

CONFORMED COPY

LOAN NUMBER 3814 LV

Project Agreement

(Liepaja Environment Project)

among

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

and

LIEPAJA WATER AND WASTEWATER ENTERPRISE

Dated January 9, 1995

LOAN NUMBER 3814 LV

PROJECT AGREEMENT

AGREEMENT, dated January 9, 1995, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and LIEPAJA WATER AND WASTEWATER ENTERPRISE (LWWE).

WHEREAS by the Loan Agreement of even date herewith between Republic of Latvia (the Borrower) and the Bank, the Bank has agreed to make available to the Borrower an amount in various currencies equivalent to four million dollars (\$4,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that LWWE agrees to undertake such obligations toward the Bank as are set forth in this Agreement; and

WHEREAS LWWE, in consideration of the Bank's entering into the Loan Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

## Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Loan Agreement, the Preamble to this Agreement and the General Conditions (as so defined) have the respective meanings therein set forth.

## ARTICLE II

### Execution of the Project

Section 2.01. (a) LWWE declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Loan Agreement, and, to this end, shall carry out Part A of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, environmental and water management practices, and shall provide, or cause to be provided, 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 Bank and LWWE shall otherwise agree, LWWE shall carry out Part A of the Project in accordance with the Implementation Program set forth in Schedule 2 to this Agreement.

Section 2.02. 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 governed by the provisions of Schedule 1 to this Agreement.

Section 2.03. LWWE shall carry out the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of the Project Agreement.

Section 2.04. (a) LWWE shall, at the request of the Bank, exchange views with the Bank with regard to progress of the Project, the performance of its respective obligations under this Agreement and other matters relating to the purposes of the Loan.

(b) LWWE shall promptly inform the Bank of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of Loan, or the performance by LWWE of its respective obligations under this Agreement.

## ARTICLE III

### Financial Covenants

Section 3.01. (a) LWWE 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 Part A of the Project of the departments or agencies of LWWE responsible for carrying out Part A of the Project or any part thereof.

(b) LWWE shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section 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 expenditures, LWWE shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account or payment out of the Special Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

#### ARTICLE IV

##### Other Covenants

Section 4.01. LWWE shall:

(a) take out and maintain with responsible insurers, or make other provision satisfactory to the Bank, for insurance against such risks and in such amounts as shall be consistent with appropriate practice;

(b) carry on its operations and conduct its affairs in accordance with sound administrative, financial, environmental and water management practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers; and

(c) at all times operate and maintain its plants, machinery, equipment and other property, and from time to time, promptly as needed, to make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial, environmental and water management practices.

Section 4.02. (a) Except as the Bank shall otherwise agree, LWWE shall produce for each of its fiscal years after its fiscal year ending on December 31, 1994, total revenues equivalent to not less than the sum of its (i) total operating expenses; (ii) the amount by which debt service requirements exceed the provision for depreciation; and (iii) provision for maintenance, bad and doubtful debts and proper asset

depreciation reflecting replacement costs.

(b) Before April 1 in each of its fiscal years, LWWE shall, on the basis of forecast prepared by LWWE and satisfactory to the Bank, review whether it would meet the requirements set forth in Section 4.02 (a) of this Agreement in respect of such year and the next following fiscal year and shall furnish to the Bank the results of such review upon its completion.

(c) If any such review shows that LWWE would not meet the requirements set forth in Section 4.02 (a) for the fiscal year of LWWE covered by such review, LWWE shall promptly take all the necessary measures (including, without limitation, adjustments to the structure or levels of tariffs) in order to meet such requirements.

Section 4.03. Subject to the provisions of Section 4.02, LWWE shall by January 1, 1996, carry out and furnish to the Bank and the Borrower for review and comments a tariff study for the purposes of determining the adjustments needed to (i) the level of tariffs to ensure full cost recovery and debt servicing by LWWE; and (ii) the structure of the tariffs to improve the economic efficiency of LWWE, including recommendations inter alia for: (A) a timetable for tariff adjustment to provide at least that the recommended tariff level is achieved by March 31, 1999; and (B) adjustments for inflation of such tariffs until completion of the Project to ensure the financial viability of the LWWE's ability to carry out the investment program.

#### ARTICLE V

##### Effective Date; Termination; Cancellation and Suspension

Section 5.01. This Agreement shall come into force and effect on the date upon which the Loan Agreement becomes effective.

