

CONFORMED COPY

LOAN NUMBER 3796 LV

Loan Agreement

(Enterprise and Financial Sector Restructuring Project)

between

REPUBLIC OF LATVIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated November 9, 1994

LOAN NUMBER 3796 LV

LOAN AGREEMENT

AGREEMENT, dated November 9, 1994, 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; and

WHEREAS (B) by agreement of even date herewith between the Borrower and the Bank (the Currency Pool Loan Agreement), the Bank has agreed to provide a Loan in various currencies in the aggregate principal amount of twenty million dollars (\$20,000,000);

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Single Currency Loan and Guarantee Agreements" of the Bank, dated February 9, 1993 (the General Conditions) constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Loan Tranche" means each of the amounts in specific currencies provided for in Section 2.01 of this Agreement;

(b) "Deutsche Mark" and "DM" mean the lawful currency of Germany, but if such currency shall be replaced with the European Currency Unit, then 'Deutsche Mark' and 'DM' shall be replaced by 'European Currency Unit' and 'ECU' for purposes of the Loan, at the ratio in effect as of the date of such replacement;

(c) "Special Account" means any of the accounts referred to in Section 2.02 (b) of this Agreement; and "Dollar Special Account" and "Deutsche Mark Special Account" mean the Special Accounts to be maintained in dollars and DM, respectively;

(d) "PMU" means the Project Management Unit established and maintained within the Ministry of Finance of the Borrower and responsible for overseeing and coordinating overall project implementation;

(e) "TU" means the Technical Unit, an independent state entity established by the Borrower for the purposes of selection and monitoring of the Participating Financial Institutions and authorization of the use of the credit line by the Participating Financial Institutions for the financing of specific subprojects;

(f) "Participating Financial Institutions" or "PFIs" means the banks and other financial institutions established and operating according to the applicable rules of the Borrower and approved by the Bank for participation in the Project; "PFI" means a single participating financial institution;

(g) "SPA" means the Separate Project Account to be opened in the Bank of Latvia at the name of the Borrower for the purposes of disbursements and other banking services required to operate the credit line pursuant to the Subsidiary Loan Agreements with the PFI or the Bond Redemption Agreement with Unibank;

(h) "Swedish Capital Fund" means the fund established by the Government of Sweden for the purpose of investment in banks and other financial institutions operating in the territory of the Borrower, including the PFI;

(i) "Sub-loan" means a loan made or to be made by a Participating Financial Institution financed in whole or in part out of the proceeds of the Loan to a Beneficiary for a Sub-project;

(j) "Sub-project" means a specific development project to be carried out by a Beneficiary utilizing, in whole or in part, the proceeds of a Sub-loan;

(k) "Subsidiary Loan Agreements" means any of the Subsidiary Loan Agreements entered into by the Borrower and a Participating Financial Institution for the purposes of execution of the Project;

(l) "Floor Interest Rate" means the lowest rate at which Subsidiary Loans can be made by the Borrower to the PFI, and reflecting the costs of the Borrower established under terms and procedures acceptable to the Bank according to the procedures established in Schedule 5 to this Agreement;

(m) "Private Enterprise" means commercial entity registered according to the applicable rules and regulations of the Borrower, in which the management is not directly or indirectly controlled by the Borrower, and more than 50% of the interest is held by persons or companies other than the Borrower, the local authorities or any subdivision thereto, or entities controlled by the Borrower;

(n) "Beneficiary" means the Private Enterprise to which a Sub-loan is made by the Participating Financial Institutions; and

(o) "First year" with respect to all PFI means the period from the date the Loan has been declared effective until the end of the following calendar year; the term "second year" means the next calendar year after the first year; the term "third year" means the period after the second year up to the closing date of the Loan.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, various currencies that shall have an aggregate value equivalent to:

- (a) the amount of ten million dollars (\$10,000,000); and
- (b) the amount of eight million five hundred thousand Deutsche Mark (DM 8,500,000);

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

Section 2.03. The Closing Date shall be December 31, 1998 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04 (a) The Borrower shall pay interest on the principal amount of each Loan Tranche withdrawn and outstanding from time to time, at a rate for each Interest Period equal to Single Currency LIBOR, plus one-half of one percent (1/2 of 1%), plus or minus the Average Margin as provided in paragraph (b) (iv) below.

