

OFFICIAL
DOCUMENTS

LOAN NUMBER 8518-HR

Loan Agreement

(Innovation and Entrepreneurship Venture Capital Project)

between

REPUBLIC OF CROATIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated *July 8*, 2015

LOAN NUMBER 8518-HR

LOAN AGREEMENT

Agreement dated *July 8*, 2015, between REPUBLIC OF CROATIA (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) The Borrower and the Bank hereby agree as follows:

ARTICLE I -- GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this 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 General Conditions or in the Appendix to this Agreement.

ARTICLE II — LOAN

- 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of twenty million Euros (€20,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.08 of this Agreement (“Loan”), to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Front-end Fee payable by the Borrower shall be equal to one quarter of one percent (0.25%) of the Loan amount. The Borrower shall pay the Front-end Fee not later than sixty (60) days after the Effective Date.
- 2.04. The Commitment Charge payable by the Borrower shall be equal to one quarter of one percent (0.25%) per annum on the Unwithdrawn Loan Balance.
- 2.05. The interest payable by the Borrower for each Interest Period shall be at a rate equal to the Reference Rate for the Loan Currency plus the Variable Spread; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions. Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the interest payable by the

Borrower shall instead be calculated as provided in Section 3.02(e) of the General Conditions.

- 2.06. The Payment Dates are May 15 and November 15 in each year.
- 2.07. The principal amount of the Loan shall be repaid in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.
- 2.08. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management:
- (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency;
 - (ii) a change of the interest rate basis applicable to: (A) all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate to a Fixed Rate, or vice versa; or (B) all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate based on a Reference Rate and the Variable Spread to a Variable Rate based on a Fixed Reference Rate and the Variable Spread, or vice versa; or (C) all of the principal amount of the Loan withdrawn and outstanding from a Variable Rate based on a Variable Spread to a Variable Rate based on a Fixed Spread; and
 - (iii) the setting of limits on the Variable Rate or the Reference Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on the Variable Rate or the Reference Rate.
- (b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a "Conversion", as defined in the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

ARTICLE III — PROJECT

- 3.01. The Borrower declares its commitment to the objective of the Project. To this end, the Borrower shall cause the Project to be carried out by HAMAG-BICRO in accordance with the provisions of Article V of the General Conditions and the Project Agreement.

- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Bank shall otherwise agree, the Borrower, through MoEC, shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV — REMEDIES OF THE BANK

- 4.01. The Additional Event of Suspension consists of the following:
- (a) The Project Implementing Entity's Legislation has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely, in the opinion of the Bank, the ability of the Project Implementing Entity to perform any of its obligations under the Project Agreement.
 - (b) The Project Implementing Entity shall have failed to comply with any of its obligations under the Subsidiary Agreement.
- 4.02. The Additional Event of Acceleration consists of, namely, that any event specified in Section 4.01 of this Agreement occurs and is continuing for a period of thirty (30) days after notice of the event has been given by the Bank to the Borrower.

ARTICLE V — EFFECTIVENESS; TERMINATION

- 5.01. The Additional Condition of Effectiveness consists of the following:
- (a) The Subsidiary Agreement has been executed on behalf of the Borrower (through MoF and MoEC) and Project Implementing Entity in a manner satisfactory to the Bank;
 - (b) HAMAG-BICRO has established a Project Implementation Unit ("PIU") as referred to in Section I, Part A, paragraph 2 to the Schedule of the Project Agreement; and
 - (c) The Project Operations Manual, satisfactory to the Borrower (through MoF and MoEC) and the Bank, has been adopted by HAMAG-BICRO.
- 5.02. The Additional Legal Matters consist of the following: namely, that the Subsidiary Agreement has been duly authorized or ratified by the Borrower and HAMAG-BICRO and is legally binding upon the Borrower and HAMAG-BICRO in accordance with its terms.
- 5.03. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

6.01. The Borrower's Representative is its Minister of Finance.

6.02. The Borrower's Address is:

Ministry of Finance
Katančičeva 5
10000 Zagreb
Republic of Croatia

Telex:

Facsimile:

862-21215
862-21833

(385-1) 4922-598

6.03. The Bank's Address is:

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

Cable address:

Telex:

Facsimile:

INTBAFRAD
Washington D.C.

