

CONFORMED COPY

LOAN NUMBER 4507-CO

Loan Agreement

(Cartagena Water Supply, Sewerage and Environmental Management Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

and

DISTRITO TURISTICO Y CULTURAL DE CARTAGENA DE INDIAS

Dated December 10, 1999

LOAN NUMBER 4507-CO

LOAN AGREEMENT

AGREEMENT, dated December 10, 1999, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and DISTRITO TURISTICO Y CULTURAL DE CARTAGENA DE INDIAS (the Borrower).

WHEREAS (A) the Republic of Colombia (the Guarantor) and the Borrower, having satisfied themselves as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project), have requested the Bank to assist in the financing of the Project;

(B) the Project will be carried out by Aguas de Cartagena S.A., E.S.P. (ACUACAR) with the Borrower's assistance and, as part of such assistance, the Borrower will make the proceeds of the loan provided for in Article II of this Agreement (the Loan) available to ACUACAR, as set forth in this Agreement;

(C) by an agreement of even date herewith between the Guarantor and the Bank (the Guarantee Agreement), the Guarantor has agreed to guarantee the payment obligations of the Borrower in respect of the Loan as provided in the Guarantee Agreement;

(D) by an agreement of even date herewith between the Bank and ACUACAR (the Project Agreement), ACUACAR has agreed to carry out the Project and to undertake such other obligations as set forth in the Project Agreement;

(E) as a Distrito, a political subdivision of the Guarantor and one of the Territorial Entities referred to in Article 286 of the Guarantor's Constitution, the Borrower represents hereby to the Bank that it has met all standards and taken all action required from it as a borrower by the laws of the Guarantor, including but not limited to the Guarantor's Law No. 358, of January 30, 1997;

(F) the Borrower expects the Bank to rely on the aforesaid representation to extend the Loan to the Borrower;

(G) the Borrower and ACUACAR are also carrying out a project to improve the

sanitary conditions in the Cartagena Bay drainage basin (the Cartagena Bay Project), which is being financed by a loan in the amount of twenty-four million three hundred thousand Dollars (\$24,300,000) (the IDB Loan) made by the Inter-American Development Bank (the IDB) pursuant to the Loan Agreement No. 1089/OC-CO, dated March 14, 1998, between the Borrower and the IDB; 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;

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 (as amended through December 2, 1997) (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) "Contrato de Encargo Fiduciario" means the agreement referred to in Section 3.01 (c) of this Agreement;

(b) "Decreto 352" means the Borrower's Decreto No. 352, dated April 30, 1998, which approved the Borrower's tax statute (Estatuto Tributario Distrital), including, inter alia, the levels of the property tax due in the territory of the Borrower;

(c) "Eligible Categories" means Categories (1), (2) and (3) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

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

(e) "Guarantor's Counterpart Funds" means the funds referred to in Section 6.01 (b) of this Agreement;

(f) "Law 60" means the Guarantor's Law No. 60, of August 12, 1993, which, inter alia, provides for the assignment of fiscal revenues of the Guarantor to its political subdivisions;

(g) "Management Agreement" means the agreement, published in the Borrower's Official Gazette on June 21, 1995, between the Borrower and ACUACAR, which provides for the management by ACUACAR of water and sewerage services in the Borrower's territory, including maintenance and operation of the Borrower's facilities assigned to such services;

(h) "Project Account" means the account referred to in Section 3.01 (c) of this Agreement;

(i) "Project Management Report" means any of the reports prepared in accordance with Section 4.02 of the Project Agreement;

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

(k) "Subsidiary Agreement" means the agreement referred to in Section 3.01 (b) of this Agreement.

Section 1.03. Each reference in the General Conditions to the Project implementation entity shall be deemed as a reference to ACUACAR.

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 eighty-five million Dollars (\$85,000,000).

Section 2.02. The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan, and in respect of the fee referred to in Section 2.04 of this Agreement.

Section 2.03. The Closing Date shall be June 30, 2005 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower and the Guarantor of such later date.

Section 2.04. The Borrower shall pay to the Bank a fee in an amount equal to one percent (1%) of the amount of the Loan. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of said fee.

Section 2.05. 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 2.06. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

(i) "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.

(ii) "Interest Payment Date" means any date specified in Section 2.07 of this Agreement.

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

(iv) "LIBOR Total Spread" means, for each Interest Period: (A) three-fourths of one percent ($3/4$ of 1%); (B) 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 the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

(c) The Bank shall notify the Borrower and the Guarantor of LIBOR Base Rate and LIBOR Total Spread for each Interest Period, promptly upon the determination thereof.

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.06, 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 said Section, the Bank may modify the basis for determining the interest rates applicable to the Loan upon not less than six (6) months' notice to the Borrower and the Guarantor of the new basis. The new basis shall become effective on the expiry of the notice period unless the Borrower or the Guarantor notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

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

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the 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, and, to this end, without any limitation or restriction upon any of its other obligations under this Agreement, shall cause ACUACAR to perform in accordance with the provisions of the Project Agreement all the obligations of ACUACAR therein set forth, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable ACUACAR to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) Without limitation to the provisions of paragraph (a) above, the Borrower shall enter into an agreement with ACUACAR, under terms and conditions satisfactory to the Bank (the Subsidiary Agreement), providing, inter alia, for: (i) the obligation of the Borrower to transfer, on a non-reimbursable basis, to ACUACAR, during the period of execution of the Project: (A) the proceeds of the Loan and the Guarantor's Counterpart Funds; and (B) counterpart funds for the Project, during each of the years from 2000 to 2002, in the amounts of at least \$2,030,000 equivalent in 2000, \$4,220,000 equivalent in 2001, and \$1,330,000 equivalent in 2002, such amounts to be disbursed to ACUACAR as provided in the Contrato de Encargo Fiduciario; and (ii) the obligation of ACUACAR to: (A) use the amounts referred to in (i) (A) and (B) above exclusively for purposes of the Project; (B) contribute to the financing of the cost of the Project as provided in Section 2.01 (b) of the Project Agreement; and (C) pay to the Borrower, as a contribution for the partial payment by the Borrower of the Borrower's payment obligations under this Loan Agreement, an amount equivalent to \$2,200,000 during each year in the period from January 31, 2005 through December 31, 2011, such payment to be made in monthly installments equivalent to \$183,333.30 each.

