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LOAN NUMBER 8518-HR

# Project Agreement

(Innovation and Entrepreneurship Venture Capital Project)

between

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

and

**HAMAG-BICRO**

Dated *July 8*, 2015

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**LOAN NUMBER 8518-HR**

**PROJECT AGREEMENT**

Agreement dated *July 8*, 2015, entered into between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) and HAMAG-BICRO (“Project Implementing Entity”) (“Project Agreement”) in connection with the Loan Agreement (“Loan Agreement”) of the same date between the Republic of Croatia (“Borrower”) and the Bank. The Bank and the Project Implementing Entity hereby agree as follows:

**ARTICLE I — GENERAL CONDITIONS; DEFINITIONS**

- 1.01. The General Conditions (as defined in the Appendix to the Loan Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Loan Agreement or the General Conditions.

**ARTICLE II — PROJECT**

- 2.01. The Project Implementing Entity declares its commitment to the objective of the Project. To this end, the Project Implementing Entity shall carry out the Project in accordance with the provisions of Article V of the General Conditions, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.
- 2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Bank and the Project Implementing Entity shall otherwise agree, the Project Implementing Entity shall carry out the Project in accordance with the provisions of the Schedule to this Agreement.

**ARTICLE III — REPRESENTATIVE; ADDRESSES**

- 3.01. The Project Implementing Entity’s Representative is the President of its Executive Board.
- 3.02. The Bank’s Address is:

International Bank for Reconstruction and Development  
1818 H Street, NW  
Washington, DC 20433  
United States of America

Cable:	Telex:	Facsimile:
INTBAFRAD Washington, D.C.	248423(MCI) or 64145(MCI)	1-202-477-6391

3.03. The Project Implementing Entity's Address is:

HAMAG-BICRO  
Prilaz Gjura Deželića 7  
10000 Zagreb

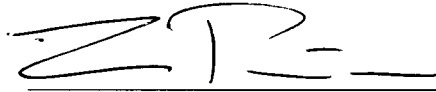
Facsimile:

385 1 488 1 009

AGREED at Zagreb, Republic of Croatia, as of the day and year first above written.

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By



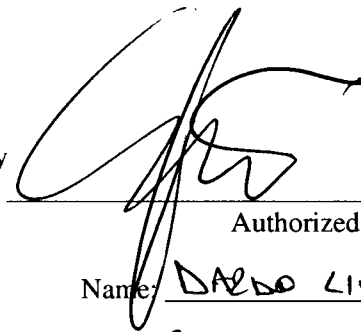
Authorized Representative

Name: Carlos Pineta

Title: Country Manager

HAMAG-BICRO

By



Authorized Representative

Name: DADO LJUVIC

Title: PRESIDENT OF EXECUTIVE BOARD

By



Authorized Representative

Name: BORIS GUWA

Title: VICE-PRESIDENT OF EXECUTIVE BOARD

## SCHEDULE

### Execution of the Project

#### **Section I. Implementation Arrangements**

##### **A. Institutional Arrangements**

1. The Project Implementing Entity shall carry out the Project in accordance with this Agreement, the Loan Agreement and the Project Operations Manual and shall not assign, amend, terminate, abrogate, waive or fail to enforce any provision of the Project Operations Manual without the prior written agreement of the Bank.
2. The Project Implementing Entity shall establish and thereafter maintain a Project Implementation Unit with competent staff in sufficient numbers satisfactory to the Bank, including the following:
  - (i) a Project manager with qualifications and experience in equity or quasi-equity investments who will be responsible for the overall management of the Project, organization and coordination of all activities between parties involved in the Project, reporting to the Borrower and the Bank, as well as other institutions represented on the Project Steering Committee, and monitoring the performance of Project components;
  - (ii) a financial expert who will be responsible for the Project's financial management arrangements, such as planning and budgeting, Project accounting and reporting, internal controls, disbursements and external audit arrangements;
  - (iii) a procurement expert who will be responsible for overall coordination, management and monitoring of procurement; and
  - (iv) a safeguards expert who will follow and coordinate preparation of environmental due diligence documents.

