Mr. Vojko Obersnel  
President  
Association of Cities of the Republic of Croatia  
Medvešćak 17  
10000 Zagreb

Re: Republic of Croatia: Public Expenditure and Financial Accountability Study (PEFA) for Local Governments in Croatia (SAFE Grant No.TF014175)

Dear Sir:

In response to the request for financial assistance made on behalf of the Association of Cities of the Republic of Croatia ("Recipient") (as defined in the Annex to this Agreement), I am pleased to inform you that the International Bank for Reconstruction and Development ("World Bank"), acting as administrator of grant funds provided by the European Union, represented by the European Commission ("Commission" or "Donor") under the Trust Fund for Strengthening Accounting and the Fiduciary Environment (SAFE), proposes to extend to the Recipient for the benefit of the Republic of Croatia ("Member Country") a grant in an amount not to exceed seventy-five thousand nine hundred twelve euro and sixty-three cents (EUR 75,912.63) ("Grant") on the terms and conditions set forth or referred to in this letter agreement ("Agreement"), which includes the attached Annex, to assist in the financing of the project described in the Annex ("Project").

This Grant is funded out of the abovementioned trust fund for which the World Bank receives periodic contributions from the Donor. In accordance with Section 3.02 of the Standard Conditions (as defined in the Annex to this Agreement), the World Bank’s payment obligations in connection with this Agreement are limited to the amount of funds made available to it by the Donor under the abovementioned trust fund, and the Recipient’s right to withdraw the Grant proceeds is subject to the availability of such funds.

The Recipient represents, by confirming its agreement below, that it is authorized to enter into this Agreement and to carry out the Project in accordance with the terms and conditions set forth or referred to in this Agreement.

March 25, 2013
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effective as of the date of the countersignature; provided, however, that the offer of this Agreement shall be deemed withdrawn if the World Bank has not received the countersigned copy of this Agreement within 90 days after the date of signature of this Agreement by the World Bank, unless the World Bank shall have established a later date for such purpose.

Very truly yours,

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By

Hongjoo Hahm
Country Manager
World Bank Office Croatia

AGREED:

ASSOCIATION OF CITIES OF THE REPUBLIC OF CROATIA

By

Authorized Representative

Name: Vojko Obersnel
Title: President of the Association
Date: April 5, 2013

Enclosures:


(2) Disbursement Letter of the same date as this Agreement, together with World Bank Disbursement Guidelines for Projects, dated May 1, 2006.
Article I
Standard Conditions; Definitions

1.01. **Standard Conditions.** The Standard Conditions for Grants Made by the World Bank out of Various Funds dated February 15, 2012 ("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.

(a) "Association of Cities of the Republic of Croatia" means a nonprofit organization register in the Member Country’s registry of associations on April 15, 2003 (Registry No. 21002917).

(b) "Ministry of Finance" means the Member Country’s ministry of finance or any successors thereto.

(c) "PEFA" means public expenditure and financial accountability.

(d) "PFM" means public financial management.

(e) "Selected Cities" means the cities of Labin, and Crikvenica, or any other member city of the Association of Cities of the Republic of Croatia, and selected in a manner acceptable to the World Bank, to participate in the Project (but excluding the cities of Sisak and Koprivnica, which are eligible for financing under Grant No. TF014177).

Article II
Project Execution

2.01. **Project Objectives and Description.** The objective of the Project is to assess the PFM performance at the local government level to identify key reform initiatives and provide policy advice to local governments.

The Project consists of the following activities:

(a) Carrying out of a participatory training session to discuss the carrying out of the PEFA assessments.

(b) Preparation of a PEFA assessment for each one of Selected Cities, including, *inter alia*: review of literature and on-site visits.

(c) Carrying out of a workshop to present the results of the PEFA assessments.

(d) Preparation of a final report on the PEFA assessment for each one of the Selected Cities.

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

2.03. **Institutional and Other Arrangements.** For purposes of carrying out the Project, the Recipient shall:

(a) maintain key staff for the implementation of the Project, including without limitation a Project manager, a finance specialist and procurement specialist, all with experience and qualifications acceptable to the World Bank;

(b) provide counterpart funds for: office space, computer and training facilities, administrative costs; operating costs; and local travel; and

(c) afford the Ministry of Finance a reasonable opportunity to exchange views with the Recipient during the implementation of the Project.