248423(MCI) or
64145(MCI)

1-202-477-6391

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

REPUBLIC OF CROATIA

By




Authorized Representative

Name: Boris Lalovac

Title: Minister of Finance

INTERNATIONAL BANK FOR RECONSTRUCTION AND
DEVELOPMENT

By



Authorized Representative

Name: Carlos Pinzera

Title: Country Manager

SCHEDULE 1

Project Description

The objective of the Project is to strengthen risk capital financing in the territory of the Borrower for innovative SMEs and Startups.

The Project consists of the following parts:

Part A. Pilot Venture Capital Fund

Establishing a Pilot Venture Capital Fund to provide financing to innovative SMEs and Startups for equity investments (PVC Investments), including PVC Management Operating Costs.

Part B. Seed Co-Investment Fund

Providing risk capital financing for productive purposes, through the Seed Co-Investment Fund, alongside private co-investors to innovative SMEs and Startups, through the provision of SCI Sub-financing.

Part C. Technical Assistance

1. Global Advisory Network: Establishing a network of experts to provide advice and guidance for the implementation of the Pilot Venture Capital Fund and the Seed Co-Investment Fund.
2. Capacity Building and Networking: Developing capacity of the main actors involved in the risk capital financing industry in the territory of the Borrower and strengthening social capital and networks.
3. Monitoring and Evaluation: Monitoring and evaluating the use of Project funds.
4. Project Management and Audit: Establishing the PIU, providing support for Project management and implementation, carrying out outreach activities with respect to Project activities, conducting audits required by the Project.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. The Borrower, through MoEC, shall cause the Project to be carried out by HAMAG-BICRO (the "Project Implementing Entity").
2. The Borrower, through MoEC, shall ensure that the Project Implementing Entity carries out the Project in accordance with this Agreement and the Project Operations Manual and shall ensure that, except as the Bank shall otherwise agree, the Project Implementing Entity shall not amend, abrogate, waive or fail to enforce any provision of the Project Operations Manual without the prior written agreement of the Bank.
3.
 - (a) The Borrower, through MoEC, shall establish, by no later than two months after the date of this Agreement, and thereafter maintain, throughout Project implementation, a Project Steering Committee responsible for the coordination and supervision of the Project, with membership (as described in (b) below) and terms of reference acceptable to the Bank.
 - (b) The Project Steering Committee shall include representatives of the Borrower's MoF, Ministry of Economy, MoEC, Ministry of Science, Education and Sports, and Ministry of Regional Development and EU Funds.
 - (c) The Project Steering Committee shall be chaired by a representative of the Borrower's MoEC.

B. Subsidiary Agreement

1. To facilitate the carrying out of the Project, the Borrower shall make the proceeds of the Loan available to the Project Implementing Entity under 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 in this 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 this Schedule;
- (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 Companies Act, 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 this 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, throughout Project implementation, pre-screening, evaluation and supervision procedures for PVC Investments, acceptable to the Bank;
- (vii) ensure that each PVC Sub-Financing Agreement shall include, *inter alia*, 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 operations, 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, the Project Implementing Entity and the Bank to inspect the 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 the rights and carry out the obligations of the PVC Fund 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 approves SCI Subprojects and the related SCI Sub-financing in accordance with the eligibility criteria and terms set forth in the Project Operations Manual;

- (xi) maintain, throughout Project implementation, pre-screening, evaluation and supervision procedures for SCI Subprojects, acceptable to the Bank;
- (xii) upon approval of any given SCI Subproject, make each SCI Sub-financing pursuant to the corresponding SCI sub-financing agreement (the "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 under the pertinent SCI Subproject 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 the SCI Subproject 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, the Project Implementing Entity and the Bank to inspect the SCI Subproject, its 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 Sub-financing Agreement or any of its provisions.

2. The Borrower 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 shall otherwise agree, the Borrower shall not assign, terminate, amend, abrogate, waive or fail to enforce the Subsidiary Agreement or any of its provisions.

C. Anti-Corruption

The Borrower shall, and shall cause the Project Implementing Entity to, carry out the Project in accordance with the provisions of the Anti-Corruption Guidelines.

