

CONFORMED COPY

LOAN NUMBER 3964 LV

Loan Agreement

(Municipal Services Development Project)

between

REPUBLIC OF LATVIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated January 26, 1996

LOAN NUMBER 3964 LV

LOAN AGREEMENT

AGREEMENT, dated January 26, 1996, 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) Part A of the Project will be carried out by the City of Riga with the Borrower's assistance and, as part of such assistance, the Borrower will make available to the City of Riga a portion of the proceeds of the Loan as provided in this Agreement;

(C) Part B of the Project will be carried out by the Daugavpils Municipal Enterprise Udensvads (DMEU) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to DMEU a portion of the proceeds of the Loan as provided in this Agreement;

(D) To assist in financing of Part B of the Project, the Daugavpils Municipal Enterprise Udensvads (DMEU) intends to contract from the Nordic Environment Finance Corporation (NEFCO), a loan (the NEFCO Loan) with the guarantee of the City of Daugavpils, in an aggregate amount equivalent to \$2,000,000 on the terms and conditions set forth in the NEFCO Loan

Agreement;

(E) To assist the financing of Part B of the Project, the Borrower intends to obtain from the Swedish International Development Agency (SIDA), a grant (the SIDA Grant) in an aggregate amount equivalent to \$3,000,000 on the terms and conditions set forth in the SIDA Grant Agreement;

(F) To assist the financing of Part B of the Project, the Borrower intends to obtain from the Danish Environmental Protection Agency (DEPA), a grant (the DEPA Grant) in an aggregate amount equivalent to \$2,200,000 on the terms and conditions set forth in the DEPA Grant Agreement;

(G) To assist the financing of Part B of the Project, the Borrower intends to obtain from the European Union-PHARE (EU-PHARE), a grant (the EU-PHARE Grant) in an aggregate amount equivalent to \$2,600,000 on the terms and conditions set forth in the EU-PHARE Grant Agreement;

(H) To assist the financing of Part B of the Project, the Borrower intends to obtain from the Government of Finland, a grant (the Finnish Grant) in an aggregate amount equivalent to \$1,200,000 on the terms and conditions set forth in the Finnish Grant Agreement; 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 and in the Project Agreement of even date herewith between the Bank and the City of Riga, and in the Project Agreement of even date herewith between the Bank on the one hand and the City of Daugavpils and the Daugavpils Municipal Enterprise Udensvads (DMEU) on the other hand;

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 in Schedule 6 to this Agreement (the General Conditions) constitute an integral part of this 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) "DMEU" means the Daugavpils Municipal Enterprise Udensvads, established as a municipal enterprise pursuant to Decision of the City of Daugavpils, dated November 30, 1963, as the same may be amended from time to time, and registered with the Enterprise Register of the City of Daugavpils on November 30, 1991, No. 150300243;

(b) "DMEU Charter" means the founding statutes, charter, articles of incorporation and by-laws or other similar instrument of DMEU and registered by DMEU with Enterprise Register of the City of Daugavpils on November 30, 1991;

(c) "Riga Project Agreement" means the agreement between the Bank and the City of Riga of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to such Project Agreement;

(d) "DMEU Project Agreement" means the agreement between the Bank, the DMEU and the City of Daugavpils of even date

herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to such Project Agreement;

(e) "RIGA Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and the City of Riga 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 Riga Subsidiary Loan Agreement, and the Riga Subsidiary Loan means the loan provided thereunder;

(f) "DMEU Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and DMEU, with the guarantee of the City of Daugavpils for the repayment of the principal and the interest and other charges due under such Subsidiary Loan Agreement, pursuant to Section 3.01 (c) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the DMEU Subsidiary Loan Agreement, and the DMEU Subsidiary Loan Agreement means the loan provided thereunder;

(g) "Subsidiary Loan Agreements" means the Riga Subsidiary Loan Agreement and the DMEU Subsidiary Loan Agreement;

(h) "Municipal Development Fund" or "MDF" means the fund, established by the Borrower as the Borrower's agent pursuant to Decree No. 340 with Charter and Board of Directors acceptable to the Bank, for the purpose of providing credit for municipal development projects to Eligible Municipalities;

(i) "MDF Charter" means the Charter of MDF and other instruments pertaining to the establishment and the operation of the MDF;

(j) "Eligible Municipality" means a municipality to which the Borrower proposes to make or has made a Sub-loan;