(b) For the purposes of this Section:

- (i) "Interest Period" means the initial period from and including the date of this Agreement to but not including the first Interest Payment Date and thereafter the period from and including any Interest Payment Date to but not including the next Interest Payment Date.
- (ii) "Interest Payment Date" any date specified in Section 2.05 of this Agreement.
- (iii) "Single Currency LIBOR" means the London interbank offered rate for the Single Currency of each Loan Tranche, expressed as a percentage per annum, reasonably determined by the Bank in accordance with Schedule 8 to this Agreement for the January 15 or July 15 on which an Interest Period commences (or, for the initial Interest Period, the January 15 or July 15 preceding the date of this Agreement or on which such Interest Period commences).
- (iv) "Average Margin" means, for any Interest Period, the weighted average margin, for the Semester preceding the relevant January 15 or July 15, between: (A) the cost of the outstanding borrowings of the Bank or portions thereof allocated to the funding of single currency loans in all currencies, and (B) the specific London interbank offered rates or other such reference rates attributable to such borrowings in each such currency, all as reasonably determined by the Bank and expressed as a percentage per annum. For any Interest Period in which (A) exceeds (B), the Average Margin shall be added under paragraph (a) above. For any Interest Period in which (B) exceeds (A), the Average Margin shall be subtracted under paragraph (a) above.
- (v) "Semester" means the first six months or second six months

of a calendar year.

(c) After the Bank shall have determined Single Currency LIBOR and the Average Margin for any Interest Period, the Bank shall promptly notify the Borrower of such determination.

Section 2.05. Interest and other charges shall be payable semiannually on January 15 and July 15 in each year.

Section 2.06. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, banking, accounting and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) For the purpose of carrying out the Project, the Borrower shall make available the equivalent of the proceeds of the Loan under Subsidiary Loan Agreements acceptable to the Bank to be entered into between the Borrower and each Participating Financial Institution, respectively, under terms and conditions satisfactory to the Bank, and which shall include, without limitations those set forth in Schedule 5 of this Agreement.

(c) The Borrower shall exercise its rights under a Subsidiary Loan Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and, except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive any Subsidiary Loan Agreement 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 governed by the provisions of Schedule 4 to this Agreement.

Section 3.03. The Borrower shall maintain the PMU and the TU in accordance with a staffing plan and terms of reference satisfactory to the Bank.

ARTICLE IV

Financial and Other Covenants

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

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section 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. The Borrower shall present for consideration by the Saeima (the Parliament of Latvia) legislation which in the opinion of the Borrower and the Bank provides the necessary regulatory framework for the adequate functioning of the banks and other financial institutions, including legislation on secured transactions, loans and collateral regulations by December 1995.

Section 4.03. The Borrower shall prepare by March 31, 1995 a plan of action regarding the administrative procedures for:

- (i) implementation of the bankruptcy and foreclosure legislation; and
- (ii) public access to the registers of commercial entities, titles and rights, including the data and information that will be made available to the public.

ARTICLE V

Effective Date; Termination

Section 5.01. 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 SPA is opened with the Bank of Latvia on terms and conditions specified in the Financial Agency Agreement acceptable to the Bank;

(b) The TU is established by the Borrower with staff and terms of reference acceptable to the Bank;

(c) The Subsidiary Loan Agreements satisfactory to the Bank between at least two PFI have been executed on behalf of the parties thereto;

(d) Environmental screening procedures for the purposes of implementation of the Project, including the adoption of Environmental Assessment Manual, are established by the Borrower in a manner acceptable to the Bank; and

(e) All conditions precedent to the effectiveness of the Currency Pool Loan Agreement for the Enterprise and Financial Sector Reconstruction Project other than those related to the effectiveness of this agreement have been fulfilled.

Section 5.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Borrower; Addresses

Section 6.01. 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 6.02. 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
Latvia

Telex:

871 161 299

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)

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 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 amount of each Loan Tranche 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) % of Expenditures to be Financed
	Dollar Equivalent	DM Equivalent	
Credit Line for sector enterprises:) 100% of foreign private expenditures,
(1) for Part 1 of the Project	3,000,000	3,500,000) 100% of local expenditures (ex-factory cost) and 80% of local expenditures
(2) for Part 2 of the Project	2,000,000) for other items procured locally
(3) for Part 3 of the Project	5,000,000	5,000,000)
	-----	-----	
TOTAL	10,000,000	8,500,000	
	=====	=====	

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;

(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; and

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;

(b) expenditures for Category 1 after March 31, 1996, after which date the remaining balance in this category, if any, will be used for any sub-loans financed under the Project; and

(c) expenditures for Category 2 after July 1, 1995, after which date the remaining balance in this category, if any, will be used for any sub-loans financed under the Project.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under contracts for goods, works and services not exceeding \$100,000 equivalent, under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Government in the efforts to reform the enterprise and financial sector by providing a credit line for newly privatized and private enterprises, technical assistance in the privatization process and infrastructure investment in the banking sector.

