

REPUBLIC OF CROATIA
MINISTRY OF SCIENCE AND EDUCATION
IBRD LOAN NO 82580-HR

Second Science and Technology Project

PROJECT OPERATIONAL MANUAL

Zagreb, November 2018

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1. INTRODUCTION

Purpose of the Project Operational Manual

This Manual provides instructions for operational management of the Second Science and Technology Project (STPII). Specifically, it provides description of the:

- Project structure (organization, roles and responsibilities of stakeholders),
- Project communications (including reporting between various stakeholders),
- Procedures related to procurement, financial management (accounting and disbursement), auditing, monitoring and evaluation as well as project reporting and
- Guidelines related to Environmental management procedures.

Revisions of the Manual

Preparation and any modification of the current Operations Manual as well as its Annexes are:

- prepared by Project Implementation Unit,
- reviewed and approved by MSE and the Bank and
- used by project stakeholders in performing their tasks within the STPII project.

Annexes can be updated and submitted for review, approval and Bank's no-objection separately, whenever needed. Each approved version of any document supersedes all previous versions of that document.

Revision Log section of the Manual contains information about all changes made in this document during STPII life cycle.

List of Annexes to the Manual

Following Annexes represent integral part of this document:

1.	Extract 1: Procurement arrangements for sub-beneficiaries of CSF/UKF	Detailed description of procurement arrangements for public entities under CSF /UKF
2.	Extract 2: Procurement arrangements for sub-beneficiaries of HAMAG-BICRO	Detailed description of procurement arrangements for public entities under HAMAG-BICRO
3.	Environmental Management Framework	Detailed description of environmental screening process and responsibilities of stakeholders
4.	Results Framework and Monitoring	Baseline and template for reporting realisation of indicators used to track and monitor project progress
5.	PB Reporting	Sample tables to be used by Beneficiaries for reporting purposes
6.	IFRs	STPII Interim un-audited Financial Reports

List of main project-related documents

Key documents for STPII execution are:

1. The Loan Agreement No. 82580-HR, published by both the World Bank and the Government of Croatia (the latter publication is publicly available in both Croatian and English language at: http://narodne-novine.nn.hr/clanci/medunarodni/2013_07_7_81.html).
2. Any Amendment to the Loan Agreement No. 82580-HR.
3. Official documents of the World Bank (like Project Appraisal Document, Restructuring Paper etc.) that provide detailed description of STPII for stakeholders in the Bank and whose distribution is solely within authority of the Bank and is limited to the personnel authorised by the Bank.
4. Project Implementation Plan that provides detailed description of the Project, its components and activities performed by Beneficiaries within particular components of the Project. Project Implementation Plan was prepared at the beginning of STPII and was approved by MSE. Its distribution is subject to MSE approval.
5. Subsidiary Agreements for CSF and HAMAG-BICRO between the Borrower (represented by MoF and MSE) and HAMAG-BICRO or CSF, respectively, approved by the Bank and for the purpose of implementing the Project through the transfer of funds and responsibility for implementation of certain sub-components from the Borrower to HAMAG-BICRO and CSF, as referenced in Schedule 2, Section I, Part A, paragraph 3 of the Loan Agreement.
6. Procurement Plan that provides information about all procurement activities within the Project except for those performed by final beneficiaries of the Project. Organization and maintenance of the Procurement Plan is responsibility of the PIU. Parts of the Procurement Plan can be published, based on selection of relevant information and adequate preparation by PIU, followed by review and approval by MSE and provision of the No Objection by the Bank.
7. Operations Manuals or Guidelines prepared by Project Beneficiaries for purpose of execution of their STPII Components and Programs should follow and adhere to procedures of this POM. In case of any discrepancy, rules and procedures prescribed in this document prevail.

2. PROJECT ORGANIZATION

The Ministry of Science and Education has overall responsibility for the Project, as specified in the Loan Agreement.

Key STPII stakeholders are:

1. Project Coordinator
2. STPII Steering Committee
3. STPII Working Group
4. Project Implementation Unit
5. Project Beneficiaries

Project Coordinator

Project Coordinator is responsible for overall STPII project implementation and is appointed by MSE according to the:

1. Act of implementation of EU programs and projects financed by loans and grants from Other Foreign Sources (NN 58/2006)
2. Regulation of management and implementation control of projects financed from the loan and grants for Croatia from Other Foreign Sources (NN 33/2007)

The Project Coordinator and Deputy Project Coordinator for the Second Science and Technology Project are appointed by the Minister of Science and Education.

Deputy Project Coordinator alternates Project Coordinator in the absence of the Project Coordinator.

Steering Committee

Steering Committee (SC) is established by MSE, according to the Loan Agreement and is responsible for overall STPII strategic guidance.

The SC is chaired by Project Coordinator in MSE in charge of Science and Technology.

Other members of the Steering Committee are:

1. Project Coordinator as the Chair of the Steering Committee,
2. Project Manager from STPII PIU,
3. Representatives of other ministries relevant for STPII execution
4. Representatives of Scientific Community in Croatia and
5. One representative of each Project Beneficiary (one Member of the Board of the Croatian Science Foundation and of the HAMAG-BICRO).

Steering Committee meets once a year or upon some strategic or other relevant changes which may have impact on STPII implementation.

PIU is in charge of preparing SC meetings as well as for preparing and distributing meeting minutes after each meeting to all members of the SC, the STPII Working Group and the Bank.

The Working Group

The Working Group is established by MSE, according to the Loan Agreement and is responsible for overall coordination of STPII activities performed by STPII Beneficiaries.

The WG is chaired by STPII Project Coordinator or PIU Project Manager.

Other members of the WG are:

1. Members of the Project Implementation Unit in MSE,
2. Representatives of the organizational unit in MSE in charge of scientific and technological projects,
3. Representatives of the organizational unit in MSE in charge of international cooperation, EU programs and projects and

4. Project Activity Coordinators appointed by Project Beneficiaries.

WG meets in accordance with the needs of project implementation and thematic meetings may be scheduled only for the WG members that are in charge for particular part of STPII.

Project Implementation Unit (PIU)

PIU is established by MSE, according to the Loan Agreement and is responsible for STPII operational management, specifically related to:

1. Implementation of project activities in accordance with the Croatian legislative and regulations, as well as World Bank Guidelines,
2. Procurement of goods and services,
3. Financial management of STPII,
4. Fulfilment of STPII reporting obligations,
5. Archiving of the STPII documentation and
6. Support to the Project Beneficiaries.

PIU consists of:

1. Project Manager,
2. Financial Expert and
3. Procurement Expert.

Abovementioned staff is hired for duration of STPII as full-time consultants.

Following PIU costs are covered from STPII:

1. PIU Staff (including travel costs),
2. Financial Management System and
3. PIU Training.

Responsibilities of PIU Members

Project Manager

The Project Manager reports to the Project Coordinator and is responsible for:

1. organization and management of the PIU,
2. overall coordination of activities as well as communication between Beneficiaries and other STPII stakeholders,
3. close cooperation with all relevant stakeholders in design, planning and implementation of project activities,
4. carrying out project activities in accordance to the Croatian legislation and the World Bank procedures, and according to project documents approved by MSE and the Bank,
5. assisting STPII Beneficiaries in all areas related to the project, including but not restricted to business and sustainability plans, financial management, project budgeting, procurement, contract negotiations and management, and related project activities,

6. implementing project activities according to project documentation in the best way possible to accomplish maximum benefit and positive impact for the Project Beneficiaries and ultimately the Croatian economy and society,
7. reporting towards MSE and WB, as well as to other stakeholders in line with documents relevant for STPII execution,
8. monitoring performance of each STPII component,
9. organizing and carrying project auditing,
10. building support and obtaining assistance from other stakeholders and
11. maintenance and updating of relevant project management documentation

Financial Expert

The Financial Expert reports to the Project Manager and is responsible for:

1. keeping of financial records,
2. maintaining of the financial management system,
3. preparing of the financial, operational and performance reports,
4. preparing documents necessary for payments for activities financed from the project (including but not limited to goods, consultants services, operating costs, sub-financing and training), including collecting of relevant information, verifying its accuracy, obtaining all necessary signatures, submitting documents for payment and following up with Beneficiaries and other stakeholders when needed,
5. coordinating audit activities,
6. participating in technical and communication activities,
7. contributing to the preparation of project documents, studies and materials for the Bank and other stakeholders,
8. providing full back-up to the PIU Procurement Expert, be fully familiar and participate/contribute to the procurement activities within PIU, including but not limited to preparation of Terms of Reference, selection and evaluation process, contracting, and supervision and monitoring of the contracts, as well as obtaining necessary clearances within the MSE and World Bank,
9. providing assistance to the project beneficiaries in financial management matters, procurement, reporting and business planning,
10. engaging in follow-up communications on various project activities with project Beneficiaries, MSE, the World Bank and other stakeholders,
11. working closely with the experts and institutions involved in the Project preparation and implementation and
12. assisting in all functions within the PIU as assigned by superior

Procurement Expert

The Procurement Expert reports to the Project Manager and is responsible for:

1. managing procurement activities carried out under the project, including preparation of Terms of Reference, selection and evaluation process, contracting and supervision and monitoring of the contracts, as well as obtaining necessary clearances within the MSE and World Bank and keeping all procurement related records in proper order acceptable to MSE and the World Bank,

2. preparing procurement reports as a part of PIU reporting process,
3. participating in technical and communication activities,
4. contributing to the preparation of project documents, studies and materials for the World Bank and project agencies,
5. providing full back-up to the Financial Expert in the PIU, be fully familiar and participate in related activities, including but not limited to preparation of financial and status reports, maintaining financial management system, preparation of documents for payment, books and records keeping,
6. following-up on various project activities with STPII Beneficiaries and the Bank,
7. monitoring the procurement of Project Beneficiaries' sub-projects which may involve occasional and on as-needed and proactive basis visits to the sub-projects which will be organized by beneficiaries and to review the procurement documentation (ongoing or completed),
8. joining World Bank's monitoring missions on randomly selected Project Beneficiaries' sub-projects and
9. assisting in all functions within the PIU as assigned by superior

Project Beneficiaries

Project Beneficiaries are

1. entities (HAMAG-BICRO and CSF) that carry out their part of the Project implementation and with which the Subsidiary Agreements have to be signed;
2. responsible for implementation of activities related to their components, including, but not restricted to:
 - a. preparation of documentation related to performing of STPII activities within their areas of responsibility (including but not limited to operational manuals and guidelines for their programs, terms of reference, evaluation and contracting);
 - b. sub-financing arrangements;
 - c. negotiating and signing contracts with final beneficiaries;
 - d. managing and supervising final beneficiaries in fulfilment of contracting obligations;
 - e. submitting invoices and payment requests with all required supporting documentation to the PIU;
 - f. monitoring progress under their components including collection of relevant information on the performance indicators and submitting it to the PIU;
 - g. providing forehand risk assessment for their part of project operations to the PIU;
 - h. proposing solutions for solving risk situations;
 - i. providing relevant documentation and information to auditor;
 - j. sending to the WB quarterly reports on usage STPII funds on their Special Account;
 - k. preparing periodic progress reports to the PIU

Each Project Beneficiary assigns a Project Activity Coordinator within its structure to be focal point between PB and PIU and to coordinate PB's respective activities. Project Activity Coordinators appointed by Project Beneficiaries become members of the Working Group.

