Supplemental Letter No. 2

REPUBLIC OF CROATIA

May 22, 2013

International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Re: Loan No. 8258- HR
(Second Science and Technology Project)
Monitoring and Evaluation Indicators

Dear Sirs and Mesdames:

This refers to paragraph A.1 of Section II of Schedule 2 to the Loan Agreement of even date herewith between the Republic of Croatia (the Borrower) and the International Bank for Reconstruction and Development (the Bank). The Borrower hereby confirms to the Bank that the indicators set out in the attachment to this letter shall serve as a basis for the Borrower to monitor and evaluate the progress of the Project and the achievement of the objectives thereof.

Very truly yours,

REPUBLIC OF CROATIA

By
Authorized Representative

Attachment
## Loan No. 8258-HR
(Second Science and Technology Project)

Performance Monitoring Indicators CROATIA: Second Science and Technology Project

### Project Development Objective (PDO):

The main development objective of the proposed Project is to support Croatia to absorb EU Funds in the research and innovation sector by capacitating selected public sector organizations and stimulating the demand for those funds from the business and scientific communities.

<table>
<thead>
<tr>
<th>PDO Level Results Indicators*</th>
<th>Core</th>
<th>Unit of Measure</th>
<th>Baseline</th>
<th>Cumulative Target Values</th>
<th>Frequency</th>
<th>Data Source/Methodology</th>
<th>Responsibility for Data Collection</th>
<th>Description (indicator definition etc.)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Indicator One:</strong> Prepared set of innovation and R&amp;D policy documents required for absorption of the EU Funds</td>
<td>Text</td>
<td>No documentation is available</td>
<td>NIS3 and R&amp;D Infrastructure Roadmap prepared</td>
<td>Quarterly, annually</td>
<td>Review drafts of policy documents</td>
<td>MSES</td>
<td>Among the documents required by EU guidelines are R&amp;D Infrastructure Roadmap and Research and Innovation Strategy for Smart Specialization (RIS3).</td>
<td></td>
</tr>
<tr>
<td><strong>Indicator Two:</strong> Draft application for EU accreditation of selected R&amp;D entities involved in the implementation of EU Funds</td>
<td>Text</td>
<td>No application available</td>
<td>Capacity building of institutions in preparation of application</td>
<td>Quarterly, annually</td>
<td>Following steps in the process of accreditation.</td>
<td>MSES</td>
<td>Respective units of MSES (such as Directorate for Science) will be accredited. This will be dependent on the institutional and legal framework/structure for management of EU funds, which Croatia still needs to define (e.g. roles of various institutions and units), so it will be defined/updated/elaborated once this structure is defined.</td>
<td></td>
</tr>
<tr>
<td>Indicator Three: Six project proposals prepared for submission to EU Funds</td>
<td>Number</td>
<td>0</td>
<td>0</td>
<td>3</td>
<td>5</td>
<td>6</td>
<td>Quarterly, annually</td>
<td>Review of project documentation</td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Indicator Four: Total value of projects in the pipeline for funding through the grant scheme managed by BICRO</td>
<td>Euro million</td>
<td>3.6</td>
<td>6.5</td>
<td>17.0</td>
<td>30.9</td>
<td>48.0</td>
<td>Quarterly, annually</td>
<td>Project reports, questionnaires</td>
</tr>
<tr>
<td>Indicator Five: Total value of projects in the pipeline for funding by EU Funds originated from UKF funded projects</td>
<td>Euro million</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1.3</td>
<td>1.6</td>
<td>Quarterly, annually</td>
<td>Project reports, questionnaires</td>
</tr>
<tr>
<td>Indicator Six: Total value of projects funded by UKF and BICRO under the Project sub-financing</td>
<td>Euro million</td>
<td>2.5</td>
<td>9.5</td>
<td>13</td>
<td>13.3</td>
<td>13.6</td>
<td>Quarterly, annually</td>
<td>Project reports, questionnaires</td>
</tr>
</tbody>
</table>