##### **B. Subsidiary Agreement**

1. To facilitate the carrying out of the Project, the Project Implementing Entity shall enter into a subsidiary agreement between the Borrower and the Project Implementing Entity ("Subsidiary Agreement"), under terms and conditions approved by the Bank, which shall include the following:
  - (a) The Project Implementing Entity will not be required to repay the proceeds of the Loan received from the Borrower.

- (b) The obligations of the Project Implementing Entity to:
- (i) comply with the pertinent provisions of the Loan Agreement, as applicable to the Project Implementing Entity;
  - (ii) procure a private venture capital management firm to act as the manager of the PVC Fund, with terms of reference, experience and qualifications acceptable to the Bank (“PVC Management Firm”), in accordance with the provisions set forth in Section III of Schedule 2 to the Loan Agreement;
  - (iii) establish the PVC Fund with a structure, functions and responsibilities acceptable to the Bank and in accordance with the Alternative Investment Fund Act, the Croatian Company Law, and the Guidelines on State Aid to Promote Risk Finance Investments;
  - (iv) as part of the establishment of the PVC Fund, enter into an agreement with the shareholders referred to in Section IV, Part B, paragraph 1(b)(v) of Schedule 2 to the Loan Agreement (the “PVC Fund Agreement”) on terms and conditions acceptable to the Bank, including, *inter alia*: (A) the obligation of the Project Implementing Entity to, upon approval of any given PVC Investment, make available to the PVC Fund a portion of the Loan proceeds on terms and conditions acceptable to the Bank, as set forth in the POM, including, *inter alia*, compliance with the Anti-Corruption Guidelines; and (B) the obligation of the PVC Fund to, upon approval of any given PVC Investment, provide equity financing (the PVC Sub-financing) to the corresponding PVC Beneficiary for purposes of financing the PVC Investment pursuant to the pertinent agreement (the “PVC Sub-Financing Agreement”) to be entered into between the PVC Fund and said PVC Beneficiary on terms and conditions, acceptable to the Bank, including, *inter alia*, those set forth in subparagraph (vii) below.
  - (v) ensure that the PVC Management Firm, on behalf of the PVC Fund, approves PVC Investments and the related PVC Sub-financing in accordance with the eligibility criteria and terms set forth in the Project Operations Manual;
  - (vi) ensure that the PVC Management Firm, on behalf of the PVC Fund, maintains pre-screening, evaluation and supervision procedures for PVC Investments, acceptable to the Bank;

- (vii) ensure that each PVC Sub-financing Agreement shall include the following terms and conditions:
  - (1) the PVC Fund shall obtain rights adequate to protect its interests and those of the Project Implementing Entity, the Borrower, and the Bank, including the right to:
    - (A) terminate the right of the PVC Beneficiary to use the proceeds of the PVC Sub-financing, or obtain a refund of all or any part of the amount of the PVC Sub-financing received, upon the PVC Beneficiary's failure to perform any of its obligations under the PVC Sub-financing Agreement; and
    - (B) require each PVC Beneficiary to:
      - (I) carry out its operations 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, all 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;
      - (II) provide, promptly as needed, the resources required for the purpose;
      - (III) maintain policies and procedures adequate to enable it to monitor and evaluate its PVC Activities in accordance with indicators acceptable to the Bank;
      - (IV) 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 its operations, resources and expenditures;

