

CONFORMED COPY

LOAN NUMBER 7033 LV

Loan Agreement

(Liepaja Region Solid Waste Management Project)

between

REPUBLIC OF LATVIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated December 19, 2000

LOAN NUMBER 7033 LV

LOAN AGREEMENT

AGREEMENT, dated December 19, 2000, 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 (the Project), has requested the Bank to assist in the financing of the Project;

(B) the Project will be carried out by Liepajas RAS, Ltd. (LRL), with the Borrower's assistance and, as part of such assistance, the Borrower will make the proceeds of the loan provided for in Article II of this Agreement (the Loan) available to the LRL, as set forth in this Agreement;

(C) the Borrower intends to contract from the Canadian International Development Agency (CIDA) a grant (the CIDA Grant) in an amount equivalent to \$470,000 to assist in financing Part B of the Project on the terms and conditions set forth in an agreement (the CIDA Grant Agreement) to be entered into between the Borrower and CIDA;

(D) the Borrower intends to contract from the European Union (EU) a grant (the EU Grant) in an amount equivalent to \$4,860,000 to assist in financing Part A.1, 2, 3, 4 and 5 of the Project on the terms and conditions set forth in an agreement

(the EU Financing Memorandum) to be entered into between the Borrower and EU;

(E) the Borrower intends to contract from the Swedish International Development Agency (Sida) a grant (the Sida Grant) in an amount equivalent to approximately \$1,180,000 to assist in financing Part A.6 of the Project on the terms and conditions set forth in an agreement (the Sida Grant Agreement) to be entered into between the Borrower and Sida;

(F) the Borrower intends to contract from the Prototype Carbon Fund (PCF) to purchase greenhouse gas emission reductions achieved from the Project in an amount of \$2,477,000 on terms and conditions set forth in an agreement (the PCF Emission Reduction Purchase Agreement) to be entered into between the Borrower and the Bank, as Trustee of the PCF;

(G) the Borrower intends to contract from the Nordic Investment Bank (NIB) a loan in an amount equivalent to \$1,500,000 (the NIB Loan) to assist in financing Part A.2 and 7 of the Project on the terms and conditions set forth in an agreement to be entered into between the Borrower and NIB (the NIB Loan Agreement); and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower for Part A.1 and 2 of the Project, upon the terms and conditions set forth in this Agreement and in the agreement of even date herewith between the Bank and LRL (the Project 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 Fixed-Spread Loans" of the Bank, dated September 1, 1999 (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 and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "BDP" means the Business Development Plan of LRL, adopted by LRL, as the same may be amended from time to time;

(b) "Eligible Categories" means categories (1) and (2), set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(c) "Eligible Expenditures" means the expenditures for goods, works and services referred to in Section 2.02 of this Agreement;

(d) "EMP" means the Environmental Management Plan, adopted by the Borrower, describing the control and monitoring of the project's environmental impact as well as the responsibilities for its execution;

(e) "LRL" means the Liepajas RAS, Ltd., a non-profit limited liability company established on February 24, 2000.

(f) "MEPRD" means Ministry of Environmental Protection and Regional Development of the Borrower;

(g) "National Solid Waste Management Strategy" means the solid waste

management strategy of the Borrower, covering the period from 1998 to 2010, adopted by the Cabinet of Ministers of the Borrower on June 30, 1998;

(h) "PSC" means the Project Steering Committee, consisting of members of the Liepaja City Council, the Liepaja Regional Council, Managing Director of LRL, Liepaja Regional Environmental Board, EC Delegation, Ministry of Finance, Ministry of Economy, Representative of the Minister for Special Assignment for Cooperation with International Financing Agencies and MEPRD, established by the Liepaja City Council for the purpose of Project implementation.