3. PROJECT COMMUNICATIONS AND DOCUMENTATION

Project Communications

STPII Project Communications relate to:

1. exchange of information between project stakeholders
2. exchange of project documentation between project stakeholders and
3. reporting

Formal exchange of information between project stakeholders should either be in written (electronic) format or have a written track record of any verbal agreement reached. PIU has to be copied / informed on any relevant exchange of information / documents / reports with regard to STPII.

When sending official e-mails to the Bank:

1. list of recipients within the Bank is defined by the Bank staff;
2. STPII Coordinator and the PIU should be included in the communication.

Communication channels on STPII include, but are not limited to:

1. Communication channels related to MSE activities
2. Communication channels related to activities of Project Beneficiaries
3. Communication channels related to STPII Steering Committee Activities and
4. Communication Channels related to STPII reporting, which are described in a separate section within this document.

Initiator of Communication	Recipient of Communication	Subject of Communication
<i>Communication channels related to MSE activities</i>		
MSE representative in the STPII WG	PIU	Draft documentation related to project activities within area of responsibility of MSE representatives
PIU	MSE representative in the STPII WG	Providing feedback related to draft documentation
PIU	Project Coordinator	Requesting approval / consent prior to submission of the final documentation to the World Bank
PIU	WB and Project Coordinator	Following approval of the documentation by Project Coordinator, the document is officially sent to WB for review and No Objection
WB	Project Coordinator and PIU	Providing (a) feedback or (b) No Objection related to the documentation submitted by PIU
PIU	MSE representatives	Providing information related to the response received from the Bank

Initiator of Communication	Recipient of Communication	Subject of Communication
<i>Communication channels related to activities of Project Beneficiaries</i>		
PB Activity Coordinator	MSE representatives at STPII WG, through PIU	Draft documentation related to project activities performed by Project Beneficiaries
PIU	Project Coordinator, MSE representatives and other relevant stakeholders (on a needs basis)	Collecting feedback related to draft documentation submitted by Project Beneficiaries
Project Coordinator	PIU	Providing official consent of MSE related to draft documentation submitted by Project Beneficiaries
PIU	PB Activity Coordinator	Providing official (a) feedback or (b) consent to Project Beneficiaries, related to draft documentation submitted by them
PB Activity Coordinator	WB, Project Coordinator and PIU	Based on the (a) consent received from MSE and (b) approval of the documentation by authorized representatives of the Project Beneficiary, document is officially sent to WB for review and No Objection with MSE and PIU being simultaneously informed about official submission.
WB	PB Activity Coordinator with Project Coordinator and PIU	Providing (a) feedback or (b) No Objection related to the documentation submitted by Project Beneficiary
PIU	PB Activity Coordinator	Providing information related to the response received from the Bank
PIU	PB Activity Coordinator	Invitation to participate at the Working Group meetings or any other meeting related to STPII activities Request for inputs/reports related to overall STPII reporting obligations/schedule.
PB Activity Coordinator	PIU	Information related to STPII activities performed by Project Beneficiaries, including (a) inputs/reports related to overall STPII reporting obligations /schedule and (b) inputs related to Working Group meeting or any other meeting related to STPII activities.
PB Activity Coordinator	PIU	Information about anticipated project risks or any other potential issues related to STPII activities performed by Project Beneficiaries (should be shared with PIU as soon as possible in order to provide quick resolution).
PB Activity Coordinator	PIU with Project Coordinator	Requests for payments according to the contractual obligations towards final beneficiaries and other STPII activities as specified by STPII project documentation and in line with provisions (rules and procedures) of this document.
<i>Communication channels related to STPII Steering Committee Activities</i>		

Initiator of Communication	Recipient of Communication	Subject of Communication
Project Coordinator, STPII WG or STPII SC Chair	PIU	Request to organize STPII SC meeting outside of the regular meeting schedule
PIU	STPII Steering Committee Members	Meeting invitation and information Preparatory materials for meeting Draft Meeting Minutes (after the meeting) for review and approval
PIU	STPII WG Members	Information about meeting schedule, request for agenda topics and issues to be discussed and resolved at the STPII SC meeting
PIU	World Bank, with Project Coordinator	Information about the meeting held, with final (approved) Meeting Minutes

Project Documentation

PIU is responsible for:

1. maintenance of STPII relevant documentation and
2. preparing and presenting all relevant documents for audit by external auditor and review by the World Bank supervision missions.

Project Beneficiaries are responsible for:

1. setting up and maintenance of their own STPII related documentation
2. preparing and presenting all relevant documents in their possession for audit by external auditor and review by the World Bank supervision missions.

4. PROCUREMENT OPERATIONS

Procurement Plan

The Procurement Plan for the entire life-cycle of the STP II has been prepared and agreed during project negotiations. It:

1. includes all activities needed for the successful project implementation, sorted by categories and components,
2. provides information on agreed procurement methods and time schedule for each activity as well as the procurement review arrangements,
3. is published on the MSE' and the Bank's website (short version),
4. is being updated in agreement with the Bank throughout duration of the project, every three months or as required by the WB, with updated commitment and disbursed columns to reflect the actual project implementation phase.

Procurement Plan and all its updates or modifications are subject to the Bank's prior review and no-objection before implementation.

Initiation of the Procurement for the Activity from the Procurement Plan

The procurement procedure from the Procurement plan is initiated upon a written request (e-mail) by the relevant Beneficiary to PIU. The request should contain the following information:

- exact title of the work assignment to be initiated,
- activity number under the procurement plan and envisaged cost / budget,
- Terms of Reference,
- proposed members of the Evaluation Committee,
- name of Contract Coordinator and
- foreseen start and completion of execution of the assignment.

If Beneficiary wants to make changes under any activity (for example: budget changes, execution schedule changes, breakdown of activities over multiple contracts), PIU should be promptly informed in writing so it could inform Bank and ask for its approval. Request for changes should be justified and sent to PIU at least 3 weeks before beginning of the implementation of the relevant activity.

Terms of Reference (TOR)

Authorized representatives of Beneficiaries are responsible for drafting and preparing Technical specifications and Terms of Reference for activities planned to be implemented throughout the Project. PIU members provide technical aid and support to them during that process. Technical Specifications (TS) and Terms of Reference (ToR) are prepared according to the WB Guidelines and following should be taken into consideration:

- ToR should be very clear and should precisely describe what is expected from the Consultants;
- ToR should detail all the main activities or tasks to be conducted by the Consultants and the expected results of these activities or tasks;
- The definition of the scope of work (the most critical section for successful implementation) should address issues such as and not limited to, (i) relevance of the assignment for the implementation of the project; (ii) definition, limitations of the scope of the assignment; (iii) main issues to be addressed; (iv) alternatives to be considered; (v) required analyses and models; (vi)

- special equipment requirements; (vii) transfer of knowledge its objectives and scope; (viii) language requirements, etc.
- TOR should describe only the activities and not the approach or methodology by which the results are to be achieved, as these should be proposed by the Consultants in their proposal;
- The client can disclose its own estimate of staff-time needed or its estimate for the services, but not both;
- In some cases the project may require phased consultant assignments. In such a case, the TOR should provide details on the phases;
- It is necessary to determine answers to following questions: who, what, where,when and whom to;
- The TOR should indicate the estimated duration of the assignment, from the date of commencement to the date the Client receives and accepts the Consultant's final report; taking into account any 'force majeure' that may occur (including vacation period, annual or seasonal leaves etc.);
- The assignment's reporting requirements should be clearly specified. In particular, for inception and progress reports, there should be a balance between keeping the Client well informed and not forcing consultant to spend excessive amounts of time preparing minor reports;
- Level of required consultant's qualifications and previous applicable work experience should not be too high or too low in order to get as many qualified candidates as possible and those qualifications should be easily 'measurable' during the evaluation process.

Procurement Methods

The Project finances:

1. consultants' services (under authority of PIU),
2. trainings (under authority of PIU and PBs),
3. sub-financing (under authority of PBs: HAMAG-BICRO and CSF) and
4. operating costs (under authority of PIU and PBs).

There are three sets of the procurement methods that are applied in STPII:

1. WB methods (applied for consultants' services an partially training),
2. Methods in accordance with Croatian laws and regulations (applied for training, operating costs and part of sub-financing that relates to sub-projects of SMEs) and
3. Methods agreed and approved by the WB (applied for part of sub-financing that relates to sub-projects of public institutions) which are prescribed in Extract 1: Procurement arrangements for sub-beneficiaries of CSF (Annex 1) and in Extract 2: Procurement arrangements for sub-beneficiaries of HAMAG-BICRO of this POM (Annex 1).