D. Safeguards

1. The Borrower, through MoEC, shall ensure that Project is carried out in accordance with the Environmental Management Framework, and shall ensure that no provision of the EMF is amended, suspended, abrogated, repealed or waived without prior approval by the Bank.
2. (a) The Borrower, through MoEC, shall ensure that prior to any PVC Sub-financing or SCI Sub-financing, the Project Implementing Entity or the PVC Fund, 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 Borrower, through MoEC, shall ensure that the Project Implementing Entity or the PVC Fund, as the case may be, is responsible for ensuring that:
 - (i) an EIA or an EMP, or both an EIA and an EMP, is/are carried out and prepared, respectively;
 - (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, and in a manner acceptable to the Bank.
3. 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.
4. The Borrower, through MoEC, 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

The Borrower shall cause HAMAG-BICRO to monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of indicators acceptable to the Bank. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Bank not later than one month after the end of the period covered by such report.

B. Financial Management, Financial Reports and Audits

1. The Borrower shall cause HAMAG-BICRO to maintain or cause to be maintained a financial management system in accordance with the provisions of Section 5.09 of the General Conditions.

2. Without limitation on the provisions of Part A of this Section, the Borrower, through MoEC, shall cause HAMAG-BICRO to 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.
3. The Borrower shall cause HAMAG-BICRO to have the Financial Statements audited in accordance with the provisions of Section 5.09(b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Borrower. The audited Financial Statements for each such period shall be furnished to the Bank not later than six months after the end of such period.
4. The Borrower shall ensure that HAMAG-BICRO and the PVC Fund maintain financial management systems 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 HAMAG-BICRO, and the PVC Fund separately, including their operations, resources and expenditures related to the Project.
5. The Borrower shall have the financial statements of HAMAG-BICRO, 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 HAMAG-BICRO, the PVC Management Firm and the PVC Fund respectively, commencing with the fiscal year in which the first withdrawal is made for the Project.
6. The Borrower, through MoEC, shall ensure that the audited financial statements of HAMAG-BICRO, 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.

Section III. Procurement

A. General

1. **Goods and Non-consulting Services.** All goods and non-consulting services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with

the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines and with the provisions of this Section.

3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the 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.

B. Particular Methods of Procurement of Goods and Non-consulting Services

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and non-consulting services shall be procured under contracts awarded on the basis of International Competitive Bidding.
2. **Other Methods of Procurement of Goods and Non-consulting Services.** The following methods, other than International Competitive Bidding, may be used for procurement of goods and non-consulting services for those contracts specified in the Procurement Plan:
 - (a) National Competitive Bidding, subject to the additional procedures stipulated in the Annex to this Schedule;
 - (b) Shopping;
 - (c) Direct Contracting; and
 - (d) Well-established Private Sector Procurement Methods or Commercial Practices which have been found acceptable to the Bank.

C. Particular Methods of Procurement of Consultants' Services

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.
2. **Other Methods of Procurement of Consultants' Services.** The following methods, other than Quality and Cost-based Selection, may be used for procurement of consultants' services for those contracts which are specified in the Procurement Plan:
 - (a) Quality-based Selection;
 - (b) Selection under a Fixed Budget;
 - (c) Least Cost Selection;
 - (d) Selection based on Consultants' Qualifications;
 - (e) Single-source Selection of consulting firms;

- (f) Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants; and
- (g) Single-source procedures for the Selection of Individual Consultants.

D. Review by the Bank of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Bank's Prior Review. All other contracts shall be subject to Post Review by the Bank.

Section IV. Withdrawal of Loan Proceeds

A. General

1. The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Bank shall specify by notice to the Borrower (including the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.
2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Loan ("Category"), the allocation of the amounts of the Loan to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category.

