

CONFORMED COPY

LOAN NUMBER 4380 LV

Loan Agreement

(Rural Development Project)

between

REPUBLIC OF LATVIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Dated September 9, 1998

LOAN NUMBER 4380 LV

LOAN AGREEMENT

AGREEMENT, dated September 9, 1998, between REPUBLIC OF LATVIA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Bank has received a letter dated May 29, 1998, and an attachment thereto dated June 9, 1998, from the Borrower describing a program of policies and actions (the Program) designed to enhance the development of rural areas, and declaring the Borrower's commitment to implementation of the Program;

(B) the Borrower has requested the Bank to support the execution of the Program through extension to the Borrower of Loans up to the equivalent of \$25,000,000 over a period of five (5) years; and

(C) 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;

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

## General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated May 30, 1995, as modified through December 2, 1997, (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) "Beneficiary" means a recipient of a Subloan under Part B of the Project;
- (b) "Deutsche Mark" and "DEM" means the lawful currency of the Federal Republic of Germany;
- (c) "Eligible Investments" means, as defined in the Rural Credit Guidelines and as may otherwise be agreed upon from time to time between the Borrower and the Bank, any investment, including the working capital requirements thereof, for on-farm activities, or agribusinesses and related agricultural and forestry services or other rural economic activities;
- (d) "IMWG" means the Inter-Ministerial Working Group, established by the Borrower to develop strategies for rural development;
- (e) "Lat" or "LVL" means the currency of the Borrower;
- (f) "MOF" means the Borrower's Ministry of Finance;
- (g) "PFI" means a participating financial institution to be selected for the provision of Subloans under Part B of the Project in accordance with the criteria and procedures set forth in the Rural Credit Guidelines;
- (h) "PMU" means the Project Management Unit, established by the Borrower under MOF;
- (i) "Rural Credit Guidelines" means the rural credit guidelines dated June 9, 1998, adopted by the Borrower to govern the provision and management of Subloans under Part B of the Project, as the same may be amended from time to time with the agreement of the Borrower and the Bank;
- (j) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;
- (k) "Subloan" means a loan to be provided by a PFI to a Beneficiary for purposes of Part B of the Project, in accordance with the Rural Credit Guidelines and the provisions of Part B of Schedule 5 to this Agreement;
- (l) "Subsidiary Loan Agreement" means any of the agreements to be entered between the Borrower and the PFIs in accordance with the provisions of Part B (2) of Schedule 5 to this Agreement, and the term "Subsidiary Loan" means the loan provided under any Subsidiary Loan Agreement; and
- (m) "Special Subloan" means a Subloan to be provided to a small entrepreneur on such terms as defined in the Rural Credit Guidelines.

## 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 eighteen million six hundred thousand Deutsche Mark (DEM 18,600,000).

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures

made (or, if the Bank shall so agree, to be made) in respect of: (i) the reasonable cost of goods and services required for Parts A and C of the Project and to be financed out of the proceeds of the Loan; and (ii) withdrawals made by a Beneficiary of a Subloan under Part B of the Project.

(b) The Borrower may, for the purposes of the Project, open and maintain in Deutsche Marks a special deposit account in a commercial bank on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

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 percent (3/4 of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

(i) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment Date to, but excluding the next following Interest Payment Date.

(ii) "Interest Payment Date" means any date specified in Section 2.06 of this Agreement.

(iii) "LIBOR Base Rate" means, for each Interest Period, the London interbank offered rate for six-month deposits in for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.

(iv) "LIBOR Total Spread" means, for each Interest Period: (A) one half of one percent (1/2 of 1%); (B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

(c) The Bank shall notify the Borrower of LIBOR Base Rate and LIBOR Total Spread for each Interest Period, promptly upon the determination thereof.