The Project consists of a credit line for private sector enterprises, which will provide financing of medium and long-term credits and establish

a credit mechanism for use in the future, subject to such modifications thereof as the Borrower and the Bank may agree upon from time to time to achieve such objectives:

1. Newly Privatized Enterprises: Provision of medium and long-term financing for newly privatized enterprises from part of the proceeds of the Loan reserved for this category in the first eighteen months after effectiveness.

2. Swedish Capital Fund: Provision of credit for eligible banks which will also be given the option to draw upon additional financial resources from the Swedish Capital Fund made available by agreement between the Borrower and the Government of Sweden, acceptable to the Bank;

3. Credit Line for Private Enterprises: Provision of medium and long-term credits for private enterprises through the Participating Financial Institutions.

* * *

The Project is expected to be completed by June 30, 1998.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal Expressed in	
	Dollar Loan Tranche*	Deutsche Mark Loan Tranche
On each January 15 and July 15 beginning January 15, 2000 through January 15, 2011	415,000	355,000
On July 15, 2011	455,000	335,000

* The figures in this column represent the amount in each currency to be repaid, except as provided in section 4.04 (d) of the General Conditions.

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

1. Except as provided in Part C 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).

(a) For fixed-price contracts, the invitation to bid referred to in paragraph 2.13 of the Guidelines shall provide that, when contract award is delayed beyond the original bid validity period, the successful bidder's bid price will be increased for each week of delay by two predisclosed correction factors acceptable to the Bank, one to be applied to all foreign currency components and the other to the local currency component of the bid price. Such an increase shall not be taken into account in the bid evaluation.

(b) In the procurement of goods and works in accordance with this Part A, the Borrower 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, the Borrower 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 \$500,000 or more.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A.1 hereof, goods manufactured in Latvia may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Other Procurement Procedures

1. Except as provided in paragraphs 2 and 3 items or groups of items of goods or services estimated to cost per contract the equivalent of less than \$500,000 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;

2. Works estimated to cost to cost less than \$500,000 but more than \$100,000 per contract shall be procured under contracts awarded on the basis of competitive bidding advertised locally under procedures acceptable to the Bank.

3. Contracts for the procurement of goods, works and services estimated to cost the equivalent of less than \$100,000 shall be awarded in accordance with established commercial practice of the Beneficiary, due account being taken also of other relevant factors such as time of delivery and efficiency and reliability thereof and availability of maintenance and spare parts.

4. Goods of a proprietary nature may be purchased from suppliers on the basis of negotiated contracts pursuant to procedures acceptable to the Bank.

Part D: Review by the Bank of Procurement Decisions

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

(a) With respect to: (i) the first contract for goods and works to be financed by each Participating Financial Institution according to each of the procedures under Part C of this Schedule; and (ii) each contract for goods to be awarded in accordance with the provisions of Section I, Parts A.1 and C.4 of this Schedule, 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, said 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 6 to this Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals 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

1. In order to assist the Borrower in the implementation of the Project, the Borrower 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 (the Consultant Guidelines). For complex, time-based assignments, the Borrower 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, the Borrower shall use other standard forms agreed with the Bank.

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

SCHEDULE 5

I. Principal Terms and Conditions of Subsidiary Loan Agreement

The principal terms and conditions set forth herein shall apply for the purposes of Section 3.01 (b) of this Agreement.

A. Terms

1. The principal amount to be relented out of the proceeds of the Loan to a Participating Financial Institution under its respective Subsidiary Loan Agreement shall be: (a) denominated in dollars or Deutsche Marks; and (b) the equivalent of the aggregate outstanding amount of the principal of all Sub-loans made out of the proceeds thereof.

2. The Subsidiary Loan shall be: (a) charged, on the principal amount thereof withdrawn and outstanding from time to time, interest, during each six-month period commencing on February 15 and August 15 of each calendar year, at a rate agreed between the Borrower and the Participating Financial

Institution and representing margin above the interest rate established in Section 2.03 of this Agreement and adjustable at the end of each Semester, and which margin will be fixed until the maturity of the loan; and (b) repaid over a period not exceeding 12 years, inclusive of a grace period not exceeding three years.