Category	Amount of the Loan Allocated (expressed in Euro)	Percentage of Expenditures to be financed (inclusive of Taxes)
(1) PVC Investments	12,000,000	100%
(2) PVC Management Operating Costs	3,600,000	100%
(3) SCI Subprojects	2,500,000	100%
(4) Consultants' Services, Training and Operating Costs	1,500,000	100%
(5) Unallocated	400,000	
TOTAL AMOUNT	<u>20,000,000</u>	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made:

- (a) from the Loan Account until the Bank has received payment in full of the Front-end Fee; or
- (b) for Contributions to the PVC Fund under Category (1) unless:
 - (i) the PVC Management Firm has been selected and hired as provided in Section I, Part B, paragraph 1(b)(ii) of this Schedule;
 - (ii) the PVC Management Firm has been authorized by HANFA or has notified HANFA of its authorization by another European Union regulator;
 - (iii) the PVC Fund has been established as provided in Section I, Part B, paragraph 1(b)(iii) of this Schedule, with by-laws acceptable to the Bank;
 - (iv) the PVC Fund has been authorized by HANFA in a manner acceptable to the Bank;
 - (v) private shareholders in the PVC Fund have committed an aggregate of at least four million Euros (€4,000,000);
 - (vi) the management agreement between the PVC Fund and the PVC Management Firm acceptable to the Bank, has been signed, and complies with the Borrower's Alternative Investment Fund Act; and
 - (vii) a Private Placement Memorandum is in place for the PVC Fund.

2. The Closing Date is September 30, 2021.

Section V. Other Undertakings

1. If the conditions set forth in Section IV, Part B, paragraph 1(b) have not been met within two (2) years after the "Effective Date", the Borrower may, pursuant to Section 2.08 of the General Conditions, and provided the Bank determines that there is an estimated shortfall to finance Eligible Expenditures under Categories (3) and/or (4), request the Bank to reallocate the Loan proceeds allocated under Category (1) to any of said Categories to address the estimated shortfall.

2. In the event that the reallocation mentioned in paragraph 1 (above) is not requested immediately after the two (2) year deadline referred to in said paragraph, or if requested, the criteria mentioned therein is not met as determined by the Bank, pursuant to Section 1.01 of the General Conditions, the Borrower hereby requests the Bank to immediately cancel the amount of the Loan allocated to Category (1).

**ANNEX
to
SCHEDULE 2**

Additional Provisions for National Competitive Bidding

For the purposes of following National Competitive Bidding procedures in the procurement of goods, works and non-consulting services to be financed under the Loan, and to ensure broader consistency with the provisions of Section I of the Procurement Guidelines, the following modifications and additions shall apply:

(i) Procedures

The open competitive bidding method shall apply to all contracts. Invitations to bid shall be advertised in the Borrower's Official Gazette (*Narodne Novine*), in at least one widely circulated national daily newspaper, or on a widely used website with free access (including the Borrower's website), allowing a minimum of thirty (30) days for the preparation and submission of bids.

(ii) Pre-qualification

When pre-qualification shall be required for large or complex works, invitations to pre-qualify for bidding shall be advertised in the Borrower's Official Gazette (*Narodne Novine*), in at least one widely circulated national daily newspaper, or on a widely used website with free access (including the Borrower's website), allowing a minimum of thirty (30) days for the preparation and submission of pre-qualification applications. Minimum experience and technical and financial requirements shall be explicitly stated in the pre-qualification documents, which shall be determined by a "pass/fail" method, not through the use of a merit point system. Where pre-qualification is not used, the qualifications of the bidder who is recommended for award of contract shall be assessed by post-qualification, applying minimum experience, technical and financial requirements which shall be explicitly stated in the bidding documents.

(iii) Participation of Government-owned Enterprises

Government-owned enterprises located and operating on the Borrower's territory shall be eligible to participate in bidding only if they can establish, to the Bank's satisfaction, that they are legally and financially autonomous, operate under commercial laws and are not a dependent agency of the Borrower. Said enterprises shall be subject to the same bid and performance security requirements as other bidders.

(iv) Bidding Documents

The Borrower shall use appropriate bidding documents that are acceptable to the Bank.

(v) Bid Submission, Opening and Evaluation

- (1) Bids shall be submitted in a single envelope containing the bidder's qualification information, technical and price bids, which shall be opened simultaneously at the public bid opening.
- (2) Bids shall be opened in public, immediately after the deadline for submission of bids. The name of the bidder, the total amount of each bid and any discounts offered shall be read aloud and recorded in the minutes of the public bid opening.
- (3) The evaluation of bids shall be done in strict adherence to the monetarily quantifiable criteria specified in the bidding documents and a merit point system shall not be used.
- (4) Extension of bid validity shall be allowed once only for not more than thirty (30) days. No further extensions should be granted without the prior approval of the Bank.
- (5) Contracts shall be awarded to qualified bidders having submitted the lowest evaluated substantially responsive bid.
- (6) No preference shall apply under National Competitive Bidding.

