**OPERATIONS MANUAL**

**HELPING ENTERPRISES ACCESS LIQUIDITY IN CROATIA PROJECT**

**(Loan Agreement Number 9233-HR)**

**Croatia**

**September 2022**

**Table of Contents**

[1. INTRODUCTION 3](#_Toc87947394)

[2. Project DEVELOPMENT Objectives and INTERMEDIATE OUTCOME INDICATORS 3](#_Toc87947395)

[3. Project Components 4](#_Toc87947396)

[4. MANNER OF IMPLEMENTATION 4](#_Toc87947397)

[5. IMPLEMENTATION arrangements 5](#_Toc87947398)

[5.1. HBOR/PIU Responsibilities 6](#_Toc87947399)

[5.2. Participating Banks 7](#_Toc87947400)

[6. PFI Eligibility Criteria and Project Implementation Requirements 8](#_Toc87947401)

[7. Eligibility FOR SUB-LOAN BENEFICIARIES 10](#_Toc87947402)

[8. PURPOSE AND ELIGIBILITY OF SUBPROJECTS 11](#_Toc87947403)

[9. WITHDRAWALS AND FINANCIAL MANAGEMENT 12](#_Toc87947404)

[9.1. ROLES AND RESPONSIBILITIES 12](#_Toc87947405)

[9.2. Accounting policies of HBOR 12](#_Toc87947406)

[9.3. Funds flow and procedures 13](#_Toc87947407)

[9.4. Supporting Software and IT 14](#_Toc87947408)

[9.5. Internal Audit 15](#_Toc87947409)

[9.6. External Audit 16](#_Toc87947410)

[9.7. Withdrawals 17](#_Toc87947411)

[10. MAIN LOAN APPLICATION PROCESSING PROCEDURES 19](#_Toc87947412)

[10.1. Loan Application 19](#_Toc87947413)

[10.2. Approval Rules 20](#_Toc87947414)

[10.3. SUB-Loan Disbursement 21](#_Toc87947415)

[10.4. SUB-Loan Repayment 21](#_Toc87947416)

[11. Subsidiary Financing Agreement / Sub-loan Agreement Cancellation or Termination 22](#_Toc87947417)

[12. Monitoring and Evaluation and Reporting 22](#_Toc87947418)

[12.1. Monitoring and Evaluation 22](#_Toc87947419)

[12.2. Reporting 22](#_Toc87947420)

[13. PROCUREMENT ARRANGEMENTS 23](#_Toc87947421)

[14. Environmental and social STANDARDS 24](#_Toc87947422)

[APPENDIX 1: SAMPLE PROGRESS REPORT 25](#_Toc87947423)

[Appendix 2: Project Reporting FormatS 27](#_Toc87947424)

[Appendix 3: Statement of Expenditures for PBCs 34](#_Toc87947425)

[Appendix 4: Form of Statement of Expenditure for Sub-Loans 35](#_Toc87947426)

[APPENDIX 5: FORM OF DESIGNATED ACCOUNT RECONCILIATION STATEMENT 36](#_Toc87947427)

[Appendix 6: Sample Terms of Reference for an Extended Scope Financial Statements Audit 38](#_Toc87947428)

[Appendix 7: COMPLIANCE CERTIFICATE FOR HBOR 42](#_Toc87947429)

[Appendix 8: Project Monitoring and Evaluation 45](#_Toc87947430)

[Appendix 9: VERIFICATION PROTOCOL 51](#_Toc87947431)

[Appendix 10: PFIs - Intermediate results indicators 55](#_Toc87947432)

[Appendix 11: Key performance Indicators on stakeholder engagement activites (HBOR and PFIs) 57](#_Toc87947433)

[Attachment 1: ENVIRONMENTAL AND SOCIAL MANAGEMENT SYSTEM 58](#_Toc87947434)

1. INTRODUCTION

**This Project Operations Manual (POM)** refers to the Helping Enterprises Access Liquidity (HEAL) Project (P172024) (the Project).

For the purpose of financing the Project, the World Bank and HBOR concluded the Loan Agreement (LA) in the amount of EUR 200 million on 7 June 2021. The World Bank loan funds will be used for the purposes of supporting working capital and/or financial restructuring, in accordance with HBOR loan programmes and in line with the World Bank eligibility criteria set out in this manual. The POM is designed specifically for the use by HBOR and Participating Financial Institutions (PFIs).

This POM contains the required program rules, methods, guidelines, specific plans, standard documentation and procedures for the implementation of this Project, including:

1. Detailed description of all Project activities supported under the LA, their sequencing and the prospective timetable and benchmarks in relation thereto;
2. Project administrative, financial, accounting, auditing, environmental and social framework, disbursement procedures, including all relevant standard documents; and
3. Protocols for the verification of Performance Based Conditions (PBCs).

The POM can be modified from time to time in agreement with the World Bank. The HBOR/PIU will review the POM from time to time and suggest changes, if necessary, including the adjustment or change of activities, results and indicators.

1. Project DEVELOPMENT Objectives and INTERMEDIATE OUTCOME INDICATORS

|  |
| --- |
| **Project Development Objectives**    The project development objectives (PDO) are:   1. to support the recovery of private sector exporters from the economic impact of the COVID-19 pandemic, 2. enhance access to finance for firms in underserved segments and lagging regions, and 3. to strengthen HBOR's institutional capacity as a development bank.   The PDO level indicators are:   1. the number of exporters receiving sub-loans under the project that remain solvent; 2. the number of firms financed in underserved segments and lagging regions; and, 3. the increase in the use of EU funds by HBOR. |
|  |

**Intermediate Outcome Indicators**

At the project level, the results framework will monitor:

1. the amount of lending extended to the Sub-loan Beneficiaries;
2. the number of financed Sub-loan Beneficiaries;
3. the number of exporting firms financed;
4. the number of women-owned or managed firms financed;
5. the firms that reported that project financing reflected their needs (citizen engagement);
6. the Participating Financial Institutions’ (PFIs) compliance with prudential regulations; and,
7. the NPL ratio under the project.

At the HBOR level, the results framework will monitor financial sustainability and capacity through:

1. the total (gross) loans extended by HBOR to Sub-loan Beneficiaries;
2. the net interest income;
3. the return on equity (excluding subsidies), and
4. the number of jobs supported.
5. Project Components

The Project has one component - **to provide sub-loans to eligible project beneficiaries.**

However, 40 percent (EUR 80 million) of the overall financing will be disbursed conditional on the achievement of perfomance based conditions (PBCs).

PBCs are listed in the Table below:

|  |  |  |
| --- | --- | --- |
| **PBCs** | | |
| **Enabling operability and digitalization of HBOR** | PBC 1.1. The Borrower has adopted its credit rating methodologies and credit scoring for private entrepreneurs | PBC 1.2. The Borrower has adopted technical specifications for the new IT core banking system |
| **Strengthening** **HBOR's sustainability and climate change resilience** | PBC 2.1. The Borrower has adopted the Implementation Act on OECD’s recommendations in the area of export financing | PBC 2.2. The Borrower has adopted the measures to redesign its policies and procedures for addressing environmental, social, and climate aspects of all financed projects |
| **Extending the use of EU funds** | PBC 3.1. The Borrower has submitted the completed questionnaires for each applicable pillar to the European Commission for their review and onwards processing |  |

The details of PBCs and verification protocols are described in Appendix 9.

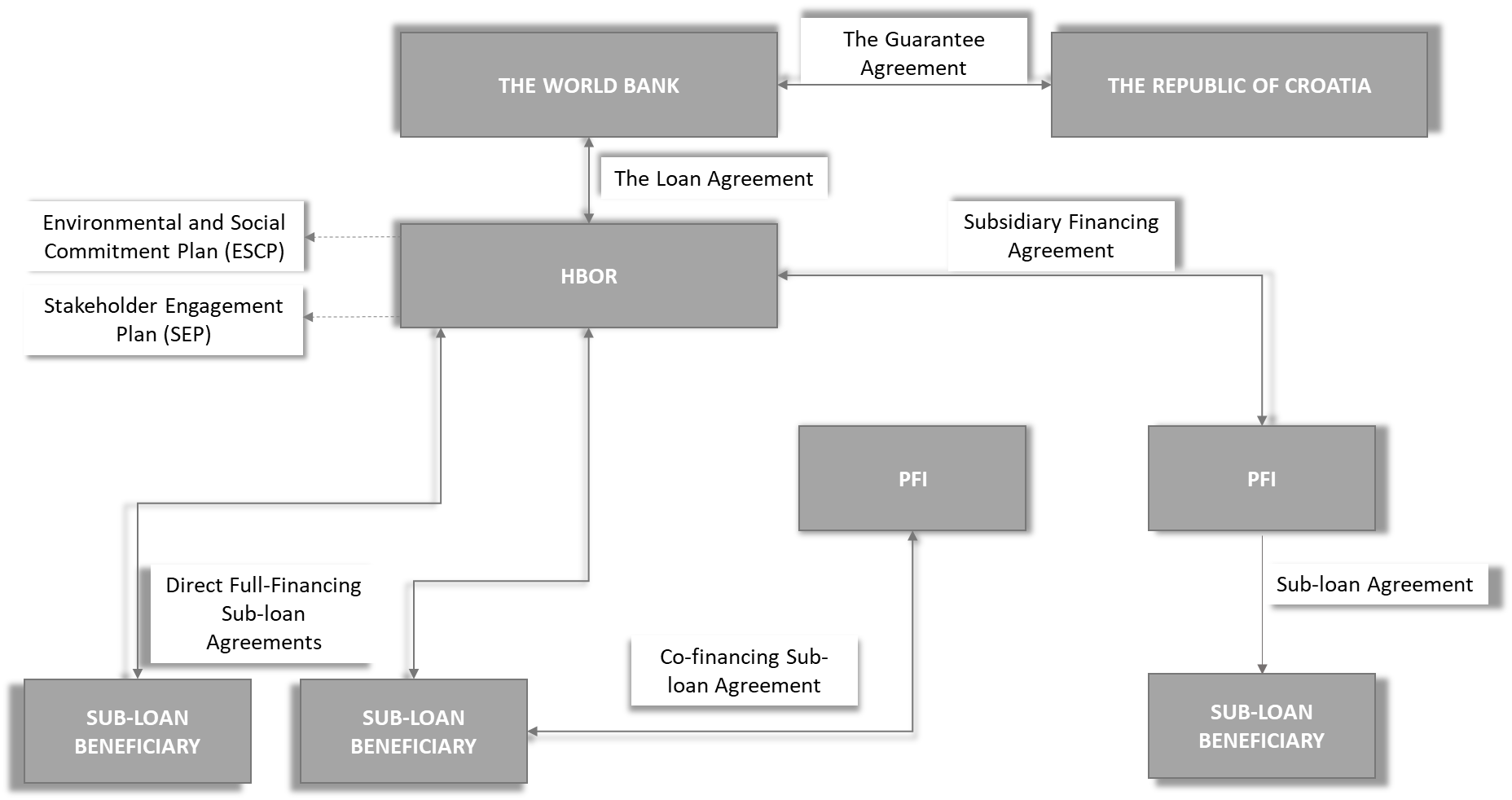
1. MANNER OF IMPLEMENTATION

HBOR shall have the possibility to extend the loan proceeds in accordance with its loan programs:

1. through co-financing[[1]](#footnote-2) model with PFIs including, if relevant, International Finance Corporation (IFC) i.e. risk sharing model,
2. via PFIs i.e. on-lending, and
3. directly, but limited to up to 25 percent of loan proceeds i.e. max EUR 50 million, and only to firms operating in lagging regions.

In principle, Sub-loans should aim to crowd in additional sources of financing from private sector and the EU, through co-financing, pre-financing, or expected additional financing from these sources.

**Project Implementation Flow**



1. IMPLEMENTATION arrangements

On the part of HBOR, the Project will be implemented under the overall management of Executive Director of Fund Managing Division and HEAL Project Manager. The day-to-day responsibility for Project administration lies with the Project Implementation Unit (PIU) within HBOR, consisting of the staff of 19 experts from various HBOR functional departments as per decision of the Management Board No. 1100-85-1/2020 dated 14 December 2020, which can be amended if necessary or additional experts from HBOR can be included in implementation. The PIU shall be maintained at all times during the implementation of the Project with composition, resources, terms of reference and functions acceptable to the IBRD.

Implementation responsibilities of HBOR and other stakeholders are summarized in the table below.

**Table 1 - Responsibilities of the HBOR/PIU and other stakeholders**

|  |  |  |  |
| --- | --- | --- | --- |
| **Activities/Responsibility for implementation** | **HBOR/PIU** | **PFIs** | **Sub-loan Beneficiaries** |
| Overall project supervision | X |  |  |
| Preparation of sub-loan applications |  |  | X |
| Day-to-day project administration | X |  |  |
| Appraisal/ assessment of sub-loans | X | X |  |
| Review and approval of sub-loans | X | X |  |
| Disbursement of loans/ of sub-loans | X | X |  |
| ESCP – implementation of measures and activities with the aim that the Project is implemented in accordance with Environmental and Social Standards (ESSs) | X | X |  |
| Stakeholder engagement and information disclosure | X | X |  |
| Engagement of Sub-loan Beneficiaries to validate credit line design and to enable feedback on functionality of credit line | X | X |  |
| Survey of beneficiary enterprises | X | X |  |
| Verification and dissemination of results achieved | X | X |  |
| Submission of progress reports | X | X |  |
| Audit of project accounts | X |  |  |

* 1. HBOR/PIU Responsibilities

*Overall project supervision and Day-to-day project administration*

* Coordination of Project implementation within HBOR;
* Maintaining relationships with the PFIs and signing Subsidiary Financing Agreements with eligible PFIs;
* Sub-loan application processing and signing of Direct Full-Financing and Co-financing Sub-Loan Agreements with Sub-loan Beneficiaries;
* Ensure compliance with the World Bank’s “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 and as of July 1, 2016;
* Follow the verification protocols and submit the appropriate documentation confirming achievement of the PBCs as described in the LA and in line with rules set in this POM;
* Preparation of the World Bank supervision missions.

*ESCP – implementation of measures and activities with the aim that the Project is implemented in accordance with Environmental and Social Standards (ESSs)*

* Ensure integrity of environmental and social framework for the Project. The ES Specialists at the PIU will undertake the ESS review of applications (environment and social issues, i.e. categorization of the applications into one of the 4 categories as per ESMS) for the sub-project;
* Ensure implementation of the planned citizen engagement activities and feedback mechanisms, in particular the surveys (providing options for feedback on the implementation of the credit line) and the Sub-loan Beneficiary feedback mechanism (see detailed description in ESMS in Attachment 1 of this document).

*Stakeholder engagement and information disclosure*

* Engagement of stakeholders to validate credit line design and to enable feedback on functionality of credit line;
* Survey of beneficiary enterprises;
* Verification and dissemination of results achieved.

*Submission of progress reports*

* Prepare, in the format provided in Appendix 8 semi-annual reports to the World Bank on the achievement of the PDO indicators and intermediate outcome indicators;
* Monitor the performance of the PFIs of the Project, based on its Methodology for the Evaluation and Selection of Banks, and will provide the World Bank with annual progress reports (in the format provided in Appendix 1), annually starting with year-end 2021.