(k) "Investment Project" means a specific municipal development project to be carried out by an Eligible Municipality utilizing the proceeds of a Sub-loan;

(l) "Sub-loan" means a loan made or proposed to be made by the Borrower, pursuant to a decision of the Board of Directors of the MDF, out of the proceeds of the Loan to an Eligible Municipality for an Investment Project;

(m) "Sub-loan Agreement" means an agreement entered into between the Borrower and the Eligible Municipality pursuant to Section 3.02 of the Loan Agreement;

(n) "Project Preparation Advance" means the project preparation advance granted by the Bank to the Borrower pursuant to an exchange of letters dated November 9, 1995 and November 21, 1995 between the Borrower and the Bank;

(o) "The Co-Financing Agreements" means collectively the NEFCO Loan Agreement, the SIDA Grant Agreement, the DEPA Grant Agreement, the EU-PHARE Grant Agreement and the Finnish Grant Agreement described in the Preamble to this Agreement;

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

(q) "PCU" means Project Coordination Unit established within the Borrower's Ministry of Environmental Protection and Regional Development on September 15, 1995, and referred to in Section 3.03 of this Agreement; and

(r) "Public Transport Companies" means collectively the municipal public transport companies Imanta, Talava, and the Tram and Trolleybus Park (TTP), providing urban transport

services within the administrative boundaries of the City of Riga and which have been selected as beneficiaries under Part A of the Project.

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-seven million three hundred thousand dollars (\$27,300,000), 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: (i) expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods, works and services required for Parts A, B and D of the Project and to be financed out of the proceeds of the Loan; and (ii) amounts paid (or if the Bank shall so agree, to be paid) by the Borrower under Part C of the Project on account of withdrawals made by Eligible Municipalities under Sub-loans to meet the reasonable cost of goods, works and services required for the Sub-projects and in respect of which the withdrawal from the Loan Account is requested.

(b) The Borrower may, for the purposes of the Project, open and maintain in dollars a special deposit account in a commercial 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.

(c) Promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be canceled.

Section 2.03. The Closing Date shall be June 30, 2001 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 per cent (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 June 1 and December 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:

- (i) shall carry out Part C of the project through the MDF, and Part D of the Project with due diligence and efficiency and in conformity with appropriate administrative and financial practices and shall provide, promptly as needed, the funds, facilities, services and other resources required for such Parts of the Project; and
- (ii) without limitation or restriction upon any of its other obligations under the Loan Agreement, the Borrower shall cause the City of Riga and DMEU and the City of Daugavpils to perform their respective obligations set forth in the Riga Project Agreement and the DMEU Project

Agreement, and shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable the City of Riga, DMEU and the City of Daugavpils to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) For the purposes of carrying out Part A of the Project, the Borrower shall relend the proceeds of the Loan allocated from time to time to Categories 1, 2(a) and 4(a) set forth in the table in paragraph 1 of Schedule 1 to this Agreement to the City of Riga under a subsidiary loan agreement entered into between the Borrower and the City of Riga, under terms and conditions which shall have been approved by the Bank, including the following principal terms: the principal amount of the Riga Subsidiary Loan made out of the proceeds of the Loan shall be: (i) denominated 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 and works financed out of such proceeds for Part A of the Project; (ii) charged interest on the principal amount thereof withdrawn and outstanding from time to time, interest, during each six-month period, commencing on May 21 and November 20 of each calendar year, at a rate equal to the rate applicable to the Loan pursuant to Section 2.05 of this Agreement, plus a margin determined from time to time pursuant to guidelines agreed with the Bank; (iii) the City of Riga shall pay a commitment charge at a rate equal to the rate applicable to the Loan pursuant to Section 2.04 of this Agreement, on the amount not withdrawn from time to time; and (iv) the principal amount of the Riga Subsidiary Loan Agreement shall be repaid over a period not exceeding 17 years with a grace period of up to four years.

