

March 17, 1997

His Excellency
Robert Zile
Minister of Finance
Ministry of Finance
1 Smilsu Street
Riga, LV1919
Latvia

Re: Swedish Grant for Enterprise and Financial Sector Restructuring
Project
Grant No. TF021483

Excellency:

I am writing on behalf of the International Bank for Reconstruction and Development (the Bank) to indicate the Bank's agreement, as administrator of grant funds provided by Swedish International Development Agency (SIDA) to make a grant in an amount not exceeding one million two hundred thousand Swedish Kronor (SEK 1,200,000) (the Grant) to the Republic of Latvia (the Recipient).

The Grant is made in response to the Recipient's request for financial assistance and to supplement an existing grant made by SIDA for the same Project which was passed-on by the Bank to the Recipient under the Swedish Grant Agreement (the Previous Agreement) dated January 6, 1995. The Grant is made for the purposes and on the terms and conditions set forth in the Annex to this Letter Agreement. The Recipient further represents that it is authorized to contract the Grant for the purposes and on the terms and conditions set forth in said Annex.

Please confirm your agreement to foregoing, on behalf of the Recipient, by signing, dating, and returning to us the enclosed copy of this Letter Agreement. Upon receipt by the Bank of the copy of this Letter Agreement countersigned by you, this Letter Agreement will become effective as of the date of the countersignature.

Very truly yours,

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Basil G. Kavalsky
Director
Country Department IV
Europe and Central Asia Region

AGREED:

REPUBLIC OF LATVIA

By /s/ Andris Skele
Prime Minister Acting as Minister of Finance

Date: April 8, 1997

ANNEX

A. Description of the Activities to be financed from the Grant

The objective of the technical assistance Activities (the Activities) for the implementation of which the Grant is given are as described in Schedule 2 to the Previous Agreement.

B. Terms and Condition for the Carrying out of the Activities

1. Implementation Generally

1.1. The Activities shall be carried out by the Recipient with due diligence and efficiency and in conformity with appropriate financial banking and administrative practice.

2. Procurement

2.1. Consultants' services to be financed out of the proceeds of the Grant shall be procured under contracts awarded in accordance with the provisions of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency", published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, such contracts shall be based on the standard form of contract for consultants' services issued by the Bank, with such modifications thereto as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, other standard forms acceptable to the Bank shall be used.

3. Withdrawal of Grant Proceeds

3.1. The amount of the Grant allocated to finance the Activities referred to in paragraph 1 of this Attachment shall be credited to an account opened by the Bank on its books in the name of the Recipient (the Grant Account), and may be withdrawn therefrom by the Recipient for expenditures in respect of 100% of the reasonable cost of consultants' services required under the Activities.

3.2. Notwithstanding the provisions of paragraph 3.1 above no withdrawals shall be made: (a) on account of payments for any taxes levied by or in the territory of the Recipient; (b) on account of expenditures in the territories of any country which is not a member of the Bank or for services supplied from such territories; (c) for the purpose of any payment to persons or entities if such payment, to the Bank's knowledge, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; or (d) after July 1, 1998 or such later date as the Bank shall establish by written notice to the Recipient (the Closing Date), except that withdrawals may be made for expenditures incurred prior to the Closing Date and received by the Bank within four months after the Closing Date, after which time any amount of the Grant remaining unwithdrawn from the Grant Account shall be cancelled.

3.3. When the Recipient shall desire to withdraw any amount from the Grant Account, it shall deliver to the Bank a written application for withdrawal of such amount in the form specified by the Bank. Withdrawal applications shall be: (a) signed on behalf of the Recipient by authorized official of the Council; and (b) be accompanied by such evidence in support of the application as the Bank shall reasonably request. Authenticated specimen signatures of the person authorized to sign withdrawal applications shall be provided with the first application bearing his or her signature. Each withdrawal application for an amount of the Grant and its supporting evidence must be sufficient in form and substance to satisfy the Bank that the Recipient is entitled to withdraw such amount from the Grant Account and that such amount is to be used in the carrying out of the Activities. The Bank shall pay the amounts withdrawn by the Recipient from the Grant Account only to or on the order of the Recipient.