2.04 **Donor Visibility and Visit.** (a) The Recipient shall take or cause to be taken all such measures as the World Bank may reasonably request to identify publicly the Donor's support for the Project.

(b) For the purposes of Section 2.09 of the Standard Conditions, the Recipient shall, upon the World Bank's request, take all measures required on its part to enable the representatives of the Donor to visit any part of the Recipient's territory for purposes related to the Project.

2.05. **Project Monitoring, Reporting and Evaluation.** (a) The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of the indicator set forth below in paragraph (b) of this Section. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the World Bank not later than (1) one month after the end of the period covered by such report.

(b) The performance indicator referred to above in paragraph (a) consists of the following: PEFA reports have been prepared for the Selected Cities, and recommendations on the action plans for their respective implementation have been endorsed by the respective Selected City's council.

(c) The Recipient shall prepare the Completion Report in accordance with the provisions of Section 2.06 of the Standard Conditions. The Completion Report shall be furnished to the World Bank not later than (6) six months after the Closing Date.

2.06. **Financial Management.** (a) The Recipient shall ensure that a financial management system is maintained in accordance with the provisions of Section 2.07 of the Standard Conditions.

(b) The Recipient shall ensure that interim unaudited financial reports for the Project are prepared and furnished to the World Bank not later than (45) forty-five days after the end of each calendar quarter, covering the quarter, in form and substance satisfactory to the World Bank.

(c) The Recipient shall, upon the World Bank's request, have its Financial Statements audited in accordance with the provisions of Section 2.07 (b) of the Standard Conditions. Such audit
of the Financial Statement shall cover the period indicated in the World Bank’s request. The audited
Financial Statements for such period shall be furnished to the World Bank not later than six (6)
months after the date of the World Bank’s request.

2.07. **Procurement**

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

(i) Sections I and IV of the “Guidelines: Selection and Employment of Consultants
under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated
January 2011 ("Consultant Guidelines") in the case of consultants’ services; and

(ii) the provisions of this Section, as the same shall be elaborated in the simplified
procurement plan prepared and updated from time to time by the Recipient for the
Project in accordance with 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, III, IV and V of the Consultant
Guidelines.

(c) **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; and

(ii) The following methods, other than Quality- and Cost-based Selection, may be used
for the procurement of consultants’ services for those assignments which are
specified in the Procurement Plan: (A) Selection based on Consultants’
Qualifications (CQS); (B) Selection of Individual Consultants; and (C) Single-
source procedures for the Selection of Individual Consultants.

(d) **Review by the World Bank of Procurement Decisions.** The simplified 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 Grant Proceeds**

3.01. **Eligible Expenditures.** (a) The Recipient may withdraw the proceeds of the Grant in
accordance with the provisions of: (i) Article III of the Standard Conditions; (ii) this Section; and
(iii) 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 100% of Eligible Expenditures consisting of consultants’ services and
Training and Workshops, exclusive of Taxes.
(b) For the purpose of this paragraph, the term “Training and Workshops” means the reasonable costs (excluding consultants’ services), as shall have been approved by the World Bank, for training and workshops conducted under the Project, including travel and subsistence cost for training and workshop participants, costs associated with securing the services of trainers and workshop speakers, rental of training and workshop facilities, preparation and reproduction of training and workshop materials, and other costs directly related to training and workshop preparation and implementation.

3.02. **Withdrawal Conditions.** Notwithstanding the provisions of Section 3.01 of this Agreement, no withdrawal shall be made for payments made prior to the date of countersignature of this Agreement by the Recipient.

3.03. **Withdrawal Period.** The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is May 31, 2014.

**Article IV**

**Recipient’s Representative; Addresses**

4.01. **Recipient’s Representative.** The Recipient’s Representative referred to in Section 7.02 of the Standard Conditions is its President.

4.02. **Recipient’s Address.** The Recipient’s Address referred to in Section 7.01 of the Standard Conditions is:

Association of Cities of the Republic of Croatia  
Medveščak 17  
10000 Zagreb, Croatia

Facsimile:  
385-1-466-8003

4.03. **World Bank’s Address.** The World Bank’s Address referred to in Section 7.01 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:  
INTBAFRAD  
Telex:  
248423 (MCI) or 64145 (MCI)  
Facsimile:  
1-202-477-6391