

CONFORMED COPY

LOAN NUMBER 3695 LV

Loan Agreement

(Agricultural Development Project)

between

REPUBLIC OF LATVIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated February 16, 1994

LOAN NUMBER 3695 LV

LOAN AGREEMENT

AGREEMENT, dated February 16, 1994, between REPUBLIC OF LATVIA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS: (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Bank to assist in the financing of the Project;

(B) the Borrower has agreed with the Swedish Board for Investment and Technical Support (BITS) and with the European Community's Assistance Program for Eastern Europe (EC PHARE) to assist in financing part of the Project on the terms and conditions set forth in the respective agreements; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, dated January 1, 1985, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) The last sentence of Section 3.02 is deleted.

(b) In Section 6.02, sub-paragraph (k) is re-lettered as sub-paragraph (l) and a new sub-paragraph (k) is added to read:

"(k) An extraordinary situation shall have arisen under which any further withdrawals under the Loan would be inconsistent with the provisions of Article III, Section 3 of the Bank's Articles of Agreement."

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "AFC" means the Agricultural Finance Company of Latvia to be established in Riga by the Borrower with the purpose of identification of investment opportunities, assessment of creditworthiness and provision of funds to individual private farmers;

(b) "AFC Charter" means the Charter or other similar document pertaining to the establishment and operations of AFC;

(c) "AFC Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and AFC pursuant to section 3.01(b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the AFC Subsidiary Loan Agreement;

(d) "AFC Subsidiary Loan" means the loan to be made pursuant to the AFC Subsidiary Loan Agreement;

(e) "Beneficiary" means a private farmer or private farmers association or a private sector agroprocessing or forest industry enterprise to which a PFI proposes to make or has made a Sub-loan;

(f) "IBL" means the Investment Bank of Latvia established in Riga pursuant to Decree 124 of the Council of Ministers dated April 9, 1992;

(g) "IBL Charter" means the Law on the Investment Bank of Latvia, dated March 30, 1993, pertaining to the establishment and operations of IBL;

(h) "IBL Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and IBL pursuant to section 3.01(b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the IBL Subsidiary Loan Agreement;

(i) "IBL Subsidiary Loan" means the loan to be made pursuant to the IBL Subsidiary Loan Agreement;

(j) "Participating Financial Institutions" or "PFI" means AFC, IBL and other financial institutions and banks acceptable to the Bank and the Bank of Latvia which are the recipients of a Subsidiary Loan;

(k) "PMU" means the Project Management Unit established by the Borrower to coordinate and oversee activities under the Project, in accordance with the terms of this Agreement;

(l) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;

(m) "Sub-loan" means a loan made or to be made by a PFI financed in whole or in part out of the proceeds of the Loan to a Beneficiary for a Sub-project;

(n) "Sub-project" means a specific development project to be carried out by a Beneficiary utilizing, in whole or in part, the proceeds of a Sub-loan; and

(o) "Subsidiary Loan Agreements" means the AFC Subsidiary Loan Agreement, the IBL Subsidiary Loan Agreement, and any other subsidiary loan agreement entered into by the Borrower and a PFI.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, various currencies that shall have an aggregate value equivalent to the amount of twenty-five million dollars (\$25,000,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower shall, for the purposes of the Project, open and maintain in dollars a special deposit account in a foreign bank, acceptable to the Bank on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 1997 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent ($3/4$ of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to the Cost of Qualified Borrowings determined in respect of the preceding Semester, plus one-half of one percent ($1/2$ of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rate applicable during such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Semester.

(c) For the purposes of this Section:

(i) "Interest Period" means a six-month period ending on the date immediately preceding each date specified in Section 2.06 of this Agreement, beginning with the Interest Period in which this Agreement is signed.

(ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the

outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may be made by the Bank after July 1, 1989 bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.

(iii) "Semester" means the first six months or the second six months of a calendar year.

(d) On such date as the Bank may specify by no less than six months' notice to the Borrower, paragraphs (a), (b) and (c) (iii) of this Section shall be amended to read as follows:

"(a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Quarter equal to the Cost of Qualified Borrowings determined in respect of the preceding Quarter, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rates applicable during such Interest Period."

"(b) As soon as practicable after the end of each Quarter, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Quarter."

"(c) (iii) 'Quarter' means a three-month period commencing on January 1, April 1, July 1 or October 1 in a calendar year."

Section 2.06. Interest and other charges shall be payable semiannually on March 1 and September 1 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate agricultural, banking, financial and managerial practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) For the purpose of carrying out Parts A and B of the Project, the Borrower shall make available the equivalent of the proceeds of the Loan under Subsidiary Loan Agreements to be entered into between the Borrower and each PFI, respectively, under terms and conditions satisfactory to the Bank, and which shall include, without limitations those set forth in Schedule 6 of this Agreement.