- (V) 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;
  - (VI) enable the Borrower and the Bank to inspect the PVC Beneficiary's operation and any relevant records and documents; and
  - (VII) 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.
- (2) the PVC Management Firm, on behalf of the PVC Fund, shall exercise its rights and carry out its obligations under each PVC Sub-financing Agreement in such manner as to protect the interests of the Project Implementing Entity, the Borrower and the Bank and to accomplish the purposes of the Loan. Except as the Bank and the Borrower shall otherwise agree, the PVC Management Firm, on behalf of the PVC Fund, shall not assign, amend, terminate, abrogate, waive or fail to enforce any PVC Sub-financing Agreement or any of its provisions.
- (viii) manage the Seed Co-Investment ("SCI") Fund pursuant to criteria and limitations set forth in the Project Operations Manual;
  - (ix) decide which investments the SCI Fund will make consistent with the criteria set forth in the Act on the Small Business Promotion Development and the Agreement on the Merger of the Business Innovation Agency of the Republic of Croatia with the Croatian Agency for SMEs and Investments;
  - (x) ensure that the SCI Fund provides financing to SMEs in the form of a loan, equity investment, or any other type of financing as shall



be agreed with the Bank ("SCI Sub-financing"), and complies with the terms of the Anti-Corruption Guidelines;

- (xi) maintain pre-screening, evaluation and supervision procedures for SCI Sub-financing, acceptable to the Bank; and
- (xii) make each SCI Sub-financing under an SCI Sub-financing Agreement with the respective SCI Beneficiary on terms and conditions approved by the Bank, which shall include the following:
  - (1) the Project Implementing Entity shall obtain rights adequate to protect its interests and those of the Borrower and the Bank, including the right to:
    - (A) suspend or terminate the right of the SCI Beneficiary to use the proceeds of the SCI Sub-financing, or obtain a refund of all or any part of the amount of the SCI Sub-financing then withdrawn, upon the SCI Beneficiary's failure to perform any of its obligations under the SCI Sub-financing Agreement; and
    - (B) require each SCI Beneficiary to:
      - (I) carry out its SCI Subproject 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, all 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;
      - (II) provide, promptly as needed, the resources required for the purpose;
      - (III) procure the goods and services to be financed out of the SCI Sub-financing in

accordance with the provisions of this Agreement;

- (IV) maintain policies and procedures adequate to enable it to monitor and evaluate its SCI Activities in accordance with indicators acceptable to the Bank;
- (V) 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 its operations, resources and expenditures;
- (VI) 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;
- (VII) enable the Borrower and the Bank to inspect the SCI Beneficiary's operation and any relevant records and documents; and
- (VIII) 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.

- (2) The Project Implementing Entity shall exercise its rights and carry out its obligations under each SCI 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 and the Borrower shall otherwise agree, the Project Implementing Entity shall not assign, terminate, amend, abrogate, waive or fail to enforce any SCI Sub-financing Agreement or any of its provisions.

2. The Project Implementing Entity shall exercise its rights and carry out its obligations under the Subsidiary 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 and the Borrower shall otherwise agree, the Project Implementing Entity shall not assign, terminate, amend, abrogate, waive or fail to enforce the Subsidiary Agreement or any of its provisions.

**C. Anti-Corruption**

The Project Implementing Entity shall carry out the Project in accordance with the provisions of the Anti-Corruption Guidelines.

**D. Safeguards**

1. The Project Implementing Entity shall carry out the Project, and shall ensure that the Project is carried out, in accordance with the Environmental Management Framework.
2. The Project Implementing Entity shall ensure that no provision of the EMF is amended, suspended, abrogated, repealed or waived without prior approval by the Bank.
3.
  - (a) The Project Implementing Entity shall ensure that prior to any PVC Sub-financing or SCI Sub-financing, the Project Implementing Entity or the PVC Management Firm, as the case may be, screens potential PVC Beneficiaries or SCI Beneficiaries for environmental and social impacts to determine eligibility of a proposed Sub-financing in accordance with the Environmental Management Framework.
  - (b) For each proposed Sub-financing requiring an EIA or an EMP, or both an EIA and an EMP, pursuant to the provisions set forth in the Environmental Management Framework, the Project Implementing Entity is responsible for ensuring that:
    - (i) an EIA or an EMP, or both an EIA and an EMP, is prepared;
    - (ii) such EIA or EMP, or both the EIA and the EMP, comply with the provisions of the Environmental Management Framework;
    - (iii) meaningful consultations are conducted, and the EIA or EMP, or both EIA and EMP, are adequately disclosed; and
    - (iv) that each PVC Beneficiary or SCI Beneficiary, as the case may be, carries out its activities in compliance with such EIA or EMP or both EIA and EMP.

