February 16, 2012

His Excellency
Slavko Linic
Minister of Finance
Katanciceva 5
10000 Zagreb
Republic of Croatia

Dear Mr. Minister:

Re: Republic of Croatia: Advance Agreement for Preparation of Proposed Second Science and Technology Project Preparation Advance No. IBRD P4640-HR

In response to the request for financial assistance made on behalf of the Republic of Croatia ("Recipient"), I am pleased to inform you that the International Bank for Reconstruction and Development ("World Bank") proposes to extend to the Recipient an advance out of the World Bank’s Project Preparation Facility in an amount not to exceed one million five hundred and fifty two thousand Dollars ($1,552,000) ("Advance") on the terms and conditions set forth or referred to in this letter agreement ("Agreement"), which includes the attached Annex, to assist in financing the activities described in the Annex ("Activities"). The objective of the Activities is to facilitate the preparation of a proposed Second Science and Technology Project ("Project") designed to improve the capacity of the Recipient’s Research and Development (R&D) and innovation institutions to implement the Europe 2020 Strategy for increased investments in R&D through efficient absorption of EU funds; and develop a pipeline of public and private R&D projects, including research groups, that could qualify for financing through EU structural funds ("Project"), in support of which the Recipient has requested the World Bank’s financial assistance.

The Recipient represents, by confirming its agreement below, that: (a) it understands that the provision of the Advance does not constitute or imply any commitment on the part of IBRD or IDA to assist in financing the Project; and (b) it is authorized to enter into this Agreement and to carry out the Activities, repay the Advance and perform its other obligations under this Agreement, all in accordance with the provisions of this Agreement.
Please confirm the Recipient's agreement to the foregoing by having an authorized official of the Recipient sign and date the enclosed copy of this Agreement, and returning it to the World Bank. Upon receipt by the World Bank of this countersigned copy, this Agreement shall become effective as of the date of the countersignature.

Very truly yours,

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By

Peter Harrold
Regional Director
Central Europe and the Baltic Countries
Europe and Central Asia Region

AGREED:

REPUBLIC OF CROATIA

By

Authorized Representative

Name SLAVKO LINIC

Title MINISTER OF FINANCE

Date: APRIL 30, 2012

Enclosures:

✓ (1) "Standard Conditions for Advances Made by the World Bank under its Project Preparation Facility", dated July 31, 2010; and

✓ (2) Disbursement Letter for the Advance of the same date as this Agreement, together with "World Bank Disbursement Guidelines for Projects", dated May 1, 2006.

Cc: Mr. Rudolf Jan Treffels, Executive Director, World Bank
1.01. **Standard Conditions.** The Standard Conditions for Advances Made by the World Bank under its Project Preparation Facility dated July 31, 2010 ("Standard Conditions"), constitute an integral part of this Agreement.

1.02. **Definitions.** Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Standard Conditions or in this Agreement, including:

(a) "Anti-Corruption Guidelines" means the "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants", dated October 15, 2006 and revised in January 2011.

(b) "BICRO" means the Recipient’s Business Innovation Agency, established through the "Decree on Establishment of Business Innovation Agency of the Republic of Croatia" of November 11, 2010 (Official Gazette 129/2010).

(c) "Consultant Guidelines" means the "Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers" dated January 2011.

(d) "Environmental Management Framework" means a framework prepared and adopted by the Recipient in form, substance and manner satisfactory to the Bank, consisting of: the set of mitigation, monitoring, and institutional measures required for 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.

(e) "Ministry of Science, Education and Sports" or "MSES" means the Recipient’s Ministry of Science, Education and Sports, and includes any successor thereto.

(f) "Operating Costs" means incremental operating costs incurred by the MSES, including BICRO, and UKF, on account of the Activities, including salaries of administrative staff (except for Government employees), office equipment, maintenance and supplies, and travel expenses; and other incremental costs agreed between the Recipient and the Bank.

(g) "Operational Procedures" means the Guidelines and Procedures for the Recipient’s PoC, RAZUM and SPREAD programs, agreed with the Bank and adopted by BICRO and MSES 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.
(h) “PoC” means the Recipient’s Proof of Concept Program, administered by BICRO in accordance with the Operational Procedures.


(j) “RAZUM Program” means the Recipient’s program on innovative technologies for supporting development of knowledge-based companies through commercialization of their research and development outputs, administered by BICRO in accordance with the Operational Procedures.

(k) “SPREAD” means the Recipient’s Sponsored Research and Development Program, administered by BICRO in accordance with the Operational Procedures.

(l) “Sub-financing” means any financing made or proposed to be made by the recipient, through BICRO, to an eligible beneficiary for a Sub-project, and to be financed out of the proceeds of the PPA.