*Financial Management*

The HBOR/PIU will be responsible for implementation of the financial management (FM) function of the Project including, flow of funds, accounting, project reporting, and project audit in accordance with Chapter 9. of this document.

*Reporting*

The HBOR/PIU is obliged to prepare progress reports in accordance with Section 12.2. of this document.

* 1. Participating Banks

To implement the Project through PFIs, a Subsidiary Financing Agreements between HBOR and the PFIs shall be signed, and the PFIs shall be obliged to:

* Maintain qualified staff in adequate numbers and provide, promptly as needed, funds, facilities, services and other resources required for effective Project implementation;
* Maintain adequate policies and procedures to enable it to monitor and evaluate, in accordance with indicators acceptable to the World Bank, the progress in Project implementation and the achievement of Project objectives;
* Implement and maintain adequate Environment and Social Management System;
* Maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards, both in a manner adequate to reflect the operations, resources and expenditures related to the sub-project;
* At the World Bank’s or the HBOR’s reasonable request, have such financial statements audited by independent auditors acceptable to the HBOR and World Bank, in accordance with consistently applied auditing standards, and promptly furnish the statements as so audited to the HBOR/PIU and the World Bank;

Enable the HBOR/PIU and the World Bank to inspect the Sub-projects, and any relevant records and documents;

Keep the required records, on utilisation of funds and purpose of funds in the client file until the loan repayment;

Prepare and furnish to the HBOR/PIU and the World Bank all such information as the HBOR/PIU or the World Bank shall reasonably request relating to Project implementation;

* Carry out its obligations under the Subsidiary Financing Agreement with due diligence and efficiency and in accordance with sound technical, economic, financial, managerial, environmental and social standards and practices satisfactory to the World Bank, including in accordance with the provisions of the World Bank Anti-Corruption Guidelines[[2]](#footnote-3) and the Environmental and Social Management System. Contracts from beneficiaries where the contracted firms are on the World Bank lists of debarred or suspended firms will not be eligible for financing.

With regard to the financing of Sub-loan Beneficiaries, specific PFI responsibilities include:

* Review of sub-loan applications;
* Appraisal of eligibility of applicants and their projects;
* Appraisal of the subproject and of the creditworthiness and financial condition of the applicants;
* If the requests and projects are in line with the respective HBOR’s loan program and this POM and the PFI is ready to provide financing, preparation of PFI sub-loan requests;
* Ensuring that payments to Sub-loan Beneficiaries are made in a timely manner against appropriate documents (to evidence the use of funds);
* On-lend the proceeds of the Loan through the provision of a Sub-loan provided to a Sub-loan Beneficiary for the carrying out of a Sub-project under a Sub-Loan Agreement to be entered into between a PFI and a Sub-loan Beneficiary, under terms and conditions acceptable to the World Bank, all in accordance with the POM (the Sub-Loan Agreement) and the respective HBOR’s loan program;
* Comply, and cause the Sub-loan Beneficiary, through the Sub-Loan Agreement to comply, with the relevant terms of this POM, including the Anti-Corruption Guidelines and the environmental and social requirements;
* Keep all necessary records and payment evidence, as required in legal documents.

1. PFI Eligibility Criteria and Project Implementation Requirements

Pursuant to the HBOR Act, HBOR can on-lend via PFIs as well as channel part of its placements through the co-financing model, under which commercial banks and HBOR participate in the financing of clients in accordance with agreed proportions.

**Eligibility criteria for PFIs**

PFIs can be commercial banks that are viable, as determined by: (a) adequate profitability, capital and portfolio quality as confirmed by audited financial statements prepared; (b) Appropriate prudential policies, administrative structure and business procedures; and (c) Appropriate capacity, including staffing, for carrying out sub-loan appraisals (including environmental and social assessment).

Unless otherwise agreed by the World Bank, the eligible PFIs will be:

* Compliant with prudential norms as required by the Croatian National Bank, and compliant with legal, administrative and regulatory requirements applicable to the banking industry as indicated in the table below; and
* Certified annually by the PFIs external auditors;

**Compliance with CNB’s prudential requirements, based on current CNB prudential requirements**

|  |  |
| --- | --- |
| **Indicators** | **Prescribed value** |
| Total (regulatory) capital | *≥* 8% of total risk exposure |
| Tier 1 capital ratio | *≥* 6% of total risk exposure |
| Common equity tier 1 capital ratio | *≥ 4.5*% of total risk exposure |
| Combined capital buffer | *4% - 6% of total risk exposure* |
| Capital conservation buffer | *2.5*% of total risk exposure |
| Countercyclical capital buffer | *0*% of total risk exposure |
| Systemic risk / Systemically important credit institutions buffer | *1.5*% or *3*% of total risk exposure |
| Exposure to 1 person or group of connected persons | ≤ 25% of liable capital |
| Total sum of large exposures | ≤ 600% of liable capital |
| Total investments in tangible asset | ≤ 40% of liable capital |
| Liquidity Coverage Ratio | ≥100 |

Additional Eligibility Criteria:

|  |  |
| --- | --- |
| NPL ratio (CNB definition) | less than double of the corporate sector average NPL ratio |
| Concluded relevant Cooperation Agreement with HBOR |  |

Any exceptions will have to be communicated and agreed by the World Bank.

HBOR's Methodology for the Evaluation and Selection of Banks (hereinafter the Methodology) is used for the assessment of banks to which HBOR is exposed to credit risk. The Methodology consists of two main parts: financial risk assessment (quantitative assessment that assesses the financial risk of banks) and business risk assessment (qualitative assessment of banks' business risk) and synthesis of these two assessments with verification of the bank's compliance with legal provisions.

The financial risk assessment of banks is based on the analysis of audited financial statements of banks. Business risk assessment is an assessment of the bank's credibility in the event of a crisis, i.e. the degree of probability of its protection (direct assistance) by shareholders, but also by the state. The Methodology is the basis for assigning the bank's internal rating required for:

• making a decision on establishing business cooperation with the bank;

• setting exposure limits for individual commercial banks;

• determining the way of doing business with the bank;

• monitoring the bank's operations.

Once the eligibility has been confirmed, and a relevant Decision adopted, HBOR can sign a Subsidiary Financing Agreement with PFI, for financing in accordance with Project conditions. The Subsidiary Financing Agreement between HBOR and PFI will specify terms of access to World Bank finance, mutual responsibilities and terms and conditions of participation of the PFI in the project. Once signed, it will allow eligible PFIs access to finance on terms for eligible beneficiary and its eligible project specified in this POM and respective HBOR’s Loan Program.

**Terms and conditions of financing between HBOR and PFIs**

In the case of the on-lending and co-financing model via PFIs, the following terms and conditions will apply to the Subsidiary Financing Agreements or loan programs HBOR has with PFIs:

* Unless the World Bank otherwise agrees, PFIs must start and remain in compliance with the eligibility criteria for PFIs;
* PFIs shall assume the credit risk of each sub-loan which was on-lend, while in the case of co-financing, the credit risk, in agreed risk-sharing ratio, remains with HBOR. The risk-sharing ratio will be determined by HBOR and the PFI, and will be communicated to the World Bank as part of reporting requirements;
* PFIs shall apply appropriate procedures for appraisal, supervision, and monitoring of sub-loans, including for the efficient evaluation and supervision of the environmental and social elements of sub-loans;
* PFIs will, on HBOR’s and/or World Bank’s request, provide a requested set of documentation for all sub-loans to HBOR in order to enable HBOR to maintain all project records and make them available for ex-post review by the World Bank or by external auditors as necessary;
* PFIs will be required to provide reasonable information for the purpose of monitoring and impact assessment during the life of the project (and for a certain period after the project), as may be requested by the World Bank and HBOR;
* The right of a PFI to use the proceeds shall be: (i) suspended upon failure of such PFI to perform any of its obligations under its agreement and/or program or to continue to comply with all legal and regulatory requirements applicable to its operations and; (ii) terminated if such right shall have been suspended pursuant to the above paragraph for a continuous period of sixty (60) days;
* PFIs shall carry out all activities under Subsidiary Financing Agreements and conduct its operations and affairs in accordance with appropriate financial standards and practices, with qualified management and staff in adequate numbers and in conformity with the PFI’s investment and lending policies and procedures.
* PFIs will be required to comply, and cause the Sub-loan Beneficiary, through the Sub-Loan Agreement to comply, with the Anti-Corruption Guidelines and the ESCP.

1. Eligibility FOR SUB-LOAN BENEFICIARIES

Eligible Sub-loan Beneficiaries must comply with the following criteria:

|  |  |
| --- | --- |
| 1. | Eligible Sub-loan Beneficiaries[[3]](#footnote-4): |
|  | 1.1. Exporters, including quasy-exporters   * An exporter is every business entity that generates foreign exchange export revenues; * Quasy-exporters (e.g. tourism, logistic companies) are business entities that generate a share of their annual revenues through sales of goods and/or services to non-resident companies or individuals; * Which can provide evidence of the consequences of the COVID-19 pandemics on their operations, i.e. decline in operating income/revenues throughout the Project implementation period (starting from 2019) |
|  | 1.2. Entities in lagging regions are defined as:   * Supported Areas – units of local government classified into groups I, II, III and IV pursuant to the Act on Regional Development of the Republic of Croatia (Official Gazette of the Republic of Croatia, Nos. 147/2014, 123/2017, 118/2018) and the Decision on Classification of Local or Regional Government Units on the Basis of the Level of Development (Official Gazette of the Republic of Croatia, No. 132/2017 as amended from time to time); |
|  | 1.3. Entities in underserved segments include:   * Women-owned (with at least one female shareholder with a properly documented representative and managing powers) or women-managed firms. Female entrepreneurs are business entities that are more than 50 percent owned by at least one female or by several females jointly and that are also managed by a female. In case of a company that is neither a micro company nor a small company, a female or several females jointly can hold less than 50 percent of ownership provided that at least one female holds a key management position related to financial and/or operating activities and/or strategy; * Young firms (firms with less than 5 years in operation) |
| 2. | Ownership - private (more than 50% private ownership or private control) |
| 3. | Size[[4]](#footnote-5):   * SMEs (companies with less than 250 employees); * Mid-Caps (companies with between 250 and 3.000 employees) |
| 4. | Excluded sectors – defined by HBOR’s General Eligibility Criteria and World Bank’s exclusion policy (see Attachment 1 of this document). |
| 5. | Eligible Project beneficiaries should be established at the territory of Republic of Croatia |

PURPOSE AND ELIGIBILITY OF SUBPROJECTS

Eligible Sub-projects:

|  |  |
| --- | --- |
| Purpose of the Sub-loan: | * Working capital (current business operations, e.g. purchase of raw materials, production materials, semi-finished products, small inventory, settlement of obligations towards suppliers, labor costs, general current operating expenses such as office/factory/warehouse rent and utilities); * Financial restructuring (settling of existing obligations towards suppliers and financial institutions (related entities excluded)), under the following conditions:   + Financing only in cooperation with the PFIs   + Sub-loan Beneficiary must comply with conditions defined in HBOR’s Financial Restructuring Programme in particular:     - At least 10 percent share of capital and reserves in the balance sheet liabilities;     - Profit has not been paid out in the last two business years (including the retained profit);     - No loans have been disbursed in the last two business years, except to related entities for operating business and development purposes;   + committed principal of all Sub-loans granted for restructuring can amount up to 30% of the Loan i.e. EUR 60 million |
| Sub-loan disbursement: | * Working capital: Sub-loan funds are disbursed to the account of the supplier/contractor and/or to the Sub-loan Beneficiarys account, depending on the purpose of the working capital; * Financial restructuring: in principle, Sub-loan is disbursed to suppliers and financial institutions directly; * In case of refund of Sub-loan Beneficiary’s own funds, the amount of refund is disbursed to the loan beneficiary’s account |
| Exposure to single Sub-loan Beneficiary or group of related entities: | * up to 8.5 M EUR granted by HBOR and/or one or more PFIs, unless HBOR and the World Bank otherwise agree |
| Not eligible for financing: | * Contracts from Sub-loan Beneficiaries where the contracted firms are on the World Bank lists of debarred or suspended firms   + (<https://www.worldbank.org/en/projects-operations/procurement/debarred-firms>); * Sub-loans classified with a risk rating of High or Substantial according to the World Bank’s ESF as described in ESMS in Attachment 1 of the POM and projects/activities listed in Section 2.5.1. of the same document; * Sub-loans that trigger ESS5 (Land Acquisition, Restrictions on Land Use, and Involuntary Resettlement) and goods, works, non-consulting services, and consultant services on the World Bank’s exclusion list[[5]](#footnote-6); * Sub-loans having significant impacts on sensitive areas (for example, nationally and internationally protected areas) and cultural heritage |

1. WITHDRAWALS AND FINANCIAL MANAGEMENT

This section describes arrangements as outlined in the Disbursement and Financial Information Letter signed on 7 June 2021.

* 1. ROLES AND RESPONSIBILITIES

During Project implementation, HBOR/PIU will:

* Maintain a satisfactory project accounting system capable of tracking all project resources and expenditures and generating project financial reports;
* Be responsible for reporting regularly to the World Bank on project progress and implementation issues (see detailed description in Section 12.2);
* Use its own staff for the financial management of the Project:
  + There is a clear segregation of duties between the staff with respect to evaluation of applications, accounting and reporting;
  + Subsidiary accounts (analytical bookkeeping) represent a separate bookkeeping record of receivables upon loans. Business occurrences in analytical bookkeeping are recorded on the groups of accounts pursuant to the prescribed Chart of Accounts for banks and kept in the manner adjusted to the groups of accounts in the General ledger;
  + The processing and control of bookkeeping documents, as well as reconciliation to the General ledger is carried out by a bookkeeping officer in the Analytical Bookkeeping Department. The Managing Director of the Analytical Bookkeeping Department is responsible for the accuracy, timely entry and the compliance of data of the analytical bookkeeping;
  + Contact person for carrying out activities of the Analytical bookkeeping of loans:
* Ms Sandra Antonić Novaković, Head of Unit, 10000 Zagreb, Zelinska 3.
  + The Managing Director of the Accounting Department is responsible for the accuracy, timely entry and the reconciliation of data in the General ledger;
  + Contact persons for carrying out activities of the General ledger:
* Ms Petra Maltar, Managing Director Accounting Department, 10000 Zagreb, Zelinska 3.

During Project implementation, the World Bank will supervise the Project’s FM arrangements as follows:

1. Review the Project’s IFRs, as well as the annual audited financial statements and auditor’s management recommendation letters; and
2. Perform on-site supervision with the frequency based on the assessed Project’s risk and performance (first supervision in 9 months after the assessment) and review the Project’s financial management and disbursement arrangements to ensure compliance with the World Bank's minimum requirements. The on-site supervision will include a review of the following areas of Project’s financial management: accounting and reporting, internal control procedures and external audits, planning and budgeting, funds flow and staffing arrangements. A sample transactions review will also be conducted.
   1. Accounting policies of HBOR

HBOR maintains its accounting records in HRK in compliance with Croatian law and the accounting principles and practices applicable for banks/credit institutions in Croatia. The entity financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB). The financial statements are prepared under the historic cost convention, modified by the revaluation of financial assets and liabilities.

