

CONFORMED COPY

LOAN NUMBER 4154 LV

Loan Agreement

(Welfare Reform Project)

between

REPUBLIC OF LATVIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Dated July 17, 1997

LOAN NUMBER 4154 LV

LOAN AGREEMENT

AGREEMENT, dated July 17, 1997, 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) to assist in the financing of the Project, the Borrower intends to contract from other external sources (the Cofinanciers) grants (the Grants) in an aggregate amount equivalent to about 12,890,000 Deutsche Mark on the terms and conditions set forth in agreements (the Grant Agreements) to be entered into between the Borrower and the Cofinanciers;

(C) Parts A (2), (3) and (4) of the Project will be carried out by the State Social Insurance Fund of the Borrower with the Borrower's assistance and, as part of such assistance, the Borrower will make available to said Fund a portion of the proceeds of the Loan as provided in this Agreement; and

(D) Part C (2) of the Project will be carried out by the Municipality of Kandava with the Borrower's assistance and, as part of such assistance, the Borrower will make available to the Municipality of Kandava a portion of the proceeds of the Loan as provided in this Agreement;

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, with the modification set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) Section 6.03 is modified to read:

"Section 6.03. Cancellation by the Bank. If (a) the right of the Borrower to make withdrawals from the Loan Account shall have been suspended with respect to any amount of the Loan for a continuous period of thirty days, or (b) at any time, the Bank determines, after consultation with the Borrower, that an amount of the Loan will not be required to finance the Project's costs to be financed out of the proceeds of the Loan, or (c) at any time, the Bank determines, with respect to any contract to be financed out of the proceeds of the Loan, that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Loan during the procurement or the execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Bank to remedy the situation, and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Loan, or (d) at any time, the Bank determines that the procurement of any contract to be financed out of the proceeds of the Loan is inconsistent with the procedures set forth or referred to in the Loan Agreement and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Loan, or (e) after the Closing Date, an amount of the Loan shall remain unwithdrawn from the Loan Account, or (f) the Bank shall have received notice from the Guarantor pursuant to Section 6.07 with respect to an amount of the Loan, the Bank may, by notice to the Borrower and the Guarantor, 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."

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) "Automation Plans" means the plans to be adopted by the Borrower to determine the procedures to be followed for installation of computer equipment under the Project and for training of personnel on the use thereof referred to in paragraph 4 of Schedule 5 to this Agreement;

(b) "Deutsche Mark" and "DEM" mean the lawful currency of the Federal Republic Germany;

(c) "Implementation Protocol" means the protocol referred to in Section 6.01(b) of this Agreement;

(d) "Kandava Subsidiary Agreement" means the agreement to be entered into between the Borrower and the Municipality of Kandava pursuant to Section 3.01(d) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Kandava Subsidiary Agreement;

(e) "MOF" means the Ministry of Finance of the Borrower;

(f) "MOW" means the Ministry of Welfare of the Borrower;

(g) "Operational Manual" means the manual referred to in Section 6.01(c) of this Agreement, to be adopted by the Borrower for managing the organization and

implementation of the Project;

(h) "PCU" means the Project Coordination Unit established by MOW and referred to in paragraph 1 of Schedule 5 to this Agreement;

(i) "Project Preparation Advance" means the project preparation advance granted by the Bank to the Borrower pursuant to an exchange of letters dated October 4, 1996, and October 18, 1996, between the Borrower and the Bank;

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

(k) "SSIF" means the State Social Insurance Fund of the Borrower, established and operating in accordance with the SSIF Regulations (as hereinafter defined) and such term includes any successor thereto;

(l) "SSIF Regulations" means the Regulations of the State Social Insurance Fund dated April 23, 1996, and issued by the Cabinet of Ministers under Ruling No. 151;

(m) "SSIF Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and SSIF 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 SSIF Subsidiary Loan Agreement; and

(n) "Subsidiary Agreements" means the Kandava Subsidiary Agreement and the SSIF Subsidiary Loan Agreement and "Subsidiary Loan" means the loan provided thereunder.

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 thirty million four hundred thousand Deutsche Mark (DEM 30,400,000).

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 the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower may, for the purposes of the Project, open and maintain in DEM a separate 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.

(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 December 31, 2002, 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. The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time in accordance with the provisions of Schedule 3 to this Agreement.