(m) “Sub-project” means a specific project eligible for financing out of the proceeds of the PPA in accordance with Section 2.03 of this Agreement and the criteria set forth in the Operational Procedures, to be carried out by a beneficiary using a Sub-Financing.

(n) “Training” means training of Project preparation staff within the Ministry of Science, Education and Sports, as well as UKF, BICRO and technology transfer office staff.

(o) “UKF” means the Recipient’s Unity Through Knowledge Fund”, established by the MSES in 2007 as part of the IBRD-financed Science and Technology Project, Loan Nr. 7320-HR.

Article II
Execution of the Activities

2.01. Description of the Activities. The Activities for which the Advance is provided consist of the following parts:

(a) Preparation of call for proposals and an evaluation process for proposals through the Unity Through Knowledge Fund (UKF).

(b) Preparation of a national science and technology strategy and a research infrastructure roadmap.

(c) Training of technology transfer office experts.

(d) Support for R&D funding programs and provision of Sub-financing to Beneficiaries for Sub-projects in accordance with the Operational Procedures; including: (i) to private firms and researchers for implementation of the RAZUM Program; (ii) to eligible enterprises for implementation of the
SPREAD Program; and (iii) to eligible small and medium enterprises and public research organizations and universities for implementation of the PoC program.

(e) Strengthening capacity and training for preparation of the Project.

2.02. Execution of the Activities Generally. The Recipient declares its commitment to the objectives of the Activities. To this end, the Recipient shall carry out the Activities through the MSES and BICRO, in accordance with the provisions of: (a) Article II of the Standard Conditions; (b) this Article II; and (c) the Anti-Corruption Guidelines.

2.03. Terms and Conditions of the Sub-financing.

(a) The Recipient shall ensure that the Activities under Part (d) in Section 2.01 are implemented in accordance with the Operational Procedures and shall not amend, suspend, waive or abrogate the provisions of the Operational Procedures without prior agreement of the Bank.

(b) The Recipient, through BICRO, shall adopt an Environmental Management Framework, and thereafter carry out its obligations in accordance with the Environmental Management Framework, and shall not amend, suspend, abrogate, repeal or waive any provision of the Environmental Management Framework without prior approval by the Bank.

(c) The Recipient, through BICRO, shall provide Sub-financing to eligible beneficiaries. Each beneficiary shall have established, to the satisfaction of BICRO, on the basis of operational guidelines adopted by BICRO as agreed with the Bank, 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.

(d) BICRO shall select Sub-projects for financing from the proceeds of the PPA in accordance with the criteria and procedures set forth in the Operational Procedures.

(e) Sub-financing made by the Recipient, through BICRO, may be in a form of a loan, a grant, an equity investment and any other type of financing, as shall be agreed with the Bank and as specified in the Operational Procedures, and shall be provided and implemented in accordance with the terms of the Anti-Corruption Guidelines.

(f) Unless otherwise agreed with the Bank, the principal amount of each Sub-financing: (i) for the purpose of Activities under paragraph (d) (i) of Section 2.01 shall be limited to an amount of EUR 1,500,000 equivalent; (ii) for the purpose of Activities under paragraph (d) (ii) of Section 2.01 shall be limited to an amount of EUR 120,000; and (iii) for the purpose of Activities under paragraph (d) (iii) of Section 2.01 shall be limited to an amount of EUR 50,000.

(g) The Recipient, through BICRO, shall maintain pre-screening, evaluation and supervision procedures for Sub-projects, acceptable to the Bank.

(h) No expenditures for goods or services required for a Sub-project shall be eligible for financing out of the proceeds of the Loan unless:
(i) the Sub-financing for such Sub-project shall have been approved by the Bank and such expenditures shall have been made no earlier than one hundred twenty (120) days prior to the date on which the Bank shall have received the application and information required under this paragraph in respect of such Sub-financing; or

(ii) the Sub-financing for such Sub-project shall have been a free-limit Sub-financing which the Bank has authorized withdrawals from the PPA and such expenditures shall have been made not earlier than 120 days prior to the date on which the Bank shall have received the application and information required under paragraph (g) (i) of this Section in respect of such Sub-financing.

(j) (i) When presenting a Sub-financing (other than a free-limit Sub-financing) to the Bank for approval, the Recipient, through BICRO, shall furnish to the Bank an application, in form satisfactory to the Bank, together with: a description of the Beneficiary and an appraisal of the Sub-project, including description of expenditures proposed to be financed out of the proceeds of the PPA; the proposed terms and conditions of the Sub-financing; and such other information as the Bank shall reasonably request.