(c) For the purposes of carrying out Part B of the Project, the Borrower shall relend the proceeds of the Loan allocated from time to time to Categories 2(b) and 4(b) set forth in the table in paragraph 1 of Schedule 1 to DMEU under a subsidiary loan agreement entered into between the Borrower and DMEU, with the guarantee of the City of Daugavpils for the repayment of the principal and the interest and other charges due under such Subsidiary Loan Agreement, under terms and conditions which shall have been approved by the Bank. The principal amount of the Daugavpils Subsidiary Loan made out of the proceeds of the Loan shall be: (i) denominated 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 part B of the Project; (ii) charged interest on the principal amount thereof withdrawn and outstanding from time to time, during each six-month period, commencing on May 21 and November 20 of each calendar year, at a rate equal to the rate applicable to the Loan pursuant to Section 2.05 of this Agreement, plus a margin determined from time to time pursuant to guidelines agreed with the Bank; (iii) the DMEU shall pay a commitment charge at a rate equal to the rate applicable to the Loan pursuant to Section 2.04 of this Agreement on the amount not withdrawn from time to time; (iv) the principal amount of the Daugavpils Subsidiary Loan Agreement shall be repaid over a period not exceeding 17 years with a grace period of up to four years; and (v) carry the guarantee of the City of Daugavpils for the repayment of the principal and the interest and other charges due under such Subsidiary Loan Agreement.

(d) The Borrower shall exercise its rights under of the Riga Subsidiary Loan Agreement and the DMEU 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 of the Subsidiary Loan Agreements or any provision thereof.

Section 3.02 (a) The Borrower undertakes that, unless the Bank shall otherwise agree, Sub-loans will be made by the Borrower in accordance with the procedures and on the terms and conditions set forth or referred to in Schedule 7 to this Agreement.

(b) The Borrower shall exercise its rights in relation to each Investment Project in such manner as to: (i) protect the interests of the Bank and the Borrower; (ii) comply with its obligations under this Agreement; and (iii) achieve the purposes of the Project.

Section 3.03. During the execution of the Project, the Borrower shall maintain the PCU with (i) functions and responsibilities acceptable to the Bank including oversight and coordination of procurement, disbursement, accounting and reporting activities under the Project and (ii) staff in adequate numbers with qualifications, experience and terms of reference satisfactory to the Bank.

Section 3.04. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for Part C of 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 3.05. The Borrower shall: (a) maintain policies and procedures adequate to enable it to monitor and evaluate on a continuous basis, in accordance with indicators satisfactory to the Bank, the carrying out of the Project and the achievement of the objectives thereof;

(b) cause the PCU to prepare (in cooperation with the PTU and PMU, as these terms are defined in the City of Riga Project Agreement and DMEU Project Agreement, respectively), under terms of reference satisfactory to the Bank, and furnish to the Bank not later than June 30, 1998, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank, by September 30, 1998, or such later date as the Bank shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's view on the matter.

Section 3.06. For purposes of Section 9.08 of the General Conditions, and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan for the future operation of the Project; and

(b) afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan.

Section 3.07. The Bank and the Borrower hereby agree that the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07,

9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of Part A of the Project shall be carried out by the City of Riga pursuant to Section 2.04 (a) of the Riga Project Agreement, and in respect of Part B of the Project shall be carried out by the DMEU pursuant to Section 2.04 (a) of the DMEU Project Agreement.

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 Parts C and D 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, 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 (6) 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 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, 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 City of Riga or DMEU or the City of Daugavpils shall have failed to perform any of their respective obligations under the respective Project Agreement.
- (b) As a result of events which have occurred after the date of the Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable that the City of Riga or DMEU or the City of Daugavpils will be able to perform their respective obligations under the respective Project Agreements.
- (c) The DMEU Charter shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of DMEU to perform any of its obligations under the DMEU Project Agreement.
- (d) The MDF Charter shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the operations, organizational structure or the financial condition of the MDF or its ability to carry out Part C of the Project.
- (e) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of DMEU or MDF or for the suspension of their respective operations, or for the change in the administrative subordination of the City of Riga or the City of Daugavpils.

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

- (A) the right of the Borrower or DMEU to withdraw the proceeds of any loan or grant made to the Borrower or DMEU for the financing of the Project shall have been suspended, canceled 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 or DMEU to perform any of their obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower or DMEU 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 events are specified:

- (a) the event specified in paragraph (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Bank to the Borrower;
- (b) any event specified in paragraph (c) or paragraph (d) or paragraph (e) of Section 5.01 of this Agreement shall occur;

and

(c) the event specified in paragraph (f) (i) (B) of Section 5.01 of this agreement shall occur, subject to the proviso of paragraph (f)(ii) of that Section.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions:

(a) the Riga Subsidiary Loan Agreement has been executed on behalf of the Borrower and the City of Riga;

(b) the DMEU Subsidiary Loan Agreement has been executed on behalf of the Borrower on the one hand and the DMEU and the City of Daugavpils on the other;

(c) Contracts satisfactory to the Bank have been concluded between the City of Riga and the Riga Public Transport Companies for provision of public transport services; and,

(d) a contract acceptable to the Bank has been concluded between the DMEU and the City of Daugavpils for the water and wastewater services to be provided by DMEU to the City of Daugavpils.

