Brussels, 18 February 2015

His Excellency Boris Lalovac
Minister of Finance
Ministry of Finance
Katanciceva 5
10000 Zagreb
Republic of Croatia

Re: Republic of Croatia: Second Science and Technology Project
(Loan No. 8258-HR)
Amendment to the Loan Agreement

Excellency:

Reference is made to the Loan Agreement ("Loan Agreement") for the above-listed Project between the International Bank for Reconstruction and Development ("Bank") and the Republic of Croatia ("Borrower"), dated May 22, 2013. Reference is also made to your letter dated November 5, 2014, requesting on behalf of the Borrower, certain restructurings of the Project.

We are pleased to inform you that, after due consideration, the Bank concurs with the aforementioned request. Consequently, the Loan Agreement is amended as follows:

1. All references to BICRO in the Loan Agreement shall be amended to read "HAMAG-BICRO".

2. Schedule 1 to the Loan Agreement shall be amended to read as follows:

"Part A: Capacity Building for Absorption of EU Funds

1. Support to the Borrower, its MSES, CSF, HAMAG-BICRO and other selected public sector organizations in the research and innovation sector to improve their capacity to qualify for and manage EU Funds in the area of research and innovation through Technical Assistance and Training including:

(a) for the development of strategic documents, such as a smart specialization strategy, a research and innovation strategy for smart specialization, and a research infrastructure roadmap;"
(b) to strengthen the governance of research and innovation policies and programs, including through a review of selected policies and programs and development of new policies and programs, as required, and support for the development of databases, technologies and competences;

(c) for the evaluation of the network of public research institutes, including the preparation of strategic planning and financial management strategies and preparation of performance-based contracts between MSES and public research institutes; and

(d) for providing support for the accreditation process for EU Funds, including adjustment of the relevant institutions' operational procedures to enable the use of EU Funds, and improving capacity to implement research and innovation policies and programs according to existing best practices.

2. Support to MSES, HAMAG-BICRO, CSF and other selected public sector organizations in the research and innovation sector for the development of applications for research and development grant schemes and infrastructure projects for EU Funds, including through the following activities:

(a) technical assistance to MSES, HAMAG-BICRO and CSF for the preparation of new or adjusted research and development grant scheme project applications for EU Funds; and

(b) technical assistance and Training for the preparation of at least three project applications for the infrastructure project pipeline for EU funds (including feasibility studies, cost-benefit analysis and technical documentation), as selected with the agreement of the Bank.

3. Support to MSES, HAMAG-BICRO and CSF for project management and implementation, including through financing of Operating Costs, Training and audit for the Project.

Part B: Research and Innovation Programs

1. Support for research and innovation programs through the provision of Sub-financing, through HAMAG-BICRO to Beneficiaries for Sub-projects in accordance with the relevant Operational Procedures, including: (i) to eligible small and medium enterprises and public research organizations and universities for implementation of Component I of the Innovation Process Support Framework; (ii) to private firms and researchers for implementation of Component II of the Innovation Process Support Framework; (iii) to eligible enterprises for implementation of Component III of the Innovation Process Support Framework; and (iv) for investments and activities in research commercialization and intellectual property protection of research results under the Technology Transfer Office Support Program.
2. Support for strengthening human resources, research excellence and research commercialization through the provision of Sub-financing, through the CSF for the UKF, to Beneficiaries for Sub-projects in accordance with the Operational Procedures including for collaborative research activities with the Croatian diaspora and leading international scientific institutions under the Research Cooperability Program.”

3. Section I, Part A, paragraph 1(e) of Schedule 2 to the Loan Agreement shall be amended to read as follows:

“(e) Maintain HAMAG-BICRO with a structure and in a form and with functions, staffing, terms of reference, qualifications, scope of responsibilities and other adequate resources satisfactory to the Bank, and carry out Sub-financing through HAMAG-BICRO for Sub-financing under Part B.1. of the Project.”

4. Section I, Part A of Schedule 2 to the Loan Agreement shall be amended to include a new paragraph 2, which shall read as follows:

“2. Maintain the UKF under the authority of CSF, with a structure and in a form and with functions, staffing, terms of reference, qualifications, scope of responsibilities and other adequate resources satisfactory to the Bank, and shall carry out Sub-financing through UKF for Sub-financing under Part B.2(a) of the Project.”

5. Section I, Part A of Schedule 2 to the Loan Agreement shall be amended to include a new paragraph 3, which shall read as follows:

“3. Subsidiary Agreement

(a) To facilitate the carrying out of HAMAG-BICRO’s and CSF’s Respective Parts of the Project, the Borrower shall make part of the proceeds of the Loan available to HAMAG-BICRO and CSF, respectively under subsidiary agreements between the Borrower and HAMAG-BICRO and CSF (“Subsidiary Agreements”), under terms and conditions approved by the Bank.