(ii) Each request by the Recipient, through BICRO, for authorization to make withdrawals for the PPA Account in respect of a free-limit Sub-financing shall contain: (i) a summary description and evaluation of each Beneficiary and the Sub-project, including description of expenditures proposed to be financed out of the proceeds of the PPA; and (ii) the proposed terms and conditions of the Sub-financing.

(k) The Recipient, through BICRO, 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:

(i) The Recipient shall obtain rights adequate to protect its interests and those of the Bank, including the right to: (1) 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 (2) 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 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 Recipient; (B) provide, promptly as needed, the resources required for the purpose; (C) procure the goods, works 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) 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 Recipient’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 Recipient and the Bank; (F) enable the Recipient and the Bank to inspect the Sub-project, its operation and any relevant records and documents; and (G) prepare and furnish to the Recipient and the Bank all such information as the Recipient or the Bank shall reasonably request relating to the foregoing.

(ii) The Recipient shall exercise its rights under each Sub-financing Agreement in such manner as to protect the interests of the Recipient and the Bank and to accomplish the purposes of the Financing. Except as the Bank shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive any Sub-financing Agreement or any of its provisions.

2.04. Monitoring, Reporting and Evaluation of the Activities. The Recipient shall monitor and evaluate the progress of the Activities in accordance with the provisions of Section 2.08 of the Standard Conditions.

2.05. Financial Management. (a) The Recipient shall ensure that a financial management system is maintained in accordance with the provisions of Section 2.09 of the Standard Conditions.

(b) The Recipient shall ensure that interim un-audited financial reports for the Activities are prepared and furnished to the World Bank not later than one month after the end of each calendar quarter, covering the quarter, in form and substance satisfactory to the World Bank.

(c) The Recipient shall have its Financial Statements audited in accordance with the provisions of Sections 2.09 (b) of the Standard Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Recipient, commencing with the fiscal year in which the first withdrawal under the Advance was made. The audited Financial Statements for such period shall be: (a) furnished to the World Bank not later than six months after the end of such period; and (b) made publicly available in a timely fashion and in a manner acceptable to the Bank.
2.06. **Procurement**

(a) **General.** All goods and consultants’ services required for the Activities and to be financed out of the proceeds of the Advance shall be procured in accordance with the requirements set forth or referred to in:

(i) the Procurement Guidelines;

(ii) the Consultant Guidelines; and

(iii) the provisions of this Section, as the same shall be elaborated in the procurement plan prepared and updated from time to time by the Recipient for the Activities in accordance with paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines (“Procurement Plan”).

(b) **Definitions.** The capitalized terms used in the following paragraphs of this Section to describe particular procurement methods or methods of review by the World Bank of particular contracts, refer to the corresponding method described in Sections II and III of the Procurement Guidelines, or Sections II, III, IV and V of the Consultant Guidelines, as the case may be.

(c) **Particular Methods of Procurement of Goods**

(i) **International Competitive Bidding.** Except as otherwise provided in paragraph (ii) below, goods to be financed under Sub-financing made for Sub-projects shall be procured under contracts awarded on the basis of International Competitive Bidding.

(ii) **Procurement in Loans to Financial Intermediary Institutions and Entities.** Contracts for goods estimated to cost the equivalent of USD 500,000 or less per contract and to be financed under Sub-financing made for Sub-projects may be awarded in accordance with the established private sector or commercial practices which have been found acceptable to the Bank.

(d) **Particular Methods of Procurement of Consultants’ Services**

(i) Except as otherwise provided in item (ii) below, consultants’ services shall be procured under contracts awarded on the basis of Quality-and Cost-based Selection.

(ii) The following methods may be used for the procurement of consultants’ services for those assignments which are specified in the Procurement Plan: (A) Consultants’ Qualifications; (B) Selection of Individual Consultants; and (C) Single-Source procedures for the Selection of Individual Consultants.

(iii) **Selection of consultants in Loans to Financial Intermediary Institutions and Entities.** Contracts for consultants’ services estimated to cost the equivalent of USD 200,000 or less per contract and to be financed under Sub-financing made for Sub-projects may be awarded
in accordance with the established private sector or commercial practices which have been found acceptable to the Bank.

(e) The institutions for training, conducting seminars, and for study tours will be selected on the basis of analysis of the most suitable program of training offered by the institution, availability of services, the period of training and the reasonableness of cost.