3. The floor interest rate shall represent a margin over the interest rate under this Agreement, which will include the following components: (i) costs of establishment and operation of the TU; (ii) premium to the Borrower covering the exchange rate risk; (iii) the fee charged by the Bank of Latvia in its capacity as financial agent for the Borrower for the purposes of the Project; and (iv) premiums to the credit risk fund established by the Borrower for the purposes of insurance against potential losses from the operation of the credit line for the purposes of the Project).

B. Conditions

1. A Subsidiary Loan Agreement may be entered into with a bank or other financial institution, duly established and operating under the laws of the Borrower, which:

(a) is in compliance with all legal and regulatory requirements applicable to its operations;

(b) is operating pursuant to investment and lending policies and procedures which the Bank and the Bank of Latvia shall have judged acceptable, and has undertaken to maintain said policies and procedures; and

(c) has a satisfactory financial and management structure, determined inter alia, on the basis of risk-based capital adequacy criteria satisfactory to the Bank, including acceptable asset quality and lending performance, liquidity and management effectiveness, and the organization, management, technical staff and other resources required for the efficient carrying out of its operations.

2. Each respective Subsidiary Loan Agreement shall contain provisions pursuant to which each respective Participating Financial Institution shall undertake to:

(a) carry out its activities under the Project and conduct its operations and affairs in accordance with appropriate financial standards and practices, with qualified management and staff in adequate numbers, and in conformity with the investment and lending policies and procedures referred to in paragraph I.B.1.(b) hereof, and to provide, promptly as needed, the funds, facilities, services and other resources required for the purpose;

(b) (i) make Sub-loans to Beneficiaries on the terms and conditions set forth in this Schedule; (ii) exercise its rights in relation to each such Sub-loan in such manner as to protect its interests and the interests of the Borrower and the Bank, comply with its obligations under its respective Subsidiary Loan Agreement and achieve the purposes of the Project; (iii) not assign, amend, abrogate or waive any of its agreements providing for Sub-loans, or any provision thereof, without prior approval of the Borrower and the Bank; and (iv) appraise Sub-projects and supervise, monitor and report on the carrying out by Beneficiaries of Sub-projects, in accordance with procedures satisfactory to the Bank;

(c) (i) exchange views with, and furnish all such information to the Bank and the TU, as may be reasonably requested by the Bank and/or the TU, with regard to the progress of its activities under the Project, the performance of its obligations under its respective Subsidiary Loan Agreement, and other matters relating to the purposes of the Project; and (ii) promptly inform TU of any condition which interferes or threatens to interfere with the progress of its activities under its respective Subsidiary Loan Agreement; and

(d) (i) maintain records and accounts adequate to reflect, in accordance with sound accounting practices, its operations and financial condition; (ii) have its 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; (iii) furnish to the TU as soon as available, but in any case not later than six months after the end of each such year, certified copies of said financial statements and accounts for such year, certified copies of said financial statements and accounts for such year as so audited, and the report of such audit by said auditors in such scope and detail as the Bank shall have reasonably requested; and (iv) furnish to the Bank such other information concerning said records, accounts and financial statements, as well as the audit thereof, as the Bank shall from time to time reasonably request.

3. Subsidiary loans shall be made on terms whereby the Borrower shall obtain, by written contract or other appropriate means, rights adequate to protect its interests and those of the Bank, including the rights to be exercised in a manner acceptable to the Bank:

(a) to suspend the right of the Participating Financial Institution to use the proceeds of the Subsidiary Loan upon failure by such Participating Financial Institution to perform its obligations under its contract with the Borrower;

(b) in case of suspension to exempt from such suspension the amounts already committed but not disbursed by the Participating Financial Institution under eligible sub-loans executed before the date of the suspension; and

(c) to transfer the rights under the Subsidiary Loan Agreement which was suspended or terminated to another eligible Participating Financial Institution under terms and conditions agreed between the Borrower and such Participating Financial Institution.

4. Subsidiary Loans shall be made for onlending to the final Beneficiaries for financing of eligible expenditures according to the terms and conditions specified in the Credit Line Regulations Manual of the TU for the Project, including:

(a) the following percentages which shall apply for financing of eligible expenditures under every sub-project:

- (i) 100% of foreign expenditures;
- (ii) 100% of local expenditures (ex-factory cost);
- (iii) 80% of local expenditures other than those in sub-paragraph (a) (ii); and
- (iv) 100% of consultants contracts.