The Accounting policies of HBOR determine policies (principles, basis, conventions, rules and procedures), methods and evaluations used by HBOR in presentation of its assets, liabilities, capital, income and expenses, as well as the operating results in the accounting records, preparation and presentation of financial statements that present fairly and objectively the financial position, changes in the financial position and in the result of financial transactions of the Bank.

The goal of determining the Accounting Policies is to present fairly and objectively the property and financial position, as well as the financial results.

The collection of data, compiling of book-keeping documents, entry and processing of data is carried out by applying the provisions of the Accounting Act, if not otherwise set forth in these Accounting Policies. To the provisions that are not separately determined by the HBOR’s Accounting Policies and other prescribed regulations of operation a decision passed by the Managing Board of HBOR shall apply.

HEAL will represent loan activity of HBOR and therefore business occurrences within HEAL will be recorded in HBOR’s accounting records, which include Subsidiary accounts[[6]](#footnote-7) and auxiliary records[[7]](#footnote-8) and General ledger[[8]](#footnote-9).

HBOR’s Accounting Policies will be consistently applied to operations under HEAL.

* 1. Funds flow and procedures

In the HBOR Treasury Department, all foreign exchange transactions are sent, and received from abroad, as well as all transactions in Kuna between banks in the country. The performance of payment transactions is regulated by the Foreign Exchange Act (Narodne novine, the official gazette No. 96/03 and 140/05 and 132/06 and 150/08 and 92/08 and 133/09 and 153/09 and 145/10 and 76/13), amendments to the Foreign Exchange Act (Narodne novine, the official gazette No. 52/21) and the National Payment System Act (official gazette No. 66/18), and comprises:

* Payments and collections in Kuna
* Payments, collections and transfers in foreign means of payment between residents and non-residents
* Book-keeping records transactions

**Foreign exchange payment transactions** are performed on the accounts of local banks opened abroad and in the Republic of Croatia, and on the accounts of foreign banks and other non-residents opened with local banks.

Collections, payments and transfers in the foreign exchange payment transactions are performed through instruments of payment in foreign exchange payment transactions, such as: remittance, collection of documents, letter of credit (L/C), cheque by applying international rules and standards in the banking industry and using prescribed orders.

**National payment transactions** include all business activities in the local currency (Kuna) that are performed between participants in the payment transaction i.e. the Croatian National Bank and other local banks.

**Conducting of special-purpose accounts** in the Treasury Department, Payment Transactions Unit, and all business activities under the mentioned accounts are identical to the payment transaction procedures used by the bank.

The bank records all transactions in the total payment transactions pursuant to the chart of account for banks.

Contact persons for activities of conducting the special-purpose account and the contingent loan facility account in the Treasury Department:

* Mr. Tibor Szabo, Managing Director
* Ms. Mirta Romčević, Treasury Department Officer
  1. Supporting Software and IT

Person responsible for the information system of the bank is Mr. Tihomir Jakšić, IT Division Executive Director.

The IT Division is divided into three organization units with the main task of establishing and maintaining the security, reliability, and availability of the information system.

§  **IT System Support** **Department**– responsible for maintenance of server infrastructure, supervision of the entire information system (servers, clients, network), implementation and control of IT security components, compiling a data backup and providing a helpdesk services to users.

§  **Application Development and Support Department** – responsible for development, introduction and maintenance of application program support to the bank's business processes. The Application Development receives and analyses users' requirements for application systems and provides adequate solutions. For this purpose, the Application Development analyses, coordinates change requests, designs new program solutions, programs applications, coordinates tests program systems, educates users, compiles users' documentation, defines operation procedures and methods, analyses software products available in the market and evaluates offered solutions. By its applications, the Application Development goes along with the technology progress and proposes the application of appropriate products in HBOR for the purpose of more efficient work in HBOR. This department is also responsible for document management systems used in HBOR.

Policies and Procedures

1. Business continuity management policy
2. Information system security policy
3. Procedure for granting remote access to external partners
4. Procedure for managing user accounts and access rights
5. Procedure for data backup and replication
6. Procedure for disaster recovery
7. Procedure for malicious code protection management
8. Procedure for monitoring and archiving system records
9. Procedure for change requests
10. Procedure for IT resources and configurations management
11. Procedure for document management
12. Procedure for management of security network devices
13. Procedure for management of security events and incidents
14. Procedure for physical access
15. Operation Procedures

1. Compiling of Data Backups

Databases with business data are protected by compiling a data backup on daily and weekly basis by copying to backup media (backup to disk and tapes). A daily data backup is stored for one week, and weekly permanently. A data backup is compiled by continuous logical logs collecting and making copies of databases current state.

1. Operation Systems Used

The following operation systems are used:

* + Red Hat Enterprise Linux and Ubuntu (version 7 and 8)
  + Microsoft Windows (version 10 and server 2008/2012/2016/2019)

1. Hardware infrastructure

HBOR IT system is running on a rented private IT cloud spread over two data center locations for disaster recovery purposes. All data is replicated synchronously and targeted RPO (Recovery point objective) is 0, while targeted RTO for critical applications is 3 hours, which is tested and evaluated on a yearly basis.Virtual infrastructure is realized using Vmware products.

1. List of Application Program Support Used in HBOR

For the implementation of the Project, HBOR shall make use of the information system that is used in its regular operation.

The General ledger (GK) is a aggregated bookkeeping record of changes that occurred in assets, receipts and expenses, income and expenditures relating to the operations of HBOR.

The information sub-system of short-term and long-term loans (IPSDK) or subsidiary accounts will be used for analytical bookkeeping of loans granted.

Analytical records or subsidiary accounts of loans granted are linked to the General ledger; therefore, the data on receivables upon loans granted are automatically transmitted to the groups of accounts in the General ledger.

|  |  |  |
| --- | --- | --- |
| **Name of the Program** | **Supplier** | **Purpose** |
| **Client Register** | Own development | Registry of client information |
| **Ipsgk** | Helix d.o.o. | General ledger of the Bank |
| **Ipsdk** | Helix d.o.o. | Long-term loans analysis and management |
| **Ipskk** | Helix d.o.o. | Short-term loans analysis and management |
| **Loan origination** | Own development | Loan origination application |
| **RINT/FX Der** | Own development | Application that supports funding activities |
| **Dev5** | Dabar Informatika d.o.o. | Foreign exchange payment transaction, letters of credit, guarantees, foreign exchange market |
| **SAJK/NK** | Dabar Informatika d.o.o. | Application for capital adequacy and collateral management |
| **MPP/Celero/SEPA/SWIFT** | Helix d.o.o.,  TIS, FL-sistem | Payments processing |
| **IKO** | Own development | Export credit insurance and other insurance-related products |
| **Other supporting applications** |  |  |

* 1. Internal Audit

The HBOR/PIU shall maintain internal controls ensuring proper segregation of duties, authorization procedures, regular reconciliations are properly designed and are operating efficiently. HBOR/PIU shall make random visits to Sub-loan Beneficiaries together with representatives of the World Bank.

The access in the applications is restricted by password and there are clear internal procedures in place for creating and changing regularly the users’ passwords. Any changes in the accounting records are done through adjusting journals. The database is locked at the end of each year; once the year is closed, there is read-only access to the accounting records.

HBOR has Internal Audit Department and the project related transactions will be subject to its reviews.

The Internal Audit unit is part of HBOR’s supervision system. It is in charge of monitoring the overall operations on the basis of the principles of legality and HBOR’s internal regulations by applying the internal audit standards. The organisational unit of Internal Audit carries out its tasks independently and determines the manner of operating and reporting as well as preparing its findings, opinions and recommendations on its own. It is administratively responsible to the Management Board and functionally to the Audit Committee and Supervisory Board of HBOR, to which reports are submitted semi-annually. Based on the audit report and according to the recommendations of the Internal Audit unit, the Management Board makes the necessary decisions to the corrective measures and activities. Internal Audit operates according to an annual risk based working plan supported by the Managing Board and the Audit Committee and finally approved by the Supervisory Board. Internal Audit is implemented by: compulsory money laundering, checking the monitoring HBOR’s operations, compliance with regulations, internal rules and procedures, analysing and assessing business processes, internal control mechanisms, risk management processes, analysing management of informational technology resources, analysing financial and book-keeping data, cooperation with external auditors and reporting on its work, and review of procedures for new products and loan portfolio verifications.

The Department also controls Special Funds managed by HBOR. The Internal Audit Department follows up on recommendations arising from its own audits/reviews.

* 1. External Audit

HBOR’s annual financial statements are prepared in accordance with IFRS’s and are audited in accordance with ISA by internationally recognized auditors/audit entity. The audited annual financial statements are made available by the end of 4th month after the year end and Annual Report is published on HBOR’s website within 6 months of the year end.

For the purpose of Project reporting separate financial reports will be prepared as set under Section 12.2. “Reporting” and audited by independent auditor/audit entity. The auditing procedure will be carried out under the terms of reference acceptable to the World Bank. The audit reports of the Project will be provided by the independent auditor/audit entity that was appointed as a statutory auditor of HBOR annual financial statements pursuant to the provisions of the Loan Agreement concluded between the World Bank and HBOR.

The annual audit of the Project financial reports will be carried out only for the period of effectiveness of the Project and the disbursement period set in the Loan Agreement between the Bank and HBOR.

The annual audited financial statements of HBOR and audit Project report will be provided to the World Bank within six months of the end of each financial year. Semi-annual IFRs will be submitted to the World Bank no later than 45 days after the end of each semester.

|  |  |
| --- | --- |
| Audit Report on | Due Date |
| HBOR Entity annual financial statements | Within six months after the end of each calendar year |
| Project financial reports (PFR) including SOEs and designated account. PFR include sources and uses of funds and designated account statement. | Within six months after the end of each calendar year and also at the closing of the project. |

In addition to the above requirement for Project and HBOR entity audit, the participating PFI shall be required to submit its annual audited financial statements to HBOR. HBOR shall forward such report to the World Bank for a review by the Bank FMS.

Sample Audit TOR is attached in Appendix 6.

* 1. Withdrawals

HBOR is obliged to open and maintain the Designated Account (DA), prepare withdrawal applications, and maintain summary records of the flow of resources.

The Designated Account is opened with KBC Bank NV, Brussels:

**Number of account** is:

Payment instructions are as follows:

Swift: HKBO HR 2X

Account: BE59488592368526

Beneficiary: HRVATSKA BANKA ZA OBNOVU I RAZVITAK (HBOR)

Strossmayerov trg 9, 10000 Zagreb, Croatia

Beneficiary’s bank: KBC Bank NV

Havenlaan 2, 1080 Brussels, Brussels-Capital, Belgium

Beneficiary’s bank SWIFT BIC: KRED BE BB

Payment to the Designated Account should be made via SWIFT in a following manner:

a) SWIFT MT103 (with the option “OUR” in the field 71A) or

b) SWIFT MT202

**Signature list**

* In accordance with the World Bank procedures and guidelines, all the financial claims related to the Loan can be signed exclusively by those who are defined and authorized according to the Signature List. The World Bank’s General Conditions require that the authorized representative of the Loan Recipient designate, in writing, which officials may sign withdrawal applications and provide copies of their authenticated specimen signatures.
* Signature List for disbursements from the loan account consists of HBOR’s authorised representatives. Each withdrawal application has to be signed by two authorised HBOR’s representatives.

**Replenishment**

* Withdrawal applications for the replenishments of the DA will be sent to the Bank at least every three months regardless the activity during the period or size of the DA. Replenishment applications must include reconciled, detailed bank statements as well as other appropriate documents (e.g. SOE or source documentation). The bank statement must indicate both the opening and closing balance of the DA for the period covered by the expenditures claimed, and likewise, indicate all transactions and activity on the account during the period. The reconciliation statement must also explain any discrepancies (surplus or shortage of funds) and the status of any previously deducted expenditures.

**Request Application for Withdrawal**

* Funds from the Loan will be made available to Sub-loan Beneficiaries and PFIs following submission of payment request together with supporting documents. The invoices themselves are kept by PFIs in their loan files.
* In order to avoid payment of bank fees from the DA, when transferring funds to DA, IBRD should follow the payment instructions below:

SWIFT BIC: HKBO HR 2X

Account: BE59488592368526

Beneficiary: HRVATSKA BANKA ZA OBNOVU I RAZVITAK (HBOR)

Strossmayerov trg 9, 10000 Zagreb, Croatia

Beneficiary’s bank: KBC Bank NV

Havenlaan 2, 1080 Brussels, Brussels-Capital

Belgium

Beneficiary’s bank SWIFT BIC: KRED BE BBPayment to the Designated Account should be made via SWIFT in a following manner:

a) SWIFT MT103 (with the option “OUR” in the field 71A) or

b) SWIFT MT202

* The minimum value of applications for Reimbursement and Direct Payment is EUR 300,000 equivalent.
* The amount of EUR 200 million will be allocated to HBOR as indicated in the table below. This table sets forth the eligible expenditures to be financed out of the proceeds of the loan, the allocation of the amounts of the loan to each category, and the percentage of eligible expenditure to be financed for each category. The loan proceeds shall be withdrawn in accordance with Article II of the IBRD’s General Conditions for Loans, the LA, and additional instructions set by the World Bank in writing in the Disbursement and Financial Information Letter (DFIL) agreed at negotiations to finance the eligible expenditures shown in the table below:

|  |  |  |
| --- | --- | --- |
| **Category** | **Amount of the Loan**  **Allocated**  **(expressed in Euro)** | **Percentage of Expenditures to be financed**  **(inclusive of Taxes)** |
| (1) Sub-loans | 120,000,000 | 100% |
| (2) EEP (to be used for Sub-loans other than those covered under category (1)) | 80,000,000 | Up to 100% subject to the provisions of Part B of this Section |
| TOTAL AMOUNT | 200,000,000 |  |

* To support implementation of activities under all components, the following flow of funds and disbursement method will be used:

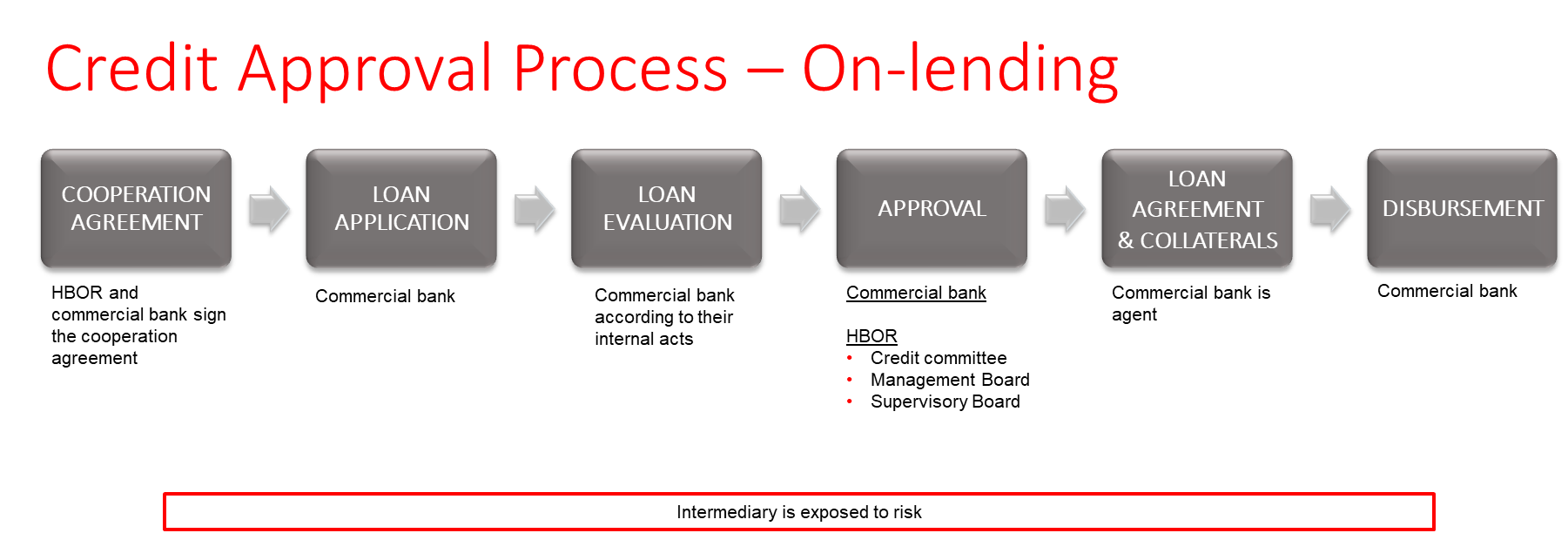
1. The disbursements under the Category 1 will use standard IPF disbursement procedures applicable to the disbursement methods of advances, direct payments, and reimbursements. Requests for reimbursement and reporting eligible expenditures paid from the DA require: (i) statement of expenditures (SOE) in the format provided in Appendix 3 and (iii) DA reconciliation statement in the format provided in Appendix 5. Requests for direct payment must be supported with records evidencing eligible expenditures, e.g., copies of receipts, supplier invoices.  For the line of credit category of the loan the funds will flow from the WB to the DA and from there to: a) the eligible PFI who will then forward the funds to the Sub-loan Beneficiaries or b) in case of direct financing, to the eligible Sub-loan Beneficiaries.
2. Disbursements under the PBC-related Category (2) will use reimbursement as disbursement method. The reimbursements will be triggered by achievement of the PBCs, which are supported by claims for reimbursement of incurred eligible expenditures. Achievement of the PBCs will be confirmed to the World Bank according to the Verification Protocols (see Appendix 9). Upon receiving verification report which confirms achievement of a PBC and that the underlying eligible expenditures (or EEPs) have been incurred, the EUR amount linked to the completed PBC will be reimbursed in the amount which is equal to the amount of incurred EEPs up to the maximum amount of the EUR allocation for that PBC. Requests for reimbursement must be supported with Statement of Expenditures (SOE) for PBCs achieved and verified in the format provided in Appendix 3. Such disbursement will be done directly from the loan account to the HBOR account.
3. MAIN LOAN APPLICATION PROCESSING PROCEDURES
   1. Loan Application

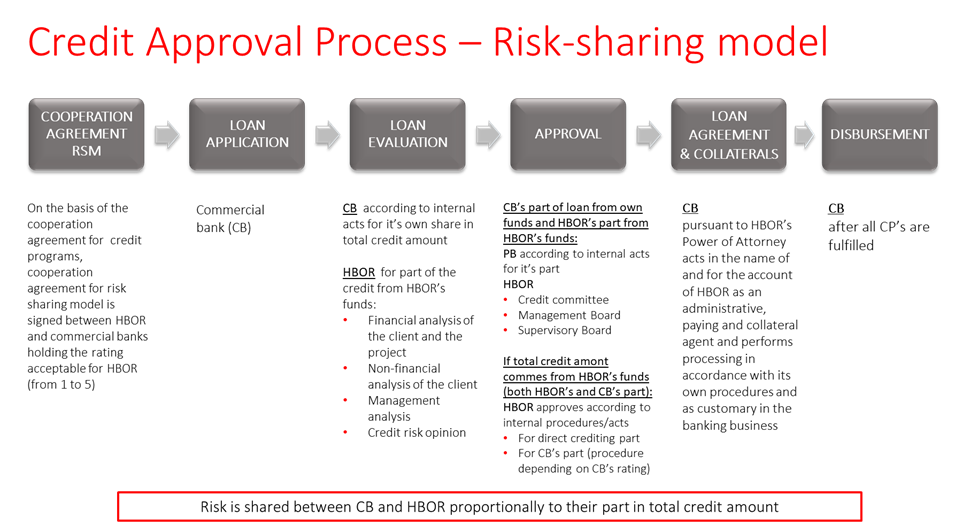
The application documentation is published on HBOR's website, together with each loan program**.** In principle, this refers to the loan application and information on the Sub-loan Beneficiary such as relevant financial and operational statements, and Environmental and Social Screening Questionnaire (see Attachment 1 of this document).

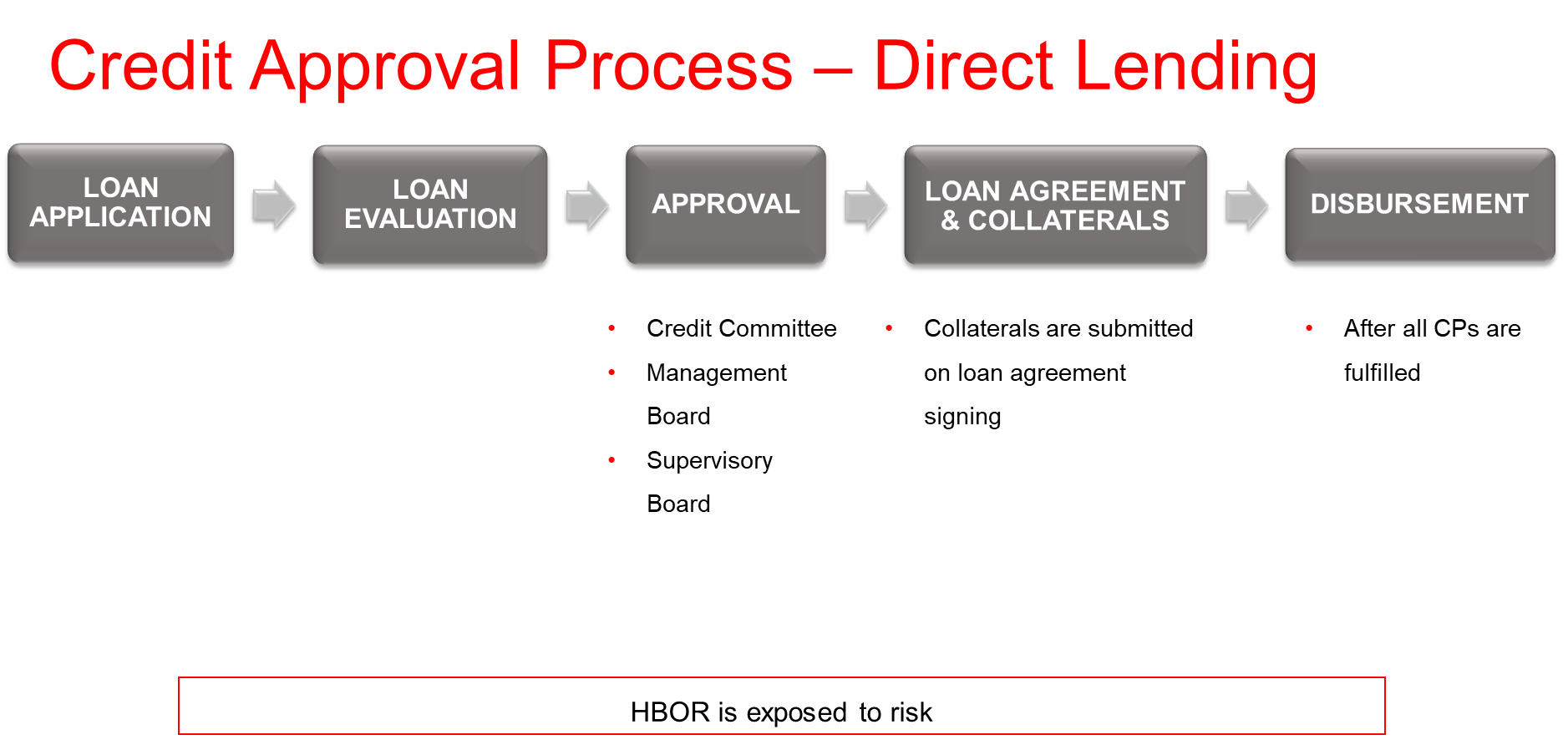
Regarding relevant financial and operational statements, Sub-loan Beneficiaries must be able, in accordance with HBOR’s and/or PFI’s policies and procedures, to provide the following information:

* financial information and current financial position displaying compliance with a financial obligation/equity ratio and financial obligation/service coverage ratio,
* business plan,
* data on solvency, tax and credit obligation,
* other data in accordance with HBOR’s and PFI’s policies and procedures.

The procedure of processing a loan application varies depending on whether a loan is extended directly or through a PFI.







* 1. Approval Rules

HBOR will approve loans in accordance with the valid Credit Risk Management Ordinance, Decision on General Terms and Conditions of Credit Operations and other internal acts applicable to this product.

In principle, the procedure of processing a loan application will include the following steps:

* Receipt of a loan application, its being entered into records and verification of its formal correctness,
* Loan application appraisal from both the financial and non-financial standpoints, assessment of collateral,
* Drafting a loan proposal,
* Opinion of the Risk Management, if necessary,
* Decision-making
* Concluding a contract,
* Registration of a loan
* Receipt and registration of collateral, and
* Disbursement.

In the case of a rejection of a loan application, i.e. in the case of a loan not being approved, HBOR shall not be obliged to explain its decision to the applicant.

* 1. SUB-Loan Disbursement

HBOR/PIU will be responsible for disbursing funds to:

* PFIs in a timely manner against appropriate documents in line with Credit Risk Management Ordinance, and other relevant HBOR’s procedures;
* Sub-loan Beneficiaries against appropriate documents which are applied to the financing of permanent working capital and financial restructuring, in line with the Credit Risk Management Ordinance and other relevant HBOR’s procedures.

Sub-loan will be disbursed on the basis of a documented and written request of the Sub-loan Beneficiary, which will be verified by HBOR/PIU in accordance with its procedures, or by PFI, which will verify the Sub-loan Beneficiary's request in accordance with PFI's and/or HBOR's procedures.

The Sub-loan Beneficiary is obliged to utilise the Sub-loan for the purposes specified in a Sub-loan Agreement.

HBOR shall have the right:

* to verify and control the proper utilisation of Sub-loan funds by the Sub-loan Beneficiary and/or PFI, and
* to terminate the sub-loan agreement and demand the repayment of the outstanding sub-loan amount, including interest, default interest and all other amounts payable under the sub-loan, and/or
* to charge default interest on sub-loan amount not utilised for purposes defined by the sub-loan agreement.

No expenditures for a Sub-loan shall be eligible for financing out of the proceeds of the Project if such expenditures shall have been made earlier than hundred and eighty (180) days prior to the date on which HBOR shall have received the sub-loan application package, with the proviso that expenditures incurred twelve months prior to the date of signing of the Loan is limited to 20 percent of the Loan amount i.e retroactive financing.

* 1. SUB-Loan Repayment

Repayment period and conditions of repayment are defined in accordance with HBOR’s and/or PFI’s policies and procedures, but in principle, the following rules are applied for determining loan repayment period for loans granted by HBOR:

* it consists of a grace period (if granted) and the principal repayment period
* it is defined by specified number of instalments/years
* the repayment period starts on the first day upon the expiry of the loan disbursement period, irrespective of:
  + the date on which the loan proceeds were entirely disbursed, or
  + the fact the loan proceeds were not entirely disbursed, if the disbursement period was not prolonged.

1. Subsidiary Financing Agreement / Sub-loan Agreement Cancellation or Termination

HBOR can suspend or terminate a Subsidiary Financing Agremeement / Sub-loan Agreement upon the PFIs/Sub-loan Beneficiary’s failure to perform any of its obligations under the related Subsidiary Financing Agreement /Sub-loan Agreement or to comply with the ESCP or the provisions of the Anti-Corruption Guidelines applicable to recipients of loan proceeds.

HBOR shall not assign, amend, abrogate or waive any such Subsidiary Financing Agremeement / Sub-loan Agreement or any provision thereof, except as the IBRD shall otherwise agree,

A decision on Subsidiary Financing Agremeement / Sub-loan Agreement suspension or termination shall be made by HBOR's relevant decision-making body.

1. Monitoring and Evaluation and Reporting
   1. Monitoring and Evaluation

**The HBOR/PIU will evaluate progress through monitoring the agreed results indicators and reporting them to the World Bank.** HBOR/PIU will continuously monitor the PDO and intermediate results indicators listed in the agreed results framework (see below) and report them to the World Bank on a semiannual basis, not later than forty-five (45) days after the end of each calendar semester, covering the calendar semester.

M&E will be the responsibility of the HBOR/PIU, and will focus on the main outcome indicators, intermediate results indicators, and the PBC as outlined in the results framework. The HBOR/PIU will regularly collect and report data required both for M&E and for the verification of the PBCs.

**Regular implementation support missions will be conducted by the World Bank and the results will be reported through implementation status and results reports and aide memoires**. Each mission will review the progress against results monitoring framework and will review and report on key implementation issues. A detailed midterm review will be undertaken at the end of Year 2. At the completion of the Project, an implementation completion and results report will be prepared.

Indicators to be used to monitor Project progress and achievements are included in the table in Appendix 10.

* 1. Reporting

The PIU will be responsible for reporting regularly to the World Bank on project progress and implementation issues.