PIU is responsible for the procurement of consultant services in accordance with the agreed WB procedures. In addition, PIU is responsible for procurement of part of training and operating costs that relate to activities under authority of MSE, in accordance with the Croatian laws and regulations.

Project Beneficiaries; HAMAG-BICRO and CSF are in charge of selecting sub-projects under category sub-financing. In addition, both PBs are responsible for procurement of their part of training and operating costs that relate to activities under their authority, in accordance with the Croatian laws and regulations.

Goods and consultants' services required for the activities that are to be financed out of the proceeds of the Project, **except the ones that are procured under category sub-financing**, shall be procured in accordance with the requirements set forth or referred to in World Bank's:

- (i) "Guidelines: Procurement of Goods, Works and Non-Consulting Services under IBRD Loans and IDA Credits & Grants by World Bank Borrowers" January 2011;
- (ii) "Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits & Grants by World Bank Borrowers" January 2011 and
- (iii) provisions of the Section III of the Loan Agreement

Procurement of Goods, Works and Non-Consulting Services for sub-financing projects

Procurement of goods and non-consulting services for sub-financing projects which are **public institutions** within Project Beneficiaries, HAMAG-BICRO and CSF is performed by final project beneficiaries – **public institutions**; in accordance with Extract 1: Procurement arrangements for sub-beneficiaries of CSF (Annex 1) and Extract 2: Procurement arrangements for sub-beneficiaries of HAMAG-BICRO (Annex 1) and under supervision and guidance of PBs and with the assistance of PIU.

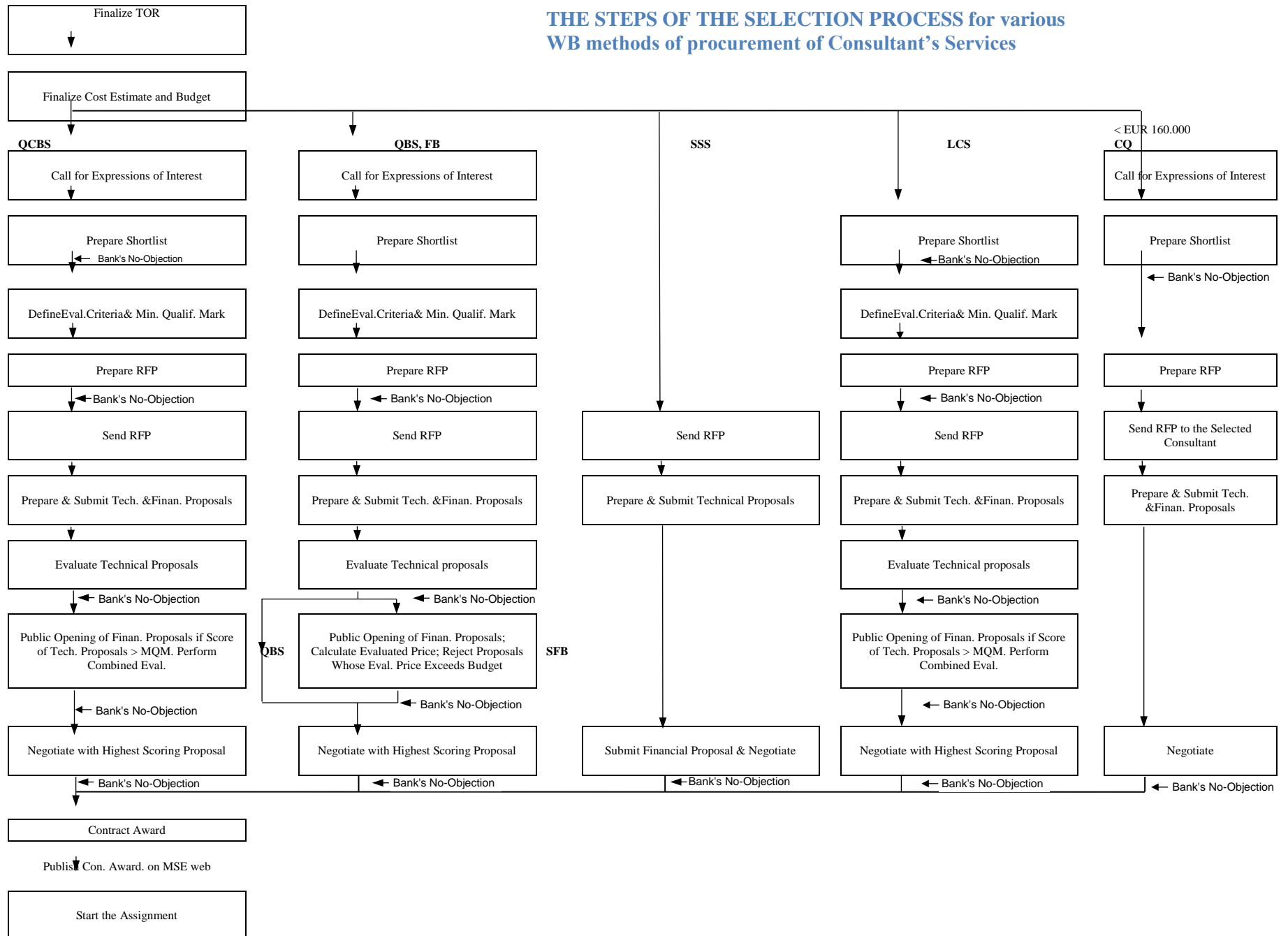
Procurement of goods and non-consulting services for sub-financing projects within Project Beneficiaries which are **SMEs**, HAMAG-BICRO and CSF is performed by final project beneficiaries – **SMEs** in accordance with Croatian laws and regulations, under supervision and guidance of PBs.

Selection and Engagement of Consultants (WB Procurement Methods)

Consultants' services shall be procured in accordance with the provisions of the Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits & Grants by World Bank Borrowers (January 2011). The following methods of procurement of Consultant's Services for those contracts which are specified in the procurement plan shall be applicable under the project: Quality and Cost Based Selection (QCBS), Quality-Based Selection (QBS), Least Cost Selection (LCS), Selection under a Fixed Budget (FBS), Consultants' Qualifications (CQ), Sole-Source Selection of consulting firms, Selection of Individual Consultants and Sole-Source procedures for the Selection of Individual Consultants.

The most recent standard RFP and relevant evaluation form shall be used, as published on the Bank's external website.

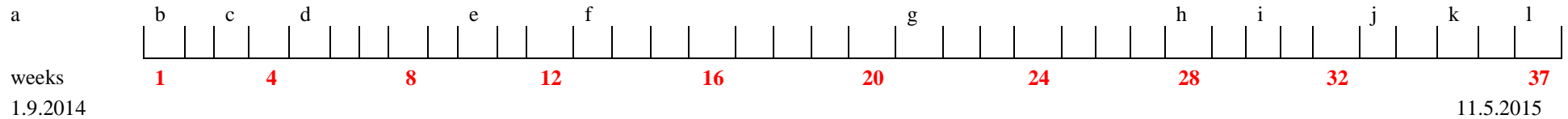
THE STEPS OF THE SELECTION PROCESS for various WB methods of procurement of Consultant's Services



Quality- and Cost-based Selection (QCBS)

Timeline for steps of the selection process

(Example from Procurement Plan, for activity A.2.2 - Projects 1, 2, 3 and 4)



- a preparation of the TOR (cost estimate and the budget, short-listing criteria)
- b finalized TOR sent to WB for NO
- c advertising - request for Expression of Interest (official gazette)
- d preparation of the short list of consultants, Bank's NO
- e preparation and issuance of the RFP (which should include: the Letter of Invitation (LOI), Instructions to Consultants (ITC), the TOR and the proposed draft contract); Bank's NO
- f receipts of proposals (min 4 weeks, max 3 months)
- g evaluation of technical proposals: consideration of quality, Bank's NO
- h public opening of financial proposals, Bank's NO
- i evaluation of financial proposals, Bank's NO
- j final evaluation of quality and cost, Bank's NO
- k negotiations and award of the contract to the selected firm, Bank's NO
- l contract signing; commencement of work of the selected consultant
- m announcement of contract awarding online in UNDB, NN and MSE website

Individual consultants (IC)

Through this method the consultants are selected on the basis of their relevant experience, qualifications and capability to carry out the assignment. After submitting their Expression of Interest, they shall be considered if they meet minimum relevant requirements determined by the Client on the basis of the nature and complexity of the assignment, and assessed on the basis of academic background and relevant specific experience, and, as appropriate, knowledge of local conditions such as national language, culture, administrative systems and government organization.

Steps to be followed during this method:

- Prepare a detailed job description (Terms of Reference) according to the Guidance for preparation of ToR
- Prepare a list of potential individuals or firms (at least three)
- Potential consultants could be invited directly to send their Expressions of Interest and/or an announcement in National Gazette, daily paper or web-site of the sub-project's leading organization could be published
- Select the best candidate (individual / firm)
- Contact the selected candidate
- Negotiate the contract terms and conditions
- Sign a (Lump Sum) and Annex 9: Contract forms in English (Lump Sum or Time-Based)
- Supervise consultant's performance

Individual Consultants may be selected directly on a **sole-source basis** with a due justification in exceptional cases such as: (i) tasks that are a continuation of previous work that the consultant has carried out and for which the consultant was selected competitively; (ii) assignments with a total expected duration of less than 6 (six) months; (iii) urgent situations; and (iv) when the individual is the only consultant qualified for the assignment.

Justification of this method must be prepared and sent to Bank for approval.

Single-Source Selection (SSS)

Single or sole-source selection of consultants does not provide the benefits of competition in regard to quality and cost, lacks transparency in selection, and could encourage unacceptable practices. Therefore, single-source selection shall be used only in exceptional cases. The justification for single-source selection shall be examined in the context of the overall interests of the client and the project, and the Bank's responsibility to ensure cost-efficiency and provide equal opportunity to all qualified consultants.