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.05, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the interest rates applicable to the Loan upon not less than six (6) months' notice to the Borrower of the new basis. The basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

Section 2.06. Interest and other charges shall be payable May 15 and November 15 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in

accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

### ARTICLE III

#### Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out Part A and C of the Project through the PMU and Part B of the Project through the PFIs, with due diligence and efficiency and in conformity with appropriate financial, engineering, administrative and rural credit practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Bank shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

(c) The Borrower shall relend the proceeds of the Loan allocated under Category (1) of the table shown in Schedule 1 to this Agreement for the provision of Subloans under Part B of the Project to the PFIs under subsidiary loan agreements to be entered into between the Borrower and the PFIs, under terms and conditions which shall have been approved by the Bank, including those set forth in Part B.2 of Schedule 5 to this Agreement.

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

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

Section 3.03. For the 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 designed to ensure the continued achievement of the objectives of the Project and the Program; and

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

### ARTICLE IV

#### Financial Covenants

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

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account for each fiscal year audited, 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:

(a) (i) maintain or cause to be maintained, in accordance with paragraph 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 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.

Section 4.02. (a) The Borrower shall cause each PFI to maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition.

(b) The Borrower shall cause each PFI to:

(i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

(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: (A) certified copies of its financial statements for such year as so audited; and (B) 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 such records, accounts and financial statements and the audit thereof as the Bank shall from time to time reasonably request.

#### 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 Rural Credit Guidelines shall have been amended, suspended, abrogated or waived without the Bank's prior consent; and

(b) a situation shall have arisen, which shall make it improbable that the Program or a significant part thereof will be carried out.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely, that any of the events specified in Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

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

Section 6.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

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

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

For the Borrower:

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

Facsimile:

371 7820010

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 (MCI) or  
64145 (MCI)

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

REPUBLIC OF LATVIA

By /s/ Roberts Zile

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 DEM Equivalent)	% of Expenditures to be Financed
(1) Subloans under Part B of the Project	14,100,000	100% of amounts disbursed by the PFIs on or before December 31, 1999, and 80% of amounts of disbursed thereafter
(2) Goods under Parts A and C of the Project	2,700,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 80% of local expenditures for other items procured locally
(3) Consultants' services under Parts A and C of the Project	1,800,000	100%
TOTAL	18,600,000	

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, except that withdrawals in an amount not exceeding the equivalent of DEM 1,750,000 may be made for payments made under Category (1) of the table set forth in paragraph 1 of this Schedule before that date, but on or after May 1, 1998; and (b) payments on account of a Subloan under Part B of the Project unless such Subloan has been provided in accordance with the provisions of the Rural Credit Guidelines and the relevant provisions of Schedule 5 to this Agreement.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for: (a) goods and works under contracts costing less than DEM 530,000 equivalent each; (b) services of consulting firms under contracts costing less than DEM 175,000 equivalent each; and (c) services of individual consultants under contracts costing less than DEM 85,000 each, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The Project constitutes a part of the Program which has the objective of increasing income and employment levels in rural areas through policy, regulatory and investment finance measures, designed to promote the diversification and growth of economic activities in such areas.

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

Part A: Rural Development Policy

1. Implementation of measures to strengthen the capacity of IMWG and other central agencies of the Borrower in the formulation and management of policies for rural development, including: (a) provision of advisory services; (b) organization of policy training workshops and study tours; and (c) preparation of regulatory instruments to promote policy coordination.

2. Provision of technical assistance and training to local bodies to strengthen their capacity in the development and implementation of strategies and programs for rural development.

Part B: Rural Finance

Provision through the PFIs of Sub-loans to Beneficiaries for the financing of Eligible Investments.

Part C: Institutional Development

1. Provision of technical assistance, equipment and training to strengthen the capacity of PFIs in the appraisal and supervision of subloans for rural development.

2. Provision of technical assistance, equipment and training to strengthen the role and capacity of private agencies and associations concerned with rural development.

3. Expansion of on-going land reform program through the implementation of measures to expedite title registration, establish a land registry system and an information system to provide to financial institutions and other interested parties information on land registration, land titles and other rights on land.