(f) Review by the World Bank of Procurement Decisions. The Procurement Plan shall set forth those contracts which shall be subject to the World Bank’s Prior Review. All other contracts shall be subject to Post Review by the World Bank.
Article III
Withdrawal of the Advance

3.01. Eligible Expenditures. The Recipient may withdraw the proceeds of the Advance in accordance with the provisions of: (a) Article III of the Standard Conditions; (b) this Section; and (c) such additional instructions as the World Bank may specify by notice to the Recipient (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the World Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the following table. The table specifies the category of Eligible Expenditures that may be financed out of the proceeds of the Advance (“Category”), the amount of the Advance allocated to the Category, and the percentage of expenditures to be financed for Eligible Expenditures in the Category:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Advance Allocated (expressed in Dollars)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Consultants’ Services</td>
<td>402,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Sub-financing</td>
<td>900,000</td>
<td>100%</td>
</tr>
<tr>
<td>(3) Operating Costs</td>
<td>200,000</td>
<td>100%</td>
</tr>
<tr>
<td>(4) Training</td>
<td>50,000</td>
<td>100%</td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td><strong>1,552,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

3.02. Withdrawal Conditions. Notwithstanding the provisions of Section 3.01 of this Agreement, no withdrawal shall be made:

(a) for payments made prior to the date of countersignature of this Agreement by the Recipient; or

(b) under Category (2) until (i) the Recipient has adopted an Environmental Management Framework acceptable to the Bank; and (ii) the Operational Procedures have extended to apply through August 31, 2012.

3.03. Refinancing Date. The Refinancing Date is August 31, 2012.

Article IV
Terms of the Advance
4.01. Interest. The Recipient shall pay interest on the Withdrawn Advance Balance at a rate, for each Interest Period, equal to the Reference Rate plus the Fixed Spread. Interest shall accrue from the respective dates on which amounts of the Advance are withdrawn and shall be paid in arrears in accordance with the provisions of Section 4.02 of this Agreement. The Interest Period Determination Dates are January 1 and July 1 in each year.

4.02. Repayment. The Withdrawn Advance Balance, together with interest accrued thereon shall be repaid by the Recipient to the World Bank in accordance with the provisions of Article IV of the Standard Conditions and the following provisions:

(a) Refinancing under the Refinancing Agreement: If, on or before the Refinancing Date, a Refinancing Agreement has been executed by all of its parties, then the full amount of the Withdrawn Advance Balance shall be repaid to the World Bank (together with interest accrued on the Advance to the date of repayment) as soon as the Refinancing Agreement becomes effective, by means of a withdrawal by the World Bank of an amount of the Refinancing Proceeds equivalent to the Withdrawn Advance Balance plus such interest, in accordance with the provisions of the Refinancing Agreement.

(b) Repayment in the absence of a Refinancing Agreement: If, on or before the Refinancing Date, no Refinancing Agreement has been executed by all of its parties, or if, by this date, it has been so executed but terminates without becoming effective, then:

(i) if the amount of the Withdrawn Advance Balance does not exceed US$ 50,000, it shall be repaid by the Recipient to the World Bank (together with interest accrued on the Withdrawn Advance Balance to the date of repayment), on such date as the World Bank shall specify in a notice to the Recipient, which shall in no event be earlier than sixty (60) days following the date of dispatch of such notice; and

(ii) if the amount of the Withdrawn Advance Balance exceeds US$ 50,000, it (together with interest accrued on the Withdrawn Advance Balance to the Notice Date) (the “Aggregate Balance”) shall be paid by the Recipient to the World Bank in ten approximately equal semiannual installments, in the amounts and on the dates (“Payment Dates”) which the World Bank shall specify in a notice to the Recipient. In no event shall the first Payment Date be set earlier than 60 days following the date (“Notice Date”) of dispatch of such notice. The Recipient shall pay interest on the Aggregate Balance at a rate, for each Interest Period, equal to the Reference Rate plus the Fixed Spread, payable in arrears on each Payment Date. Notwithstanding the foregoing, if any amount of the Aggregate Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the Recipient shall pay the Default Interest Rate on such overdue amount in lieu of the interest rate specified above in this subparagraph (ii) until such overdue amount is fully paid. Interest at the Default Interest Rate shall accrue from the first day of each Default Interest Period and shall be payable semi-annually in arrears on each Payment Date.
Article V
Recipient's Representative; Addresses

6.01. **Recipient's Representative.** The Recipient’s Representative referred to in Section 9.02 of the Standard Conditions is the Minister of Finance.

6.02. **Recipient's Address.** The Recipient’s Address referred to in Section 9.01 of the Standard Conditions is:

Ministry of Finance
Katanciveva 5
10000 Zagreb
Republic of Croatia

Facsimile:

(385-1) 4922-598

6.03. **World Bank’s Address.** The World Bank’s Address referred to in Section 9.01 of the Standard Conditions is:

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

Cable: Telex: Facsimile:

INTBAFRA D 248423 (MCI) or 1-202-477-6391
Washington, D.C. 64145 (MCI)