(i) "PIP" means the manual for the carrying out of the Project prepared and adopted by the Borrower, as the same may be amended from time to time with the agreement of the Bank;

(j) "PIU" means the Project Implementation Unit, preparing reports to the PSC, and implementing procurement and disbursement activities of Part A of the Project pursuant to the Project Agreement;

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

(l) "Project Management Report" means each report prepared in accordance with Section 4.02 of this Agreement;

(m) "Special Account" means the account referred to in Part B of Schedule 1 to this Agreement; and

(n) "Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and LRL, pursuant to Section 3.01 (a) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Loan Agreement, and "Subsidiary Loan" means the loan to be made pursuant to the Subsidiary Loan Agreement.

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 this Agreement, an amount equal to two million two hundred twenty thousand Dollars (\$2,220,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.09 of this Agreement.

Section 2.02. The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods, works and services required for the Project and to be financed out of the proceeds of the Loan and in respect of interest and other charges in respect of the Loan, the front-end fee referred to in Section 2.04 of this Agreement and any premium in respect of an Interest Rate Cap or Interest Rate Collar payable by the Borrower in accordance with Section 4.04 (c) of the General Conditions.

Section 2.03. The Closing Date shall be June 30, 2007, 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 front-end fee in an amount equal to twenty-two thousand two hundred Dollars (\$22,200). The Borrower agrees that on or promptly after the Effective Date, the Bank shall, on behalf of the Borrower,

withdraw from the Loan Account and pay to itself the amount of such fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge on the principal amount of the Loan not withdrawn from time to time, at a rate equal to: (i) eighty five one-hundredths of one percent (0.85%) from the date on which such charge commences to accrue in accordance with the provisions of Section 3.02 of the General Conditions to but not including the fourth anniversary of such date; and (ii) seventy five one-hundredths of one percent (0.75%) thereafter.

Section 2.06. 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 Variable Rate; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the Borrower shall, during the Conversion Period, pay interest on such amount in accordance with the relevant provisions of Article IV of the General Conditions.

Section 2.07. Interest and commitment charges shall be payable semiannually in arrears on March 15 and September 15 in each year.

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

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

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

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

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

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

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

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project, and, to this end, without any limitation or restriction upon any of its other obligations under the Loan Agreement, shall cause LRL to perform in accordance with the provisions of the Project Agreement all the obligations of LRL therein set forth, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable LRL to

perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall relend the proceeds of the Loan to LRL under a subsidiary loan agreement to be entered into between the Borrower and LRL under terms and conditions which shall have been approved by the Bank which shall include the provisions set forth in Schedule 4 to this Agreement.

(c) The Borrower shall exercise its rights under the 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 the Subsidiary Loan Agreement or any provision thereof.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods and works required for Part A.1 and 2 of the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 1 to the Project Agreement.

Section 3.03. 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) shall be carried out by the LRL pursuant to Section 2.05 of the Project Agreement.

Section 3.04. The Borrower shall cause the proceeds of the PCF Emission Reduction Purchase Agreement to be used exclusively for the purposes of the Project.

ARTICLE IV

Financial Covenants

Section 4.01. (a) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of Project Management Reports or statements of expenditure, the Borrower shall cause the PIU to:

(i) maintain or cause to be maintained in accordance with sound accounting practices, records and separate accounts reflecting such expenditures;

(ii) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made; and

(iii) enable the Bank's representatives to examine such records.

(b) The Borrower shall cause the PIU to:

(i) have the records and accounts referred to in paragraph (a)(i) of this Section and 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 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, including a separate opinion by said auditors as to whether the Project Management reports or 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; 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.

Section 4.02. (a) Without limitation upon the provisions of Section 4.01 of this Agreement, the Borrower shall cause the PIU to carry out a time-bound action plan acceptable to the Bank for the strengthening of the financial management system referred to in paragraph (a) of said Section 4.01 in order to enable the Borrower, not later than June 30, 2001, or such later date as the Bank shall agree, to prepare quarterly Project management reports, acceptable to the Bank, each of which:

(i) (A) sets forth actual sources and applications of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for the Project for the six-month period following the period covered by said report, and (B) shows separately expenditures financed out of the proceeds of the Loan during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Loan during the six-month period following the period covered by said report;

(ii) (A) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and (B) explains variances between the actual and previously forecast implementation targets; and

(iii) sets forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the Loan, as at the end of the period covered by said report.