Section 2.06. Interest and other charges shall be payable semiannually on 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 provisions of 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 Parts A(1), B, C(1) and (3), (D) and (E) of the Project; (ii) shall cause SSIF to carry out Parts A(2), (3) and (4) of the Project; and (iii) shall cause the Municipality of Kandava to carry out Part C(2) 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;

(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 ensure the carrying out of the Project, in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

(c) For the purposes of Parts A(2), (3) and (4) of the Project, the Borrower shall relend the proceeds of the Loan allocated from time to time to Categories 1(a), 2(b) and 3(b) of the table in paragraph 1 of Schedule 1 to this Agreement to SSIF under a subsidiary loan agreement to be entered into between the Borrower and SSIF (the SSIF Subsidiary Loan Agreement) under terms and conditions which shall have been approved by the Bank. Except as the Bank shall otherwise agree, such terms and conditions shall include the following:

- (i) the principal amount of the subsidiary loan shall be repaid by SSIF to the Borrower in DEM in semi-annual installments over the same period and on the same dates specified for repayment of the Loan according to Schedule 3 to this Agreement; and
- (ii) SSIF shall pay:
 - (A) a commitment charge on the unwithdrawn amount of the Subsidiary Loan at the same rate for commitment charge on the Loan according to Section 2.04 of this Agreement; and
 - (B) interest on the amount of the Subsidiary Loan withdrawn and outstanding from time to time at a rate equal to the rate payable by the Borrower from time to time on the Loan pursuant to Section 2.05 of this Agreement.

(d) For the purposes of Part C(2) of the Project, the Borrower shall conclude an agreement with the Municipality of Kandava (the Kandava Subsidiary Agreement) whereby the proceeds of the Loan allocated from time to time to Categories 1(b) and 2(c) of the table in paragraph 1 of Schedule 1 to this Agreement shall be made available to the Municipality of Kandava on terms and conditions which shall have been agreed upon with the Bank.

(e) The Borrower shall exercise its rights under the Subsidiary 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 the Subsidiary Agreements or any provision thereof.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out

of the proceeds of the Loan shall be carried out through the PCU and 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 Project's objectives; 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 (including the Municipality of Kandava) 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 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 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 SSIF to maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition.

- (b) The Borrower shall cause SSIF 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 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;
 - (iii) provide the Bank, within two months of furnishing the audit report referred to in the preceding paragraph (ii), with a statement as to the comments, if any, contained in said report and the action to be taken by ' SSIF to address such comments; and
 - (iv) 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 SSIF Regulations shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of SSIF to perform any of its obligations under the Project.

(b) Grant Agreements providing for an amount equivalent to not less than DEM 9,000,000 shall have failed to become effective by January 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.

(c) (i) Subject to subparagraph (ii) of this paragraph, the right of the Borrower to withdraw the proceeds of any grant 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 of the agreement providing therefor.

(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 termination 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.

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 SSIF Subsidiary Loan Agreement has been executed on behalf of the Borrower and SSIF;
- (b) the Implementation Protocol regulating the matters referred to in paragraph 2 of Schedule 5 to this Agreement has been executed on behalf of MOF and MOW; and
- (c) the Borrower has adopted an Operational Manual satisfactory to the Bank.

Section 6.02. The following is specified as an additional matter, 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, namely, that the SSIF Subsidiary Loan Agreement has been duly authorized or ratified by the Borrower and SSIF and is legally binding upon the Borrower and SSIF 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. 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 Smilsu 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:

Telex:

INTBAFRAD
Washington, D.C.

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 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 DEM)	% of Expenditures to be Financed
(1) Works		82%
(a) for Part A(2) of the Project	3,530,000	
(b) for Part C(2) of the Project	400,000	
(2) Goods		100% of foreign expenditures, 100% of local expenditures, (ex-factory cost) and 82% of local expen- ditures for other items procured locally
(a) for Parts A(1), B, C(1), C(3), D(2) and E of the Project	700,000	
(b) for Parts A(2), (3) and (4) of the Project	9,160,000	
(c) for Part C(2) of the Project	125,000	
(3) Consultants' services		100%
(a) for Parts A, B, C(1), C(3) and E of the Project	1,170,000	
(b) for Parts A(2), (3) and (4) of the Project	7,000,000	
(c) for Part C(2) of the Project	35,000	

(4) Refunding of Project Preparation Advance	3,331,000	Amounts due pursuant to Section 2.02(c) of this Agreement
(5) Unallocated	4,949,000	
TOTAL	30,400,000 =====	

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 aggregate amount not exceeding the equivalent of DEM 1,255,000, may be made on account of payments made for expenditures before that date but after March 31, 1997; (b) payments under Categories 1(b), 2(c) and 3(c) unless the Bank has received evidence satisfactory to it that the Kandava Subsidiary Agreement, on terms satisfactory to the Bank, has been executed on behalf of the Borrower and the Municipality of Kandava; and (c) payments under Categories 1(a) and 1(b) unless the Bank has received a civil works plan satisfactory to the Bank for the civil works to be financed under such Category.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures: (i) for works under contracts costing less than DEM 330,000 equivalent; (ii) for goods under contracts costing less than DEM 640,000 equivalent; and (iii) for services under contracts costing less than DEM 170,000 equivalent for the employment of consulting firms and under contracts costing less than DEM 85,000 equivalent for the employment of individual consultants, under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist in the development of a well-functioning social welfare system through the implementation of reform measures designed to improve the formulation and implementation of social insurance policies, create a framework for optional, privately managed pension systems and increase the effectiveness of the social safety net system.