* HBOR/PIU will prepare and furnish to the World Bank the semi-annual Interim un-audited Financial Report (IFRs) not later than 45 days after the end of the reporting semester. The IFRs will be prepared on the cash-basis of accounting. In order to be able to prepare IFRs, HBOR will request PFIs also to submit their IFRs to HBOR. All supporting documentation for financial information contained in PFIs IFRs would be available in PFIs. Semi-annual IFRs as well as the annual project financial statements will include the following reports stated in the currency of the loan, namely: (a) Project Sources and Uses of Funds; (b) Use of Funds by Loan Term; (c) Uses of Funds by Loan Customer (final borrower); (d) Designated Account (DA) Statement; (e) Project Balance Sheet as at (xx/xx/20xx); and (f) and PBC and Eligible Expenditure Program (EEPs) report. The reporting formats are provided in Appendix 2.
* Semi-annually (every 6 months) as part of Project progress reports, in the World Bank reporting template, throughout the Project implementation, HBOR will prepare and submit to the World Bank regular monitoring reports on the environmental and social performance of the Project, including but not limited to the implementation of the ESCP, status of preparation and implementation of environmental and social documents required under the ESCP, stakeholder engagement activities, performance of the grievance mechanism(s) and ESMS implementation (see detailed description in ESMS in Attachment 1)
* HBOR will monitor and report a number of Key Performance Indicators (KPIs) on stakeholder engagement activities, including the following:
  + Number of consultations conducted within a reporting period
  + Number of stakeholders involved in consultations and other project SEP related activities
  + Number of grievances received annually (both directly by HBOR and by PFIs) and average resolution time (disaggregated by gender and firm size)
  + Total number of grievances and percentage of resolved grievances since the beginning of the project.
  + These KPIs as well as any complementary information on public engagement activities undertaken by HBOR will be conveyed to stakeholders in a short standalone note published or updated yearly on HBOR’s website. Stakeholder engagement activities conducted by HBOR will also be reported back to the World Bank in annual progress reports under a separate section.
* HBOR will prepare and submit project audit reports in accordance with International Standards of Auditing and agreed Financial Management Arrangements (Terms of Reference). Each audit of financial statements will cover one fiscal year of the HBOR, commencing with the fiscal year in which the first withdrawal is made under the loan. In addition, the auditors are expected to deliver management recommendation letters in relation to the Project, identifying any internal control deficiencies and accounting issues. The audit reports audited financial statements, and management recommendation letter will be delivered to the World Bank within six months after the end of each fiscal year. The audited project financial statements will be made publicly available in a timely fashion, and in a manner acceptable to the WB. In case the project audit report includes customer information that is non-disclosable as per local regulations, an abridged version of the project audit reports for that purpose would be prepared.
* HBOR will monitor the performance of the participating financial institutions (PFIs) of the project, based on its Methodology for the Evaluation and Selection of Banks, and will provide the World Bank with annual progress reports, annually starting with year-end 2021. The progress report format is listed in Appendix 1;
* In addition to the project audit, the HBOR will forward to the World Bank annual audited financial statements and management recommendations letters on an annual basis. Such audit will be conducted by auditors acceptable to the World Bank and will be delivered to the World Bank within six months after the end of each fiscal year.
* For the duration of the Project implementation period, beginning with year-end 2021, HBOR will submit semi-annually a compliance certificate signed by authorized HBOR signatories confirming ongoing compliance with laws and regulations issued by the Croatian authorities applicable to HBOR and providing information on agreed prudential ratios. The Compliance certificate format is listed in Appendix 7;
* The financial statements and other financial reports that are required for the internal and external purposes for the users like the Managing Board, external auditors and other institutions are prepared and generated out of the reports from the General ledger, subsidiary accounts and other auxiliary records on the balance sheet date.
* In terms of the Accounting Policies, the balance sheet date is deemed to be the date of the preparation of the financial and accounting reports under individual positions, the financial statements during the year, and the annual financial statements.

1. PROCUREMENT ARRANGEMENTS

**The Procurement Regulations do not apply to the procurement of Goods, Works, Non‐consulting Services, and Consulting Services financed by the World Bank through loans made by eligible financial intermediaries to private borrowers.** The project proposes HBOR to act as the financial intermediary which will on‐lend World Bank loan proceeds directly or through PFIs to eligible project beneficiaries. Accordingly, as per Section II. General Considerations of the Procurement Regulations for Investment Project Finance (IPF) Borrowers (July 2016, revised November 2017), the World Bank’s Procurement Regulations will not apply to the project.Listen

Read phonetically

Dictionary - [View detailed dictionary](http://www.google.com/dictionary?source=translation&hl=en&q=&langpair=hr|en)

1. Environmental and social STANDARDS
2. The HBOR shall and shall cause PFIs and Sub-loan Beneficiaries as the case may be to ensure that the Project is carried out in accordance with the Environmental and Social Standards, in a manner acceptable to the World Bank.
3. Without limitation upon paragraph 1. above, the HBOR shall, and shall cause the PFIs and Sub-loan Beneficiaries to, ensure that the Project is implemented in accordance with the Environmental and Social Commitment Plan (“ESCP”), in a manner acceptable to the World Bank. To this end, the HBOR shall, and shall cause the PFIs, as the case may be to, ensure that:
4. the measures and actions specified in the ESCP are implemented with due diligence and efficiency, as provided in the ESCP;
5. sufficient funds are available to cover the costs of implementing the ESCP;
6. policies and procedures are maintained, and qualified and experienced staff in adequate numbers are retained to implement the ESCP, as provided in the ESCP; and
7. the ESCP, or any provision thereof, is not amended, repealed, suspended or waived, except as the World Bank shall otherwise agree in writing, as specified in the ESCP, and ensure that the revised ESCP is disclosed promptly thereafter.
8. The HBOR shall, and shall cause the PFIs and Project Beneficiaries as the case may be, to ensure that:
9. all measures necessary are taken to collect, compile, and furnish to the World Bank through regular reports, with the frequency specified in the ESCP, and promptly in a separate report or reports, if so requested by the World Bank, information on the status of compliance with the ESCP and the environmental and social instruments referred to therein, all such reports in form and substance acceptable to the World Bank, setting out, inter alia: (i) the status of implementation of the ESCP; (ii) conditions, if any, which interfere or threaten to interfere with the implementation of the ESCP; and (iii) corrective and preventive measures taken or required to be taken to address such conditions; and
10. the World Bank is promptly notified of any incident or accident related to or having an impact on the Project which has, or is likely to have, a significant adverse effect on the environment, the affected communities, the public or workers, in accordance with the ESCP, the environmental and social instruments referenced therein and the Environmental and Social Standards.
11. The World Bank shall, and shall cause PFIs to, establish, publicize, maintain and operate an accessible grievance mechanism, to receive and facilitate resolution of concerns and grievances of Project-affected people, and take all measures necessary and appropriate to resolve, or facilitate the resolution of, such concerns and grievances, in a manner acceptable to the World Bank.

The HBIR/PIU shall ensure adequate staffing to supervise the implementation of the ESMS, regular communication and feedback from the PFIs, training of the PFIs as needed and updates or revisions to the ESMS in agreement with the World Bank team.

Full details and guidance are provided in the Environmental and Social Management System provided in Attachment 1 of this document.

# APPENDIX 1: SAMPLE PROGRESS REPORT

**Introduction**

This section should briefly describe:

* The reporting period;
* The key activities undertaken during this period, and the overall progress of project implementation

**Project Development Objective (PDO)**

* Progress towards achieving the PDO (if possible) and progress in terms of PDO indicators
* Any risk to achieving the PDO and mitigating measures undertaken/proposed

**External Factors**

This would describe any events/developments that have happened during the reporting period, are not a direct result of the project, but may affect project implementation (examples: changes in government, change of project personnel/management, etc.)

**Status of Implementation**

This section can be broken down by key activities, and detail the following:

* Progress on activities (in addition to the qualitative description, please provide an update in terms of disbursements)
* Status of achievement of PBCs
* Challenges faced and resolution implemented or proposed new course of action

**Fiduciary Arrangements**

Any challenges in terms of fiduciary arrangements, cause, and resolution, for the following:

* Financial Management issues
* Disbursement issues

**Environmental and Social Safeguards Issues**

Any developments related to the environmental and social safeguards aspects under the Project

**Institutional Issues**

Any issues related to anything else not covered elsewhere, issues with Project management arrangements, issues with capacity building, etc.

**Next Steps**

This section should describe the key action items to be completed/carried out during the next reporting cycle. If any outstanding issues were identified under the fiduciary arrangements, next steps should be provided to address these issues

**Annexes**

* Table 1: Project Sources & Uses of Funds[[9]](#footnote-10) Table 2: Use of Funds by Loan Term[[10]](#footnote-11)
* Table 3: Uses of Funds by Loan Customer (Sub-Loan Beneficiary)[[11]](#footnote-12)
* Table 4: Designated Account (DA) Statement[[12]](#footnote-13)
* Table 5: Project Balance Sheet as at (xx/xx/20xx)[[13]](#footnote-14)
* Table 6: PBC and EEP report[[14]](#footnote-15)
* Table 7: Project Monitoring and Evaluation[[15]](#footnote-16)
* Table 8: PFIs – Intermediate Results Indicators[[16]](#footnote-17)
* Table 9: Key performance Indicators on stakeholder engagement activites (HBOR and PFIs)[[17]](#footnote-18)
* Environmental and Social Monitoring Report to the World Bank (filled by Sub-loan Beneficiary)[[18]](#footnote-19)
* HBOR Environmental and Social Compliance Report[[19]](#footnote-20)
* PFIs Environmental and Social Compliance Report[[20]](#footnote-21)
* Compliance Certificate for HBOR[[21]](#footnote-22)

# Appendix 2: Project Reporting FormatS

|  |  |  |  |
| --- | --- | --- | --- |
| **HELPING ENTERPRISES ACCESS LIQUIDITY IN CROATIA** | | | |
|  |  |  |  |
| **Table 1: Project Sources & Uses of Funds** | | | |
| **For: Semester ended xx/xx/20xx** | | | |
| **in EUR** | | | |
|  | **Actual** | | |
|  | **Current Semester** | **Year to Date** | **Cumulative to Date** |
|  |  |  |  |
| **Opening Cash Balance** |  |  |  |
| Designated Account |  |  |  |
|  |  |  |  |
| Add: |  |  |  |
| **Sources of Funds** |  |  |  |
| Designated Account Replenishments |  |  |  |
| Direct Payments |  |  |  |
| LoC Reimbursements (category 1) |  |  |  |
| PBC Reimbursements (category 2) |  |  |  |
| Less: |  |  |  |
| Uses of Funds |  |  |  |
| **A) HBOR direct financing:** |  |  |  |
| **B) Sub-loans to PFIs** |  |  |  |
| PFI 1 |  |  |  |
| PFI 2 |  |  |  |
| PFI xyz |  |  |  |
| **C) Co-financing** |  |  |  |
| PFI 1 |  |  |  |
| PFI 2 |  |  |  |
| PFI xyz |  |  |  |
| **Closing Cash Balance** |  |  |  |
| Designated Account |  |  |  |

|  |  |  |  |
| --- | --- | --- | --- |
| **Table 2: Use of Funds by Loan Term** | | | |
| **For : Semester ended xx/xx/20xx** | | | |
| **in EUR** | | | |
|  | **Actual** | | |
| **Project Activities** | **Current Semester** | **Year to Date** | **Cumulative to Date** |
| **A) HBOR direct financing:** |  |  |  |
| Short/Medium term Loans (up to 5 yrs) |  |  |  |
| Long Term Loans |  |  |  |
| **B) Sub-loans to PFIs** |  |  |  |
| Short/Medium term Loans (up to 5 yrs) |  |  |  |
| Long Term Loans |  |  |  |
| **C) Co-financing** |  |  |  |
| Short/Medium term Loans (up to 5 yrs) |  |  |  |
| Long Term Loans |  |  |  |

|  |  |  |  |
| --- | --- | --- | --- |
| **Table 3: Uses of Funds by Loan Customer (sub-loan beneficiary)** | | | |
| **For : Semester ended xx/xx/20xx** | | | |
| **in EUR** | | | |
|  | **Actual** | | |
| **Project Activities** | **Current Semester** | **Year to Date** | **Cumulative to Date** |
|  |  |  |  |
| **A) HBOR direct financing:** |  |  |  |
| Firm 1 |  |  |  |
| Firm 2 |  |  |  |
| Firm 3 |  |  |  |
| **B) Sub-loans to PFIs** |  |  |  |
| **PFI 1** |  |  |  |
| Firm 1 |  |  |  |
| Firm 2 |  |  |  |
| Firm 3 |  |  |  |
| **PFI 2** |  |  |  |
| Firm 1 |  |  |  |
| Firm 2 |  |  |  |
| Firm 3 |  |  |  |
| **PFI xyz** |  |  |  |
| Firm 1 |  |  |  |
| Firm 2 |  |  |  |
| Firm 3 |  |  |  |
| **C) Co-financing** |  |  |  |
| **PFI 1** |  |  |  |
| Firm 1 |  |  |  |
| Firm 2 |  |  |  |
| Firm 3 |  |  |  |
| **PFI 2** |  |  |  |
| Firm 1 |  |  |  |
| Firm 2 |  |  |  |
| Firm 3 |  |  |  |
| **PFI xyz** |  |  |  |
| Firm 1 |  |  |  |
| Firm 2 |  |  |  |
| Firm 3 |  |  |  |

|  |  |  |  |
| --- | --- | --- | --- |
| **Table 4: Designated Account (DA) Statement** |  |  |  |
| **For : Semester ended xx/xx/20xx** | | | |
| **in EUR** | | | |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
| Opening balance as at (beginning of semester) 01/0x/20xx |  |  |  |
| IBRD advanced during the semester |  |  |  |
|  |  |  |  |
|  |  |  |  |
| Less: Refund to IBRD from DA during the semester |  |  |  |
|  |  |  |  |
|  |  |  |  |
| Loans advanced/expenses paid in period |  |  |  |
|  |  |  |  |
|  |  |  |  |
| Opening balance as at (beginning of next semester) 3x/xx/20xx |  |  |  |
| Unexplained difference |  |  |  |
|  |  |  |  |
|  |  |  |  |
| **Balance per DA Statement** |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Table 5: Project Balance Sheet as at (xx/xx/20xx)** | |  |  |  |
| **in EUR** | | | | |
| **ASSETS** |  |  |  |  |
|  |  |  |  |  |
| Designated Account |  |  |  |  |
| **A) HBOR direct financing:** |  |  |  |  |
| **B) Sub-loans to PFIs** |  |  |  |  |
| PFI 1 |  |  |  |  |
| PFI 2 |  |  |  |  |
| PFI xyz |  |  |  |  |
| **C) Co-financing** |  |  |  |  |
| PFI 1 |  |  |  |  |
| PFI 2 |  |  |  |  |
| PFI xyz |  |  |  |  |
|  |  |  |  |  |
| **TOTAL ASSETS** |  |  |  |  |
|  |  |  |  |  |
|  |  |  |  |  |
| **LIABILITIES** |  |  |  |  |
|  |  |  |  |  |
| Amount due to World Bank |  |  |  |  |
|  | Credit Line (category 1) |  |  |  |
|  | PBCs (category 2) |  |  |  |
|  | Front end fee |  |  |  |
|  |  |  |  |  |
| Gain/Loss |  |  |  |  |
| **TOTAL LIABILITIES** |  |  |  |  |

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Table 6: PBC and EEP report** | | | | | | | | | | |
| ***For the period from xx/xx/201x to xx/xx/201x*** | | | | | | | | | |  |
| ***Reimbursement of EEPs*** | | |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
| EUR | ***Actual*** | | |  | ***Planned*** |  |  | ***Variance*** |  |  |
|  | ***Current semester*** | ***Year to Date` YTD*** | ***Cumulative to Date*** | ***Current semester*** | ***Year to Date` YTD*** | ***Cumulative to Date*** | ***Current semester*** | ***Year to Date` YTD*** | ***Cumulative to Date*** |  |
| Uses of Funds |  |  |  |  |  |  |  |  |  |  |
| Eligible Expenditures Programs (category 2): |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
| **A) HBOR direct financing:** |  |  |  |  |  |  |  |  |  |  |
| **B) Sub-loans to PFIs** |  |  |  |  |  |  |  |  |  |  |
| PFI 1 |  |  |  |  |  |  |  |  |  |  |
| PFI 2 |  |  |  |  |  |  |  |  |  |  |
| PFI xyz |  |  |  |  |  |  |  |  |  |  |
| **C) Co-financing** |  |  |  |  |  |  |  |  |  |  |
| PFI 1 |  |  |  |  |  |  |  |  |  |  |
| PFI 2 |  |  |  |  |  |  |  |  |  |  |
| PFI xyz |  |  |  |  |  |  |  |  |  |  |
| **Sub total \*** |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
|  | ***EUR attributed*** | ***Euro amount corresponding results achieved*** |  |  |  |  |  |  |  |  |
| **PBC 1.1** |  |  |  |  |  |  |  |  |  |  |
| **PBC 1.2** |  |  |  |  |  |  |  |  |  |  |
| **PBC 2.1** |  |  |  |  |  |  |  |  |  |  |
| **PBC 2.2.** |  |  |  |  |  |  |  |  |  |  |
| **PBC 2.1** |  |  |  |  |  |  |  |  |  |  |
| ***Total:*** |  | **-** |  |  |  |  |  |  |  |  |