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

SCHEDULE 3

Amortization Schedule

Date Payment Date	Payment of Principal (Deutsche Mark)*
November 15, 2002	555,000
May 15, 2003	570,000
November 15, 2003	580,000
May 15, 2004	590,000
November 15, 2004	600,000
May 15, 2005	615,000
November 15, 2005	625,000
May 15, 2006	635,000
November 15, 2006	650,000
May 15, 2007	660,000
November 15, 2007	675,000
May 15, 2008	690,000
November 15, 2008	700,000
May 15, 2009	715,000

November 15, 2009	730,000
May 15, 2010	745,000
November 15, 2010	755,000
May 15, 2011	770,000
November 15, 2011	785,000
May 15, 2012	800,000
November 15, 2012	815,000
May 15, 2013	835,000
November 15, 2013	850,000
May 15, 2014	865,000
November 15, 2014	885,000
May 15, 2015	905,000

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\* The figures in this column represent the amount in Deutsche Marks to be repaid, except as provided in Section 4.04 (d) of the General Conditions.

#### SCHEDULE 4

##### Procurement and Consultants' Services

###### Section I. Procurement of Good and Works

###### Part A: General

Goods 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 and revised in January and August 1996 and in September 1997 (the Guidelines) and the following provisions of Section I of this Schedule.

###### 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 provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto, related to preference for domestically manufactured goods, shall apply to goods manufactured in the territory of the Borrower and procured in accordance with the provision of paragraph 1 of this Part B.

###### Part C: Other Procurement Procedures

###### International or National Shopping

1. Goods under Part A or Part C of the Project, estimated to cost less than \$300,000 equivalent per contract, up to an aggregate amount not to exceed \$425,000 equivalent, 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 Procurement Guidelines.
2. Goods under Part A or Part C of the Project, estimated to cost less than \$75,000 equivalent per contract, up to an aggregate amount not to exceed \$75,000 equivalent, 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. Commercial Practices

Goods and works under Part B estimated to cost the equivalent of less than \$1,000,000 per contract may be procured at competitive prices in accordance with established commercial practices of the respective Beneficiaries, provided that such practices involve obtaining quotations from more than one supplier or contractor; and with due account being taken, in addition to prices, of other relevant factors such as time of delivery and efficiency and reliability thereof and availability of maintenance and spare parts therefor.

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: (a) each contract for goods and works to be procured in accordance with the procedures referred to in Part B of this Schedule; (b) the first contract to be procured in accordance with the procedures referred to Part C.1 of this Schedule; and (c) each contract estimated to cost the equivalent of \$300,000 or more and to be procured in accordance with the procedures referred to Part C.3 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 Procurement Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

Part C: Other Procedures for the Selection of Consultants

1. Selection Based on Consultants' Qualifications

Services for Rural Strategy Development and Implementation Components under Parts A and C of the Project estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Bank of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under 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 Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 1, 2 and (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$50,000 or more, but less than the equivalent of \$200,000, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(c) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

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 Consultant Guidelines shall apply.

SCHEDULE 5

Implementation Program

Part A: Project Management

The Borrower shall assign the general responsibility for management of Project implementation to the PMU, and shall, at least until completion of the Project, maintain the PMU with such facilities and resources and under such terms of reference as shall be required for performance of said responsibility, which shall include, inter alia:

1. by November 30 in each year, the preparation and furnishing to the Bank, for its review and comments, of an annual work program for the Project;
2. recommending to MOF, based on the criteria set forth in the Rural Credit Guidelines, the selection of an institution as a PFI under the Project;
3. maintenance of the Project financial records and accounts and arranging for the audit thereof;
4. preparation of applications for withdrawal of the proceeds of the Loan;
5. coordination and supervision of the preparation of bidding and contract documents under the Project, including coordination of the recruitment of foreign and local consultants required for Project implementation; and
6. preparation and furnishing to the Bank, starting in January 1999, of semi-annual reports on the status of Project and Program implementation, based on the indicators set forth in the Program.