Section 6.02. The following are specified as additional matters, 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:

(a) that the Riga Project Agreement has been duly authorized or ratified by the City of Riga, and is legally binding upon the City of Riga in accordance with its terms;

(b) that the Riga Subsidiary Loan Agreement has been duly authorized or ratified by the Borrower and the City of Riga and is legally binding upon the Borrower and the City of Riga in accordance with its terms;

(c) that the DMEU Project Agreement has been duly authorized or ratified by the DMEU and the City of Daugavpils, and is legally binding upon DMEU and the City of Daugavpils in accordance with its terms; and

(d) that the DMEU Subsidiary Loan Agreement, has been duly authorized or ratified by the Borrower and DMEU with the guarantee of the City of Daugavpils for the repayment of the principal and the interest and other charges due under such Subsidiary Loan Agreement, and is legally binding upon the Borrower and DMEU in accordance with its terms.

Section 6.03. The date one hundred twenty (120) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representatives 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:

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

Telex:

161 232 NAUDA LV

For the Bank:

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

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

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 Kalnins
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Basil G. Kavalsky
Acting 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) Works for Part A of the Project	500,000	80%
(2) Goods		100% of foreign expenditures,

(a) for Part A of the Project	15,800,000	100% of local expenditures (exfactory cost) and 80% of local expenditures for other items
(b) for Part B of the Project	5,680,000	procured locally
(c) for Part D of the Project	20,000	
(3) Sub-loans under Part C of the Project	3,400,000	80%
(4) Consultants' Services		100%
(a) for Part A of the Project	200,000	
(b) for Part B of the Project	1,070,000	
(c) for Part D of the Project	120,000	
(5) Refunding of Project Preparation Advance	510,000	Amounts due pursuant to Section 2.02 (c) of this Agreement
TOTAL	27,300,000	

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; and

(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.

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 and (b) expenditures under categories 2(b) and 4(b) unless the Borrower have furnished to the Bank satisfactory evidence stating that the Co-financing Agreements have become effective and all conditions for withdrawal of the proceeds made available thereunder have been fulfilled.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for goods, works and services under contracts not exceeding \$300,000 equivalent, and for consultants services under contracts not to exceed \$100,000 equivalent for contracts with firms and \$50,000 equivalent for contracts with individuals, 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 assist the Borrower

in improving the management and delivery of municipal services and to strengthen local governments.

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: Riga Urban Transport

A program for the improvement of urban transport in the City of Riga comprising: (a) provision of new equipment, including buses, trolleybuses and trams; (b) carrying out of a capital repair program for the Talava and Imanta bus fleets; (c) provision of spare parts, workshop and plant equipment for the existing transport enterprises; (d) relocation of the Imanta Workshop; and (e) training and technical assistance for the Riga Public Transport Companies and the Riga City Council.

Part B: Daugavpils Water and Wastewater Treatment

Improvement of the water supply and wastewater treatment in the City of Daugavpils comprising:

(a) development of the Ziemeļu Wellfield; (b) rehabilitation of the existing wastewater treatment plant; (c) rehabilitation of the existing pumping stations; (d) installation of metering equipment in apartment buildings and of bulk meters in network permitting the monitoring of system performance and leakage detection; (e) provision of laboratory equipment and technical services for monitoring of water quality and other applicable water and wastewater standards; (f) institutional strengthening through twinning arrangements for the DMEU; and (g) technical assistance for project management.

Part C: Municipal Development Fund:

Provision of credit to local governments for municipal services projects and related technical assistance.

Part D: Institutional Development Component

Provision of technical assistance to the PCU and MDF.