(vi) Rejection of All Bids

All bids shall not be rejected and new bids solicited without the Bank's prior written concurrence.

(vii) Price Adjustment

Civil works contracts of long duration (e.g., more than eighteen (18) months) shall contain an appropriate price adjustment clause.

(viii) Securities

Bid securities shall not exceed two percent (2%) of the estimated cost of the contract and performance securities not more than ten percent (10%). No advance payments shall be made to contractors without a suitable advance payment security. The

wording of all such securities shall be included into the bidding documents and shall be acceptable to the Bank.

(ix) Right to inspect and audit

Each bidding document and contract financed from the proceeds of the Loan shall provide that the bidders, suppliers and contractors, and their subcontractors, agents, personnel, consultants, service providers, or suppliers, shall permit the Bank, at its request, to inspect all accounts, records, and other documents relating to the submission of bids and contract performance, and to have them audited by auditors appointed by the Bank. Acts intended to materially impede the exercise of the Bank's inspection and audit rights provided for in the Procurement Guidelines constitute an obstructive practice as defined in the Procurement Guidelines.

(x) Fraud & Corruption

Any bidding document and contract deemed acceptable by the Bank shall include provisions stating the Bank's policy to sanction firms or individuals, found to have engaged in fraudulent, corrupt, collusive, coercive, and obstructive practices as defined in the Procurement Guidelines.

(xi) Conflict of Interest

Any bidding document and contract deemed acceptable by the Bank shall include provisions stating the Bank's policy of conflict of interest.

SCHEDULE 3

Amortization Schedule

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (“Installment Share”). If the proceeds of the Loan have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) Withdrawn Loan Balance as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayable amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

Principal Payment Date	Installment Share (Expressed as a Percentage)
On each May 15 and November 15 Beginning November 15, 2019 through November 15, 2024	8.33%
On May 15, 2025	8.37%

2. If the proceeds of the Loan have not been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:
 - (a) To the extent that any proceeds of the Loan have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the Withdrawn Loan Balance as of such date in accordance with paragraph 1 of this Schedule.
 - (b) Any amount withdrawn after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which is the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (“Original Installment Share”) and the denominator of which is the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such

date, such amounts repayable to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

3. (a) Amounts of the Loan withdrawn within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.
- (b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph, if at any time the Bank adopts a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.
4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the Withdrawn Loan Balance to an Approved Currency, the amount so converted in the Approved Currency that is repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to the Conversion by either: (i) the exchange rate that reflects the amounts of principal in the Approved Currency payable by the Bank under the Currency Hedge Transaction relating to the Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.
5. If the Withdrawn Loan Balance is denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.

APPENDIX

Section I. Definitions

1. “Act on the Small Business Promotion Development” means the legislation promulgated by the Borrower in the Official Gazette 29/2002, as amended, which regulates the basis for the implementation of economic policy incentives aimed at the development, restructuring and market adjustment of small businesses and the establishment of the Croatian Agency for SMEs and Investment.
2. “Agreement on the Merger of the Business Innovation Agency of the Republic of Croatia (BICRO) with the Croatian Agency for SMEs and Investments (HAMAG-INVEST)” means the agreement of the same name dated April 8, 2014, which regulates mutual rights and obligations of the parties of the Agreement (BICRO and HAMAG-INVEST) arising from the transfer of the entire assets, rights and liabilities of the merged agency (BICRO) to the acquirer (HAMAG-BICRO).
3. “Alternative Investment Fund Act” means the Alternative Investment Fund Act enacted by the Borrower in January 2013, which sets forth the conditions for the establishment and operation of alternative investment funds (“AIFs”) and alternative investment fund managers (“AIFMs”), and regulates the method of issue and redemption of units of AIFs, marketing of units of AIFs, delegation of duties to third parties and supervision of the operation and management of AIFMs, AIFs, depositaries and persons marketing units in AIFs.
4. “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.
5. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
6. “Companies Act” means the Borrower’s Companies Act last amended in June 2013 (Official Gazette 68/2013), which regulates different types of business forms (public partnership, closed partnership, joint stock company, limited liability company, and economic interest grouping) and contains rules on groups of companies, mergers, divisions, transformations of companies and the legal status of foreign companies.
7. “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 (revised July 2014).