Single-source selection may be appropriate in the following cases, and only if it presents a clear advantage over competition: (a) for tasks that represent a natural continuation of previous work carried out by the firm (see next paragraph); (b) in exceptional cases, such as, but not limited to, in response to natural disasters and for emergency situations both declared by the Borrower and recognized by the Bank; (c) for very small assignments; or (d) when only one firm is qualified or has experience of exceptional worth for the assignment. In all such cases, the Borrower is not required to issue an RFP and shall submit to the Bank for its review and no objection the TOR of the assignment, a sufficiently detailed justification including the rationale for single-source selection instead of a competitive selection process, and the basis for recommending a particular firm, except for contracts below a threshold defined on the basis of risks and the scope of the project, and set forth in the Procurement Plan.

Contract Management

Evaluation Committee

MSE appoints Evaluation Committee which should consist of at least three members for each activity. The Evaluation Committee is responsible for evaluation of bids, selection of consultants within STP II and recommendation of contract awards for each activity. In case of the conflict of interest, the members of the Evaluation Committee should request a substitute. The Evaluation Committee should have at least one member that is of the technical/professional expertise relevant for the evaluation process. The members of the Evaluation Committee are obliged to handle the documents related to the selection process in the confidentiality manner. The discussion and exchange of relevant documents and comments should be limited only to the members of the Evaluation Committee.

The Procurement Expert is by default a coordinator of the work of the Evaluation Committee and provides guidance on the evaluation process and prepares the relevant documents, evaluation reports, conducts the meetings of the Evaluation Committee and is taking care that the evaluation process is in line with the WB rules and Guidelines.

Contract negotiations

Contract negotiations (following Bank's no objection) should include discussions of the TOR (changes of the TOR are not acceptable), the methodology, Beneficiary's inputs and special conditions of contract and are held between consultant, Evaluation Committee members, Project Manager (optional) and Procurement Expert (by default).

Negotiations are structured in a following way:

- Introduction;
- Questions and clarifications with regard to TOR;
- Clarifications and agreement on time schedule and delivery;
- Asking the consultant of the expected fee;
- Discussing the fee (remuneration, reimbursable, taxes and contributions, payment conditions etc.)

After successful contract negotiations with the selected candidate, contract negotiation minutes with all necessary and agreed data including the negotiated amount have to be signed by all parties and send to WB for no objection (accompanied with evidence of similar payments for such assignments and draft contract). Before signing the contract, consultant should provide the following data: evidence of similar payments for such assignments, filled Personal Data Form, evidence of self-employment (in case of), etc. All contracts for domestic consultants must be contracted in local currency (HRK) and this should be recorded in the minutes of contract negotiation.

Types of contracts

There are two types of contracts, Lump-Sum Contract and Time-Based Contract; and related World Bank's templates should be used both for small consultant assignments and QCBS.

(i) Lump-Sum Contract

This type of contract is used mainly for assignments in which the scope and the duration of the services and the required output of the consultants are clearly defined. It is widely used for simple planning and feasibility studies, environmental studies, detailed design of standard or common structures, preparation of data processing systems, and so forth. Payments are linked to outputs (deliverables) such as reports, drawings, bills of quantities, bidding documents, and software programs. The contract shall include a fixed price for the activities to be carried out by the consultant.

Lump-sum contracts are easy to administer because they operate on the principle of fixed price for a fixed scope, and payments are due on clearly specified outputs and milestones.

(ii) Time-Based Contract

This type of contract is appropriate when it is difficult to define or fix the scope and the duration of the services, either because they are related to activities carried out by others for which the completion period may vary, or because the input of the consultants required for attaining the objectives of the assignment is difficult to assess. It is widely used for complex studies, supervision of construction, advisory services, and most training assignments. Payments are based on agreed hourly, daily, weekly, or monthly rates for experts (who are normally named in the contract) and on reimbursable items using actual expenses and/or agreed unit prices. The rates for experts include remuneration, social costs, overhead, profit, and, where appropriate, special allowances. The contract shall include a ceiling amount of total payments to be made to the consultants. This ceiling amount should include a contingency allowance for unforeseen services and duration. Time-based contracts need to be closely monitored and administered by the client to ensure that the assignment is progressing satisfactorily and that payments claimed by the consultants are appropriate.

After receiving no-objection from the World Bank for signing the contract with particular consultant; three copies will be given to the Minister of Science, Education and Sport to sign, and after that to the consultant. Scanned copy of the signed contract by all parties will be promptly sent to the WB for info and file.

Engagement of Consultants

Consultants engaged (domestic or foreign) on the Project, including members of the PIU, that carry out any autonomous activity/craft/company have to provide PIU with the relevant document as a proof of their status prior to contract signing and in respect to the future payments.

Domestic individual selected consultants have to provide PIU with the relevant data by filling and signing the *Personal Data Form* prior to contract signing. For foreign individual selected consultants the following procedure applies: *PROCEDURE FOR DETERMINATION AND ASSIGNMENT OF PERSONAL IDENTIFICATION NUMBER (OIB) FOR INDIVIDUAL NON-RESIDENTS:*

In accordance with the Croatian regulations, for all individual non-residents who will be paid for consultants' services, a personal identification number (OIB) has to be determined and assigned by the Croatian Tax Directorate and therefore individual non-resident has to:

1. fill in and sign forms (i) 'Request for Determination and Assignment of Personal Identification Number (PIN)' and (ii) Letter of Attorney to the MSE to open the personal identification number
2. provide MSE with the copy of the passport.

MSE will submit the requested documents to the Croatian Tax Directorate.

Individual non-resident may address all additional questions to the STP II PIU.

Payment of income tax and contributions in Croatia for individual non-resident consultants is subject to the Croatian laws and regulations. Payment of contributions in Croatia depends on (i) existence of signed agreement on social security between Croatia and consultant's country of residence (ii) whether consultant performed the task in Croatia and (iii) if consultant provides PIU with official statement on his/her retirement status. There is no obligation of calculation and payment of the income tax and

contributions in Croatia if non-resident individual consultant is engaged through his / her own company (or as being self-employed) and will pay all duties in his/her country of residence, accordingly. All services of individual non-resident consultants are subject to payment of VAT in Croatia

Contract signing and administration

MSE:

After receiving no-objection from the World Bank for signing the contract, three copies are submitted to the Minister of Science, Education and Sport for signing, and after that, to the other party. Scanned copy of the signed contract (prior review) is promptly sent to the WB for their info and file. The same procedure applies for the contract amendments.

HAMAG-BICRO:

- Component B.1.1: the Contract is signed between HAMAG-BICRO, corresponding Recognized Centre and each sub-beneficiary;
- Components B.1.2, B.1.3 and B.1.4: the Contract is signed between HAMAG-BICRO and each sub-beneficiary.

CSF:

The Contract is signed by the Ministry of Science and Education, Croatian Science Foundation and each sub-beneficiary/other party.

Prior to any contract signing for sub-financing, HAMAG-BICRO and CSF shall screen sub-projects for environmental and social impacts to determine eligibility of proposed sub-financing in accordance with the Environmental Management Framework.

Contract execution

Contract execution has to be done according to the contract stipulations and all deadlines must be adhered to.

- (i) The consultant has to submit his/her deliverables according to Annex B: Consultant's Reporting Obligations and written deadline(s);
- (ii) The Contract Coordinator (or person responsible for review and acceptance of deliverables) has to (i) communicate with selected consultant and provide to the consultant all necessary documentation and info regarding assignment and to (ii) follow up and monitor services' execution throughout the completion and (iii) review evaluation report and give his/her comments in due time (as stipulated in the contract or within a time period no longer than 7 days from the receipt of the consultant's report, the latest);
- (iii) In case of any problem or delay in the contract execution, Contract Coordinator must inform PIU immediately in order to enable PIU to mitigate potential risks and avoid incompliance with contractual obligations.

Operating Costs

Eligible operating costs are:

MSE/PIU	Scala maintenance, Scala /Access Software adjustments, associated costs to workshops and seminars (coffee breaks, catering etc.)
HAMAG-BICRO	Costs for Evaluators
CSF	Costs for UKF Evaluators and Steering Committee, Web migration and bank charges for payments abroad

All eligible operating costs should be approved by the World Bank before they are made or paid.

Project Beneficiaries are responsible for procuring eligible operating costs within the approved budgets and in accordance with the Croatian legislative and regulations.

Requests for (a) budgetary changes and (b) introduction of new operating costs that have not been foreseen should be submitted by an e-mail to PIU (cc Project Coordinator) for obtaining World Bank's approval. Request should include required budget and justification and have to be submitted at least three weeks prior execution of requested change.

Payment procedures for operating costs are described in chapter 5 *Financial Operations*, under *HAMAG-BICRO Sub-financing (SF) Payments* and *CSF Sub-financing (SF) Payments* of this POM.

Training Plan

Selection criteria and guidelines

Training plan includes seminars, conferences, workshops and study visits relevant for STPII activities. Purpose of the training plan is (i) to support the implementation of the STPII components/activities and (ii) to lead to improved capacity of the STPII Beneficiaries.

Eligible expenditures for training category are:

1. those that are previously agreed with the MSE,
2. for which WB NO was obtained prior to their execution,
3. those within the approved budget and
4. those which are calculated in accordance with the provisions of this POM.

Following costs of trainings included in the STPII Training Plan are covered from STPII funds:

1. Travel costs;
2. Accommodation costs;
3. Participation fee;
4. Per Diem;
5. Cost of consultant's services for 'in-house' training (consultant's fee, travelling and accommodation costs).

Training costs from 1-4 are procured and paid in accordance with Croatian laws and regulations. Further information on eligible travel costs is provided in chapter 5. *Financial Operations* under *Travel Expenses* of this POM.

Training cost no. 5 is procured by using WB procurement methods.