* * *

The Project is expected to be completed by December 31, 2000.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
1 June, 2000	660,000
1 December, 2000	680,000
1 June, 2001	705,000
1 December 2001	730,000
1 June, 2002	755,000
1 December, 2002	780,000
1 June, 2003	810,000
1 December, 2003	840,000
1 June, 2004	870,000
1 December, 2004	900,000
1 June, 2005	930,000
1 December, 2005	965,000
1 June, 2006	1,000,000
1 December, 2006	1,035,000
1 June, 2007	1,070,000
1 December, 2007	1,105,000
1 June, 2008	1,145,000

1 December, 2008	1,185,000
1 June, 2009	1,230,000
1 December, 2009	1,270,000
1 June, 2010	1,315,000
1 December, 2010	1,365,000
1 June, 2011	1,410,000
1 December, 2011	1,460,000
1 June, 2012	1,515,000
1 December, 2012	1,570,000

* 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 and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

Goods and Works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 (the Guidelines) and the following provisions of this Section, as applicable.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B:

(a) Grouping of contracts

To the extent practicable, contracts for goods and works shall be grouped into bid packages estimated to cost the equivalent of \$300,000 or more each.

(b) Preference for domestically manufactured goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

Part C: Other Procurement Procedures

1. International Shopping

Goods estimated to cost \$300,000 equivalent or less per contract and \$2,000,000 equivalent or less in the aggregate, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

2. National Shopping

Goods estimated to cost \$50,000 equivalent or less per contract and \$120,000 equivalent or less in the aggregate, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Direct Contracting

Goods which must be purchased from the original supplier to be compatible with existing equipment and costing \$1,200,000 equivalent or less in the aggregate, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

4. National Competitive Bidding

Works estimated to cost \$300,000 equivalent or less per contract and \$3,400,000 equivalent or less in the aggregate, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

With respect to each contract for goods and works estimated to cost the equivalent of \$300,000 or more, each contract procured in accordance with Part C.3 of this Schedule and the first three contracts procured in accordance with Part C.4 of this Schedule, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

1. Consultants' services 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). All such contracts shall be based on the standard forms of contract for consultants' services issued by the Bank, with such modifications 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.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Bank review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts shall not apply to (a) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each or (b) contracts for the employment of individuals estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Bank review shall not apply to (a) the terms of reference for such contracts, (b) single-source selection of consulting firms, (c) assignments of a critical nature, as reasonably determined by the Bank, (d) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above, or (e) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories 1,2,3 and 4 set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means (i) expenditures in respect of the reasonable cost of goods and services required for parts A, B and D of 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 (ii) the reasonable cost of goods and services required for Investment Projects under Part C of 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, provided, however, that notwithstanding the provisions of paragraph B 2 (b) of Schedule 7 to this Agreement, payments for expenditures to be financed out of the proceeds of free-limit Sub-loans may be made out of the Special Account before the Loan shall have authorized withdrawals from the Loan Account in respect thereof. Such expenditures, however, shall qualify as eligible expenditures only if the Bank shall subsequently authorize such withdrawals; and

(c) the term "Authorized Allocation" means an amount equivalent to \$500,000 to be withdrawn from the Loan Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$250,000 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$2,000,000.

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) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section 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 Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) 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

Modifications of General Conditions

For purposes of this Agreement, the provisions of the General Conditions are modified as follows:

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

(2) (a) The words "the Bank may, by notice to the Borrower, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Loan shall be canceled" set forth at the end of Section 6.03 are deleted and the following is substituted therefor:

"or (e) by the date specified in subparagraph B.3.c of Schedule 7 to the Loan Agreement, the Bank shall, in respect of any portion of the Loan: (i) have received no applications or requests permitted under subparagraphs (a) or (b) of said paragraph; or (ii) have denied any such applications or requests, the Bank may, by notice to the Borrower, terminate the right to submit such applications or approvals or to make withdrawals from the Loan Account, as the case may be, with respect to such amount or portion of the Loan. Upon the giving of such notice, such amount or portion of the Loan shall be canceled."

(b) The second sentence of Section 5.01 is modified to

read:

"Except as the Bank and the Borrower shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a member of the Bank or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Bank, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

SCHEDULE 7

Terms and Conditions of Sub-loans

1. The principal terms and conditions of the Sub-loans shall be as follows:

A. Terms:

1. The principal amount to be lent out of the proceeds of the Loan to an Eligible Municipality for financing of an Investment Project shall be denominated in dollars.

