

CONFORMED COPY

LOAN NUMBER 7007 LV

Loan Agreement

(Programmatic Structural Adjustment Loan)

between

REPUBLIC OF LATVIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Dated March 17, 2000

LOAN NUMBER 7007 LV

LOAN AGREEMENT

AGREEMENT, dated March 17, 2000, between REPUBLIC OF LATVIA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (The Bank):

WHEREAS (A) the Bank has received a letter dated February 16, 2000, from the Borrower describing a program of actions, objectives and policies designed to achieve structural adjustment of the Borrower's economy over the three-year period from 2000-2002 (hereinafter called the Program), declaring the Borrower's commitment to the execution of the Program, and requesting assistance from the Bank in support of the Program during the execution thereof;

(B) the Borrower has carried out the measures and taken the actions relevant to the first part of the Program, according to the benchmarks described in Schedule 3 to this Agreement, to the satisfaction of the Bank; and

(C) on the basis, inter alia, of the foregoing, the Bank has decided to provide assistance to the Borrower in support of the first part of the Program by making the Loan as hereinafter provided;

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 for Fixed-Spread Loans" of the Bank, dated September 1, 1999 (the General Conditions) constitute an integral part of this Agreement:

(a) Section 2.01, paragraph 41, is modified to read:

"Project" means the program, referred to in the Preamble to the Loan Agreement, in support of which the Loan is made.";

(b) Section 5.01 is modified to read:

"The Borrower shall be entitled to withdraw the proceeds of the Loan from the Loan Account in accordance with the provisions of the Loan Agreement and of these General Conditions";

(c) The last sentence of Section 5.03 is deleted;

(d) Section 9.07 (c) shall be modified to read:

"(c) Not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, the Borrower shall prepare and furnish to the Bank a report, of such scope and in such detail as the Bank shall reasonably request, on the execution of the program referred to in the Preamble to the Loan Agreement, the performance by the Borrower and the Bank of their respective obligations under the Loan Agreement and the accomplishment of the purposes of the Loan."; and

(e) Section 9.05 is deleted and Sections 9.06, 9.07 (as modified above), 9.08 and 9.09 are renumbered, respectively, Sections 9.05, 9.06, 9.07 and 9.08.

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

(a) "BOL" means Bank of Latvia, the Borrower's central bank, and any successor thereto;

(b) "CPC" means the Borrower's Corruption Prevention Council, and any successor thereto;

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

(d) "Lat" means the lawful currency of the Borrower;

(e) "Lattelekom" means Limited Liability Company SIA "Lattelekom" registered in the Register of Enterprises of Republic of Latvia on January 9, 1992, Registration number 000305278, and any successor thereto;

(f) "Latvenergo" means State Joint Stock Company Under Privatisation VPAS "Latvenergo" registered in the Register of Enterprises of Republic of Latvia on October 8, 1991, Registration number 000303294, and any successor thereto;

(g) "Latvijas Gaze" means Public Joint Stock Company A/S "Latvijas Gaze" registered in the Register of Enterprises of Republic of Latvia on March 22, 1991, Registration number 000300064, and any successor thereto;

(h) "Saeima" means the Borrower's parliament, and any successor thereto; and

(i) "Ventspils Nafta" means Public Joint Stock Company A/S "Ventspils Nafta" registered in the Register of Enterprises of Republic of Latvia on May 9, 1991, Registration number 000300309, and any successor thereto.

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, an amount equal to forty million, four hundred ten thousand dollars (\$40,410,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.09 of this Agreement.

Section 2.02. (a) Subject to the provisions of paragraphs (b), (c) and (d) of this Section, the Borrower shall be entitled to withdraw the proceeds of the Loan from the Loan Account in support of the Program.

(b) The Borrower shall open, prior to furnishing to the Bank the first request for withdrawal from the Loan Account, and thereafter maintain in Bank of Latvia, a deposit account in dollars, on terms and conditions satisfactory to the Bank. All withdrawals from the Loan Account shall be deposited by the Bank into the Deposit Account.

(c) The Borrower undertakes that the proceeds of the Loan shall not be used to finance expenditures excluded pursuant to the provisions of Schedule 1 to this Agreement. If the Bank shall have determined at any time that any proceeds of the Loan shall have been used to make a payment for an expenditure so excluded, the Borrower shall, promptly upon notice from the Bank, (i) deposit into the Deposit Account an amount equal to the amount of said payment, or (ii) if the Bank shall so request, refund such amount to the Bank. Amounts refunded to the Bank upon such request shall be credited to the Loan Account for cancellation.

(d) No withdrawals shall be made from the Loan Account unless the Bank has received the payment of the fee referred to in Section 2.04 of this Agreement.