Section 5.02. This Agreement and all obligations of the Bank, of LWWE thereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms, and the Bank shall promptly notify LWWE thereof.

Section 5.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

#### ARTICLE VI

##### Miscellaneous Provisions

Section 6.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex or radiogram to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other address as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

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 (RCA)  
82987 (FTCC)  
64145 (WUI) or  
197688 (TRT)

For LWWE:

Liepaja Water and Wastewater Enterprise  
Kr. Valdemara Str. 12  
LV-3401 Liepaja  
Latvia

Section 6.02. Any action required or permitted to be executed, under this Agreement on behalf of the LWWE may be taken or executed by Andis Dejus or such other person or persons as Andis Dejus shall designate in writing, and LWWE shall furnish to the Bank sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 6.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

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.

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Basil Kavalsky

Acting Regional Vice President  
Europe and Central Asia

LIEPAJA WATER AND WASTEWATER ENTERPRISE

By /s/ Ojars E. Kalnins

Authorized Representative

#### SCHEDULE 1

#### Procurement and Consultants' Services

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

#### Part A: International Competitive Bidding

1. Except as provided in Part B hereof, goods and works shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1992 (the Guidelines) and in accordance with the following additional procedures:

- (a) When contract award is delayed beyond the original

bid validity period, such period may be extended once, subject to and in accordance with the provisions of paragraph 2.59 of the Guidelines, by the minimum amount of time required to complete the evaluation, obtain necessary approvals and clearances and award the contract. The bid validity period may be extended a second time only if the bidding documents or the request for extension shall provide for appropriate adjustment of the bid price to reflect changes in the cost of inputs for the contract over the period of extension. Such an increase in the bid price shall not be taken into account in the bid evaluation. With respect to each contract made subject to the Bank's prior review in accordance with the provisions of Part C.1(a) of this Section, the Bank's prior approval will be required for (i) a first extension of the bid validity period if the period of extension exceeds sixty (60) days and (ii) any subsequent extension of the bid validity period.

(b) In the procurement of goods and works in accordance with this Part A, LWWE shall use the relevant standard bidding documents issued by the Bank, with such modifications thereto as the Bank shall have agreed to be necessary for the purposes of the Project. Where no relevant standard bidding documents have been issued by the Bank, LWWE shall use bidding documents based on other internationally recognized standard forms agreed with the Bank.

2. To the extent practicable, contracts for goods and works shall be grouped into bid packages estimated to cost the equivalent of \$250,000 or more.

Part B: Other Procurement Procedures

1. Items or groups of items for goods and works estimated to cost the equivalent of \$250,000 or less per contract, up to an aggregate amount equivalent to \$370,000, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers from at least three different countries eligible under the Guidelines, in accordance with procedures acceptable to the Bank.

Part C: Review by the Bank of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract for goods and works estimated to cost the equivalent of \$250,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Bank pursuant to said paragraph 2 (d) shall be furnished to the Bank prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Bank pursuant to said paragraph 3 shall be furnished to the Bank as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 5 to the Loan Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals from the Loan Account are to be made on the basis of statements of expenditure.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

## Section II. Employment of Consultants

In order to assist LWWE in the implementation of Part A of the Project, LWWE shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis 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. For complex, time-based assignments, LWWE shall employ such consultants under contracts using the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, LWWE shall use other standard forms agreed with the Bank.

### SCHEDULE 2

#### Implementation Program

1. LWWE shall maintain the PIU to coordinate and supervise the execution of Part A of the Project, including the preparation and submission to the Bank of periodic progress and project completion reports.

2. LWWE shall carry out the twinning arrangement, on the basis of a program satisfactory to the Bank, with a water utility satisfactory to the Bank.

3. LWWE shall:

(a) carry out Part A of the Project in accordance with an implementation schedule and performance indicators for said Part A of the Project agreed with the Bank;

(b) monitor said performance indicators;

(c) report to the Borrower and the Bank on a quarterly basis or other periods agreed with the Bank, starting on October 15, 1995 on LWWE's actual performance measured by the target performance;

(d) exchange views with the Bank on an annual basis on LWWE's performance measured by the respective indicators and on the corrective measures to be taken in the following calendar year; and

(e) make adjustments in said performance indicators as agreed with the Bank for the following calendar year.