Part B: Subloans under Part B of the Project

1. The PFIs: A banking or a financial or a cooperative institution may be selected by the Borrower, with the agreement of the Bank, as a PFI under the Project based on satisfaction by such institution of the eligibility criteria set forth in the Rural Credit Guidelines.

2. The Subsidiary Loan Agreement: The Borrower, acting through its Ministry of Finance, shall conclude a Subsidiary Loan Agreement with each PFI under terms and conditions agreed upon with the Bank which shall include:

(a) the obligation of the PFI to use the amount of the Subsidiary Loan exclusively in the provision of Subloans under Part B of the Project;

(b) the denomination of the amount of the Subsidiary Loan either in Lats or in DEM;

(c) the obligation of the PFI to repay the amount of the Subsidiary Loan withdrawn and outstanding over a period not exceeding 14 years and with interest at a rate to be determined at such level as shall ensure a reasonable spread for the PFI in relation to the interest rate applicable to the Subloans provided by it;

(e) the obligation of the PFI to use amounts repaid to it under the Subloan contracts and not required to meet the PFI's debt service obligations under the Subsidiary Loan Agreement in the provision of further Subloans under Part B of the Project; and

(f) the undertaking of the PFI to apply the Rural Credit Guidelines in determining the terms of Subloans provided by it under the Project.

3. The Subloans:

(a) Subloans shall be provided in accordance with the terms and conditions set forth in the Rural Credit Guidelines, as the same may be amended from time to time with the agreement of the Borrower and the Bank.

(b) Except as the Bank may otherwise agree:

(i) Subloans shall be provided on the basis of standard contracts agreed upon with the Bank which shall include terms, including rates of interest, consistent with the requirements set forth in the Rural Credit Guidelines and shall specifically require the Beneficiaries to procure goods and works to be financed from the proceeds of the Subloan: (A) in accordance with relevant commercial practices, as described in Part C.3 of Section I of Schedule 4 to this Agreement; or (B) with respect to Contracts estimated to cost the equivalent of DEM 1,750,000 or more, under competitive bidding procedures as described in Part B of said Schedule.

(ii) The PFIs shall each obtain the Bank's prior approval of the first three Subloans proposed by it and subsequently any Subloan proposed to be provided by it in an amount equivalent to DEM 530,000 or more and shall, for this purpose, furnish to the Bank an application including: (A) a description of the Beneficiary and an appraisal of the Subproject, including a description of the expenditures proposed to be financed from the proceeds of the Loan; (B) the proposed terms and conditions of the Subloan, including the schedule of amortization of the Subloan; and (C) such other information as the Bank shall reasonably request.

(c) The PFIs shall each furnish to PMU quarterly summary reports listing the Special Subloans provided by it in the preceding quarter and evidencing compliance of the terms on which such Special Subloans were provided with the requirements set forth in the Rural Credit Guidelines.

(d) The Borrower shall ensure the adoption by the PMU of operating procedures satisfactory to the Bank to monitor adherence by the PFIs to the requirements of the Rural Credit Guidelines in the provision and administration of Subloans under Part B of the Project.

Part C: Monitoring and Evaluation

The Borrower shall:

(1) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in the Program, the carrying out of the Project and of measures included in the Program;

(2) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about September 30, 1999, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (1) of this Part C, on the progress achieved in the carrying out of the Project and the Program 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 Program and the achievement of the objectives thereof during the period following such date; and

(3) review with the Bank, by December 31, 1999, or such later date as the Bank shall request, the report referred to in paragraph (2) of this Part, and, thereafter, take all measures required to ensure the efficient carrying out of the Project and the Program and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank views on the matter.

#### SCHEDULE 6

##### Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (3) set forth in the table in paragraph 1 of Schedule 1 to this Agreement.

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

(c) the term "Authorized Allocation" means an amount equivalent to DEM 1,750,000 to be withdrawn from the Loan Account and deposited into 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 DEM 1,235,000 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 DEM 5,300,000.

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 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 Borrower, withdraw from the Loan Account and deposit into 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 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;

(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, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions 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.