(b) The Borrower shall exercise its rights under the Subsidiary Agreements in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan. Except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Agreements or any of their provisions.”

6. Section I, Part C of Schedule 2 to the Loan Agreement shall be amended to read as follows:
“C. Terms and Conditions of the Sub-financing

The Borrower shall ensure that:

1. HAMAG-BICRO or CSF, as applicable, shall provide Sub-financing to Beneficiaries. Each Beneficiary shall have established, to the satisfaction of HAMAG-BICRO or CSF, as appropriate, on the basis of the relevant Operational Procedures, that it has a sound structure and the organization, management, business plan, staff and other resources required for the efficient carrying out of the Sub-project.

2. HAMAG-BICRO or CSF, as applicable, shall select Sub-projects for financing from the proceeds of the Loan in accordance with the criteria and procedures set forth in the respective Operational Procedures.

3. Sub-financing made by HAMAG-BICRO or CSF, as applicable, may be in a form of a loan, a grant, an equity investment or any other type of financing, as shall be agreed with the Bank and as specified in the respective Operational Procedures, and shall be provided and implemented in accordance with the terms of the Anti-Corruption Guidelines.

4. HAMAG-BICRO or CSF, as applicable, shall maintain pre-screening, evaluation and supervision procedures for Sub-projects, acceptable to the Bank.

5. HAMAG-BICRO or CSF, as applicable, shall make each Sub-financing under a Sub-financing Agreement with the respective Beneficiary on terms and conditions approved by the Bank, which shall include the following:

   (a) HAMAG-BICRO or CSF, as applicable, shall obtain rights adequate to protect its interests and those of the Bank, including the right to:

   (i) suspend or terminate the right of the Beneficiary to use the proceeds of the Sub-financing, or obtain a refund of all or any part of the amount of the Sub-financing then withdrawn, upon the Beneficiary’s failure to perform any of its obligations under the Sub-financing Agreement; and
require each Beneficiary to: (A) carry out its Sub-project with due
diligence and efficiency and in accordance with sound technical,
economic, financial, managerial, environmental and social
standards (including any EIAs, EMPs or other documents required
under the Environmental Management Framework) and practices
satisfactory to the Bank, including in accordance with the provisions
of the Anti-Corruption Guidelines applicable to recipients of loan
proceeds other than the Borrower; (B) provide, promptly as needed,
the resources required for the purpose; (C) procure the goods and
services to be financed out of the Sub-financing in accordance with
the provisions of this Agreement; (D) maintain policies and
procedures adequate to enable it to monitor and evaluate in
accordance with indicators acceptable to the Bank, the progress of
the Sub-project and the achievement of its objectives; (E) (1)
maintain a financial management system and prepare financial
statements in accordance with consistently applied accounting
standards acceptable to the Bank, both in a manner adequate to
reflect the operations, resources and expenditures related to the Sub-
project; and (2) at the Bank’s or the Borrower’s request, have such
financial statements audited by independent auditors acceptable to
the Bank, in accordance with consistently applied auditing standards
acceptable to the Bank, and promptly furnish the statements as so
audited to the Borrower and the Bank; (F) enable the Borrower and
the Bank to inspect the Sub-project, its operation and any relevant
records and documents; and (G) prepare and furnish to the Borrower
and the Bank all such information as the Borrower or the Bank shall
reasonably request relating to the foregoing.

(b) HAMAG-BICRO or CSF, as applicable, shall exercise its rights under each
Sub-financing Agreement in such manner as to protect the interests of the
Borrower and the Bank and to accomplish the purposes of the Loan. Except
as the Bank shall otherwise agree, HAMAG-BICRO or CSF, as applicable,
shall not assign, amend, abrogate or waive any Sub-financing Agreement or
any of its provisions.”

6. The reference to UKF in Section I, Part D, paragraph 2 of Schedule 2 to the Loan
   Agreement shall be amended to read “CSF”.