STPII Beneficiaries submit their proposal for training plan in official form to the PIU, upon PIU's written request. When preparing their proposal for training plan, STPII Beneficiaries, should also take into considerations following guidelines and recommendations:

1. If there is an on-line course/training available that covers the same topic as the face-to-face course/training/workshop, selection of on-line trainings is recommended, as there are no travel costs associated, meaning that more persons can actually attend the training;
2. In general, it is advised that only one person should be sent to one training (and then share learning outcomes with others that may be interested). When it is necessary to send more people to the same training abroad, it may be, from cost efficiency perspective, worth exploring the costs of bringing the trainer to Croatia to deliver the training locally, for larger local audience.

PIU consolidates requests from all Beneficiaries and submit them to STPII Project Coordinator for review and approval before sending to the Bank for final approval.

Following criteria should be met while applying for particular training: trainee candidate directly engaged in execution of STPII activities; topic of the training connected to the STPII success; capacity of the Beneficiary to carry out its STPII related mission is improved by the training; acceptable total cost of the training; etc.

Only trainings for which No Objection is received from the Bank will be funded from STPII funds.

For each particular training total cost should not exceed approved budget for that particular training, e.g. expense overrun cannot be reimbursed.

Justified requests for (i) budgetary changes and (ii) introduction of new trainings that have not been foreseen; have to be submitted in time by an e-mail to PIU (cc Project Coordinator) for obtaining World Bank's approval. Request should include required budget and justification and have to be submitted at least three weeks before training execution.

Archives

The PIU and Project Beneficiaries are responsible for ensuring the safe storage of all relevant data / documents for their part of the STPII.

Contracts and official letters within STPII have to be recorded through Centrix system in MSE. All other documents are recorded in line with PIU internal records and evidences.

Procurement keeps evidence of contracts with all relevant documents and finance keeps evidence as described in section Financial Operations. All records in relation to STP contracts should be kept chronologically, following these steps:

1. TOR / TS, with NO from WB
2. Advertisement/Letter of invitation/Justification Letter
3. Report with selection, accompanied by NO from WB if applicable
4. Contract, accompanied by NO from WB if applicable
5. Reports or other relevant documents
6. Any complaints, disputes and disagreements in writing accompanied by response.

5. FINANCIAL OPERATIONS

General

Financial procedures will ensure:

- legality and eligibility,
- accuracy and timeliness,
- reliable and complete financial reporting,
- proper recording and safeguarding of assets and resources and
- efficient managing the project implementation

PIU has following financial functions:

- planning budgets,
- preparing financial forecasts,
- taking care that all financial activities are performed according to WB procedures and Croatian legislative,
- implementing accounting controls, book-keeping and reconciliation of accounts,
- ensure segregation of duties for all financial activities,
- control of the financial part of contracts prior to signing,
- disbursements of loan and government funds,
- control of bank guarantees and letters of credit, evidence and tracking,
- financial control of invoices,
- control of travel orders,
- tax control,
- calculation of taxes and contributions for individual consultants,
- tax reporting,
- invoice payments,
- keeping evidence of all invoices, payments, status of contracts and status of categories,
- financial reporting to the World Bank, and to the Ministry of Science and Education,
- reporting to the Croatian National Bank,
- reporting to the Ministry of Finance,
- preparing documentation and cooperation with State Audit and commercial audit,
- communication with banks, MoF, auditors, suppliers, project beneficiaries, other divisions within the MSE and
- processing and archiving all financial documentation in accordance with legal requirements.

Flow of funds

Funds planning

At the beginning of the project, separate activity for the project has to be opened within MSE budget. For STPII the activity is A767029 and sources of funding are 83 – WB Loan and 13 – Government Funding.

Based on the valid Procurement Plan (last version approved by WB), PIU prepares the request for project funding and submits to the MSE for approval and budgeting as part of overall MSE annual budget, approved by the Croatian Parliament. The plan contains separate figures for the loan funds and

government funds as well as for the accounts in accordance with the accounting regulations for budget institutions. Approved project budget is prerequisite for further financial activities.

On exceptional basis, it is allowed to exceed the loan budget thresholds, subject to prior approval from the MoF. Finance Expert keeps records in order to be able to submit the request for the approval to the MoF in time.

Disbursements of Loan Funds

Prior to any disbursement, PIU has to request the approval from the Ministry of Finance to open the Designated Account (DA) for the loan funds in the eligible Croatian commercial bank.

Disbursements of loan funds are processed in accordance with the procedures described in the valid World Bank's Disbursement Handbook and Disbursement Letter.

Loan disbursements are approved by the person authorized for signing the disbursement documents and sent to the WB.

The Letter of Authorized Signatories for loan disbursements is issued by the Ministry of Finance.

The Financial Expert keeps register of all disbursements including: disbursement No, date of issuance, contract No, description (supplier name and invoice internal No in case of direct payment), amount in EUR, HRK (and in other currency if contracted), date of sending to the WB and disbursement date.

Upon receipt of payment and Payment Advice from WB, Payment Advice is attached to the disbursement document and reconciled with the loan register.

Upon receipt of payment and Payment Advice, the obligatory reports for the Croatian National Bank are prepared and submitted.

The Financial Expert prepares the monthly reports on WB Loan funds payments and sends them to the MoF and MSE's Finance Department.

Disbursements of Government Funds

Payments of the STP II government funds are executed by the authorized person in MSE's Finance Department by direct payments from the SAP Treasury System to the end users (except to the individual local consultants) according to MoF's procedure.

Project government funds disbursements are approved by the person authorized for signing the request.

The Letter of Authorized Signatories for project government funds disbursements is issued by the Minister of Science and Education.

The Financial Expert keeps register of all disbursements including: disbursement No, disbursement date, account No from the Chart of Accounts and amount in HRK.

Payments of STP II government funds are quarterly reconciled with the MSE's Finance Department.

Bank Accounts

Loan funds are handled in the PPA/Loan currency and HRK, according to the terms and conditions set out in the Disbursement Letter, through:

- Loan Account and
- Designated Account.

The Designated Account is opened in the commercial bank acceptable to the WB (Raiffeisen Bank).

Government funds are handled through:

- Government Account in HRK,
- MSE's Government Account in HRK and
- Project Government Account in EUR.

Government Account in HRK is part of the centralized State Treasury. It is used for all payments of government's funds in accordance with the Loan Agreement for all project's eligible expenses except the payments to the local consultants.

After preparation of payment orders and obtaining the signatures, Financial Expert submits the payment order to the person in MSE's Finance Department, who is authorized to enter the order in State Treasury System for payment. All payments (except to the individual local consultants) are processed to the suppliers directly from the Project Government Account.

MSE's Government Account in HRK is used for payments to the local individual consultants and some minor expenditures, bank fees etc.

For payments to the individual local consultants, eligible loan funds are transferred from DA to the MSE's Government Account in HRK and then paid to the individual local consultants and Croatian treasury (taxes and contributions). The Financial Expert prepares payment orders for transfer of funds from Designated Account to the MSE's Government Account and the payment vouchers for payments to the individual local consultants and for taxes and contributions, from MSE's Government Account. Both documents are submitted for signature and after that sent to the MSE's Finance Department for payments. Payments have to be synchronised with issuance of JOPPD Form (in accordance with Croatian regulations). After the payment, PIU obtains the proof of payment from MSE's Finance Department for its reconciliation and archive.

The Project Government Account in EUR is opened in commercial bank acceptable to the WB as part of the agreement for the opening of DA. It is used for transfer of interest calculated on loan funds deposited on DA and for receiving the foreign payments for tender documentation. Funds from that Account may be used for payment of bank fees and exchange rate differences recovery. At the end of the project, remaining funds on this Government Account are transferred to the MoF.

Funds on all these accounts can be used only for strictly defined payments in accordance with the Loan Agreement and MSE's written approvals (MSE approves payments from DA and from the Loan Account) and cannot be used for any other purposes.

The Financial Expert keeps registers of all bank accounts including: bank statement No and date, description (supplier name, contract No, invoice internal No) amount credited (HRK and EUR), amount debited (HRK and EUR) and balance (HRK and EUR).

Funds balances are reconciled immediately upon the receipt of bank statements (LA, DA, Project Government Account in EUR) and quarterly upon receipt of proofs of payments (Government Account in HRK).

Payments to the DA in EUR are calculated in HRK by using middle exchange rate of the Croatian National Bank (HNB) on the date of payment, corrected for the exchange rate differences that occur on the end of each year quarter.

Payments abroad from the DA are calculated in HRK by using middle exchange rate of the Croatian National Bank (HNB) on the date of payment.

Payments from the DA to domestic beneficiaries and suppliers (by conversion of EUR to HRK) are expressed in EUR that have been withdrawn from the DA.

Special Project Bank Accounts in CSF and HAMAG-BICRO

CSF and HAMAG-BICRO use Special Project Bank Accounts (hereinafter: SA) for receiving STPII funds. Opening of SA for HAMAG-BICRO has to be previously approved by the MoF.

STPII funds are disbursed to HAMAG-BICRO's SA for following categories: sub-financing, operating costs and training in accordance with the payment procedures defined in this POM.

STPII funds are disbursed to CSF's SA for following categories: operating costs and training in accordance with the payment procedures defined in this POM.

CSF and HAMAG-BICRO send quarterly reports on usage of SA funds to the WB, in the agreed formats/forms. The inputs to both SAs have to be previously reconciled with PIU.

Financial Controls

Contracts

The Finance Expert will check financial part of each contract prior to its signature. The control should include:

- whether total amount of the contract is within the allowed thresholds of the government budget for the appropriate period,
- whether the financial part of the contract contains the tax estimate as well,
- whether financial part is correctly calculated,
- whether financial part is set up in the way that it is feasible to track the performance,
- whether there is appropriate delivery schedule as well as payment schedule and whether they match,
- whether the details regarding reimbursables in consultant's services contract are appropriate / feasible,
- whether the appropriate measures are included in the contract to prevent the payment without appropriate portion of delivery,
- whether there is appropriate time frame for invoice payment (minimum 30 days from the receipt of the eligible invoice),
- whether the exchange rate calculation is appropriately contracted etc.