(b) Upon the completion of the action plan referred to in paragraph (a) of this Section, the Borrower shall prepare, in accordance with guidelines acceptable to the Bank, and furnish to the Bank not later than 45 days after the end of each calendar quarter a Project Management Report for such period.

ARTICLE V

Remedies of the Bank

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

(a) The LRL shall have failed to perform any of its obligations under the 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 LRL will be able to perform its obligations under the Project Agreement.

(c) National Solid Waste Management Strategy shall have been amended so as to affect materially and adversely the ability of LRL to perform any of its obligations under the Project Agreement.

(d) EU Financing Memorandum shall have failed to become effective by November 1, 2000, or such later date as the Bank may agree; provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes to the

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

(e) (i) Subject to subparagraph (ii) of this paragraph, the right of the Borrower to withdraw the proceeds of any grant or loan made to the Borrower for the financing of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms 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, or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

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

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 Subsidiary Loan Agreement has been executed on behalf of the Borrower and LRL; and

(b) the Sida Grant, NIB Loan, and PCF Carbon Purchase Agreements have been executed and delivered and all conditions precedent to the effectiveness thereof or to the right of the Borrower to make withdrawals thereunder, except only the effectiveness of the Loan Agreement have been fulfilled.

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 Project Agreement has been duly authorized by LRL, and is legally binding upon LRL in accordance with its terms; and

(b) that the Subsidiary Loan Agreement has been duly authorized by the Borrower and LRL, and is legally binding upon the Borrower and LRL in accordance with its terms.

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

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. Except as provided in Section 2.10, 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:	Facsimile:
871 161 299	371 7095 503

For the Bank:

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

Cable address:	Telex:	Facsimile:
INTBAFRAD Washington, D.C.	248423 (MCI) or 64145 (MCI)	202 477-6391

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

REPUBLIC OF LATVIA

By /s/ Edmunds Krastins

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

A. General

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 US Dollars)	% of Expenditures to be Financed
(1) Works for Parts A.1 and 2	1,687,800	100% of foreign expenditures, 80% of local expenditures
(2) Goods for Parts A.1 and 2	510,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 84% of local expenditures for other items procured locally
(3) Fee	22,200	Amount due under Section 2.04 of this Agreement
(4) Premia for Interest Rate Caps and Interest Rate Collars	0	Amount due under Section 2.09 (c) of this Agreement
TOTAL	2,220,000	

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 works 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 works supplied from the territory of the Borrower.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of 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 contracts for goods and works costing less than \$100,000 equivalent each, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

B. Special Account

1. The Borrower shall open and maintain in Dollars 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.

2. After the Bank has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Loan Account of amounts to be deposited into the Special Account shall be made as follows:

(a) until the Bank shall have received: (i) the first Project Management Report referred to in Section 4.02 (b) of this Agreement; and (ii) a request from the Borrower for withdrawal on the basis of Project Management Reports, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) upon receipt by the Bank of a Project Management Report pursuant to Section 4.02 (b) of this Agreement, accompanied by a request from the Borrower for

withdrawal on the basis of Project Management Reports, all further withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. 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.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if the Bank determines at any time that any Project Management Report does not adequately provide the information required pursuant to Section 4.02 of this Agreement;

(b) if the Bank determines at any time that all further withdrawals should be made by the Borrower directly from the Loan Account; or

(c) 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 (A) the records and accounts for the Special Account, or (B) the records and accounts reflecting expenditures with respect to which withdrawals were made on the basis of Project Management Reports.

5. The Bank shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule 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 Section 6.02 of the General Conditions. Upon such notification, the Bank shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

6. (a) If the Bank determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank, provide such additional evidence as the Bank may request, or 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. 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 determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, 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 sub-paragraph (a), (b) or (c) of this paragraph 6 shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Loan Agreement.