Appendix 3: Statement of Expenditures for PBCs

|  |  |  |
| --- | --- | --- |
|  | | |
|  | | |
|  |  | | | |  |  | |  | |  | |  |  | |  | |  |
| 1 | 2 | | | | 3 | 4 | | 5 | | 6 | | 7 | 8 | | 9 | | 10 |
| Item No. | PBCs Description | | | | PBC achieved (Y/N) | Amount allocated | | EEP Amount Incurred | | Amount requested in this WA | | Elig. % | Amount Eligible for Financing, to be Reimbursed | | Difference between (4) and (8) - amount to be further documented (if 4>8) or used for future DLI achievements (if 8>4) | | Remarks |
|  |  | | | |  |  | |  | |  | |  |  | |  | |  |
|  |  | | | |  |  | |  | |  | |  |  | |  | |  |
|  |  | | | |  |  | |  | |  | |  |  | |  | |  |
|  |  | | | |  |  | |  | |  | |  |  | |  | |  |
|  |  | | | |  |  | |  | |  | |  |  | |  | |  |
|  |  | | | |  |  | |  | |  | |  |  | |  | |  |
|  |  | | | |  |  | |  | |  | |  |  | |  | |  |
|  |  | | | |  |  | |  | |  | |  |  | |  | |  |
|  |  | | | |  |  | |  | |  | |  |  | |  | |  |
|  |  | | | |  |  | |  | |  | |  |  | |  | |  |
|  |  | | | |  |  | |  | | TOTALS | |  |  | |  | |  |
| **Certification** | |  | |  | |  |  | |  | |  | | |  | |

Supporting documents for this SOE retained at:(insert location)

The undersigned certifies that expenditures were incurred in line with conditions set out in section III B of Schedule 2 to the Loan Agreement including Schedule 4 and this Customized SOE is consistent with the Verification Report.

Appendix 4: Form of Statement of Expenditure for Sub-Loans

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | |  | |  | | **STATEMENT OF EXPENDITURES (SOE)** | | | | | |  | |  | **IBRD Loan No.:\_\_\_\_\_\_\_\_\_\_\_\_** | | | | | |  |
|  | |  | |  | | **For**  **Sub-Loans** | | | |  | |  | |  | **Application No.: \_\_\_\_\_\_\_\_\_\_\_**  **Category No.: \_\_\_\_\_\_\_\_\_\_\_\_\_**  **SOE No.: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | | | | | |  |
|  | |  | |  | |  | |  | |  | |  | |  |  | | | |  | |  |
|  | |  | |  | |  | |  | |  | |  | |  |  | | | | | |  |
|  | |  | |  | |  | |  | |  | |  | |  |  | | | | | |  |
| 1 | 2 | | 3 | | 4 | | 5 | | 6 | | 7 | | 8 | | | 10 | 11 | | | 12 | |
| Reference or No. of Sub-Loan | Name of Beneficiary | | Currency of Sub-Loan | | Amount of  Sub-Loans | | Date of Sub-Loan | | Amount Paid | | % Financed by IBRD | | Amount Eligible for Financing  (Col 6 x 7) | | | Exchange  Rate | Date of Withdrawal from DA | | | Amount withdrawn from DA | |
|
|
|  |  | |  | |  | |  | |  | |  | |  | | |  |  | | |  | |
|  |  | |  | |  | |  | |  | |  | |  | | |  |  | | |  | |
|  |  | |  | |  | |  | |  | |  | |  | | |  |  | | |  | |
|  |  | |  | |  | |  | |  | |  | |  | | |  |  | | |  | |
|  |  | |  | |  | |  | |  | |  | |  | | |  |  | | |  | |
|  |  | |  | |  | |  | |  | |  | |  | | |  |  | | |  | |
|  |  | |  | |  | |  | |  | |  | |  | | |  |  | | |  | |
|  |  | |  | |  | |  | |  | |  | |  | | |  |  | | |  | |
|  |  | |  | |  | |  | |  | |  | |  | | |  |  | | |  | |
|  |  | |  | |  | |  | |  | |  | |  | | |  |  | | |  | |
|  |  | |  | |  | |  | |  | |  | |  | | |  |  | | |  | |
|  | |  | |  | |  | |  | |  | |  | |  | |  | | **TOTAL** | |  | |

APPENDIX 5: FORM OF DESIGNATED ACCOUNT RECONCILIATION STATEMENT

**DESIGNATED ACCOUNT RECONCILIATION STATEMENT**

LOAN/CREDIT/PPF/COFINANCIER NUMBER \_\_\_\_\_\_\_\_\_\_\_\_\_\_

ACCOUNT NUMBER \_\_\_\_\_\_\_\_\_\_\_\_\_\_ WITH (BANK) \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

1. TOTAL ADVANCED BY WORLD BANK (OR COFINANCIER) US$/EUR \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

2 LESS: TOTAL AMOUNT RECOVERED BY WORLD BANK - US$/EUR \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

3. EQUALS PRESENT OUTSTANDING AMOUNT ADVANCED TO

THE DESIGNATED ACCOUNT (NUMBER 1 LESS NUMBER 2) = US$/EUR \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

===========================================================

4. BALANCE OF DESIGNATED ACCOUNT PER ATTACHED BANK

STATEMENT AS OF DATE \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ US$/EUR \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

5. PLUS: TOTAL AMOUNT CLAIMED IN THIS

APPLICATION NO. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ + US$/EUR \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

6. PLUS: TOTAL AMOUNT WITHDRAWN AND NOT YET CLAIMED

REASON: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ + US$/EUR \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

7. PLUS: AMOUNTS CLAIMED IN PREVIOUS APPLICATIONS

NOT YET CREDITED AT DATE OF BANK STATEMENTS

APPLICATION NO. AMOUNT

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

SUBTOTAL OF PREVIOUS

APPLICATIONS NOT YET CREDITED + US$/EUR \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

8. MINUS: INTEREST EARNED - US$/EUR \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

9. TOTAL ADVANCE ACCOUNTED FOR (NO. 4 THROUGH NO. 9) = US$/EUR \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

10. EXPLANATION OF ANY DIFFERENCE BETWEEN THE TOTALS APPEARING ON LINES 3 AND 9:

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

11. DATE: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ SIGNATURE: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

TITLE: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

# Appendix 6: Sample Terms of Reference for an Extended Scope Financial Statements Audit

Extended to Cover Review of Performance-based Indicators and Eligible Expenditures used to achieve the DLIs/PBC’s and EEPs

***Introduction***

1. [*This section should provide appropriate background information on the project that is subject to audit, including a brief description of the project; its implementation arrangements, including the name of the implementing agency/recipient; the sources of financing, and the requirement for periodic audits.]*

***Objective***

1. The objective of the audit of the project financial statements is to enable the auditor to express a professional opinion on the project’s financial position as at the end of [audit reference date] and of the income and expenditure for the accounting period ending on that date. The project’s books of account provide the basis for preparation of the financial statements and are established to reflect the financial transactions in respect of the project.

***Responsibility for preparation of financial statements***

1. The project’s management is responsible for the preparation of financial statements, including the maintenance of adequate accounting records and internal controls, the selection and application of accounting policies, the safeguarding of the assets of the project, and adequate disclosure. As part of the audit process, the auditor will request from management written confirmation concerning representations made to us in connection with the audit.

***Scope***

1. The audit will be conducted in accordance with [International Standards on Auditing](http://www.ifac.org/sites/default/files/publications/files/IAASB%20HANDBOOK_Vol%201_0.pdf). Those Standards require that the auditor plans and performs the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.
2. In complying with International Standards on Auditing, the auditor is expected to pay particular attention to the following matters, including special considerations for public sector entities:
3. In planning and performing the audit to reduce audit risk to an acceptably low level, the auditor should consider the risks of material misstatements in the financial statements due to fraud, as required by [International Standard on Auditing 240: The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements](http://www.ifac.org/sites/default/files/publications/files/A012%202013%20IAASB%20Handbook%20ISA%20240.pdf).
4. When designing and performing audit procedures and in evaluating and reporting the results thereof, the auditor should recognize that noncompliance by the entity with laws and regulations may materially affect the financial statements, as required by [International Standard on Auditing 250: Consideration of Laws and Regulations in an Audit of Financial Statements](http://www.ifac.org/sites/default/files/publications/files/A013%202013%20IAASB%20Handbook%20ISA%20250.pdf).
5. The auditor should communicate audit matters of governance interest arising from the audit of financial statements to those charged with governance of an entity, as required by [International Standard on Auditing 260: Communication of Audit Matters with those Charged with Governance](http://www.ifac.org/sites/default/files/publications/files/A014%202013%20IAASB%20Handbook%20ISA%20260.pdf).
6. The auditor should communicate appropriately to those charged with governance and to management any deficiencies in internal control that the auditor has identified in an audit of financial statements, as required by [International Standard on Auditing 265: Communicating Deficiencies in Internal Control to Those Charged with Governance and Management](http://www.ifac.org/sites/default/files/publications/files/A015%202013%20IAASB%20Handbook%20ISA%20265.pdf).
7. To reduce audit risk to an acceptably low level, the auditor should determine overall responses to assessed risks at the financial statement level, and should design and perform further audit procedures to respond to assessed risks at the assertion level, as required by [International Standard on Auditing 330: The Auditor’s Responses to Assessed Risks](http://www.ifac.org/sites/default/files/publications/files/A019%202013%20IAASB%20Handbook%20ISA%20330.pdf).
8. When certain aspects of an entity’s operations are performed by a third-party service provider, the auditor is expected to include an understanding and assessment of the internal control environment of the service provider during the audit process, as required by [International Standard on Auditing 402: Audit Considerations Relating to an Entity Using a Service Organization](http://www.ifac.org/sites/default/files/publications/files/A020%202013%20IAASB%20Handbook%20ISA%20402.pdf).
9. As part of the audit process, the auditor is expected to obtain written representations from management and, where appropriate, those charged with governance, as required by [International Standard on Auditing 580: Written Representations](http://www.ifac.org/sites/default/files/publications/files/A032%202013%20IAASB%20Handbook%20ISA%20580.pdf).
10. When the external auditor decides to use the work of an entity’s internal audit function to modify the nature or timing, or reduce the extent, of audit procedures to be performed directly by the external auditor, the determination shall be in accordance with [International Standard on Auditing 610 (Revised): Using the Work of Internal Auditors](http://www.ifac.org/sites/default/files/publications/files/A045%202013%20IAASB%20Handbook%20ISA%20610%20(Revised%202013).pdf).
11. In determining whether to use the work of an auditor’s expert or the extent to which the work of an auditor’s expert is adequate for audit purposes, the determination shall be made in accordance with [International Standard on Auditing 620: Using the Work of an Auditor’s Expert](http://www.ifac.org/sites/default/files/publications/files/A035%202013%20IAASB%20Handbook%20ISA%20620.pdf).
12. In evidencing compliance with agreed project financing arrangements, the auditor is expected to carry out tests to confirm that:
13. All external funds have been used in accordance with the conditions of the relevant financing agreements, with due attention to economy and efficiency, and only for the purposes for which the financing was provided. Relevant financing agreements include [*Loan/Credit Agreement*s].
14. Counterpart funds have been provided and used in accordance with the relevant financing agreements, with due attention to economy and efficiency, and only for the purposes for which they were provided.
15. Goods, works, and services financed have been procured in accordance with relevant financing agreements,[[22]](#footnote-23) including specific provisions of the World Bank Procurement Guidelines.[[23]](#footnote-24)
16. All necessary supporting documents, records, and accounts have been maintained in respect of all project activities, including expenditures reported using Statements of Expenditure (SOE) or Interim Unaudited Financial Statements (IFS) methods of reporting. The auditor is expected to verify that respective reports issued during the period were in agreement with the underlying books of account.

***Extended scope***

1. In addition to the audit opinion on the entity financial statements, the auditors will report on the eligibility of expenditures used to document the Disbursement Linked Indicators (DLIs) or Performance Based Conditions (PBCs):
2. Review documentation supporting DLIs/PBCs and the underlying Eligible Expenditures and confirm that the said expenditures have been incurred for the purpose intended.

***Project financial statements***

1. The auditor should verify that the financial statements have been prepared in accordance with [International Public Sector Accounting Standards](http://www.ifac.org/sites/default/files/publications/files/Volume%201_0.pdf) (cash basis). The financial statements should include:
   1. A summary of funds received from the World Bank, other financiers and counterpart contributions from the borrower, all presented separately;
   2. A summary of expenditures paid, presented under project account headings and main categories of expenditures; and
   3. Additional disclosures in explanatory notes, including details of statements of expenditures (SOE) supporting Withdrawal Applications submitted during the period, a reconciliation of movements on the Designated Account, and a statement of fund balances].
   4. When the entity makes publicly available its approved budget, a comparison of budget and actual amounts either as a separate additional financial statement or as a budget column in the financial statements; and
   5. Notes, comprising a summary of significant accounting policies and other explanatory notes.

[*The explanatory notes should include reconciliation between the amounts shown as “received by the project from the World Bank” and those disbursed by the Bank and a summary of movements on the project’s designated account.*]

***Review of Statements of Expenditure and Interim Unaudited Financial Statements***

1. The auditor is required to audit all SOE/IFS submitted to the World Bank in support of requests for periodic replenishment of the project designated account(s). Expenditures should be examined for eligibility based on criteria defined in the terms of the financing agreement and detailed in the Project Appraisal Document. The auditor should report any ineligible expenditures identified as having been included in withdrawal applications and reimbursed.

***Review of designated accounts***

1. During the audit of the project financial statements, the auditor is required to review the activities of the project’s designated account(s). Activities to be examined will include deposits received, payments made, interest earned, and reconciliation of period-end balances.

***Audit reports***

1. The auditor will issue an audit opinion on the financial statements.
2. In addition to the audit opinion, the auditor will also, either in the audit report or in the report to management:

(a) provide comments and observations on the accounting records, systems, and controls that were examined during the course of the audit;

(b) identify specific deficiencies and areas of weakness in systems and controls and make recommendation for their improvement;

(c) report on instances of noncompliance with the terms of the financial agreement(s);

(d) quantify and report expenditures that are considered to be ineligible and either paid out of the designated account(s) or claimed from the World Bank;

(e) communicate matters that have come to attention during the audit that might have a significant impact on the implementation of the project; and

(f) bring to the borrower’s attention any other matters that the auditor considers pertinent.