The Finance Expert keeps register of all signed contracts including: contract No, supplier's name contracted amount financed from IBRD loan (in HRK, EUR and another currency if contracted) contracted amount financed from government funds (in HRK), total amount and status of payments.

The Finance Expert keeps register for each contract which contains all relevant data in order to be able to track the contracted figures in line with the approved and paid invoices.

Bank guarantees (for advance payments and performance)

The control should include checking:

- whether the bank is reliable,
- whether the name of supplier, No. of the contract and the name of receiver is correct,
- whether the wording is according to the contract (especially that it is irrevocable, on first demand and that no additional explanations or documents have to be submitted for payment),
- whether the amount is specified according to the contract and includes VAT,
- whether the date of issuance and the date of expiration are acceptable (the guarantee expiration date should be at least 30 days after planned date of advance clearance or end of warranty period) and
- whether Croatian legislative is applied in case of any disputes.

Only original bank guarantee is valid / acceptable.

The Procurement Expert should perform the above mentioned check prior to bank guarantee acceptance. The Finance Expert keeps register of bank guarantees including: guarantee No, description (advance or performance), bank's name, contract No, supplier's name, guarantee amount, issuance date and expiration date.

The PIU has to track and alert when the guarantee expires and prevent any payment if appropriate guarantee is not submitted according to the contract.

Letters of Credit and Special Commitments

Letters of Credit and Special Commitments are handled in accordance with the WB procedures (Disbursement Handbook).

Invoices

The received invoices have to be previously reviewed by the designated coordinator in accordance with the contract stipulations. The contract coordinator has to ensure:

- that only eligible and executed items are stated in the invoice,
- that the invoice is supported with the relevant documents in accordance with the contract (reports, time sheets, original receipts for reimbursable expenditures etc.),
- the written approval that all items charged in the invoice correspond to the contracted requirements and that they are delivered / executed is issued.

The invoice control includes checking:

- whether the invoice has all relevant data (name and address of the supplier with the tax number, appropriate address of the receiver of the invoice, invoice No., date of issuance, detailed description of the goods or services, unit price, total amount, any withheld amount for the utilization advance, taxes, the total amount to be paid and the contractor's / supplier's bank account to which payment should be made, signature of contractor's/supplier's authorized representative);
- whether the quantities and prices correspond to the contract;
- whether the totals are correctly calculated;
- whether taxes and contributions are correctly calculated;
- whether the delivery is done according to the agreed time schedule;
- whether the appropriate portion of advance payment is withheld (if paid);

- whether there is appropriate bank guarantee (if necessary, according to the contract);
- whether the confirmation of delivery is supported by appropriate documents and signed by authorized person;
- whether the minutes on quantity and quality check of purchased goods, signed by authorized committee, is attached to the invoice;
- whether the appropriate exchange rate is used in calculation;
- that the invoice amount does not exceed the total of unpaid amount of the contract, etc.

Financial Procedures

The Finance Expert keeps register of invoices including: internal invoice No, invoice No, issuance date, contract No, supplier's name, WB amount (HRK, EUR), GOV amount (HRK) and payment dates (WB and GOV).

Only original invoice is valid / acceptable.

Each invoice has to have written confirmation of:

1. services/goods delivery,
2. invoice checking and
3. invoice payment approval

signed by the authorized persons. No invoice can be paid without these confirmations.

Authorization for confirmation of services delivery is by the person mentioned in the contract or any senior PIU staff, if not specified.

Authorization for invoice checking is by the Finance Expert, by default.

Authorization for invoice payment approval is by Project Manager or his/her substitute.

Invoice Payments

After invoice check, the Financial Expert prepares payment orders and submits them for payment:

1. Preparation of payment order for the eligible amount to be paid from the Loan Account or the Designated Account;
 - a. Direct payments from LA are approved by the MSE person authorized for signing the Application for Withdrawal.
 - b. Payments from DA are approved by the MSE person authorized for signing.
2. Preparation of payment order for the amount to be paid from the Government Account;
 - a. Payments from Government Account are approved by the MSE person authorized for signing.

Prior to payment orders' signing, they are entered in the registers of loan cash flow and government cash flow. These registers enable overview of all already issued payment orders by account number in relation to the allowed budget thresholds.

Due date for invoice payment is within thirty days from the proper and eligible invoice receipt (supported by all required documents, including approvals of the delivery). For the contracts based on QCBS procurement method, due date for invoice payment is within sixty days from the proper and eligible invoice receipt (supported by all required documents, including approvals of the delivery).

Upon the payment and bank statements receipt, payments are recorded in the evidences of bank accounts: LA, DA, GA. The date of payment is also recorded in invoice register and on the related invoice.

Advance Payments

No advance payment to the suppliers should be done if appropriate bank guarantee is not received. The Financial Expert will set up tracking of advance payments in order to make sure that they are deducted from suppliers' charges, according to the contract. The Finance Expert should pay attention that advance payment guarantees do not expire before the advance payment is cleared.

HAMAG-BICRO Sub-financing (SF) Payments

STPII funds for HAMAG-BICRO's sub-financing eligible expenditures are transferred to HAMAG-BICRO's Special Project Bank Account (SA).

Based on the current needs, HAMAG-BICRO sends to the PIU request for funds disbursement. The request is issued separately for each program/component. The total required amount has to be split to the portion that is financed by loan funds and to the portion that is financed by Government funds in accordance with percentages stipulated in the Loan Agreement. The request is supported with the specification of sub-projects and with HAMAG-BICRO's statement that the requested amount will be used for the eligible sub-projects according to the agreed procedures.

For PoC7 Program, local counterpart funds (22%) are secured and paid from HAMAG-BICRO's State Budget.

Based on the current needs for PoC7 Program, HAMAG-BICRO sends to the PIU request for PoC7 funds disbursement. The total required amount has to be split to the portion that is financed by loan funds and to the portion that is financed from HAMAG-BICRO's State Budget. The request is supported with the specification of sub-projects and with HAMAG-BICRO's statement that the requested amount will be used for the eligible sub-projects according to the agreed procedures. PIU pays only part of loan funds.

Upon receipt of HAMAG-BICRO's statement that related local counterpart funds (22%) have been paid, PIU will enter the payment date of these funds in PoC register. These funds will then be included in all relevant STPII reports and official evidence. The Financial Expert enters the request in the invoice register, HAMAG-BICRO's program/component register, checks whether the requested amount fits the approved budget, whether the request is supported with the HAMAG-BICRO's required statement and continues the invoices payment procedure.

The usage of each HAMAG-BICRO's program/component is reflected in the IFRs as a summary line.

Once a year, the usage of the SF category for each program (including PoC7 local counterpart funds (22%), which are financed from HAMAG-BICRO's State Budget) is audited in HAMAG-BICRO by the selected auditor as part of regular annual audit in accordance with the Agreement covenants.

HAMAG-BICRO is responsible:

- to adhere to the procedures for HAMAG-BICRO's programs defined in the operations manuals agreed and approved by the MSE and WB,
- to ensure that the related SF procurement and financial operations are transparent, accurate, eligible, in time, legal, and to enable segregation of duties,
- to keep SF payments within the approved budgets,

- for timely budget changes requests,
- to use SA only for STPII's transactions,
- to request only necessary amounts for the purposes of the related programs,
- to ensure that funds are not used for any other purposes,
- to execute payments for PoC7 local counterpart funds (22%) from HAMAG-BICRO's State Budget and to send to the MSE / PIU information of the dates of payments in due time
- to transfer the requested funds to the final beneficiaries in short period from their receipt,
- to pay back all STPII funds that have not been spent in the sub-projects or that have been used for non-eligible purposes,
- to ensure that all unspent PoC7 local counterpart funds are paid back from the beneficiaries to the HAMAG-BICRO's State Budget,
- to keep and justify all relevant documentation (contracts, requests for payments, recovery reports and other evidences),
- to monitor the sub-projects,
- for proper financial evidences and tracking of financial operations by each program and
- for timely issuance of relevant recovery reports and proofs of recovery to the PIU.

Recovery of HAMAG-BICRO Sub-financing (SF) Funds

HAMAG-BICRO is in charge of supervising and organising recovery of SF funds. In cases when the funds for sub-financing HAMAG-BICRO's sub-projects have to be paid back because they have not been used in total or in case of their usage for non-eligible purposes, sub-beneficiaries pay back total outstanding amount in HRK to HAMAG-BICRO's Special Project Bank Account:

HAMAG-BICRO transfers those funds to the MSE as summary payments not later than 15 days before each quarter end: (i) 78% (loan funds) will be transferred to the Designated Account and (ii) 22% (local financing) will be transferred to the State Treasury's account. Immediately upon payment, HAMAG-BICRO sends to the PIU: (i) signed Recovery Report, (ii) specification which includes: initial request reference, contract No., beneficiary name, total amount to be recovered (HRK), percentage of loan funds to be recovered (HRK), percentage of government funds to be recovered (HRK) and properly identified bank accounts for the government funds (because they differ if the payment is done in the current or previous year) and (iii) proof of payments. Loan recovery funds are automatically converted to EUR in RBA and transferred to the Designated Account.

Government funds are transferred to the Project Government Account in HRK and may be used again the same year if the initial payment was done the same year. If the initial payment was done in the previous years, the government recovery funds are transferred to the State Treasury (MoF) and cannot be used for the similar HAMAG-BICRO projects.

Based on HAMAG-BICRO's Recovery Report, the Financial Expert updates all records and evidences (invoice register, loan funds payments register, government funds payments register, sub-financing register) and keeps funds recovery tracking.

CSF Sub-financing (SF) Payments

The contracts for CSF's SF payments are signed by the MSE (the Client), CSF (the Project Beneficiary) and the final beneficiary.

Payments to the final beneficiaries are done directly from the MSE (which has to be stipulated in the contract).