8. “Environmental Impact Assessment” or “EIA” means any site-specific environmental impact assessment carried out, as required, in accordance with the EMF.
9. “Environmental Management Framework” or “EMF” means the framework prepared by the Borrower, dated February 2015, in form, substance and manner satisfactory to the Bank, and disclosed on March 17, 2015, consisting of, *inter alia*: the set of mitigation, monitoring, institutional and screening measures required for the support to be provided under the Project as well as under Subprojects 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. The EMF may be amended from time to time with the agreement of the Bank.
10. “Environmental Management Plan” or “EMP” means any site-specific environmental management plan prepared, as required, in accordance with the EMF.
11. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated March 12, 2012, with the modifications set forth in Section II of this Appendix.
12. “Guidelines on State Aid to Promote Risk Finance Investments” means the guidelines of the same name adopted by the European Commission effective July 1, 2014 (OJ C19, dated January 22, 2014).
13. “HAMAG-BICRO” or the “Project Implementing Entity” means the legal entity established by the Borrower pursuant to the Project Implementing Entity’s Legislation, or any legal successor thereto.
14. “HANFA” means the Borrower’s Financial Services Supervisory Agency, or any legal successor thereto.
15. “Ministry of Entrepreneurship and Crafts” or “MoEC” means the Borrower’s Ministry of Entrepreneurship and Crafts, or any legal successor thereto.
16. “Ministry of Finance” or “MoF” means the Borrower’s Ministry of Finance, or any legal successor thereto.
17. “Operating Costs” means the reasonable incremental expenses incurred on account of Project implementation, management and monitoring, including office supplies, the cost of publication of procurement notices, vehicle operation, office and equipment maintenance and repair, communication, translation and interpretation, travel and supervision costs, and other miscellaneous costs directly associated with

Project, as determined by the Bank but excluding salaries of officials and employees of the Borrower or the Project Implementing Entity.

18. "PIU" means the Project Implementation Unit established within the Project Implementing Entity, responsible for implementation of the Project, and referred to in Section I, Part A, paragraph 2 of the Schedule to the Project Agreement.
19. "Private Placement Memorandum" means the prospectus for shares in the PVC Fund, detailing all of the terms of the investment, requirements of the investor, and proper disclaimers and disclosures related to the business and the equity.
20. "Pilot Venture Capital Fund" or "PVC Fund" means the private venture capital fund to be established pursuant to Part A of the Project.
21. "Procurement Guidelines" means the "Guidelines: Procurement of Goods, Works and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers" dated January 2011 (revised July 2014).
22. "Procurement Plan" means the Borrower's procurement plan for the Project, dated June 9, 2015 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.
23. "Project Implementing Entity's Legislation" means the Act on the Amendments to the Small Business Promotion Development (Official Gazette 56/2013) and the Agreement on the Merger of the Business Innovation Agency of the Republic of Croatia with the Croatian Agency for SMEs and Investments dated April 8, 2014.
24. "Project Operations Manual" or "POM" means the project operations manual, acceptable to the Bank setting forth procedures and requirements for carrying out the Project, and adopted by the Project Implementing Entity, as the same may be amended from time to time with the agreement of the Bank.
25. "Project Steering Committee" means the Project Steering Committee established by the Borrower in accordance with Section I, Part A, paragraph 3 of Schedule 2 to this Agreement.
26. "PVC Fund Agreement" means the agreement referred to in Section I, Part B, paragraph (1)(b)(iv) of Schedule 2 to this Agreement.
27. "PVC Investment" means any equity investment made by the PVC Fund in a PVC Beneficiary which has met the eligibility criteria set forth in the POM.
28. "PVC Beneficiary" means any SME or Startup which has met the eligible criteria set forth in the POM to be eligible for a PVC Sub-financing.