Section 2.03. The Closing Date shall be December 31, 2000 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 fee in an amount equal to four hundred and four thousand one hundred dollars (\$404,100). On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of said fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge on the principal amount of the Loan not withdrawn from time to time, at a rate equal to:

(i) eighty-five hundredths of one percent (0.85%) per annum from the date on which such charge commences to accrue in accordance with the provisions of Section 3.02 of the General Conditions to but not including the fourth anniversary of such date; and

(ii) seventy-five one-hundredths of one percent (0.75%) per annum thereafter.

Section 2.06. The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, in respect of each Interest Period at the Variable Rate; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the Borrower shall, during the Conversion Period, pay interest on such amount in accordance with the relevant provisions of the Article IV of the General Conditions.

Section 2.07. Interest and commitment charges shall be payable to semiannually in arrears on January 15 and July 15 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the provisions of Schedule 3 to this Agreement.

Section 2.09. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management:

(i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an

Approved Currency;

(ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan from a Variable Rate to a Fixed Rate, or vice versa; and

(iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate collar on said Variable Rate.

(b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a "Conversion", as defined in Section 2.01(7) of the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

(c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar in respect of which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.04 (c) of the General Conditions up to the amount allocated from time to time for such purpose in the table in paragraph 1 of Schedule 1 to this Agreement.

ARTICLE III

Particular Covenants

Section 3.01. (a) The Borrower undertakes to implement the Program with due diligence to ensure that actions and policies adopted under the Program are put into effect.

(b) The Borrower and the Bank shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program.

(c) Prior to each such exchange of views, the Borrower shall furnish to the Bank for its review and comment a report on the progress achieved in the implementation of actions and policies embodied in the Program, in such detail as the Bank shall reasonably request.

(d) Without limitation upon the provisions of paragraph (b) of this Section, the Borrower shall exchange views with the Bank on any proposed action to be taken after the disbursement of the Loan which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program.

Section 3.02. Upon the Bank's request, the Borrower shall:

(a) have the Deposit Account audited in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

(b) furnish to the Bank as soon as available, but in any case not later than four months after the date of the Bank's request for such audit, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(c) furnish to the Bank such other information concerning the Deposit Account and the audit thereof as the Bank shall have reasonably requested.

ARTICLE IV

Additional Event of Suspension

Section 4.01. Pursuant to Section 6.02 (p) of the General Conditions, the following additional event is specified, namely, that a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

ARTICLE V

Termination

Section 5.01. 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 VI

Representative of the Borrower; Addresses

Section 6.01. 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 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance
1 Smilsu Street
Riga, LV-1919
Latvia

Facsimile:

371 7095 503

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:

Facsimile:

INTBAFRAD
Washington, D.C.

248423 (MCI) or
64145 (MCI)

(202) 477-6391

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/ Peteris Vinkelis

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Johannes F. Linn

Regional Vice President
Europe and Central Asia

SCHEDULE 1

Excluded Expenditures

For purposes of Section 2.02 (c) of this Agreement, the proceeds of the Loan shall not be used to finance any of the following expenditures:

1. expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;
2. expenditures for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association shall have financed or agreed to finance, or which the Bank or the Association shall have financed or agreed to finance under another loan or a credit;
3. expenditures for goods included in the following groups or subgroups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Bank by notice to the Borrower: ~

Group	Subgroup	Description of Items
112	-	Alcoholic beverages
121	-	Tobacco, unmanufactured, tobacco refuse
122	-	Tobacco, manufactured (whether or not containing tobacco substitutes)
525	-	Radioactive and associated materials
667	-	Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971	-	Gold, non-monetary (excluding gold ores and concentrates)

4. expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;
5. expenditures for environmentally hazardous goods (for purposes of this paragraph the term "environmentally hazardous goods" means goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party);
6. expenditures (a) in the territories of any country which is not a member of the Bank or for goods procured in, or services supplied from, such territories, or (b) on account of any payment to persons or entities, or any import of goods, if such payment or import is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and

7. expenditures under a contract in respect of which the Bank determines that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Loan during the procurement or execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Bank to remedy the situation.

SCHEDULE 2

Amortization Schedule

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (Installment Share). If the proceeds of the Loan shall have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying:

(a) the total principal amount of the Loan withdrawn and outstanding as of the first Principal Payment Date; by

(b) the installment Share for each Principal Payment Date, such repayment amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

Payment Date	Installment Share (Expressed as a %)
On each January 15 and July 15 Beginning July 15, 2005, through July 15, 2016	4.17%
On January 15, 2017	4.09%

2. If the proceeds of the Loan shall not have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:

(a) To the extent that any proceeds of the Loan shall have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the amount withdrawn and outstanding as of such date in accordance with paragraph 1 of this Schedule.