7. The reference to BICRO in Section II, Part B, paragraph 4 of Schedule 2 to the Loan
   Agreement shall be amended to read “HAMAG-BICRO”.
8. The table in Section IV, Part A, paragraph 2 of Schedule 2 to the Loan Agreement shall be amended to read as follows:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Loan Allocated (expressed in EUR)</th>
<th>Percentage of Expenditures to be financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods, non-consulting services, Training, consultants' services for Part A of the Project, and Operating Costs and audit for the Project</td>
<td>7,229,029.9</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Sub-financing under Part B.1 of the Project</td>
<td>8,580,296</td>
<td>78%</td>
</tr>
<tr>
<td>(3) Sub-financing under Part B.2 of the Project</td>
<td>3,102,700</td>
<td>71%</td>
</tr>
<tr>
<td>(4) Refund of the Preparation Advance</td>
<td>1,037,974.1</td>
<td>Amount payable pursuant to Section 2.07(a) of the General Conditions</td>
</tr>
<tr>
<td>(5) Front-end Fee</td>
<td>50,000</td>
<td>Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07(b) of the General Conditions</td>
</tr>
<tr>
<td>(6) Unallocated</td>
<td>0.00</td>
<td></td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>20,000,000</td>
<td></td>
</tr>
</tbody>
</table>

9. Section I. of the Appendix to the Loan Agreement shall be amended to read as provided in the Appendix to this Amendment.

All the other terms and conditions of the Loan Agreement, as amended hereby, shall remain in full force and effect.
H.E. Boris Lalovac

Please confirm your agreement to the foregoing amendment, on behalf of the Republic of Croatia, by signing and dating the confirmation on the enclosed copy of this Amendment Letter and returning it to us. This amendment will come into force and effect as of the date of countersignature by the Borrower and upon receipt by the Bank of the said duly countersigned original Amendment Letter.

Sincerely,

Mamta Murthi
Regional Director
Central Europe and the Baltic Countries
Europe and Central Asia Region

CONFIRMED AND AGREED:

REPUBLIC OF CROATIA

By: BORIS LALOVAC
Title: MINISTER OF FINANCE
Date: FEBRUARY 25, 2015
APPENDIX

Section I. Definitions


2. "Beneficiary" means an entity which meets the eligibility criteria set forth in the Operational Procedures and accordingly is eligible to receive Sub-financing under Part B of the Project.

3. "Category" means a category set forth in the table in Section IV of Schedule 2 to this Agreement.

4. "Component I" means the Borrower’s Proof of Concept Program (currently known as Program I), adopted by BICRO in April, 2010, as amended up to the date of this Agreement, and administered by HAMAG-BICRO as the first component of the Borrower’s Innovation Process Support Framework in accordance with the Operational Procedures, as such program may be updated from time to time with the prior agreement of the Bank.

5. "Component II" means the Borrower’s program on innovative technologies for supporting research and development activities in start-ups and small and medium enterprises through commercialization of their research and development outputs (currently known as Program II), adopted by the Borrower on July 12, 2006, under the “Guidelines for fostering innovation technology system”, as amended up to the date of this Agreement, and administered by HAMAG-BICRO as the second component of the Borrower’s Innovation Process Support Framework in accordance with the Operational Procedures, as such program may be updated from time to time with the prior agreement of the Bank.

6. "Component III" means the Borrower’s Sponsored Research and Development Program (currently known as Program III), adopted by the Borrower on July 12, 2006, under the “Guidelines for fostering innovation technology system”, as amended up to the date of this Agreement, and administered by HAMAG-BICRO as the third component of the Borrower’s Innovation Process Support Framework in accordance with the Operational Procedures, as such program may be updated from time to time with the prior agreement of the Bank.


8. "Croatian Science Foundation" or “CSF” means the entity established pursuant to the Borrower’s Act on the Croatian Science Foundation, published in the Official Gazette number 78, dated July 13, 2012, which entered into force on July 13, 3012.

9. "Environmental Impact Assessment” or “EIA” means a site-specific environmental impact assessment prepared, as required, in accordance with the EMF.
10. “Environmental Management Framework” or “EMF” means the framework prepared and adopted by the Borrower, dated August, 2012, in form, substance and manner satisfactory to the Bank, consisting of: the set of mitigation, monitoring, institutional and screening measures required for the technical assistance to be provided under the Project as well as the activities under the Sub-projects and to be taken to eliminate adverse environmental impacts, offset them, or reduce them to acceptable levels, as well as actions needed to implement said measures, including the measures and information required for the preparation of site-specific environmental management plans (EMPs).

11. “EMP” means a site-specific environmental management plan prepared, as required, in accordance with the EMF.

12. “EU Funds” means funding made available to eligible applicants by the European Union (EU) under its funding facilities in the research and innovation sector, including, but not limited to, the European Regional Development Fund (ERDF); European Social Fund (ESF) and the Horizon 2020.


14. “HAMAG-BICRO” means the Croatian Agency for Small Business, Innovation and Investment, established pursuant to the Act on Promotion of Small Business Development (Official Gazette No. 29/02, 63/07, 53/12, 56/13), Article 14, which took effect on May 8, 2014.