(b) notwithstanding the provisions of sub-paragraph (a) above, the following percentages shall apply for financing of eligible sub-projects: 100% of the project cost for eligible sub-projects for which financing has been authorized in the first year of the Project, 85% of the cost of eligible sub-projects for which financing has been authorized in the second year of the Project, and 70% of the cost of eligible sub-projects for which financing has been authorized in the third year of the project.

II. Terms and Conditions of Sub-loans

The principal terms and conditions set forth herein shall apply for the purpose of paragraph I.B.2.(b) of this Schedule.

A. Terms

1. The principal amount of each Sub-loan made out of the proceeds of the Loan shall be denominated in dollars, Deutsche Marks or Lats determined as of the date or respective dates of withdrawal from the Loan Account or payment out of the Special Account of the value of the currency or currencies so withdrawn or paid out on account of the cost of goods financed out of such proceeds for the Sub-project.

2. Each Sub-loan shall be: (a) charged interest, on the principal amount thereof withdrawn and outstanding from time to time, at a rate determined by the Participating Financial Institution making such Sub-loan in

accordance with its investment and lending policies and practices; and (b) made for a period determined pursuant to said policies and practices and not exceeding 12 years, inclusive of a grace period of not more than three years.

B. Conditions

1. No expenditures required for a Sub-project shall be eligible for financing out of the proceeds of the Loan unless the operation being financed complies with the Credit Line Regulations Manual as established by the TU from time to time in a manner satisfactory to the Bank:

(a) the Sub-loan for such Sub-project shall have been authorized for disbursement by the Bank and such expenditures shall have been made not earlier than 120 days prior to the date on which the Bank shall have received the application and information required under paragraph II.B.2.(a) below in respect of such Sub-loan; or

(b) the Sub-loan for such Sub-project shall have been a free-limit Sub-loan (as hereinafter defined) for which the Bank shall have authorized withdrawals from the Loan Account and such expenditures shall have been made not earlier than 120 days prior to the date on which the TU shall have received the Sub-loan request from the PFI and information required under paragraph II.B.2.(b) below in respect of such free-limit Sub-loan. For the purposes hereof, a free-limit Sub-loan shall be a Sub-loan for a Sub-project, other than the first two Sub-loans to be made by each Participating Financial Institution and other than any Sub-loan greater than \$600,000 equivalent.

2. (a) When presenting a Sub-loan, other than a free-limit Sub-loan, to the Bank for approval, the Participating Financial Institution shall furnish the Technical Unit, which will forward to the Bank an application, in form satisfactory to the Bank, together with (i) a description of the Beneficiary; (ii) the appraisal of the Sub-project, including a description of the expenditures proposed to be financed out of the proceeds of the Loan; (iii) the proposed terms and conditions of the Sub-loan, including the schedule of amortization therefor; and (iv) any such other information as the Bank shall reasonably request.

(b) Each request for authorization to make withdrawals from the Loan Account in respect of a free-limit Sub-loan shall contain (i) a summary description of the Beneficiary and the Sub-project, including tentative disbursement schedule and a description of the expenditures proposed to be financed out of the proceeds of the Loan; and (ii) the terms and conditions of the Sub-loan, including the schedule of amortization therefor.

(c) Disbursement applications and requests made pursuant to the provisions of subparagraphs (a) and (b) of this paragraph shall be presented to the Bank on or before June 30, 1998, or such later date as the Bank shall establish.

3. Sub-loans shall be made to Beneficiaries who each shall have established to the satisfaction of the Participating Financial Institution, on the basis of guidelines acceptable to the Bank, that it is creditworthy, and has a satisfactory financial structure and the organization, management, staff and financial and other resources required for the efficient carrying out of its operations, including the carrying out of the Sub-project.

4. Sub-loans shall be made for Sub-projects which are each determined, on the basis of an appraisal carried out in accordance with guidelines satisfactory to the Bank, to be technically feasible and economically, financially and commercially viable and designed with appropriate health, safety and environmental standards.

