

CONFORMED COPY

LOAN NUMBER 2759 GU

Loan Agreement
(Water Supply Rehabilitation Project)

between

REPUBLIC OF GUATEMALA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated August 26, 1988

LOAN NUMBER 2759 GU

LOAN AGREEMENT

AGREEMENT, dated August 26, 1988, between REPUBLIC OF GUATEMALA (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) the Project will be carried out by the Municipalidad de Guatemala ("Municipalidad"), acting through EMPAGUA (as defined hereinafter) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to the Municipalidad the proceeds of the Loan as provided in this Agreement; and

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 and in the Project Agreement of even date herewith between the Bank and the Municipalidad;

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" of the Bank, dated January 1, 1985, with the last sentence of Section 3.02 deleted (the General Conditions) constitute an integral part of this Agreement.

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

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

(b) "Subsidiary Loan Agreement" means the agreement, together with all schedules thereto, to be entered into between the Borrower and the Municipalidad pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time;

(c) "Municipal Council Agreement" means the convenio signed between the Municipalidad and the Borrower on May 21, 1971, approved by the Executive of the Borrower by means of an Acuerdo Gubernativo, dated June 1, 1971, published in El Guatemalteco of the same date;

(d) "EMPAGUA" means Empresa Municipal de Agua de Guatemala, established pursuant to the Municipal Council Agreement;

(e) "Key Performance Targets" means the annual performance targets specified in Schedule 3 to the Project Agreement, as such schedule may be amended from time to time by agreement between the Bank and the Municipalidad;

(f) "Quetzales" means the currency of the Borrower;

(g) "EEG" means Empresa Electrica de Guatemala, S.A.; and

(h) "Subsidiary Loan" means the loan to be extended by the Borrower to the Municipalidad pursuant to Section 3.01 (b) of this Agreement.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount in various currencies equivalent to twenty three million dollars (\$23,000,000).

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, as such Schedule may be amended from time to time by agreement between the Borrower and the Bank, 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 and in respect of interest and other charges on the Loan.

(b) on each of the semiannual interest payment dates specified in Section 2.06 of this Agreement, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay, on such date, interest and other charges on the Loan accrued and payable on or before the date set forth, and up to the amount allocated, in Schedule I to this Agreement, as such Schedule may be amended from time to time by agreement between the Borrower and the Bank.

Section 2.03. The Closing Date shall be December 31, 1995 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 per cent ($3/4$ of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time at a rate per annum for each Interest Period equal to one half percent per annum above the Cost of Qualified Borrowings for the last Semester ending prior to the commencement of such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Borrower of the Cost of Qualified Borrowings for such Semester.

(c) For purposes of this Section:

- (i) "Interest Period" means the six-month period commencing on each date specified in Section 2.06 of this Agreement, including the Interest Period in which this Agreement is signed.
- (ii) "Cost of Qualified Borrowings" means the cost of the outstanding borrowings of the Bank drawn down after June 30, 1982, expressed as a percentage per annum, as reasonably determined by the Bank.
- (iii) "Semester" means the first six months or the second six months of a calendar year.

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 amortization schedule set forth in Schedule 3 to this Agreement.

Section 2.08. The Municipalidad, acting through EMPAGUA, is designated as a representative of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions.

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, without any limitation or restriction upon any of its other obligations under the Loan Agreement: (i) undertakes that the Municipalidad, acting through EMPAGUA, shall perform in accordance with the provisions of the Project Agreement all the obligations of the Municipalidad therein set forth with respect of the Project; and (ii) shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable the Municipalidad, acting through EMPAGUA, to perform such obligations and shall not take or permit to be taken any action which would prevent or interfere with such performance;

(b) The Borrower shall relend the proceeds of the Loan to the Municipalidad under a subsidiary loan agreement to be entered into between the Borrower and the Municipalidad, for the purpose of having the Municipalidad carry out the Project and under terms and conditions which shall have been approved by the Bank, which terms and conditions shall provide, inter alia: (i) an amortization schedule coinciding with the amortization schedule set forth in Schedule 3 to this Loan Agreement; (ii) that the Subsidiary Loan be denominated, disbursed and repaid in Quetzales; and (iii) a mechanism whereby the Municipalidad shall be required to repay the Subsidiary Loan and to pay interest and other charges to the Borrower in amounts sufficient to enable the Borrower to repay that portion of the Loan corresponding to the Subsidiary Loan, together with interest and other charges, at the exchange rate prevailing at the time of payment.