4. No PVC Investment or SCI Subproject shall be eligible for Sub-financing if it involves:
  - (a) any activities involving the involuntary taking of land resulting in relocation or loss of shelter, loss of assets or access to assets, loss of income sources or means of livelihood, or involving the involuntary restriction of access to legally designated parks and protected areas; or
  - (b) any activities likely to have significant adverse environmental impacts that are sensitive, diverse, or unprecedented, that would be classified as 'Category A' in accordance with the Bank's applicable policies and procedures.
5. The Project Implementing Entity shall ensure that: (a) the terms of reference for any consultancies related to the technical assistance under Part C of the Project shall be satisfactory to the Bank and, to that end, such terms of reference shall require that the advice conveyed and documentation prepared through such technical assistance be consistent with the requirements of the EMF; (b) technical assistance activities are screened for environmental and social impacts and to determine eligibility in accordance with the EMF; and (c) if applicable, the required environmental documentation, such as an EMP, is prepared as part of the technical assistance.

## **Section II. Project Monitoring, Reporting and Evaluation**

### **A. Project Reports**

1. The Project Implementing Entity shall monitor and evaluate the progress of the Project and prepare Project Reports the Project in accordance with the provisions of Section 5.08(b) of the General Conditions and on the basis of indicators acceptable to the Bank. Each such Project Report shall cover the period of one calendar semester, and shall be furnished to the Borrower not later three weeks after the end of the period covered by such report for incorporation and forwarding by the Borrower to the Bank of the overall Project Report.
2. The Project Implementing Entity shall provide to the Borrower not later than four months after the Closing Date, for incorporation in the report referred to in Section 5.08(c) of the General Conditions all such information as the Borrower or the Bank shall reasonably request for the purposes of that Section.

### **B. Financial Management, Financial Reports and Audits**

1. The Project Implementing Entity shall 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 and financial condition of the Project Implementing Entity, including the operations, resources and expenditures related to the Project.

2. The Project Implementing Entity shall have its financial statements referred to above audited by independent auditors acceptable to the Bank, in accordance with consistently applied auditing standards acceptable to the Bank. Each audit of these financial statements shall cover the period of one fiscal year of the Project Implementing Entity. The Project Implementing Entity shall ensure that the audited financial statements for each period shall be: (a) furnished to the Borrower and the Bank not later than six months after the end of the period; and (b) made publicly available in a timely fashion and in a manner acceptable to the Bank.
3. The Project Implementing Entity shall ensure that the PVC Management Firm maintains financial management systems and prepares financial statements in accordance with consistently applied accounting standards acceptable to the Bank, both in a manner adequate to reflect the operations and financial condition of the PVC Management Firm and the PVC Fund separately, including their operations, resources and expenditures related to the Project.
4. The Project Implementing Entity shall have the financial statements of the PVC Management Firm and the PVC Fund audited by independent auditors acceptable to the Bank, in accordance with consistently applied auditing standards acceptable to the Bank. Each audit of these financial statements shall cover the period of one fiscal year of the PVC Management Firm and the PVC Fund respectively, commencing with the fiscal year in which the first withdrawal is made for the Project.
5. The Project Implementing Entity shall ensure that the audited financial statements of the PVC Management Firm and the PVC Fund for each period are: (a) furnished to the Bank not later than six (6) months after the end of the period; and (b) made publicly available in a timely fashion and in a manner acceptable to the Bank.
6. The Project Implementing Entity shall prepare and furnish to the Bank, not later than forty-five (45) days after the end of each calendar semester, interim unaudited financial reports for the Project covering the semester, in form and substance satisfactory to the Bank.

### **Section III. Procurement**

All goods and services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Section III of Schedule 2 to the Loan Agreement.