 094. As this amount is higher than the allocation share available for Croatia, the additional non-repayable financial support available for Croatia should be higher than the that estimated total costs. This amount is equal to EUR 269 037 883.
- (102) Additionally, in accordance with Article 4a of Regulation (EU) 2021/1755⁸, on 1 March 2023 Croatia submitted a reasoned request to transfer all its remaining provisional allocation from the resources of the Brexit Adjustment Reserve to the Facility, amounting to EUR 7 190 532. That amount should be made available to support the reforms and investments in the REPowerEU chapter as additional non-repayable financial support.
- (103) The total financial contribution available to Croatia should be EUR 5 786 544 628.

⁸ Regulation (EU) 2021/1755 of the European Parliament and of the Council of 6 October 2021 establishing the Brexit Adjustment Reserve (OJ L 357 8.10.2021, p. 1).

Loan

- (104) Furthermore, in order to support additional reforms and investments, Croatia has requested a total loan support of EUR 4 254 156 972, in particular, EUR 2 649 421 679 to support the reforms and investments in the REPowerEU chapter and EUR 1 604 735 293 to support the other reforms and investments in the RRP. The maximum volume of the loan requested by Croatia is more than 6.8% of its 2019 gross national income in current prices. The amount of the estimated total costs of the RRP is higher than the combined financial contribution available for Croatia, including the REPowerEU chapter and the updated maximum financial contribution for non-repayable financial support, the revenue from the emission trading system under Directive 2003/87/EC of the European Parliament and of the Council⁹, and from of the Brexit Adjustment Reserve. Croatia requested an additional loan amount to tackle the downward adjustment of EUR 785 114 933 of non-repayable financial contribution. The additional amount of the loan should support the increased ambition in water management sector, transport sector and education.

REPowerEU Pre-financing

- (105) Croatia has requested the following funding for the implementation of its REPowerEU chapter, transfer of EUR 7 190 532 from the provisional allocation from the resources of the Brexit Adjustment Reserve, and EUR 269 037 883 from the revenue from the Emissions Trading System under Directive 2003/87/EC of the European Parliament and of the Council, EUR 2 649 421 679 in the form of loan.
- (106) For those amounts, pursuant to Article 21d of Regulation (EU) 2021/241, on 17 October 2023 Croatia has requested pre-financing of EUR 585 130 019, that is 20% of the funding requested. Subject to available resources, that pre-financing should be made available to Croatia subject to the entry into force of, and in accordance with, agreements to be concluded between the Commission and Croatia pursuant to Article 23(1) of Regulation (EU) 2021/241 (the 'financing agreement') and pursuant to Article 15(2) of that Regulation (the 'loan agreement').
- (107) Council Implementing Decision ST 10687/21 of 28 July 2023 on the approval of the assessment of the RRP for Croatia should therefore be amended accordingly. For the sake of clarity, the Annex to that Implementing Decision should be replaced entirely,

HAS ADOPTED THIS DECISION:

Article 1

Implementing Decision (EU) ST 10687/21 is amended as follows:

- (1) Article 1 is replaced by the following:

“Article 1

Approval of the assessment of the RRP

The assessment of the modified RRP of Croatia on the basis of the criteria provided for in Article 19(3) of Regulation (EU) 2021/241 is approved. The reforms and investment projects under the RRP, the arrangements and timetable for the monitoring and implementation of the

⁹ Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003 establishing a scheme for greenhouse gas emission allowance trading within the Community and amending Council Directive 96/61/EC (OJ L 275, 25.10.2003, p. 32–46).

RRP, including the relevant milestones and targets and the additional milestones and targets related to the payment of the loan, the relevant indicators relating to the fulfilment of the envisaged milestones and targets, and the arrangements for providing full access by the Commission to the underlying relevant data are set out in the Annex to this Decision.”;

(2) In Article 2, paragraphs 1 and 2 are replaced by the following:

“1. The Union shall make available to Croatia a financial contribution in the form of non-repayable support amounting to EUR 5 786 544 628.¹⁰ That contribution includes:

- (a) an amount of EUR 4 631 762 551 that shall be available to be legally committed by 31 December 2022;
- (b) an amount of EUR 878 553 662 that shall be available to be legally committed from 1 January 2023 until 31 December 2023;
- (c) an amount of EUR 269 037 883¹¹, in accordance with Article 21a(6) of Regulation (EU) 2021/241, exclusively for measures referred to in Article 21c of that Regulation, with the exception of measures referred to in Article 21c (3), point (a);
- (d) an amount of EUR 7 190 532, transferred from the Brexit Adjustment Reserve to the Facility.

2. An amount of EUR 55 245 683 shall be made available as pre-financing in accordance with Article 21d of Regulation (EU) 2021/241. That pre-financing may be disbursed by the Commission in up to two payments.

The pre-financing and instalments may be disbursed by the Commission in one or several tranches. The size of the tranches shall be subject to the availability of funding.”.

(3): The following Article 2a is inserted:

*“Article 2a
Loan support*

1. The Union shall make available to Croatia a loan amounting to a maximum of EUR 4 254 156 972.

2. The loan support referred to in paragraph 1 shall be made available by the Commission to Croatia in instalments in accordance with the Annex to this Decision.

3. An amount of EUR 529 884 336 shall be made available as pre-financing in accordance with Article 21d of Regulation (EU) 2021/241. That pre-financing may be disbursed by the Commission in up to two payments.

The pre-financing and instalments may be disbursed by the Commission in one or several tranches. The size of the tranches shall be subject to the availability of funding.

¹⁰ This amount corresponds to the financial allocation after deduction of the Croatia’s proportional share of the expenses of Article 6(2) of Regulation (EU) 2021/241, calculated in accordance with the methodology of Article 11 of that Regulation.

¹¹ This amount corresponds to the financial allocation after deduction of the Croatia’s proportional share of the expenses of Article 6(2) of Regulation (EU) 2021/241, calculated in accordance with the methodology of Article 11 of that Regulation.

4. The pre-financing referred to in paragraph 2 shall be released subject to the entry into force and in accordance with the loan agreement. Pre-financing shall be cleared by being proportionally deducted against the payment of the instalments.

5. The release of instalments in accordance with the Loan Agreement shall be conditional on available funding and a decision by the Commission, taken in accordance with Article 24 of Regulation (EU) 2021/241, that Croatia has satisfactorily fulfilled the additional milestones and targets covered by the loan and identified in relation to the implementation of the modified RRP including the REPowerEU chapter. In order to be eligible for payment, Croatia shall complete the additional milestones and targets no later than 31 August 2026.”;

(4) The Annex is replaced by the text in the Annex to this Decision:

Article 2
Addressee

This Decision is addressed to the Republic of Croatia.

Done at Brussels,

For the Council
The President