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

waive the Subsidiary Loan Agreement or any provision thereof.

Section 3.02. Except as the Bank shall otherwise agree procurement of the goods, 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 the Project Agreement.

Section 3.03. The Bank and the Borrower hereby agree that the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) shall be carried out by the Municipalidad, acting through EMPAGUA, pursuant to Section 2.03 of the Project Agreement.

ARTICLE IV

Other Covenants

Section 4.01. The Borrower shall take all such measures as shall be required to assist EMPAGUA: (i) to achieve the Key Performance Targets, and any other financial, operational and Project performance targets contained in the action plans to be prepared pursuant to Section 2.09 of the Project Agreement; (ii) to adjust the structure of its tariffs and other charges as referred to in Section 2.08 of the Project Agreement; (iii) to take any action which may be required to be taken in order to enable EMPAGUA to satisfy the financial covenants contained in Sections 4.03 and 4.04 of the Project Agreement; and (iv) to take any other action required to discharge any obligation under the Project Agreement.

Section 4.02. The Borrower shall furnish to the Bank, not later than October 31, 1988 a payment plan, satisfactory to the Bank, to pay to EEG, all the outstanding debt owing by EMPAGUA to EEG up to June 30, 1988.

ARTICLE V

Remedies of the Bank

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

(a) The Municipalidad shall have failed to perform any of its obligations under the Project Agreement.

(b) The Municipal Council Agreement shall have been amended or modified in a manner which shall materially and adversely affect the ability of the Municipalidad to perform its obligations under the Project Agreement.

(c) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of EMPAGUA or for the suspension of its operations.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified:

(a) the event specified in paragraph (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Bank to the Borrower; and

(b) the events specified in paragraphs (b) and (c) of Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions:

(a) that the Subsidiary Loan Agreement has been executed on behalf of the Borrower and the Municipalidad; and

(b) that EMPAGUA shall have furnished to the Bank the payment plan referred to in Section 4.02 of this Agreement.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank:

(a) that the Project Agreement has been duly authorized or ratified by the Municipalidad, and is legally binding upon the Municipalidad in accordance with its terms;

(b) that the Subsidiary Loan Agreement has been duly authorized or ratified by the Borrower and the Municipalidad and is legally binding upon the Borrower and the Municipalidad in accordance with its terms;

(c) that the Municipal Council Agreement has not been modified or amended and remains in force; and

(d) that EMPAGUA is fully empowered to take the actions described in Schedule 2 to the Project Agreement, and that no prior approval, clearance or other acknowledgement from any office, department or agency of the Municipalidad is required.

Section 6.03. The date of November 29, 1988 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 Ministro de Finanzas 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:

Ministerio de Finanzas
8a Avenida, Calle 21-Zona 1
Guatemala
Guatemala

Cable address:

MINFIP
Guatemala

Telex:

9207
MINFIP GU

For the Bank:

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

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

440098 (ITT)
248423 (RCA) or
64145 (WUI)

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 GUATEMALA

By /s/ Oscar Padilla Vidaure
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Rainer Steckhan
Acting Regional Vice President
Latin America and the Caribbean

SCHEDULE I

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 Dollar Equivalent)	% of Expenditures to be Financed
(1) Consultant's services under Part A of the Project and Training under Part A (5) of the Project	2,150,000	100%
(2) Equipment, vehicles, pipes, and spare parts under Parts B and D of the Project, excluding Part B (1)	4,366,000	100% of foreign expenditures; 100% (ex-factory costs) for locally manufactured goods internationally procured; 30% of local expenditures for imported goods locally procured
(3) Computer equipment and accessories	600,000	100% of foreign expenditures
(4) Goods for Part B (1) of the Project	918,000	100% of foreign expenditures
(5) Goods for Part C of the Project	6,516,000	100% of foreign expenditures
(6) Civil works for Part B (1) of the Project	62,000	30%
(7) Civil works	14,000	30%

for Part C
of the Project

(8) Civil works for Parts B (2), B (4), B (5) and B (6) of the Project	674,000	30%
(9) Interest and other charges on the Loan until May 14, 1992	2,620,000	Amounts due
(10) Unallocated for physical contingencies	1,660,000	
(11) Unallocated for price contin- gencies	2,620,000	
TOTAL	23,000,000	