CSF issues signed request to the MSE/PIU which includes: final beneficiary, contract No., total amount to be paid (HRK), percentage of loan funds to be paid (HRK), percentage of government funds to be paid (HRK) in accordance with percentages stipulated in the Loan Agreement, IBAN No. of the final beneficiary and statement that the requested amount will be used for the eligible sub-project according to the agreed procedures.

The Financial Expert enters the request in the invoice register, CSF's program register, checks whether the requested amount fits the approved budget, whether the request is supported with the CSF's required confirmation and continues the invoices payment procedure.

The usage of CSF's SF funds is reflected in the IFRs as a summary line.

Once a year, the usage of the CSF SF is audited by the selected auditor as part of regular annual audit in accordance with the Agreement covenants.

CSF is responsible:

1. to adhere to the procedures for CSF's programs defined in the operations manual agreed and approved by the MSE and WB,
2. to ensure that the related SF procurement operations are transparent, accurate, eligible, in time, legal, and to enable segregation of duties,
3. for keeping SF payments within the approved budgets,
4. for timely budget changes requests,
5. to prepare and timely submit for signing the contracts with the awarded beneficiaries,
6. to keep and justify all relevant documentation (contracts, requests for payments, recovery reports and other evidences),
7. to monitor the sub-projects,
8. to pay back all STPII funds that have not been spent in the sub-projects or that have been used for non-eligible purposes and
9. for timely issuance of relevant recovery reports and beneficiary's proofs of recovery to the PIU.

Recovery of CSF Sub-financing (SF) Funds

CSF / UKF is in charge of supervising and organising recovery of SF funds. In cases when the funds for sub-financing of the CSF sub-projects have to be paid back because they have not been used in total or in case of their usage for non-eligible purposes, the PIU receives from the CSF signed Recovery Report which includes: beneficiary name, contract No., initial request reference, total amount to be recovered (HRK), percentage of loan funds to be recovered (HRK), percentage of government funds to be recovered (HRK) and properly identified bank accounts for the government funds (because they differ if the payment is done in the current or previous year). The report has to be supported by the proofs of recovery from the final beneficiary. This proof will be delivered to the PIU immediately upon the execution of payments.

Loan recovery funds are converted to EUR and transferred to the Designated Account.

Government funds are transferred to the Project Government Account in HRK and may be used again the same year if the initial payment was done the same year. If the initial payment was done in the previous years, the government recovery funds are transferred to the State Treasury (MoF) and cannot be used for the similar CSF projects.

Based on the CSF Recovery Report, the Financial Expert updates all records and evidences (invoice register, loan funds payments register, government funds payments register, sub-financing register) and keeps funds recovery tracking.

HAMAG-BICRO and CSF Operating Costs (OC) Payments

STPII funds for Project Beneficiaries' (HAMAG-BICRO and CSF) OC eligible expenditures are transferred to the PB's Special Project Bank Account (SA).

Eligible expenditures for OC category are (i) those that are previously agreed with the MSE (ii) for which WB NO was obtained prior to their execution and (iii) those within the approved budget.

They are procured and paid in accordance with the Croatian laws and regulations.

PB issues signed request to the MSE/PIU prior to the PB's payment of the related costs. The request may be issued after the payment of the related cost if this suits PB.

The request has to be supported by (i) the specification showing estimated (or already paid) amounts in HRK (and in foreign currency for payments abroad) and (ii) by the statement that the requested amount will be (or has been) used for the eligible costs according to the agreed procedures within the period of one month from the funds receipt.

The Financial Expert enters the request in the invoice register, PB's OC register, checks whether the requested amount fits the approved budget and whether the request is supported with the PB's statement that the requested amount is eligible for OC financing according to the agreed procedures and continues the payment procedure.

The usage of OC funds is reflected in the IFRs as a single summary line for all PBs including MSE/PIU.

Once a year, the usage of the OC category is audited in PB / PIU by the selected auditor as part of regular annual audit in accordance with the Agreement covenants.

The Project Beneficiaries are responsible:

- to procure and pay eligible operating costs in accordance with the Croatian laws and regulations,
- to pay requested eligible operating cost in time, upon the receipt of funds on the SA,
- to ensure that the related operations are transparent, accurate, in time, eligible, legal and to enable segregation of duties,
- for keeping eligible operating costs within the approved budgets,
- for timely budget changes requests,
- to pay back all STPII funds that have not been spent for OC or that have been used for non-eligible purposes,
- to issue timely relevant recovery reports to the PIU and
- for keeping and justifying all relevant OC documentation and evidences

Recovery of HAMAG-BICRO and CSF Operating Costs (OC) Payments

In cases when requested and transferred funds for CSF and HAMAG-BICRO operating costs have not been used in total, the unspent amount has to be deducted in the next request and supported with the corresponding specification.

Unspent OC funds have to be paid back to the Designated Account in cases when the outstanding amount for each sort of OC expenditures exceeds 10.000,00 HRK within the period of three months.

In that case PIU receives from the CSF and HAMAG-BICRO the written and signed Recovery Report which includes: initial request reference and total amount to be recovered (HRK). The report has to be supported by the proof of recovery from PB. This proof will be delivered to the PIU immediately upon the execution of payment.

Loan recovery funds are automatically converted to EUR in RBA and transferred to the Designated Account. Based on the CSF and HAMAG-BICRO Recovery Report the Financial Expert updates all records and evidences (invoice register, loan funds payments register, government funds payments register, sub-financing register) and keeps funds recovery tracking.

Travel expenses

Travel expenses may be included:

- (A) in consultants' contracts as reimbursable costs (for the purpose of consultants' services execution),
- (B) in STPII Training Plan (for the purpose of training) or
- (C) as part of operating costs for UKF Steering Committee.

Travel costs for cases under (C) will be calculated in accordance with the valid official MSE Decision.

Travel costs for cases under (A) and (B) may consist of:

1. Costs of transportation,
2. Accommodation costs,
3. Per diem,
4. Participation fee (only for trainings).

Costs of Transportation are acceptable based on original receipts for all means of transportation for economy class. The transportation receipts have to be addressed to MSE (in case of consultants' contracts under A and MSE's employees). Costs of local transportation are included in per diem, except the costs of fare between airport and town. The usage of private car for business trips has to be approved through travel order and calculated in the amount of non-taxable threshold in accordance with Croatian Income Tax Law, Rulebook and other regulations and directions.

Accommodation costs are acceptable based on original hotel receipts up to *****. The accommodation receipts have to be addressed to MSE (in case of consultants' contracts under A and MSE's employees).

Per diem costs are acceptable through travel order and are calculated in the amount of non-taxable thresholds in accordance with Croatian Income Tax Law, Rulebook and other regulations and directions. Full per diem amount will be paid for more than 12 hours and half per diem amount will be paid for 8-12 hours of business travel. If free meals are provided during the business trip, per diem will be reduced for 60% (for free supper and dinner) or 30% (for free supper or dinner).

Participation fees for trainings are acceptable based on original receipts addressed to MSE.

Travel costs (in case of consultants' contracts under A and MSE's employees) are reimbursable through appropriate travel order supported by original receipts for travel costs. All travel expenses

made in foreign currency will be recalculated to HRK at the RBA selling exchange rate on return date from a business trip.

Project Beneficiaries (HAMAG-BICRO and CSF) are responsible for conducting, procurement, calculation and payment of their part of training from STPII Training Plan in accordance with Croatian Income Tax Law, Rulebook and other regulations and directions.

Instructions for payments of eligible training costs for the MSE employees

Participation Fee invoices

Original invoices for participation fee / trainings must be submitted for payment to the PIU Financial Expert on time (payment is made up 7 to 10 days after invoice submission, in average).

If payment is made upon offer or quote (or its scans), the original invoice should be submitted later (but prior payments of travel order)

Flights / travel costs

Offers or quotes for airfare must be submitted by email to PIU Procurement Expert (cc to Project Manager and Financial Expert), taking into account that the process of making a purchase order can last up to 7 days. Payment of airfare is made up to 10 days after receipt of invoice from the supplier.

Boarding pass should be submitted to PIU Financial Specialist with travel order, within 7 days upon returning from business trip.

Travel Orders

- a) Travel orders should be issued at the expense of the activity A767029 Second Science and Technology Project, source 83, paragraph 3211; by employee.
- b) There is no possibility of advance payment for the business trip.
- c) Travel expenses are calculated in accordance with the Rulebook on Income Tax (Art. 13 and 14) and other applicable regulations.
- d) Filled travel order supported by (i) original receipts and boarding pass; (ii) official schedule of lectures/seminar and (iii) a signed copy of a bank account card with IBAN, Personal Identification Number and address of a person who went on a business trip, should be submitted for payment to the PIU Financial Expert no later than 7 days upon returning from the business trip.
- e) Payment of travel expenses will be made within 7 to 10 days upon submission of the above mentioned documents (d), to the bank account specified above.

Accommodation

An employee may settle the accommodation invoice: (i) by himself/herself and submit the original invoice for a refund with his/her travel order or (ii) by arranging an accommodation before leaving on a business trip with the agency that MSE uses for the purchasing airfares and similar. In this case, the employee should agree and confirm on accommodation with the agency and send their quote/offer to the PIU Procurement Expert in time to enable him/her to make purchase order (which may take up to 7 days). Upon receiving purchase order, the agency will issue and submit voucher for requested accommodation.

Trainings Payments

STPII funds for Project Beneficiaries' (HAMAG-BICRO's and CSF's) eligible expenditures for training category are transferred to the PB's Special Project Bank Account (SA).

PB issues signed request prior to (or after) PB's payment of the related costs. The request will be supported by PB's statement that the related training costs are eligible to be financed from STPII funds in accordance with agreed procedures and that the requested costs will be paid as soon as possible upon fund's receipt to the PB's project bank account.

The Financial Expert enters the request in the invoice register, PB's training register, checks if the requested amount fits the approved budget, if the request is supported with the PB's statement that the requested amount is eligible for training financing according to the agreed procedures and continues the payment procedure.

All unspent funds that were paid to the PB's project bank account must be paid back.

The usage of training funds is reported in total in IFRs.