1. The auditor’s opinion on the financial statements and management letter should be received by the Bank no later than six months after the end of a calendar year subject to the audit.

***General***

1. The auditor is entitled to unlimited access to all information and explanations considered necessary to facilitate the audit, including legal documents, project preparation and supervision reports, reports of reviews and investigations, correspondences, and credit account information. The auditor may also seek written confirmation of amounts disbursed and outstanding in the Bank records.
2. The auditor is encouraged to meet and discuss audit-related matters, including input to the audit plan, with the World Bank project task team.
3. 17. It is highly desirable that the auditor reviews the Bank's financial reporting and auditing requirements contained in OP 10.00 Investment Project Financing, Bank Policy: Program for Results Financing, and OP 8.60 Development Policy Lending. The auditor should also be familiar with the Disbursement Guidelines for Investment Project Financing (February 2017), the Loan Handbook for World Bank Borrowers (February 2017), and the World Bank’s Procurement Framework (July 2016).

# Appendix 7: COMPLIANCE CERTIFICATE FOR HBOR

**SEMMI-ANNUALLY**

Dear Sirs,

1. We refer to the Loan Agreement relating to Helping Enterprises Access Liquidity (HEAL) Project of EUR 200,000,000 dated 8th June 2021 made between ourselves as Borrower and International Bank for Reconstruction and Development (as Lender). Terms defined in the Loan Agreement shall have the same meaning in this notice.
2. We hereby declare that HBOR fully meets the requirements and implements the provisions of the Croatian Bank for Reconstruction and Development Act (Official Gazette No. 138/06 hereinafter the HBOR Act) and other applicable laws and regulations ensuing from the HBOR Act.”
3. Capital Adequacy Ratio as at ------- is ------% and calculated as follows:

Total Regulatory Capital amounts to HRK ------- million and is divided by Total Capital Requirements amounts to HRK ------- million -----------------.

1. Total gross loans as at \_\_\_\_amount to HRK\_\_\_\_million.

Gross loans to other customers as at \_\_\_\_\_amount to HRK\_\_\_\_\_million of which Risk sharing model amounts to HRK \_\_\_\_\_\_\_million.

Risk sharing model includes loans according to risk sharing models, syndicated and club loans approved in cooperation with commercial banks, where the cooperation has not been terminated from the approval until the reporting date.

Gross loans to financial institutions as at \_\_\_\_\_amount to HRK\_\_\_\_\_million of which Risk sharing model amounts to HRK\_\_\_\_\_\_\_million.

Risk sharing model includes loans according to risk sharing models, syndicated and club loans approved in cooperation with commercial banks, where the cooperation has not been terminated from the approval until the reporting date.

1. Net interest income as at \_\_\_\_amounts to HRK\_\_\_million.

Total net interest margin as at \_\_is \_\_\_\_% and represents the difference between  total interest income and total interest expense divided by average net assets.

1. Return on average equity as at \_\_is\_\_\_\_% and is calculated as follows\_

Profit for the year/period amounts to HRK \_\_\_\_\_million and is divided by average equity (excluding other reserves) amounts to HRK\_\_\_\_\_\_million.

1. Use of EU funds by HBOR as at\_\_\_\_ is \_\_\_% and calculated as follows:

Amount of EU funds (disbursed) divided by total sources of funding of HBOR which are calculated as a sum of: (i) borrowings and debt securities issued, (ii) capital contributed from the budget of the Republic of Croatia, and (iii) EU funding.

1. Highest Single Exposure Ratio is \_\_\_\_\_%, calculated based on CNB definition.
2. Total Loan Loss Provisioning is \_\_\_\_\_, and is calculated as follows:

Provisions for losses on loans according to Statement of Financial Position amount to HRK \_\_\_\_\_million divided by total gross loans amounting HRK \_\_\_\_\_\_ million.

The following tables sets out information about the credit quality of financial assets measured at amortised cost. The amounts in the table represent gross carrying amounts:

The following tables sets out information about the credit quality of financial assets measured at amortised cost. The amounts in the table represent gross carrying amounts:

1. **Loans to financial institutions**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **31 March 2021** |  |  | **Group and Bank** | |
|  | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
|  | **HRK 000** | **HRK 000** | **HRK 000** | **HRK 000** |
|  |  |  |  |  |
| Gross amount | 8,360,443 | 197,242 | 19,278 | 8,576,963 |
| Loss allowances | (35,308) | (31,409) | (9,758) | (76,475) |
| **Balance as of 31 March 2021** | **8,325,135** | **165,833** | **9,520** | **8,500,488** |

Coverage of NPLs by provisions in gross loans to financial institutions stood at \_\_ and is calculated as follows:

Total loss allowances in risk categories Stage 3 amount to HRK\_\_\_\_\_million\_divided by total gross loans to financial institution in risk categories Stage 3 ~~and~~ ~~POCI~~ amounting HRK\_\_\_million.

Financial institutions non-performing loans ratio is \_\_\_\_\_and is calculated as follows:

Total gross loans to financial institutions in risk categories Stage 3 amount to HRK \_\_ million divided by total financial institution’s gross loans amounting HRK \_\_\_million.

Za potrebe izračuna non-performing loans, total gross loans to financial institutions includes

bruto kredite financijskim institucijama, novčana sredstva koja se odnose na sredstva izdvojena na računu kod HNB-a i devizne račune kod ino i domaćih banaka te depozite kod drugih banaka.

1. **Loans to other customers**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **31 March 2021** |  |  |  | **Group and Bank** | |
|  | **Stage 1** | **Stage 2** | **Stage 3** | **POCI** | **Total** |
|  | **HRK 000** | **HRK 000** | **HRK 000** | **HRK 000** | **HRK 000** |
|  |  |  |  |  |  |
| Gross amount | 12,011,214 | 885,926 | 4,443,854 | 1,369,170 | 18,710,164 |
| Loss allowances | (363,417) | (325,858) | (2,500,256) | (197,776) | (3,387,307) |
| **Balance as of 31 March 2021** | **11,647,797** | **560,068** | **1,943,598** | **1,171,394** | **15,322,857** |

Coverage of NPLs by provisions in gross loans to other customers stood at \_\_ and is calculated as follows:

Total loss allowances in risk categories Stage 3 amount to HRK\_\_\_\_\_million and POCI amount to HRK\_\_\_\_\_million\_divided by total gross loans to other customers in risk categories Stage 3 and POCI amounting HRK\_\_\_million.

Other borrowers non-performing loans ratio is \_\_ and is calculated as follows:

Total gross loans to other customers in risk categories Stage 3 amount to HRK\_\_\_\_\_million and POCI amount to HRK \_\_ million divided by total other customer’s gross loans amounting HRK \_\_\_million.

1. HBOR's annual share in the aggregate Croatian banking system of a new bank loans placed to corporate clients is presented in a table below:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Year | 2015. | 2016. | 2017. | 2018. | 2019. | 2020. |
| HBOR’ share | 8,4% | 8,4% | 7,3% | 5,8% | 5,8% | 5,8% |

1. Total Equity amounts to HRK ------- million.
2. We hereby confirm that no Default is outstanding.

Yours faithfully,

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

For and on behalf of

Hrvatska banka za obnovu i razvitak

# Appendix 8: Project Monitoring and Evaluation

SEMMI-ANNUALLY

| **Indicator Name** | **Baseline** | **End Target** | **Results as at\_\_\_\_\_** |
| --- | --- | --- | --- |
| **Support for recovery and resilience** | | | |
| Number of exporters receiving sub-loans under the project that remain solvent (Percentage) | 0.00 | 90.00 |  |
| Number of firms financed in underserved segments and lagging regions (Number) | 0.00 | 75.00 |  |
| Increased use of EU funds by HBOR (Percentage) | 1.10 | 8.00 |  |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Monitoring & Evaluation Plan: PDO Indicators** | | | | | |
| **Indicator Name** | **Definition/Description** | **Frequency** | **Datasource** | **Methodology for Data Collection** | **Responsibility for Data Collection** |
| Number of exporters receiving sub-loans under the project that remain solvent | This indicator will measure the continued viability i.e. recovery of private exporters from the economic impact of the COVID-19 pandemic by using the Financial Agency’s (FINA) data by monitoring if a project-supported exporter was put under enforcement due to unsettled obligations. The FINA records all business entities’ transactions, time deposits and other financial data, and conducts the enforcement of the monetary funds. | Semi-annually | Borrower/Implementing Agency | Semi-annual progress reports | Borrower/Implementing Agency |
| Number of firms financed in underserved segments and lagging regions | Total number of firms financed in underserved segments (women-owned or managed, young firms) and lagging region | Semi-annually | Borrower/Implementing Agency | Semi-annual progress reports | Borrower/Implementing Agency |
| Increased use of EU funds by HBOR | The indicator will be calculated as a ratio of EU funding (disbursed) as percent of total sources of funding of HBOR. The amount of EU funds will refer to the overall amount where HBOR is the implementing body of both EU funds allocated from the national level and special financial arrangements with EC (i.e centrally managed EU funds). The total sources of funding are calculated as a sum of: (i) borrowings and debt securities issued, (ii) capital contributed from the budget of the Republic of Croatia, and (iii) EU funding. | Semi-annually | Borrower/Implementing Agency. | Borrower/Implementing Agency. In 2019, the 1.1 percent was calculated as a ratio of HRK 250.2 million and HRK 21.98 billion. | Borrower/Implementing Agency |

| **RESULT\_FRAME\_TBL\_IO** |  |  |  |
| --- | --- | --- | --- |
| **Indicator Name** | **Baseline** | **End Target** | **Results as at\_\_\_\_\_** |
| **Support for recovery and resilience** | | | |
| Amount of lending extended to project beneficiaries (Text) | 0.00 | no less than EUR 200 million |  |
| Amount of private co-financing mobilized (Text) | 0.00 | At least 40% |  |
| Number of financed project beneficiaries (Number) | 0.00 | 150.00 |  |
| Number of exporting firms financed (Text) | 0.00 | At least 50% of supported firms |  |
| Number of women-owned or managed firms under the Project (Text) | 0.00 | At least 20% |  |
| Number of jobs supported by the Project (Number) | 0.00 | 25,000.00 |  |
| Citizen engagement: Firms that report project financing reflected their needs (%) (Percentage) | 0.00 | 90.00 |  |
| PFIs compliance with prudential regulations (Yes/No) | Yes | Yes |  |
| NPL ratio under the Project (Text) | 0.00 | not more than industry average as defined by corporate sector NPLs (data source: CNB) |  |
| HBOR's total gross loans (Text) | HRK 5.77 billion | At least 10% increase of total gross loans compared to 2019 |  |
| HBOR's net interest income (Text) | HRK 353.0 million | preservation of positive financial result |  |
| HBOR's return on equity (excluding subsidies) (Text) | 1.50 | at least equal to inflation |  |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Monitoring & Evaluation Plan: Intermediate Results Indicators** | | | | | |
| **Indicator Name** | **Definition/Description** | **Frequency** | **Datasource** | **Methodology for**  **Data Collection** | **Responsibility for**  **Data Collection** |
| Number of firms financed under the Project (cumulative) | Number of firms financed under the Project (cumulative) | semi-annual | project/PIUs records | Analysis of sub-loan data | PIUs |
| Volume of credit line disbursed under the Project (cumulative, EUR million) (Number) | Volume of credit line disbursed under the Project (cumulative, EUR million) | Semi-annual | Progress reports | analysis of sub-loan data | PIUs |
| Number of firms financed in vulnerable segments (women inclusive, young firms and lagging regions) through PFIs (cumulative) | Number of firms financed in vulnerable segments under the Project (cumulative). Vulnerable segments includes women -inclusive enterprises, young enterprises, and enterprises in lagging regions as defined in Project documents. | Semi-annual | Progress reports | Analysis of sub-loan recipients | PIU/PFIs |
| Number of women-inclusive firms financed through PFIs (cumulative) | Women-inclusive Enterprises are defined as: (i) more than 50% owned by women (i.e., with at least one female shareholder with a properly documented representative and managing powers); or (ii) managed by women (i.e., with at least one female C-level manager or with at least 25 percent female representation in mid-level management); or (iii) employing a ratio of women that is higher than the average ratio observed in the respective sector; or (iv) has increased the share of women employment by at least 5 percent in the previous year. | Semi-annual | Progress Reports | Analysis of sub-loan recipients | PIUs/PFIs |
| Number of jobs preserved/created by MSMEs (women-inclusive MSMEs) | Number of jobs preserved/created by MSMEs and disaggregated for women-inclusive MSMEs | annual | Progress Reports | Analysis of progress reports | PIUs/PFIs |
| Portfolio Quality: Portfolio at risk (%) | The indicator is not MSME specific and follows the local definition for NPLs, as regulated by the Banking Agencies. The indicator will report by PFI, both the entire portfolio and the Bank-financed portion.  The quality of sub-loan portfolio is likely to be lower than normally expected in the Bank’s FI projects, given the very negative economic outlook and the credit line’s focus on adversely impacted companies. | Semi-annual | Project reports | Sub-loan data | PIUs/PFIs |
| Financial Sustainability: Return on Assets (%) | The indicator will report by PFI. Analytical indicators, such as the performance of PFIs and their financing, will be monitored for analytical purposes and aim to help improve related policies and projects. Therefore no target values are set. | Annual | Progress Reports | Analysis of audited financial statements | PIUs/PFIs |
| Financial Sustainability: Return on Equity (%) | The indicator will report by PFI. Analytical indicators, such as the performance of PFIs and their financing, will be monitored for analytical purposes and aim to help improve related policies and projects. Therefore no target values are set. | Annual | Progress Reports | Analysis of audited financial statements | PIUs/PFIs |
| Citizen engagement: Share of beneficiaries that report that the project has established effective engagement processes. (Percentage) | Share of beneficiaries that report through new and existing feed-back instruments that the project has established effective engagement processes. | Annually | PIUs in close coordination with stakeholders | Surveys, bi-annual focus groups and other feed-back mechanisms established by PIUs. | PIUs |
| Citizen engagement: Firms that report Project sub-finance reflected their needs (%) | A mid-term beneficiary feedback survey will measure the satisfaction of the sub-beneficiary (MSMEs) with the sub-finance in term of their needs (e.g. longer term working capital and investment finance). | Project mid-term | Report on summary of survey findings | Survey of beneficiary firms | PIUs |
| Monitoring and evaluation mechanism established | Support for development of appropriate M&E mechanisms would include systemic reporting and collection of data on specific input and output indicators related to the implementation of the innovation and entrepreneureship (I&E) support programs. | Annually | PIUs in close coordination with RS MEE and FMDEC | Data from RS MEE and FMDEC | PIUs and RS MEE and FMDEC |
| New annual action plan/firm incentive program adopted including programs promoting technology and digital adoption | Annual target for both ministries, linked to the budget allocation for financing of these programs | Annually | PIUs in close coordination with RS MEE and FMDEC | Surveys, bi-annual focus groups and other feed-back mechanisms established by PIUs in coordination with RS MEE and FMDEC | PIUs and RS MEE and FMDEC |

Appendix 9: VERIFICATION PROTOCOL

A 40 percent or EUR 80 million of HEAL Project is conditional on the achievements of performance-based conditions (PBCs) in support of structural reforms of HBOR. The use of these proceeds is also to provide sub-loans to eligible project beneficiaries as the funding for activities to achieve the PBCs is secured by HBOR’s own resources or Technical Assistance grants.