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 I above, no withdrawals shall be made in respect of:

(a) payments made for expenditures prior to the date of this Agreement, except that withdrawals may be made up to an aggregate of \$500,000 for expenditures made after June 30, 1986 and prior to the date of this Agreement;

(b) Categories (2), (3), (4), (5), (6), (7), and (8) until the Bank shall have received evidence satisfactory to the Bank that the contracts referred to in Section 2.06 of the Project Agreement have been entered into, except that withdrawals in respect of expenditures incurred prior to the date of this Agreement, pursuant to the immediately preceding clause (a), may be made before the Bank's receipt of such evidence;

(c) payments made for expenditures for vehicles until the Bank shall have received evidence satisfactory to the Bank that EMPAGUA has implemented the procedures referred to in Section 2.07 of the Project Agreement; and

(d) payments made for Part C of the Project, until the Bank shall have received, in form and substance satisfactory to the Bank, the relevant feasibility studies and designs to be prepared under Part A.3 of the Project.

SCHEDULE 2

Description of the Project

The objectives of the Project are to strengthen EMPAGUA's capabilities to provide good service without recourse to operating subsidies.

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: Consultancy Services, Studies and Training

1. Strengthening EMPAGUA's managerial and operational capabilities through the introduction of new management systems and procedures in the following areas: (a) organization and management, including organizational functions, planning and internal communications and controls; (b) plant facilities' operation and maintenance systems at pumping stations, treatment plants, deep wells and related equipment; (c) water distribution and collection facilities; (d) metering and its repair and maintenance; (e) finance and accounting, including tariff structure, control procedures and cost systems; (f) personnel management; (g) commercial practices, including meter reading, billing and collections; and (h) user relations.
2. Preparation of feasibility studies and designs, for expanding the distribution systems and transferring systems operated by other entities to EMPAGUA.
3. Assessment of water resources for the greater metropolitan area, including the groundwater potential and recharge system at the valley of Guatemala and at the Xaya-Pixcaya area, and simultaneous preparation of priority studies and designs for increasing water production.
4. Development and implementation of guidelines for periodic inventory and revaluation of assets.
5. Development and implementation of a training program for managers and staff through on-the-job training, local classroom training and overseas visits and training.

Part B: Water Supply System Operational Improvements

1. Rehabilitation of approximately 35 deep wells, including changing of pump impellers and installation of flow control valves.
2. Rehabilitation works and quality improvements at water pump stations.
3. Acquisition and utilization of approximately 35 vehicles equipped for operational, maintenance and metering activities.
4. Installation of approximately 140 kilometers of small mains and pipelines connecting new wells and replacement of approximately 10,000 house connections.
5. Acquisition and installation of approximately 40,000 domestic water meters, 30 master meters and meter spare parts.
6. Acquisition and utilization of equipment and operating tools for operating, controlling and administering water supply works, including pitometry and flow measurements, cadaster of pipe networks, cadaster of water users, leak detection and control, network rehabilitation, radio-communications, meter shop expansion, computer service expansion and improvement, and customer service.

Part C: Water Supply System Expansion

Construction of additional capacity in the Jocotenango area for incremental production of 0.6 cubic meters of water per second.

Part D: Imported Inputs

Acquisition and utilization of spare parts for vehicles, pumps and other equipment.

The Project is expected to be completed by June 30, 1995.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (Expressed in dollars)*
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On each May 15 and November 15

beginning May 15, 1992
through November 15, 2001 1,150,000

* The figures in this column represent dollar equivalents determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

Premiums on Prepayment

The following premiums are specified for the purposes of Section 3.04 (b) of the General Conditions:

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the balance outstanding on the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	.20
More than three years but not more than six years before maturity	.40
More than six years but not more than 11 years before maturity	.73
More than 11 years but not more than 13 years before maturity	.87
More than 13 years before maturity	1.00