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: Social Insurance Development

(1) Assistance to MOW in the development and implementation of social insurance policies through the provision of technical assistance, training and equipment.

(2) Assistance to central and local offices of SSIF in benefit administration and contribution recording through the provision of technical assistance, training, equipment and carrying out of works to improve SSIF office facilities.

(3) Provision of assistance to SSIF in: (a) improving its organizational structure; (b) establishing administrative procedures; (c) establishing a communications strategy; and (d) developing a human resources strategy, through the provision of technical assistance and training.

(4) Provision of goods, technical assistance and training and carrying out of works to support SSIF in the introduction of information technology.

Part B: Privately-Managed Pension Systems

Provision of assistance to MOF in the development of the regulatory framework for privately-managed pension plans, including development of supervisory systems and communications strategy, rules and reporting and accounting requirements for such plans and training of staff involved in the management and supervision thereof.

Part C: Social Assistance Administration

(1) Development of social assistance policy and administration in MOW, including and the provision of equipment, training and technical assistance.

(2) Provision of goods and technical assistance for the implementation of a pilot system for social assistance policy development and administration in the Municipality of Kandava and carrying out of works to rehabilitate social assistance administration office facilities in the Municipality of Kandava.

(3) Carrying out of monitoring and evaluation activities within MOW in respect of the implementation of Part C(2) of the Project.

Part D: Monitoring and Evaluation of Social Policy

(1) Provision of technical assistance and training for the establishment of an effective data collection system and improvement of local monitoring and evaluation capabilities.

(2) Establishment and implementation of a mechanism within MOW for the production and dissemination to governmental agencies, the Parliament and the public of an annual report on social policy.

(3) Provision of technical assistance and training to MOW and other specialists in social policy to develop a capacity to monitor, analyze and evaluate the impact of social policy.

(4) Establishment and implementation of a Social Policy Research Program within MOW to commission, select, review and disseminate studies on the implementation of the Borrower's social policy agenda.

(5) Provision of assistance and training to assist the PCU in Project coordination.

The Project is expected to be completed by June 30, 2002.

SCHEDULE 3

Interest and Principal Repayment Provisions

A. General Definitions

For purposes of this Schedule, the following terms have the following meanings:

(a) "Disbursed Amount" means, in respect of each Interest Period, the aggregate principal amount of the Loan withdrawn from the Loan Account in such Interest Period.

(b) "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.

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

(d) "Rate Fixing Date" means, for each Disbursed Amount, the first day of the Interest Period next following the Interest Period in which such Disbursed Amount is withdrawn.

B. Interest

1. The principal amount of the Loan shall be divided into Disbursed Amounts. Interest shall accrue on each Disbursed Amount outstanding from time to time at a rate based on a floating rate index prior to its Rate Fixing Date and at a fixed rate from its Rate Fixing Date, as described in paragraph 2 of this Part B.

2. (a) From the date of withdrawal of each amount of each Disbursed Amount withdrawn and outstanding, to but not including the Rate Fixing Date for such Disbursed Amount, interest on each such amount shall accrue, at a rate equal to the applicable:

- (i) LIBOR Base Rate; plus
- (ii) LIBOR Total Spread.

(b) From the Rate Fixing Date for each Disbursed Amount until final repayment thereof, interest on such Disbursed Amount shall accrue, at a rate equal to the applicable:

- (i) Fixed Base Rate; plus
- (ii) Fixed Total Spread.

3. For purposes of paragraph 2 of this Part B, the following terms have the following meanings:

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

(b) "LIBOR Total Spread" means, for the Interest Period in which each Disbursed Amount is withdrawn:

- (i) one half of one percent (1/2 of 1%); and
- (ii) 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 such Disbursed Amount for such Interest Period, as reasonably determined by the Bank and expressed as a percentage per annum.

(c) "Fixed Base Rate" means, for each Disbursed Amount, the equivalent of the London interbank offered rate for six-month deposits in Deutsche Mark for value on the Rate Fixing Date for such Disbursed Amount, expressed as a single fixed interest rate based on the fixed interest rates corresponding to the repayment installments of such Disbursed Amount, as reasonably determined by the Bank and expressed as a percentage per annum.

(d) "Fixed Total Spread" means, for each Disbursed Amount:

- (i) one-half of one percent (1/2 of 1%);
- (ii) minus (or plus) the cost margin, applicable on the Rate Fixing Date for such Disbursed Amount, 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 to fund single currency loans or portions thereof made by it that include such Disbursed Amount; plus

(iii) the Bank's risk spread applicable on the Rate Fixing Date for such Disbursed Amount, as reasonably determined by the Bank and expressed as a percentage per annum.