29. "PVC Management Firm" means the firm selected to manage the PVC Fund and referred to in Section I, Part B, paragraph 1(b)(i) of Schedule 2 to this Agreement.
30. "PVC Management Operating Costs" means the costs of establishing and operating the PVC Fund to be paid to the PVC Management Firm.
31. "PVC Sub-financing" means a payment made out of the proceeds of the Loan to a PVC Beneficiary in exchange for a PVC Investment.
32. "PVC Sub-financing Agreement" means any agreement between the PVC Fund and a PVC Beneficiary pursuant to Schedule 2, Section I, Part B, paragraph 1(b)(iv) of this Agreement.
33. "SCI Subproject" means the productive purpose operations of a SCI Beneficiary which have met the eligibility criteria set forth in the POM.
34. "SCI Beneficiary" means an SME or Startup which has met the eligible criteria set forth in the POM to be eligible for a SCI Sub-financing.
35. "SCI Sub-financing" means a loan made out of the proceeds of the Loan to an SCI Beneficiary, for the purpose of financing up to sixty percent (60%) of a SCI Subproject.
36. "SCI Sub-financing Agreement" means an agreement between the Project Implementing Entity and an SCI Beneficiary pursuant to Schedule 2, Section I, Part B, paragraph 1(c)(xii) of this Agreement.
37. "Seed Co-Investment Fund" or "SCI Fund" means the financial vehicle through which SCI Sub-financing is provided to SCI Beneficiaries and referred to in Part B of the Project.
38. "SMEs" means any micro, small or medium-sized enterprise as defined in Annex 1 to European Commission Regulation No. 651/2014.
39. "Startups" means any SMEs in the process of becoming operational or any existing SME that has yet to sell its product or service commercially, as set forth in the POM.
40. "Sub-financing" means any PVC Sub-financing or any SCI Sub-financing.
41. "Subproject" means any PVC Investment or any SCI Subproject.
42. "Subsidiary Agreement" means the agreement referred to in Section I, Part B of Schedule 2 to this Agreement pursuant to which the Borrower shall make the proceeds of the Loan available to the Project Implementing Entity.

43. "Training" means Project-related training and includes 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.

Section II. Modifications to the General Conditions

The General Conditions are hereby modified as follows:

1. In the **Table of Contents**, the references to Sections, Section names and Section numbers are modified to reflect the modifications set forth in the paragraphs below.
2. Section 3.01. (*Front-end Fee*) is modified to read as follows:

"Section 3.01. *Front-end Fee; Commitment Charge*

(a) The Borrower shall pay the Bank a front-end fee on the Loan amount at the rate specified in the Loan Agreement (the "Front-end Fee").

(b) The Borrower shall pay the Bank a commitment charge on the Unwithdrawn Loan Balance at the rate specified in the Loan Agreement (the "Commitment Charge"). The Commitment Charge shall accrue from a date sixty days after the date of the Loan Agreement to the respective dates on which amounts are withdrawn by the Borrower from the Loan Account or cancelled. The Commitment Charge shall be payable semi-annually in arrears on each Payment Date."
3. In the Appendix, **Definitions**, all relevant references to Section numbers and paragraphs are modified, as necessary, to reflect the modification set forth in paragraph 2 above.
4. The Appendix is modified by inserting a new paragraph 19 with the following definition of "Commitment Charge", and renumbering the subsequent paragraphs accordingly:

"19. "Commitment Charge" means the commitment charge specified in the Loan Agreement for the purpose of Section 3.01(b)."
5. In the renumbered paragraph 49 (originally paragraph 48) of the Appendix, the definition of "Front-end Fee" is modified by replacing the reference to Section 3.01 with Section 3.01 (a).

6. In the renumbered paragraph 68 (originally paragraph 67) of the Appendix, the definition of the term “Loan Payment” is modified to read as follows:

“68. “Loan Payment” means any amount payable by the Loan Parties to the Bank pursuant to the Legal Agreements or these General Conditions, including (but not limited to) any amount of the Withdrawn Loan Balance, interest, the Front-end Fee, the Commitment Charge, interest at the Default Interest Rate (if any), any prepayment premium, any transaction fee for a Conversion or early termination of a Conversion, the Variable Spread Fixing Charge (if any), any premium payable upon the establishment of an Interest Rate Cap or Interest Rate Collar, and any Unwinding Amount payable by the Borrower.”

7. In the renumbered paragraph 73 (originally paragraph 72) of the Appendix, the definition of “Payment Date” is modified by deleting the word “is” and inserting the words “and Commitment Charge are” after the word “interest”.