(c) The Borrower shall exercise its rights under a Subsidiary Loan Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and, except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive any Subsidiary Financing Agreement or any provision thereof.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods and services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.03. The Borrower shall maintain the PMU in accordance with a staffing plan and terms of reference satisfactory to the Bank.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account for each fiscal year audited, or cause such records and accounts to be audited, all in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than 6 months after the end of each such year, the report or reports of such audits by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and
- (iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain or cause to be retained, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account or payment out of the Special Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified:

(a) The AFC Charter, IBL Charter, the charter or similar documents for other PFIs shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the operations or the financial condition of such PFI or its respective ability to carry out its activities under the Project or to perform any of its obligations under its respective Subsidiary Loan Agreement.

(b) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of a PFI or for the suspension of its respective operations.

(c) (i) Subject to subparagraph (ii) of this paragraph:

(A) the right of the Borrower to withdraw the proceeds of any grant or loan made to the Borrower for the financing of the Project shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor, or

(B) any such loan shall have become due and payable prior to the agreed maturity thereof.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that:

(A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and

(B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely, any event specified in Section 5.01 (a), (b) or (c), subject to the proviso of paragraph (ii) thereof, of this Agreement shall have occurred.

ARTICLE VI

Termination; Effective Date

Section 6.01. The following event is specified as an additional condition to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions, namely, that a Subsidiary Loan Agreement with at least one PFI shall have been executed on behalf of the parties thereto.

Section 6.02. The following is specified as additional matter, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank, namely that the Subsidiary Loan Agreement referred to in Section 6.01 above has been duly authorized or ratified by, and is legally binding upon, the parties thereto in accordance with its terms.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Minister of Finance
Ministry of Finance
1, Smilšu Street
LV 1919 Riga,
Latvia

Telex:

871 161 299

For the Bank:

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

Cable address:

Telex:

INTBAFRAD
Washington, D.C.

248423 (RCA)
82987 (FTCC)
64145 (WUI) or
197688 (TRT)

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

REPUBLIC OF LATVIA

By /s/ Ojars E. Kalnins
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Wilfried Thalwitz
Regional Vice President
Europe and Central Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan to each Category and the percentage of

expenditures for items so to be financed in each Category:

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Part A of the Project	11,900,000)	100% for eligible subloans approved in the first year;
)	85% for eligible
)	subloans approved
)	in the second
)	year; 70% for
)	eligible subloans
)	approved in
(2) Part B of the Project	11,900,000)	the third year of
)	the Project or
)	thereafter
(3) Equipment and training	1,000,000	100% of foreign expenditures and 80% of local expenditures
(4) Unallocated	200,000	
	<hr/>	
TOTAL	25,000,000	
	=====	

2. For the purposes of this Schedule: (a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower; and

(c) the term "first year" with respect to any PFI means 12 months from the date the first Sub-loan was entered into by that PFI; the term "second year" means the next 12 months after the first year; and the term "third year" means the period after the second year up to the Closing Date.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not to exceed \$2,000,000, may be made in respect of Categories (1) and (2) on account of payments made for expenditures before that date but after September 1, 1993;

(b) expenditures under Category (1) unless the AFC has been established with operating regulations satisfactory to the Bank, and the AFC Subsidiary Loan Agreement has been executed on behalf of the parties thereto, and the Bank has been furnished with an opinion that said Subsidiary Loan Agreement has been duly authorized or ratified by, and is legally binding upon, the parties in accordance with its terms; and

(c) expenditures under Category (2) unless the IBL Subsidiary Loan Agreement has been executed on behalf of the parties thereto, and the Bank has been furnished with an opinion that said Subsidiary Loan Agreement has been duly authorized or ratified by, and is legally binding upon, the parties in accordance with its terms.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures

under contracts for goods, works and services not exceeding \$250,000 equivalent, under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to help private farmers and to enhance on-going privatization of agriculture, the agro-processing and forest industries through provision of investment credit.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Bank may agree upon from time to time to achieve such objectives:

Part A: Support for On-Farm Development

Provision of Sub-loans for on-farm investments and initial working capital to private farmers.

Part B: Support for Agro- and Forest Industries Development

Provision of Sub-loans for investments and initial working capital to small and medium-size private enterprises in the agro- and forest industries sector.