4. The Bank shall notify the Borrower of LIBOR Base Rate, LIBOR Total Spread, Fixed Base Rate and Fixed Total Spread applicable to each Disbursed Amount, promptly upon the determination thereof.

5. Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Schedule, 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 this Schedule, the Bank may modify the basis for determining the interest rates applicable to amounts of the Loan not yet withdrawn upon not less than six (6) months' notice to the Borrower of the new basis. The new 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.

C. Repayment

1. Subject to the provisions of paragraph 2 of this Part C, the Borrower shall repay each Disbursed Amount of the Loan in semiannual installments payable on each May 15 and November 15, the first such installment to be payable on the seventh (7th) Interest Payment Date following the Rate Fixing Date for such Disbursed Amount and the last such installment to be payable on the eighteenth (18th) Interest Payment Date following the Rate Fixing Date for such Disbursed Amount. Each installment shall be one-twelfth (1/12) of such Disbursed Amount.

2. Notwithstanding the provisions of paragraph 1 of this Part C, if any installment of principal of each Disbursed Amount would, pursuant to the provisions of said paragraph 1, be payable after November, 15, 2012, the Borrower shall also pay on said date the aggregate amount of all such installments.

3. After each Disbursed Amount shall have been withdrawn, the Bank shall promptly notify the Borrower of the amortization schedule for such Disbursed Amount.

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 and revised in January and August 1996, (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 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 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 shall be grouped in bid packages estimated to cost DEM 840,000 equivalent 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. National Competitive Bidding

Works shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. International Shopping

Goods estimated to cost less than DEM 670,000 equivalent per contract, up to an aggregate amount not to exceed DEM 2,500,000 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 Guidelines.

3. National Shopping

Goods estimated to cost less than DEM 125,000 equivalent per contract, up to an aggregate amount not to exceed DEM 3,200,000 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.

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

(a) With respect to: (i) each contract for goods estimated to cost the equivalent of DEM 700,000 or more; (ii) each contract for works estimated to cost the equivalent of DEM 350,000 or more; and (iii) the first two contracts for works, irrespective of the cost thereof, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to: (i) the first contract for goods awarded in accordance with the provisions of Part C.2 of this Schedule; and (ii) the first contract for goods awarded in accordance with the provisions of Part C.3 of this Schedule, the following procedures shall apply:

(A) prior to the selection of any supplier under shopping procedures the Borrower shall provide to the Bank a report on the comparison and evaluation of quotations received;

(B) prior to the execution of any contract procured under shopping procedures, the Borrower shall provide to the Bank a copy of the specifications and the draft contract; and

(C) in addition, the procedures set forth in paragraphs 2(f) and 2(g) 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). For complex, time-based assignments, such contracts shall be based on the standard form of contract for consultants' services issued by the Bank, with such modifications thereto as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, other standard forms acceptable to the Bank shall be used.

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 DEM 165,000 equivalent each, or (b) contracts for the employment of individual consultants estimated to cost less than DEM 83,000 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 DEM 165,000 equivalent or above, or (e) amendments to contracts for the employment of individual consultants raising the contract value to DEM 83,000 equivalent or above.

SCHEDULE 5

Implementation Program

1. The Borrower shall maintain the Project Coordination Unit (PCU) established by MOW, with functions and responsibilities acceptable to the Bank including, without limitation, the carrying out of procurement activities for all parts of the Project, and with staff that shall include, without limitation, a project coordinator, an accountant, a procurement specialist, and a project secretary and whose qualifications, experience and terms of reference are acceptable to the Bank.

2. In order to facilitate project implementation, the Borrower shall cause MOF and MOW to enter into an Implementation Protocol regulating their respective administrative responsibilities with respect to Loan disbursement, maintenance of Loan accounts and debt service payments under the Loan Agreement.

3. The Borrower shall adopt and apply an Operational Manual satisfactory to the Bank, for the management of Project implementation providing, inter alia, for: (i) an implementation plan for the Project, including, without limitation, performance indicators for each Part of the Project; (ii) the organization, functions and responsibilities of the PCU; (iii) the format of reports and administrative steps to be followed in Project implementation and monitoring; and (iv) the responsibilities of each entity or agency involved in Project implementation and monitoring; and (v) the financial procedures to be followed in respect of maintenance of project accounts and the audit thereof.

4. By September 30, 1997, the Borrower shall adopt Automation Plans for computer equipment agreed upon with the Bank, and shall ensure that such Automation Plans shall be followed during Project implementation.

5. The Borrower shall and shall cause SSIF and Municipality of Kandava to:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators acceptable to the Bank, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about June 30, 2000, 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 December 31, 2000, 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 views on the matter.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2) and (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 1,700,000 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 800,000 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 4,000,000.

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 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 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;

(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 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.