5. Sub-loans shall be made on terms whereby the Participating Financial Institution making the Sub-loan shall obtain, by written contract or other appropriate means, rights adequate to protect its interest and those of the Borrower and the Bank, including the right to:

(a) require the Beneficiary to carry out the Sub-project with due diligence and efficiency and in conformity with appropriate environmental, economic, financial and technical practices, to maintain adequate records,

and to provide, promptly as needed, the funds, facilities and other resources required for the purpose;

(b) require that the goods to be financed out of the proceeds of the Loan be procured in accordance with the provisions of Schedule 4 to this Agreement, and use such goods exclusively in the carrying out of the Sub-project;

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

(d) require that the Beneficiary shall take out and maintain such insurance, against such risks and in such amounts, as shall be consistent with sound business practice, including such insurance to cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Loan to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the Beneficiary to replace or repair such goods;

(e) require each Beneficiary of the Project, as described in Schedule 2 to this Agreement, to (i) have its financial statements for each fiscal year audited, in accordance with appropriate auditing regulations applicable in the territory of the Borrower, in a manner acceptable to the Participating Financial Institution, (ii) furnish to the Participating Financial Institution, as soon as available, but in any case not later than six months after the end of each such year, certified copies of its financial statements for such year as so audited, and the report of such audit by said auditors, of such scope in such detail as the Participating Financial Institution shall have reasonably requested;

(f) obtain all such information as the Bank shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Beneficiary and to the benefits to be derived from the Sub-project; and

(g) suspend or terminate the right of the Beneficiary to the use of the proceeds of the Loan upon failure by such Beneficiary to perform its obligations under its contract with the Participating Financial Institution.

SCHEDULE 6

Special Accounts

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means all Categories 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 to be withdrawn from the Loan Account and deposited in a Special Account pursuant to paragraph 3 (a) of this Schedule, equivalent to: for the Dollar Special Account 1,000,000; and for the Deutsche Mark Special Account 850,000.

2. Payments out of the Special Accounts 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 a Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish such Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for a deposit or deposits which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the

Borrower, withdraw from the Loan Account and deposit in such Special Account such amount or amounts as the Borrower shall have requested.

- (b) (i) For replenishment of such Special Account, the Borrower shall furnish to the Bank requests for deposits into such 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 such 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 any 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 a Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or

(b) once the total unwithdrawn amount of the Loan Tranche allocated to the eligible Categories, less the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan Tranche 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 such Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and

(c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

SCHEDULE 7

Modifications of the General Conditions

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

The words "the Bank may, by notice to the Borrower or 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 cancelled" set forth at the end of Section 6.03 are deleted and the following is substituted therefor:

"or (f) by the date specified in subparagraph (c) of Section II.B.2. of Schedule 5 to the Loan Agreement, the Bank shall, in respect of any portion of the Loan: (i) have received no applications or requests permitted under subparagraphs (a) or (b) of said paragraph; or (ii) have denied any such applications or requests, the Bank may, by notice to the Borrower, terminate the right to submit such applications or approvals or to make withdrawals from the Loan Account, as the case may be, with respect to such amount or portion of the Loan. Upon the giving of such notice, such amount or portion of the Loan shall be cancelled."

SCHEDULE 8

Single Currency LIBOR Determination

1. Single Currency LIBOR for any Single Currency for any Interest Period shall be the offered rate for deposits in the Single Currency for a period of six months which appears on the display designated as page "3750" on the Telerate monitor (or such other page or service as may replace it for the purpose of displaying London interbank offered rates of major banks for Single Currency deposits), as of 11.00 a.m. (London time) on the second day on which banks and foreign exchange markets are open for business in London prior to the relevant January 15 or July 15 (the Interest Determination Date).

2. If such rate does not appear on the Telerate monitor or on such service as may replace it, the Bank shall request the London offices of four major banks to provide the Bank with the rate at which deposits in the Single Currency are offered by such banks on the Interest Determination Date to leading banks in the London interbank market for a period of six months ending on the last day of such Interest Period. Single Currency LIBOR for such Interest Period shall be the arithmetic mean (rounded upwards if necessary to the fifth decimal place) of such offered quotations as determined by the Bank.

3. If not more than one major bank provides the Bank with such quotations under paragraph 2 above, Single Currency LIBOR shall be arithmetic mean (rounded upwards if necessary to the fifth decimal place) determined by the Bank of the rates quoted by at least two major banks in New York City for U.S. Dollars and Frankfurt for Deutsche Marks, as the case may be selected by the Bank on the Interest Determination Date for loans in the Single Currency to leading European banks for a period of six months ending on the last day of such Interest Period. If fewer than two of the banks so selected are quoting such rates, Single Currency LIBOR shall be the Single Currency LIBOR in effect for the last preceding Interest Period.