15. “Horizon 2020” means the EU HORIZON 2020 Framework Programme for Research and Innovation, a financial instrument for support of the EU’s innovation union.


17. “MSES” means the Borrower’s Ministry of Science, Education and Sports, and includes any successor thereto.

18. “Operating Costs” means incremental operating costs incurred by MSES, HAMAG-BICRO, or CSF, on account of Project implementation as may be agreed between the Borrower and the Bank (but excluding salaries of officials of the Borrower’s civil service).

19. “Operational Procedures” means the Guidelines and Procedures for the Borrower’s Components I, II and III of the Innovation Process Support Framework, and the Research Cooperability Program and the Technology Transfer Office Support Program agreed with the Bank and adopted by HAMAG-BICRO, MSES and CSF, as applicable, setting forth eligibility criteria and procedures for selection, appraisal and approval of Beneficiaries and Sub-projects to be financed under the Project, as well as the procedures for administration and monitoring of implementation of Sub-projects, as the same may be updated from time to time with the agreement of the Bank.

20. “PIP” means the project implementation plan adopted by the Borrower for the first year of Project implementation, dated March 13, 2013, as the same may be updated from time to time with the agreement of the Bank.
21. “PIU” means the project implementation unit established by the Borrower within MSES for the purposes of Project management.

22. “Preparation Advance” means the advance referred to in Section 2.07(a) of the General Conditions, granted by the Bank to the Borrower pursuant to the letter agreement signed on behalf of the Bank on February 16, 2012 and on behalf of the Borrower on April 30, 2012 (IBRD P4640-HR).


24. “Procurement Plan” means the Borrower’s procurement plan for the Project, dated March 14, 2013 and referred to in paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.

25. “POM” means the project operations manual dated April 3, 2013, setting forth procedures and requirements for carrying out the Project, adopted by the Borrower and agreed with the Bank, as the same may be amended from time to time with the agreement of the Bank.

26. “Research Cooperability Program” means the Borrower’s Research Cooperability Program, established by a decision of the UKF’s steering committee dated January 29, 2007, as amended up to the date of this Agreement, and administered by UKF in accordance with the Operational Procedures, as such program may be updated from time to time with the prior agreement of the Bank.

27. “Steering Committee” means the Steering Committee referred to in Section I, Part A, paragraph 1(d) of Schedule 2 to this Agreement.

28. “Sub-financing” means any financing in the form of a loan, grant or equity investment made or proposed to be made, pursuant to the provisions of a Sub-financing Agreement and in accordance with the criteria and procedures set forth in the Operational Procedures, by HAMAG-BICRO or CSF, as appropriate, to an eligible Beneficiary for the purpose of financing a Sub-project, and to be financed out of the proceeds of the Loan.

29. “Sub-financing Agreement” means an agreement to be entered into between HAMAG-BICRO or CSF, as applicable, and a Beneficiary on the terms and conditions set forth in this Agreement and the Operational Procedures, for the purposes of financing and implementing a Sub-project under Part B of the Project.

30. “Sub-project” means a specific project eligible for financing out of the proceeds of the Loan in accordance with the provisions of this Agreement and the criteria set forth in the Operational Procedures, to be carried out by a Beneficiary using a Sub-financing under Part B of the Project.

31. “Subsidiary Agreement” means an agreement between the Borrower and HAMAG-BICRO or CSF, respectively, approved by the Bank and for the purpose of implementing the Project through the transfer of funds and responsibility for implementation of certain sub-components from the Borrower to HAMAG-BICRO and CSF, as referenced in Schedule 2, Section I, Part A, paragraph 3 of this Agreement.
“Training" means Project-related training for selected institutions, and includes Project related study tours, training courses, seminars, workshops and other training activities, not included under service providers’ contracts, including costs of training materials, space and equipment rental, reasonable and necessary local and international travel by participants in training activities, reasonable lodging and accommodation, subsistence and local and international per diem of trainees and trainers, registration, tuition and facilitators' fees, translation and interpretation, and other training related miscellaneous costs, all based on budgets acceptable to the Bank.

“Technology Transfer Office Support Program” means the Borrower’s Technology Transfer Office Support Program, adopted by the MSES on April 3, 2013, and administered by HAMAG-BICRO in accordance with the Operational Procedures as such program may be updated from time to time with the prior agreement of the Bank.

“UKF” means the Borrower’s Unity Through Knowledge Fund established within and administered by CSF pursuant to the Act on the Croatian Science (Official Gazette No. 117/2001, 46/2009, 94/2010, 78/2012) Article 19 that also regulated the transfer of the UKF from MSES to CSF.

“Working Group” means the Working Group referred to in Section I.A.1(d) of Schedule 2 to this Agreement.