Part C: Institutional Development

Provision of equipment and services to assist the Borrower in implementing priority programs for general development in the agricultural sector, including without limitation (a) support for the State Land Services relating to land demarcation, registration and titling; (b) strengthening AFC's management capabilities; and (c) assistance in the areas of agricultural research, extension, and marketing and distribution.

* * *

The Project is expected to be completed by December 31, 1996.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
September 1, 1998	585,000
March 1, 1999	610,000
September 1, 1999	630,000
March 1, 2000	655,000
September 1, 2000	680,000
March 1, 2001	705,000
September 1, 2001	730,000
March 1, 2002	760,000
September 1, 2002	785,000
March 1, 2003	815,000
September 1, 2003	845,000
March 1, 2004	875,000
September 1, 2004	910,000
March 1, 2005	945,000
September 1, 2005	980,000
March 1, 2006	1,015,000
September 1, 2006	1,055,000
March 1, 2007	1,090,000
September 1, 2007	1,130,000
March 1, 2008	1,175,000
September 1, 2008	1,220,000
March 1, 2009	1,265,000
September 1, 2009	1,310,000

March 1, 2010	1,360,000
September 1, 2010	1,410,000
March 1, 2011	1,460,000

* The figures in this column represent dollar equivalents determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

Premiums on Prepayment

Pursuant to Section 3.04 (b) of the General Conditions, the premium payable on the principal amount of any maturity of the Loan to be prepaid shall be the percentage specified for the applicable time of prepayment below:

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.18
More than three years but not more than six years before maturity	0.35
More than six years but not more than 11 years before maturity	0.65
More than 11 years but not more than 15 years before maturity	0.88
More than 15 years before maturity	1.00

SCHEDULE 4

Procurement

Part A: Procurement of Goods

1. Subject to prior review in accordance with paragraph 1.10 of the "Guidelines for Procurement Under IBRD Loans and IDA Credits" published by the Bank in May 1992 (the Guidelines), contracts for the procurement of goods shall be awarded through international competitive bidding or other methods of procurement in accordance with procedures consistent with those set forth in Sections I, II and III of the Guidelines, subject to the following modifications:

(a) Paragraph 2.8 of the Guidelines is deleted and the following is substituted therefor:

"2.8 Notification and Advertising

The international community should be notified in a timely manner of the opportunity to bid. This will be done by advertising invitations to apply for inclusion in a bidder's invitation list, to apply for prequalification, or to bid; such advertisements should be placed in at least one newspaper of general circulation in the Borrower's country and, in addition, in at least one of the following forms:

- (i) a notice in the United Nations publication, Development Forum, Business Edition; or
- (ii) an advertisement in a newspaper, periodical or technical journal of wide international circulation; or
- (iii) a notice to local representatives of countries and territories referred to in the Guidelines, that are potential suppliers of the goods and services required."

(b) The following is added at the end of paragraph 2.21 of the Guidelines:

"As a further alternative, bidding documents may require the bidder to state the bid price in a single currency widely used in international trade and specified in the bidding documents."

(c) Paragraphs 2.55 and 2.56 of the Guidelines are deleted.

2. Goods estimated to cost the equivalent of \$100,000 to \$1,000,000 per contract, shall be procured under contracts awarded on the basis of comparison of price quotations obtained from a list of at least three suppliers from at least three different countries eligible under the Guidelines, in accordance with procedures acceptable to the Bank.

3. Goods estimated to cost the equivalent of less than \$100,000 per contract, shall be procured under contracts awarded on the basis of comparison of price quotations obtained from a list of at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Bank.

4. Services shall be procured in accordance with the normal commercial practices of the Beneficiaries, at a reasonable price, account being taken also of other relevant factors such as the quality of the services and the competence of the parties rendering them.

Part B: Review by the Bank of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract for goods estimated to cost the equivalent of \$1,000,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Bank pursuant to said paragraph 2 (d) shall be furnished to the Bank prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, said procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Bank pursuant to said paragraph 3 shall be furnished to the Bank as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 6 to this Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals are to be made on the basis of statements of expenditure.

2. The figure of 15% is hereby specified for purposes of

paragraph 4 of Appendix 1 to the Guidelines.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2) and (3) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$2,000,000 to be withdrawn from the Loan Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for a deposit or deposits which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit in the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this

Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or

(b) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, less the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

SCHEDULE 6

I. Principal Terms and Conditions of Subsidiary Loan Agreement

The principal terms and conditions set forth herein shall apply for the purposes of Section 3.01 (b) of this Agreement.