3.4. The Recipient hereby confirms, unless may otherwise be subsequently indicated in writing by the Recipient, that officials authorized for purposes of withdrawal under the Previous Agreement are hereby designated as the Recipient's authorized officials for purposes of withdrawal of the Grant.

3.5. The Bank may require withdrawals from the Grant Account to be made on the basis of statements of expenditure for expenditures for: (a) services of consulting firms costing less than \$100,000 equivalent; and (b) services of individual consultants costing less than \$50,000 equivalent.

3.6. Withdrawals of the proceeds of the Grant shall be made in the currency of the Grant. The Bank, at the Recipient's request and acting as an agent of the Recipient, shall purchase with the currency of the Grant withdrawn from the Grant Account such currencies as shall be required to pay for expenditures to be financed out of the proceeds of the Grant. Whenever it shall be necessary, for the purposes of this Letter Agreement, to determine the value of one currency in terms of another, such value shall be as reasonably determined by the Bank.

3.7. To facilitate the carrying out of the Activities, the Recipient may open and maintain in dollars a special deposit account (the Special Account) in a commercial 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 the schedule attached hereto.

4. Accounts and Audits

4.1. (a) The Recipient 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 Activities of the departments or agencies of the Recipient responsible for carrying out the Activities or any part thereof.

(b) The Recipient shall: (i) have the records and accounts referred to in subparagraph (a) above and the records and accounts for the Special Account for each fiscal year audited, 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 six months after the end of each such year, the report of such audit 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 Grant Account were made on the basis of statements of expenditure, the Recipient shall: (i) maintain or cause to be maintained, in accordance with subparagraph (a) above, records and accounts reflecting such expenditures; (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Grant 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 subparagraph (b) above 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.

5. Suspension and Cancellation

5.1. The Bank may at any time, by notice to the Recipient, suspend the right of the Recipient to make further withdrawals from the Grant Account if any of the following events has occurred and is continuing: (a) the Recipient has failed to comply with any of its obligations herein specified; or (b) the right of the Recipient, or any other entity to which the Bank has made a loan with the guarantee of the Recipient, to make withdrawals under any loan agreement with the Bank shall have been suspended.

5.2. The Bank may, by written notice to the Recipient, terminate the right of the Recipient to make further withdrawals from the Grant Account: (a) at any time after the right of the Recipient to make withdrawals from the Grant Account shall have been suspended pursuant to the provisions of paragraph 5.1 above; or (b) if the Recipient shall have failed to take action, satisfactory to the Bank, within six months after the effective date hereof, to carry out the Activities.

SCHEDULE

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible expenditures" means expenditures in respect of the reasonable cost of services required for the Activities and to be financed out of the proceeds of the Grant; and

(b) the term "Authorized Allocation" means an amount equivalent to \$50,000 to be withdrawn from the Grant Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Attachment.

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) The Recipient shall furnish to the Bank a request or requests for a deposit into the Special Account of an amount or amounts 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 Recipient, withdraw from the Grant Account and deposit into the Special Account such amount or amounts out of the proceeds of the Grant as the Recipient shall have requested.

(b) (i) For replenishment of the Special Account, the Recipient 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 Recipient 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 Recipient, withdraw from the Grant Account and deposit into the Special Account such amount as the Recipient 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 Grant Account in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Recipient out of the Special Account, the Recipient 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 Recipient directly from the Grant;

(b) if the Recipient shall have failed to furnish to the Bank, within the period of time specified in paragraph 4.1 (b) (ii) of Attachment 2 to the Annex to this Letter Agreement, any of the audit reports required to be furnished to the Bank pursuant to said paragraph in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Bank shall have notified the Recipient of its intention to suspend in whole or in part the right of the Recipient to make withdrawals from the Grant Account pursuant to the provisions of paragraph 5.1 of Attachment 2 to this Annex to this Letter Agreement; or

(d) once the total unwithdrawn amount of the Grant shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawals from the Grant Account of the remaining unwithdrawn amount of the Grant shall follow such procedures as the Bank shall specify by notice to the Recipient. 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 Recipient 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 Recipient 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 Recipient shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