Once a year, the usage of the training category is audited in PB and PIU by the selected auditor as part of regular annual audit in accordance with the Agreement covenants.

The Project Beneficiaries are responsible:

- to procure and pay eligible training costs in accordance with the Croatian laws and regulations,
- to pay requested eligible training cost in time, upon the receipt of funds on the SA,
- to ensure that the related operations are transparent, accurate, in time, eligible, legal and to enable segregation of duties,
- for keeping eligible training costs within the approved budgets,
- to return all unspent training funds,
- for timely budget changes requests and
- for keeping and justifying all relevant documentation and evidences.

Recovery of HAMAG-BICRO and CSF Training Payments

In cases when requested and transferred funds for CSF and HAMAG-BICRO training costs have not been used in total, the unspent amount has to be deducted in the next request and supported with the corresponding specification.

Unspent training funds have to be paid back to the Designated Account in cases when the total outstanding amount exceeds 10.000,00 HRK within the period of three months.

In that case PIU receives from the CSF and HAMAG-BICRO the written and signed Recovery Report which includes: initial request reference and total amount to be recovered (HRK). The report has to be supported by the proof of recovery from PB. This proof will be delivered to the PIU immediately upon the execution of payment.

Loan recovery funds are automatically converted to EUR in RBA and transferred to the Designated Account. Based on the CSF and HAMAG-BICRO Recovery Report the Financial Expert updates all records and evidences (invoice register, loan funds payments register, government funds payments register, sub-financing register) and keeps funds recovery tracking.

Project Accounting

The STPII accounting SW system SCALA with contract database in ACCESS, is set up to produce Interim un-audited Financial Reports (IFRs) according to World Bank requirements as determined in Anex 6. of thisd POM.

The Financial Expert is responsible for the booking of all financial documents and Procurement expert is responsible to enter and maintain all procurement data in ACCESS database in accordance with the actual Procurement plan and contracts (budgets and contracts' data).

The system is installed on server in MSE, accessible only to authorized users. MSE's IT Department is responsible for server maintenance as well as protection and backup of all Project data on that server.

The Project accounting system is a double-entry bookkeeping system based on cash method. Basic currency is HRK and reporting currency is EUR.

Accounting system enables sorting the accounting data by: account No., contract No., disbursement category, source of funds, project components and activities.

Archiving the Accounting Documentation

The Finance Expert will file the original financial documentation:

- suppliers' invoices by chronological internal number from the invoice register,
- bank statements by the bank statement No and
- other relevant financial documents by chronological numbering system

All documents evidencing the project expenditures (contracts, orders, invoices, receipts and other documents) shall be retained for at least one year after the World Bank has received the final audit report for the financial year in which the last withdrawal from the Loan Account was made.

6. REPORTING AND SUPERVISION

PIU issues reports to the following stakeholders:

1. SC
2. WB
3. MSE
4. MOF
5. State audit
6. Croatian National Bank

Reporting to the WB

Quarterly Reporting

Quarterly reporting is in the format and substance agreed with the Bank.

Quarterly Project Reports contain Narrative Report and the Interim Financial Reports (IFRs).

Deadlines for submission are as follows:

1. For Narrative Report: one month after the end of the quarter
2. For Interim un-audited Financial Reports (IFRs): 45 days after the end of the quarter

Beneficiaries are responsible for preparing their Narrative Part and for submitting them to the PIU no later than 15 days after the end of quarter. Quarterly reports should include information about realisation of indicators, analysis of realisation as well as proposed corrective measures if necessary to prevent or resolve issues related to the realisation/execution.

PIU is accountable for consolidating reports received from the Beneficiaries and submission of the consolidated report to the Bank within deadlines specified above.

Mid-Term Review Reporting

Mid-term Review: At the time of the mid-point of the project, MSE / PIU submits to the WB Mid-term Report of the project implementation including overview of progress achieved and measures recommended to ensure the accomplishment of the project's operation and development objectives during the remaining project period.

Implementation Completion Report (ICR)

Upon Project completion, not later than six months after final disbursement of the Loan proceeds MSE / PIU will prepare ICR in collaboration with the Bank. The ICR will include an assessment of the execution of the project based on monitoring and evaluation reports, costs and benefits derived or to be derived, the performance of the Borrower, the Bank and other PBs involved in project implementation, regarding their respective obligations and accomplishments, and including lessons learned. ICR will also include plans for the future operation of the facilities that had been financed under the project, including proposed indicators to monitor and evaluate future operations.

Reporting to the MoF

STPII Status Report for Joint Portfolio Review (semi-annually).

Financial Reports

Reports to the WB:

- IFRs (quarterly),
- Disbursements (DA reconciliation, SoE, SS, Summary of Categories) (as needed, quarterly),
- Commitment / Disbursement Report (quarterly),
- Loan Disbursement Plan (annually)

Reports to the MSE:

- Report on loan payments (monthly),
- JOPPD Form (as needed)
- Comprehensive report on total expenditures by components, PBs, programs, activities, disbursement categories, type of financing, in EUR and in HRK, for the current quarter, year and total (quarterly).

Reports to the MoF:

- Report on loan payments (monthly),
- Report on transactions on Project Government Account in EUR (monthly),
- K3 Report for the CNB (as needed) and
- Loan Disbursement Plan (annually).

Report to the NCB: K3 Report (as needed).

Reporting to the Steering Committee

PIU prepares reports on various segments of the Project to be reviewed and discussed on Steering Committee sessions.

Project Audit

The project is audited / reviewed by the:

- State Audit (annually),
- WB (annually),
- Internal MSE Audit (as necessary),
- Tax Office and other Government entities (as necessary) and
- Independent Audit Company acceptable to World Bank (annually).

The audit reports, together with the related management letters, are submitted to the Bank within six months after the end of the reporting year. The audit is performed in accordance with the Terms of Reference (TORs) agreed with the Bank. The PIU and PBs are responsible for providing all necessary data and information to auditors. Financial Expert is responsible for the audit coordination and sending the annual audit reports to the WB. Audit reports have to be publicly disclosed upon issuance: for STPII on MSE's web site and for PB's, on their web sites.

Monitoring and Evaluation

The monitoring and evaluation indicators have been developed in consultation with the PBs and agreed with the MSE and the WB.

M&E Team consists of STPII M&E Consultant, appointed representatives of Beneficiaries and the PIU.

Beneficiaries provide data, M&E Consultant collects and analyses data and provides recommendations for corrective actions or improvements when and where necessary, while the M&E team discusses recommendations and ensures that M&E results are implemented into the operational activities to improve practices and processes.

7. ENVIRONMENTAL MANAGEMENT FRAMEWORK

This section of the Project Operational Manual presents the Environmental Management Framework that serves as a tool to screen the sub projects financed and based on the screening guides on the environmental due diligence procedures.

All sub-loans/grants to be provided under the STPII should be subjected by Project Beneficiaries to an environmental review process incorporating the procedures described in this section. The Project Beneficiaries – HAMAG-BICRO, CSF (for its UKF component) and MSE, should use these procedures in reviewing and appraising sub-borrowers/sub-projects, and to inform Sub-Borrowers of environmental requirements for sub loan appraisal, so that sub-projects can be implemented in an environmentally sound manner. These procedures and requirements incorporate the Republic of Croatia's regulatory requirements for environmental legislation and the World Bank's safeguard policies.

The procedures essentially consist of:

1. Environmental Screening,
2. Environmental Assessment, and
3. Environmental Mitigation where necessary

The Environmental Screening will be carried out by the respective Project Beneficiary (PB) at an early stage in their sub-loan review procedures to determine the appropriate environmental risk category for the sub-borrowers/sub-projects, and may require the contracting of external expertise. Following screening, an Environmental Assessment (EA) in line with the environmental classification of the sub-borrower/sub-project will be recommended. The sub-borrowers will be responsible for carrying out any environmental assessment and for confirming that the proposed sub-projects comply with national environmental guidelines, and for obtaining the necessary clearance from the appropriate licensing authorities. Once the analysis is performed and recommendations incorporated into the sub project, the respective Project Beneficiary will appraise the proposed sub-loan package which would include, where appropriate, an environmental management plan. The implementation of the environmental management plan will be monitored by the PB. The overall review process will be monitored by the PIU.

The environmental screening process and responsibilities of stakeholders are described in detail in Annex 5 of this Manual.

8. ACRONYMS AND ABBREVIATIONS

Acronym	Meaning
AfW	Application for Withdrawal
CNB	Croatian National Bank
CQ	(Selection based on) Consultant's Qualifications
CSF	Croatian Science Foundation
DA	Designated Account
FB	Selection under a Fixed Budget
GA	Government Account
GPN	General Procurement Notice
HAMAG-BICRO	Croatian Agency for SMEs, Innovation and Investment
IBRD	International Bank for Reconstruction and Development
ICR	Implementation Completion Report
IFRs	Interim un-audited Financial Reports
LA	Loan Account
LCS	Least Cost Selection
LOI	Letter of Invitation
M&E	Monitoring and Evaluation
MOF	Ministry of Finance
MSE	Ministry of Science and Education
MTR	Mid-Term Review
NO	No Objection
OC	Operating Costs
PB	Project Beneficiary
PGA	Project Government Account
PIP	Project Implementation Plan
PIU	Project Implementation Unit
POM	STPII Project Operational Manual
PP	Procurement Plan
QBS	Quality Based Selection
QCBS	Quality and Cost Based Selection
REOI	Request for Expressions of Interest
RFP	Request for Proposals
SA	Project Special Bank Account
SC	Steering Committee
SMEs	Small and Medium Sized Enterprises
SOE	Statement of Expenditures
SSS	Single Source Selection / Sole Source Selection
STP II	Second Science and Technology Project
TOR	Terms of References
TTO	Technology Transfer Office
UKF	Unity Through Knowledge Fund
WB	World Bank
WG	Working Group

9. REVISION LOG

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Reviewers

Name	Role	Version Approved	Date of approval
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