A. Terms

1. The principal amount to be relented out of the proceeds of the Loan to a PFI under its respective Subsidiary Loan Agreement shall be: (a) denominated in dollars; and (b) the equivalent of the aggregate amount of the principal of all Sub-loans made out of the proceeds thereof, provided that in the case of the AFC, the amount of the Subsidiary Loan Agreement shall be reduced by the amount of the proceeds of the Loan to be capitalized by the Borrower as agreed by the Bank.

2. The Subsidiary Loan shall be: (a) charged, on the principal amount thereof withdrawn and outstanding from time to time, interest, during each six-month period commencing on January 1 and July 1 of each calendar year, at a rate equal to the Bank's variable Interest Rate for such period plus a margin, as shall be calculated on the basis of guidelines acceptable to the Bank; and (b) repaid over a period not exceeding 17 years, inclusive of a grace period not exceeding five years.

3. The right of a PFI to the use of the proceeds of its respective Subsidiary Loan shall be: (a) suspended upon failure of such PFI to perform any of its obligations under its respective Subsidiary Loan Agreement or to continue to be in compliance with all legal and regulatory requirements applicable to its operations; and (b) terminated if such right shall have been suspended pursuant to subparagraph (a) hereof for a continuous period of 90 days.

B. Conditions

1. A Subsidiary Loan Agreement may be entered into with a financial banking institution, duly established and operating under the laws of the Borrower, which:

(a) is in compliance with all legal and regulatory requirements applicable to its operations;

(b) is operating pursuant to investment and lending policies and procedures which the Bank and the Bank of Latvia shall have judged acceptable, and has undertaken to maintain said policies and procedures; and

(c) has a satisfactory financial structure, determined inter alia, on the basis of risk-based capital adequacy criteria satisfactory to the Bank, policies and performance, and the organization, management, staff and other resources required for the efficient carrying out of its operations.

2. Each respective Subsidiary Loan Agreement shall contain provisions pursuant to which each respective PFI shall undertake to:

(a) carry out its activities under the Project and conduct its operations and affairs in accordance with appropriate financial standards and practices, with qualified management and staff in adequate numbers, and in conformity with the investment and lending policies and procedures referred to in paragraph B.1.(b) hereof, and to provide, promptly as needed, the funds, facilities, services and other resources required for the purpose;

(b) (i) make Sub-loans to Beneficiaries on the terms and conditions set forth in this Schedule; (ii) exercise its rights in relation to each such Sub-loan in such manner as to protect its interests and the interests of the Borrower and the Bank, comply with its obligations under its respective Subsidiary Loan Agreement and achieve the purposes of the Project; (iii) not assign, amend, abrogate or waive any of its agreements providing for Sub-loans, or any provision thereof, without prior approval of the Borrower and the Bank; and (iv) appraise Sub-projects and supervise, monitor and report on the carrying out by Beneficiaries of Sub-projects, in accordance with procedures satisfactory to the Bank;

(c) maintain a technical staff to be responsible for the appraisal and supervision of the carrying out of Sub-projects with resources and terms of reference, satisfactory to the Bank;

(d) (i) exchange views with, and furnish all such information to the Bank and the PMU, as may be reasonably requested by the Bank or the PMU, with regard to the progress of its activities under the Project, the performance of its obligations under its respective Subsidiary Loan Agreement, and other matters relating to the purposes of the Project; (ii) promptly inform the Bank of any condition which interferes or threatens to interfere with the progress of its activities under its respective subsidiary

Loan Agreement; and (iii) without limitation on the foregoing, review, at least annually, with the Borrower and the Bank the terms and conditions of the Subsidiary Loan Agreements and the Sub-loan Agreements, including the margins, and interest rate structure; and

(e) (i) maintain records and accounts adequate to reflect, in accordance with sound accounting practices, its operations and financial condition; (ii) have its financial statements (balancesheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank; (iii) furnish to the Bank, as soon as available, but in any case not later than six months after the end of each such year, certified copies of said financial statements and accounts for such year, certified copies of said financial statements and accounts for such year as so audited, and the report of such audit by said auditors in such scope and detail as the Bank shall have reasonably requested; and (iv) furnish to the Bank such other information concerning said records, accounts and financial statements, as well as the audit thereof, as the Bank shall from time to time reasonably request.

II. Terms and Conditions of Sub-loans

The principal terms and conditions set forth herein shall apply for the purpose of paragraph I.B.2.(b) of this Schedule.

A. Terms

1. The principal amount of each Sub-loan made out of the proceeds of the Loan shall be denominated and be equivalent in dollars (determined as of the date or respective dates of withdrawal from the Loan Account or payment out of the Special Account) of the value of the currency or currencies so withdrawn or paid out on account of the cost of goods financed out of such proceeds for the Sub-project.