(b) Any withdrawal made after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank and multiplying the amount of each such withdrawals by a fraction, the numerator of which shall be the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principle Payment Date (the Original Installment Share) and the denominator of which shall be the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such repayment amounts to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

3. (a) Withdrawals made within two calendar months prior to any Principal Payment Date shall, for the purpose solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

(b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph 3, if at any time the Bank shall adopt a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.

4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a

Currency Conversion of all or any portion of the withdrawn principal amount of the Loan to an Approved Currency, the amount so converted in said Approved Currency that shall be repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to said Conversion by either: (i) the exchange rate that reflects the amounts of principal in said Approved Currency payable by the Bank under the Currency Hedge Transaction relating to said Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component on the Screen Rate.

5. If the principal amount of the Loan withdrawn and outstanding from time to time shall be denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each amount.

SCHEDULE 3

Program of Actions Taken by the Borrower

1. The Borrower has maintained an appropriate macro-economic policy framework, consistent with the objectives of the Program, as determined on the basis of indicators agreed to by the Borrower and the Bank.
2. The Borrower has adopted legislation to create the second tier of the pension system.
3. An executive Head of the Secretariat to the CPC has been appointed, with adequate staff positions and funds, including also for public education.
4. The Cabinet of Ministers has submitted to the Saeima the proposed Law on the Institutional Framework for Public Administration and the Law on Public Sector Agencies, together with the adoption of measures ensuring that a moratorium on the creation of agencies will be maintained until the proposed Law on Public Sector Agencies is enacted.
5. Implementation regulations for the Law on Openness of Information have been adopted and have entered into force.
6. A transparent uniform broad-banded public sector pay scale, as agreed upon by the Borrower and the Bank, has been adopted.
7. The Cabinet of Ministers has agreed that the revised Cabinet Regulation No. 160 will be amended to respect the following principle; namely, that all new policy proposals by line ministries to the Cabinet must be accompanied by offsetting measures, and in order for the proposal to be submitted to the Cabinet of Ministers, the fiscal costs of these proposals and offsetting measures must be prepared by line ministries for three years, and reviewed by the Ministry of Finance for technical accuracy of costs.
8. Amendments to the Law on Budget and Financial Management have been adopted and entered into force, with the effect of: (i) bringing all accounts of budget-financed institutions of the Borrower into the budget; and (ii) defining all bodies under the management of ministries' reporting requirements.
9. The Cabinet has agreed to discuss: (i) a draft fiscal strategy statement; and (ii) a medium-term macro/fiscal framework submitted by the Minister of Finance.
10. An official manual for drafting laws and business regulations has been completed.
11. The Government of the Borrower has submitted to the Cabinet of Ministers proposed rules for inspections procedures to ensure that business inspections are carried out in a transparent and consistent manner.
12. The Cabinet of Ministers has submitted to the Saeima a proposed telecommunications law, allowing an independent regulator as a transition measure and clarifying the relationship of the independent regulator for the telecommunications to

the Public Service Regulatory Council as established under the Law on the Public Service Regulator.

13. (a) The Cabinet of Ministers has issued a decision requiring: the use of reputed international investment banks/advisors for Lattelekom, Latvenergo, Ventspils Nafta, Latvijas Gaze and Latvian Shipping, if necessary and as agreed with the World Bank; (b) The Ministry of Economy has prepared a plan concerning the timing and use of/terms of reference for such international investment banks/advisors; (c) The Cabinet of Ministers has issued a decision requiring the Latvian Privatization Agency to commit to use best commercial practices with respect to: (i) method of selection; and (ii) to divest/privatize the Borrower's interest in the foregoing enterprises.

14. The Cabinet of Ministers has approved funding for international investment banks/advisors in an amount of up to 3 million Lats for the Latvian Privatization Agency in the expenditure plan for the Privatization Fund.

15. The Cabinet of Ministers has approved and announced with respect to Latvenergo to establish the Daugava Hydro Plants, transmission and (one or more) distribution units as separate subsidiaries. The Riga Combined Heat and Plants and non-core business activities will be separated followed by partial divestiture of state ownership.

16. The Cabinet of Ministers has submitted to the Saeima the proposed law on public service regulators.

17. The Cabinet of Ministers has submitted the Law on the Unified Financial Supervision Agency to Saeima.

18. The Cabinet of Ministers has adopted a concept paper with implementation plan, to implement a national means-tested social assistance benefit targeted at the very poorest households.

19. The Ministry of Economy and Ministry of Transport have issued jointly a decree establishing an inter-ministerial working group to prepare an action plan for the establishment of the multi-sectoral regulatory agency and for strengthening the regulatory regime in each of the following sub-sectors: electricity, gas, telecommunications, post and railway services.