Achievement of the PBCs is confirmed to the World Bank according to the Verification Protocol. The verification is done by HBOR (Management Board confirmation), and the validation is done by the World Bank team in line with the defined Verification Protocol.

The eligible expenditure is documented using the Statement of Expenditure (SOE) for PBCs achieved and verified in the format provided in Attachment 3 of the Disbursement and Financial Information Letter (DFIL), and (later on) reconciled in IFRs parts (a) Statement of Sources and Uses of Funds, (b) Report on PBCs and EEPs. Furthermore, with respect to each PBC, there must be supporting evidence satisfactory to the World Bank that the specific results have been attained, as per Schedule 2, Section II.G and Section III.B.1. (b), of the Loan Agreement.

Upon confirmed achievement of a PBC (Confirmation of Results Achievement Notification letter by World Bank representative), the EUR amount, as specified under Schedule 4 of Loan Agreement - Eligible Expenditure Programs (EEPs), will be reimbursed to HBOR (disbursements under the PBC-linked category will use reimbursement as the only disbursement method as per in the DFIL). Such transfer of funds will be done directly from the loan account to a HBOR transaction account upon signed Withdrawal Application (Form 2380), together with the Confirmation of Results Achievement Notification letter by World Bank representative, online through Client Connection. The EEP means a portion of HBOR sub-loans recorded on specific accounts (500, 501, 503, 504, 510, 511, 513, 514) or their successors acceptable to the Bank.

Disbursements for any PBC will be capped at the amount allocated to that PBC for that year, i.e. overachievement of a PBC will not result in any additional payments. Disbursements withheld due to non-achievement of PBCs in a given year may be released in subsequent years once the PBC is achieved. Partial achievement of a PBC is not envisaged.

***Enabling operability and digitalization of HBOR***

|  |  |
| --- | --- |
|  |  |
| **PBC 1.1. The Borrower has adopted its credit rating methodologies and credit scoring for private entrepreneurs** | |
| **Description** | This PBC measures HBOR's progress is making towards enhancing its risk management. The PBC refers to adoption and implementation of the improved credit rating and scoring models which will better reflect real client’s risk profile and ensure that the credit risks are properly identified, evaluated and priced. |
| **Amount** | EUR 20,000,000 |
| **Indicative achievement (Calendar Year)** | 2022 |
| **Data source/ Agency** | HBOR |
| **Verification** | Official letter from by HBOR’s Management Board, with supporting evidence attached, confirming that the credit rating methodologies and credit scoring for private entrepreneurs have been adopted and implemented in the credit appraisal by HBOR.  The official letter will certify: (a) the PBC has been met; and (b) eligible expenditures under the Project have been incurred in compliance with the Loan Agreement and in the Project Operations Manual. |
| **Procedure** | (i) The Borrower prepares Statement of Expenditure (SOE) on eligible expenditures​​​​​​​ to be sent to the World Bank;  (ii) The Borrower sends the evidence of achievement of PBCs when they have been achieved to World Bank Task Team for verification;  (iii) The Bank team will review the verification submitted and provide confirmation (Confirmation of Results Achievement Notification) of satisfactory evidence of achievement PBC. |

|  |  |
| --- | --- |
|  |  |
| **PBC 1.2. The Borrower has adopted technical specifications for the new IT core banking system** | |
| **Description** | A major part of the improvement of HBOR’s information system will be the procurement of a new central banking system. The new system must meet HBOR’s established technological network, but more importantly, it must meet the principles of stability, adaptability, security and manageability in real time. The PBC refers adoption of the technical specifications for the new IT core banking system. |
| **Amount** | EUR 10,000,000 |
| **Indicative achievement (Calendar Year)** | 2024 |
| **Data source/ Agency** | HBOR |
| **Verification Entity** | Official letter by HBOR’s Management Board Board, with supporting evidence attached, confirming adoption of a technical specifications for the new IT core banking system.  The official letter will certify: (a) the PBC has been met; and (b) eligible expenditures under the Project have been incurred in compliance with the Loan Agreement and in the Project Operations Manual. |
| **Procedure** | (i) The Borrower prepares Statement of Expenditure (SOE) on eligible expenditures​​​​​​​ to be sent to the World Bank;  (ii) The Borrower sends the evidence of achievement of PBCs when they have been achieved to World Bank Task Team for verification;  (iii) The Bank team will review the verification submitted and provide confirmation (Confirmation of Results Achievement Notification) of satisfactory evidence of achievement PBC. |

***Strengthening HBOR's sustainability and climate change resilience***

|  |  |
| --- | --- |
|  |  |
| **PBC 2.1. The Borrower has adopted the Implementation Act on OECD's recommendations in the area of export financing** | |
| **Description** | This PBC measures HBOR's progress is making towards strengthening sustainability and climate change resilience. The PBC refers to integrating OECD's recommendations (Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence and Sustainable Lending Practices) in its procedures through the adoption of an implementing act that regulates environmental and social due diligence, and sustainable lending practices in the area of export financing. |
| **Amount** | EUR 10,000,000 |
| **Indicative achievement (Calendar Year)** | 2021 |
| **Data source/ Agency** | HBOR |
| **Verification Entity** | Official letter by HBOR’s Management Board Board, with supporting evidence attached, confirming that the OECD's recommendations have been adopted and implemented in the procedures by the Borrower  The official letter will certify: (a) the PBC has been met; and (b) eligible expenditures under the Project have been incurred in compliance with the Loan Agreement and in the Project Operations Manual. |
| **Procedure** | (i) The Borrower prepares Statement of Expenditure (SOE) on eligible expenditures​​​​​​​ to be sent to the World Bank;  (ii) The Borrower sends the evidence of achievement of PBCs when they have been achieved to World Bank Task Team for verification;  (iii) The Bank team will review the verification submitted and provide confirmation (Confirmation of Results Achievement Notification) of satisfactory evidence of achievement PBC. |

|  |  |
| --- | --- |
|  |  |
| **PBC 2.2. The Borrower has adopted the measures to redesign its policies and procedures for addressing environmental, social and climate aspects of all financed projects** | |
| **Description** | This PBC measures HBOR's progress towards strengthening sustainability and climate change resilience. The PBC refers to adoption of redesigned methodologies for addressing environmental, social and climate aspects of all financed projects. Through this change, HBOR will develop integrated environmental and social sustainability and climate resilience principles, policies and procedures that will systematically cover all business operations and decision-making for all risk levels. |
| **Amount** | EUR 20,000,000 |
| **Indicative achievement (Calendar Year)** | 2023 |
| **Data source/ Agency** | HBOR |
| **Verification Entity** | Official letter by HBOR’s Management Board Board, with supporting evidence attached, confirming that redesigned methodologies for addressing environmental, social and climate aspects of all financed projects have been adopted and implemented in the business process by the Borrower.  The official letter will certify: (a) the PBC has been met; and (b) eligible expenditures under the Project have been incurred in compliance with the Loan Agreement and in the Project Operations Manual. |
| **Procedure** | (i) The Borrower prepares Statement of Expenditure (SOE) on eligible expenditures​​​​​​​ to be sent to the World Bank;  (ii) The Borrower sends the evidence of achievement of PBCs when they have been achieved to World Bank Task Team for verification;  (iii) The Bank team will review the verification submitted and provide confirmation (Confirmation of Results Achievement Notification) of satisfactory evidence of achievement PBC. |

***Extending the use of EU funds***

|  |  |
| --- | --- |
|  |  |
| **PBC 3.1. The Borrower has submitted the completed questionnaires for each applicable pillar to the European Commission for their review and onwards processing** | |
| **Description** | This PBC measures HBOR's progress towards increasing the use of additional EU funds. The PBC refers to submitting the completed questionnaires for each applicable pillar to the European Commission for their review and onwards processing |
| **Amount** | EUR 20,000,000 |
| **Indicative achievement (Calendar Year)** | 2022 |
| **Data source/ Agency** | HBOR |
| **Verification Entity** | Official letter by HBOR’s Management Board Board, with supporting evidence attached, confirming the submission to the European Commission the questionnaires for their assessment whether HBOR has fulfilled the eligibility criteria as implementing entity of EUInvest program.  The official letter will certify: (a) the PBC has been met; and (b) eligible expenditures under the Project have been incurred in compliance with the Loan Agreement and in the Project Operations Manual. |
| **Procedure** | (i) The Borrower prepares Statement of Expenditure (SOE) on eligible expenditures​​​​​​​ to be sent to the World Bank;  (ii) The Borrower sends the evidence of achievement of PBCs when they have been achieved to World Bank Task Team for verification;  (iii) The Bank team will review the verification submitted and provide confirmation (Confirmation of Results Achievement Notification) of satisfactory evidence of achievement PBC. |

# Appendix 10: PFIs - Intermediate results indicators

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Monitoring & Evaluation Plan: Intermediate Results Indicators | | | | | | |
| Indicator Name | Definition/Description | Frequency | Datasource | Methodology for Data Collection | Responsibility for Data Collection | |
| PFIs compliance with prudential regulations | Compliance with prudential regulations monitors financial performance of the bank | Annually | Progress reports/Compliance certificates | Analysis of audited financial statements | Borrower/ Implementing Agency | |
|  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |
| [TEXT BOX] **I. PFIs comply with CNB’s prudential requirements** YES/NO Capital adequacy (including combined capital buffer requirement) Large exposures Total investments in tangible asset Liquidity  **II. PFIs certified annually by the PFIs external auditors** YES/NO  Additional information: PFIs have a corporate NPL ratio (as defined by Croatian National Bank) less than double of the corporate sector average NPL ratio YES/NO | | | | | | |
|  |  |  |  |  |  |  |
| **Eligibility criteria for PFIs** |  |  |  |  |  |  |
| **Indicators** | **Prescibed value** | **Name of PFI 1** | **Name of  PFI 2** | **Name of  PFI 3** | **Name of  PFI 4** | **Name of PFI 5 etc.** |
| **I. Compliance with CNB’s prudential requirements** | |  |  |  |  |  |
| Total (regulatory) capital | ≥ 8% of total risk exposure |  |  |  |  |  |
| Tier 1 capital ratio | ≥ 6% of total risk exposure |  |  |  |  |  |
| Common equity tier 1 capital ratio | ≥ 4.5% of total risk exposure |  |  |  |  |  |
| Combined capital buffer | 4% - 6% of total risk exposure |  |  |  |  |  |
| Exposure to 1 person or group of connected persons | ≤ 25% of liable capital |  |  |  |  |  |
| Total sum of large exposures | ≤ 600% of liable capital |  |  |  |  |  |
| Total investments in tangible asset | ≤ 40% of liable capital |  |  |  |  |  |
| Liquidity Coverage Ratio | ≥100% |  |  |  |  |  |
| **II. Certified annually by the PFIs external auditors** | |  |  |  |  |  |
| External auditor | Certified annually by the PFIs external auditors | | |  |  |  |
|  |  |  |  |  |  |  |
| Corporate NPL ratio | less than double of the corporate sector average NPL ratio |  |  |  |  |  |
| Source: Croatian National Bank (CNB), PFIs supervisory reports. | |  |  |  |  |  |

# Appendix 11: Key performance Indicators on stakeholder engagement activites (HBOR and PFIs)

|  |  |  |
| --- | --- | --- |
| **Item.** | **Key Performance Indicators** | **Reporting Semester \_\_-\_\_\_** |
| 1 | Number of consultations |  |
| 2 | Number of stakeholders involved in consultations and other project SEP related activities |  |
| 3 | Number of grievances received annually |  |
|  | 3.1 directly by HBOR |  |
|  | a) Gender: |  |
|  | - male |  |
|  | - female |  |
|  | b) Firm size: |  |
|  | - SME |  |
|  | - Mid-Cap |  |
|  | 3.2 by PFIs |  |
|  | a) Gender: |  |
|  | - male |  |
|  | - female |  |
|  | b) Firm size: |  |
|  | - SME |  |
|  | - Mid-Cap |  |
| 4 | Average resolution time of grievances received annually |  |
|  | - by gender |  |
|  | - by firm size |  |
| 5 | Total number of grievances (3.1 + 3.2) |  |
| 6 | Percentage of resolved grievances since the beginning of the project |  |

# Attachment 1: ENVIRONMENTAL AND SOCIAL MANAGEMENT SYSTEM

1. Co-financing are sub-loans with documented financing by other financial intermediaries at the time of their extension. [↑](#footnote-ref-2)
2. Appendix to the General Conditions, 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 and as of July 1, 2016. [↑](#footnote-ref-3)
3. The project strives for balanced use of funds among exporters or firms in lagging regions and underserved segments. [↑](#footnote-ref-4)
4. HBOR will strive to balance the portfolio of supported project beneficiaries by size. [↑](#footnote-ref-5)
5. <https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/company-resources/ifcexclusionlist> [↑](#footnote-ref-6)
6. Subsidiary accounts = analytical book-keeping accounts in loan software applications [↑](#footnote-ref-7)
7. Auxiliary records = auxiliary application (usually internally developed) that support the reporting system [↑](#footnote-ref-8)
8. General ledger = consists of data from subsidiary accounts on aggregated basis [↑](#footnote-ref-9)
9. POM, Appendix 2: Project Reporting Formats, Table 1 [↑](#footnote-ref-10)
10. POM, Appendix 2: Project Reporting Formats, Table 2 [↑](#footnote-ref-11)
11. POM, Appendix 2: Project Reporting Formats, Table 3 [↑](#footnote-ref-12)
12. POM, Appendix 2: Project Reporting Formats, Table 4 [↑](#footnote-ref-13)
13. POM, Appendix 2: Project Reporting Formats, Table 5 [↑](#footnote-ref-14)
14. POM, Appendix 2: Project Reporting Formats, Table 6 [↑](#footnote-ref-15)
15. POM, Appendix 8 [↑](#footnote-ref-16)
16. POM, Appendix 10 [↑](#footnote-ref-17)
17. POM, Appendix 11 [↑](#footnote-ref-18)
18. ESMS, Annex B [↑](#footnote-ref-19)
19. ESMS, Annex F [↑](#footnote-ref-20)
20. ESMS, Annex G [↑](#footnote-ref-21)
21. POM, Appendix 7 [↑](#footnote-ref-22)
22. Depending on the complexity of procurement activities, the auditor may consider involving technical experts during the audit engagement. In cases where such experts are involved, the auditor is expected to comply with provisions of [International Standard on Auditing 620: Using the Work of an Auditor’s Expert](http://www.ifac.org/sites/default/files/publications/files/A035%202013%20IAASB%20Handbook%20ISA%20620.pdf). Consideration to use of the work of experts should be brought to the early attention of the borrower and the World Bank for mutual agreement and appropriate guidance. [↑](#footnote-ref-23)
23. [↑](#footnote-ref-24)