2. Each Sub-loan shall be: (a) charged interest, on the principal amount thereof withdrawn and outstanding from time to time, at a rate determined by the PFI making such Sub-loan in accordance with its investment and lending policies and practices; and (b) made for a period determined pursuant to said policies and practices and not exceeding 12 years, inclusive of a grace period of not more than three years.

B. Conditions

3. No expenditures for goods required for a Sub-project shall be eligible for financing out of the proceeds of the Loan unless:

(a) the Sub-loan for such Sub-project shall have been approved by the Bank and such expenditures shall have been made not earlier than 90 days prior to the date on which the Bank shall have received the application and information required under paragraph II.B.4.(a) below in respect of such Sub-loan, or

(b) the Sub-loan for such Sub-project shall have been a free-limit Sub-loan (as hereinafter defined) for which the Bank shall have authorized withdrawals from the Loan Account and such expenditures shall have been made not earlier than 90 days prior to the date on which the Bank shall have received the request and information required under paragraph II.B.4.(b) below in respect of such free-limit Sub-loan. For the purposes hereof, a free-limit Sub-loan shall be a Sub-loan for a Sub-project, other than the first three Sub-loans to be made by each PFI and other than any Sub-loan greater than \$200,000 equivalent.

4. (a) When presenting a Sub-loan, other than a free-limit Sub-loan, to the Bank for approval, the PFI shall furnish to the Bank an application, in form satisfactory to the Bank, together with (i) a description of the Beneficiary; (ii) the appraisal of the Sub-project, including a description of the expenditures proposed to be financed out of the proceeds of the Loan; (iii) the proposed terms

and conditions of the Sub-loan, including the schedule of amortization therefor; and (iv) any such other information as the Bank shall reasonably request.

(b) For each free-limit Sub-loan the PFI shall provide to the PMU (i) a summary description of the Beneficiary and the Sub-project, including a description of the expenditures proposed to be financed out of the proceeds of the Loan; and (ii) the terms and conditions of the Sub-loan, including the schedule of amortization therefor.

(c) Applications and requests made pursuant to the provisions of subparagraphs (a) and (b) of this paragraph shall be presented to the Bank on or before June 30, 1996, or such later date as the Bank shall establish.

5. Sub-loans shall be made to Beneficiaries who each shall have established to the satisfaction of the PFI, on the basis of guidelines acceptable to the Bank, that it is creditworthy, and has a satisfactory financial structure and the organization, management, staff and financial and other resources required for the efficient carrying out of its operations, including the carrying out of the Sub-project.

6. Sub-loans shall be made for Sub-projects which are each determined, on the basis of an appraisal carried out in accordance with guidelines satisfactory to the Bank, to be technically feasible and economically, financially and commercially viable and designed with appropriate health, safety and environmental standards, applicable on the territory of the Borrower and calculated to have a financial rate of return and an economic rate of return of at least 15% each.

7. Sub-loans shall be made on terms whereby the PFI making the Sub-loan shall obtain, by written contract or other appropriate means, rights adequate to protect its interest and those of the Borrower and the Bank, including the right to:

(a) require the Beneficiary to carry out the Sub-project with due diligence and efficiency and in conformity with appropriate environmental, economic, financial and technical practices, to maintain adequate records, and to provide, promptly as needed, the funds, facilities and other resources required for the purpose;

(b) require that the goods to be financed out of the proceeds of the Loan be procured in accordance with the provisions of Schedule 4 to this Agreement, and use such goods exclusively in the carrying out of the Sub-project;

(c) inspect, by itself or jointly with representatives of the Bank if the Bank shall so request, the goods and the sites, works, plans and construction included in the Sub-project, the operation thereof, and any relevant records and documents;

(d) require that the Beneficiary shall take out and maintain such insurance, against such risks and in such amounts, as shall be consistent with sound business practice, including such insurance to cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Loan to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the Beneficiary to replace or repair such goods;

(e) require each Beneficiary under Part B of the Project, as described in Schedule 2 to this Agreement, to (i) have its financial statements for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the PFI, and (ii) furnish to the PFI, as soon as available, but in any case not later than six months after the end of each such year, certified copies of its financial statements for such year as so audited, and the report of such audit by said auditors, of such scope in such detail as the PFI shall have

reasonably requested;

(f) obtain all such information as the Bank shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Beneficiary and to the benefits to be derived from the Sub-project; and

(g) suspend or terminate the right of the Beneficiary to the use of the proceeds of the Loan upon failure by such Beneficiary to perform its obligations under its contract with the PFI.