2. The Sub-Loan shall be: (a) charged on the principal amount thereof (i) withdrawn and outstanding from time to time, interest, during each six-months period, commencing on May 21 and November 20 of each calendar year, at a rate equal to the rate applicable to the Loan pursuant to Section 2.05 of this Agreement, plus a margin determined from time to time pursuant to guidelines agreed with the Bank, and (ii) not withdrawn from time to time, a commitment charge at a rate equal to the rate applicable to the Loan pursuant to Section 2.04 of this Agreement; and (b) made for a period not exceeding 17 years with a grace period of up to four years.

B. Conditions

1. Sub-loans shall be made to Eligible Municipalities who each shall have established to the satisfaction of the MDF, 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 the proposed Investment Project, including the following:

(a) a minimum 1.3 debt service coverage ratio for the proposed Investment Project;

(b) a plan for cost recovery for projects in revenue generating sectors;

(c) a minimum demonstrated economic rate of return of 12% for each Investment Project, where applicable; and

(d) ability to cover at least 10% of the costs of the Investment Project from own resources.

2. No expenditures for goods or services required for an Investment Project shall be eligible for financing out of the proceeds of the Loan unless:

(a) the Sub-loan for such Investment Project shall have been approved by the Bank and such expenditures shall have been made not earlier than ninety days prior to the date on which the Bank shall have received the application and information required under paragraph 3(a) of this Schedule in respect of such Sub-loan; or

(b) the Sub-loan for such Investment Project shall have

been a free-limit Sub-loan for which the Bank has authorized withdrawals from the Loan Account and such expenditures shall have been made not earlier than ninety days prior to the date on which the Bank shall have received the request and information required under paragraph 3(b) of this Schedule in respect of such free-limit Sub-loan. For the purposes of this Agreement, a free-limit Sub-loan shall be a Sub-loan for an Investment Project in an amount to be financed out of the proceeds of the Loan which shall not exceed the sum of (i) \$500,000 equivalent, when added to any other outstanding amounts financed or proposed to be financed out of the proceeds of the Loan or of any other loan, provided for in any outstanding loan agreement between the Bank and the Borrower entered into before the date of this Agreement, the proceeds of which have been or are being used for financing goods and services directly and materially related to such Investment Project, or (ii) \$500,000 equivalent, when added to all other free-limit Sub-loans financed or proposed to be financed out of the proceeds of the Loan, the foregoing amounts being subject to change from time to time, to be determined by the Bank upon MDFs achieving standards of appraisal and supervision of Investment Projects satisfactory to the Bank.

3. (a) When presenting a Sub-loan (other than a free-limit Sub-loan) to the Bank for approval, the Borrower shall furnish to the Bank an application, in form satisfactory to the Bank, together with (i) a description of the financial conditions of the Eligible Municipality and an appraisal of the Investment Project, including a description of the expenditures proposed to be financed out of the proceeds of the Loan; (ii) the proposed terms and conditions of the Sub-loan, including the schedule of amortization of the Sub-loan; and (iii) such other information as the Bank shall reasonably request.

(b) Each request by the Borrower for authorization to make withdrawals from the Loan Account in respect of a free-limit Sub-loan shall contain: (i) a summary description of the financial conditions of the Eligible Municipality, including the existing municipal debt and debt servicing allocations specified in the municipal budget, and the Investment 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 sub-paragraphs (a) and (b) of this paragraph shall be presented to the Bank on or before March 31, 2000.

4. Sub-loans shall be made on terms whereby the Borrower shall obtain, by written contract with the Eligible Municipality or by other appropriate legal means, rights adequate to protect the interests of the Bank and the Borrower, including the right to:

(a) require the Eligible Municipality to carry out and operate or cause the Investment Project to be carried and operated with due diligence and efficiency and in accordance with sound technical, financial and managerial standards and to maintain adequate records;

(b) require that: (i) the goods and services to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Schedule 4 to this Agreement and (ii) such goods and services shall be used exclusively in the carrying out of the Investment Project;

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

(d) require that: (i) the Eligible Municipality shall take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound business practice; and (ii) without any limitation upon the foregoing, such insurance shall 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 Eligible Municipality to replace or repair such goods;

(e) obtain all such information as the Bank or the Borrower shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Eligible Municipality and to the benefits to be derived from the Investment Project; and

(f) suspend or terminate the right of the Eligible Municipality to the use of the proceeds of the Loan upon failure by such Eligible Municipality to perform its obligations under its contract with the Borrower.