Annex A to SCHEDULE 1

Operation of Special Account When Withdrawals Are Not Made On the Basis of Project Management Reports

1. For the purposes of this Annex:

The term "Authorized Allocation" means the amount of US\$200,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 2 of this Annex.

2. 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 in the aggregate do not exceed the Authorized Allocation. 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.

(b) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposit into the Special Account at such intervals as the Bank shall specify. 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 Part B.3 of Schedule 1 to this Agreement 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. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Eligible Categories.

3. The Bank shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Loan 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 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.

Annex B to SCHEDULE 1

Operation of Special Account When Withdrawals Are Made On the Basis of Project Management Reports

1. Except as the Bank may otherwise specify by notice to the Borrower, all withdrawals from the Loan Account shall be deposited by the Bank into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Special Account's Eligible Categories.

2. Each application for withdrawal from the Loan Account for deposit into the Special Account shall be supported by a Project Management Report.

3. Upon receipt of each application for withdrawal of an amount of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Bank has determined, based on the Project Management Report accompanying said application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such report; provided, however, that the amount so deposited, when added to the amount indicated by said Project Management Report to be remaining in the Special Account, shall not exceed the equivalent of \$400,000.

SCHEDULE 2

Description of the Project

The objective of the Project is to improve municipal solid waste management system through maximum collection and utilization of landfill gas in Liepaja City and Liepaja Region.

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: Investment Component

1. Remediation and closure of selected existing dump sites through separation of surface water coverage and/or re-vegetation, according to the condition of each site.
2. Improvement of site operation through establishment of: (a) a reception station for separation of recyclable materials; (b) separate storage areas for recyclable and hazardous materials; (c) treatment plant for collected leachate; and (d) automated transportation system between cells and special equipment to treat sludge.
3. Shredding equipment for pretreatment of waste before transport to the energy cells, installation of energy cells and a landfill gas collection system.
4. Installation of a power generator, running on landfill gas, of about 1 megawatt capacity at Grobina and of about 0.3 megawatt capacity at Skede.
5. Establishment of waste collection points in each municipality in Liepaja Region to assure the efficient transport of waste to the regional disposal site, and provision of vehicles for transportation.
6. Capacity building of LRL with regard to company management and site operation through technical assistance.
7. Provision of the detailed design, including technical specifications, bill of quantities and all necessary drawings for project implementation, and bidding documents.

Part B: Technical Assistance Component

Provision of training to waste management utilities in municipal governments, municipal authorities and private sector companies involved in the implementation of the National Solid Waste Management Strategy.

* * *

The Project is expected to be completed by December 31, 2006.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Installment Share (Expressed as a %)
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On each March 15 and September 15

beginning September 15, 2005 through September 15, 2016	4.17%
On March 15, 2017	4.09%

SCHEDULE 4

Principal Terms of the Subsidiary Loan Agreement

The Subsidiary Loan Agreement shall include the following principal terms and conditions:

1. The obligation of the Borrower to relend the proceeds of the Loan to the LRL.
2. The obligation of LRL:

(a) to repay the principal amount of the Subsidiary Loan withdrawn and outstanding 10 days before the days specified for the amortization of the Loan in accordance with the provisions of Schedule 3 to this Agreement; such principal amount to be the equivalent in terms of the currency of the Borrower, determined as of the respective dates of repayment, of amounts withdrawn from the Loan Account;

(b) to pay, on the dates specified in Section 2.06 of the Agreement: (i) a commitment charge on the unwithdrawn amount of the Subsidiary Loan at the rate specified in Section 2.05 of this Agreement, minus any waiver thereof as may be determined from time to time by the Bank; (ii) interest on the amount of the Subsidiary Loan withdrawn and outstanding at the annual rate determined in accordance with the provisions of Section 2.06 of this Agreement; and (iii) a fee including the amount of the Subsidiary Loan withdrawn and outstanding at the annual rate of 0.5% to cover the Borrower's administrative cost in connection with the Loan and potential onlending risks; and

(c) to perform all of its obligations under the Project Agreement.