(c) Without limitation to any other provision of this Agreement, the Borrower shall enter into an agreement (Contrato de Encargo Fiduciario) with a financial institution (Fideicomisario), acceptable to the Bank, pursuant to which the Borrower shall establish a separate account (the Project Account), comprised of the Borrower's funds referred to below, to be operated by such Fideicomisario for the sole purpose of paying on behalf of the Borrower, in accordance with irrevocable instructions of the Borrower, the amounts referred to in Section 3.01 (b) (i) (B) of this Agreement and the Guarantor's Counterpart Funds. The Project Account shall be comprised of revenues of the Borrower under Law 60, property tax revenues, 10% of royalties (regalías) received by the Borrower pursuant to the Guarantor's Law No. 141, of June 28, 1994, and the Guarantor's Counterpart Funds, and shall be in the following minimum amounts: (i) \$1,720,000 equivalent in 1999; (ii) \$5,430,000 equivalent in 2000; (iii) \$8,780,000 equivalent in 2001; (iv) \$6,200,000 equivalent in 2002; (v) \$4,320,000 equivalent in 2003; and (vi) \$1,130,000 equivalent in 2004.

(d) The Borrower shall exercise its rights, and comply with its obligations under the Subsidiary Agreement in such a manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Project, and, except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate, waive or fail to enforce such agreement, or any provision thereof.

(e) In order to comply with its obligations to provide counterpart funds under paragraph (c) above, the Borrower shall increase the rate of collection of the amounts due to the Borrower on account of property tax, as estimated by the latest applicable tax reassessment carried out by the Borrower, to at least 49% in 2000, and at least 51% in 2001 and each year thereafter.

(f) Not later than January 31 of each year during the execution of the Project, the Borrower shall exchange views with the Bank, the Guarantor, through its National Planning Department, and ACUACAR on the availability, during the year in question, of the funds required to be provided by the Borrower as counterpart funds for the Project and for the service of the Borrower's debt under this Agreement.

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 ACUACAR pursuant to Section 2.03 of the Project Agreement.

Section 3.04. (a) The Borrower shall: (i) not later than December 31, 2002, complete or cause to be completed the carrying out of an industrial wastes control program in the area of Mamonal, in accordance with the terms set forth in the agreement (Convenio de Concertación para una Producción Limpia), dated September 29, 1995, among the Borrower, through its Environmental Administrative Department, the Guarantor's Ministry of Environment, Corporación Autónoma Regional del Canal del Dique, and several entities from the private sector; and (ii) furnish to the Bank, not later than March 1 of each year during the execution of such program, a report, of such scope and in such detail as the Bank shall request, on the progress in the implementation of such program.

(b) The Borrower shall, not later than December 31, 2003, complete or cause to be completed, in a manner satisfactory to the Bank, the construction of a water supply system for the communities of Punta Canoa, Manzanillo del Mar and Arroyo de Piedra, located in the north zone of the Borrower's territory.

ARTICLE IV

Financial and Other Covenants

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

- (i) maintain or cause to be maintained in accordance with sound accounting practices, records and separate accounts reflecting such expenditures;
- (ii) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made; and
- (iii) enable the Bank's representatives to examine such records.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) (i) of this Section and those for the Special Account and the Project Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish or cause to be furnished to the Bank as soon as available, but in any case not later than five months after the end of each such year the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested, including a separate opinion by said auditors as to whether the Project Management Reports submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals; and
- (iii) furnish or cause to be furnished to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

Section 4.02. The Borrower shall:

(a) duly comply with the provisions of the Guarantor's Law No. 358, of January 30, 1997; and

(b) furnish to the Bank, not later than five months after the end of each fiscal year, a report on the performance by the Borrower of its obligations under paragraph (a) of this Section, and paragraph (e) of Section 3.01 of this Agreement.

ARTICLE V

Remedies of the Bank

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

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

(b) As a result of events which have occurred after the date of the Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable that ACUACAR will be able to perform its obligations under the Project Agreement.

(c) The right of the Borrower to withdraw the proceeds of the IDB Loan shall have been suspended, canceled or terminated in whole or in part or the IDB Loan shall have become due and payable prior to the agreed maturity thereof. This provision shall not apply if the Borrower establishes to the satisfaction of the Bank that, notwithstanding the occurrence of any of the events listed in this paragraph, the Borrower and ACUACAR are carrying out the Cartagena Bay Project with due diligence and efficiency and in accordance with appropriate practices.

(d) The Management Agreement has been amended, abrogated, or suspended in a manner that, in the opinion of the Bank, may adversely affect the carrying out of the Project or the achievement of the objectives of the Project.

(e) The Certificado de Vigencias Futuras referred to in Section 6.01 (b) of this Agreement has been amended, abrogated, or suspended in a manner that, in the opinion of the Bank, may adversely affect the availability of the Guarantor's Counterpart Funds as provided in such Section 6.01 (b).

(f) The Contrato de Encargo Fiduciario has been amended, terminated, suspended, waived or failed to be enforced in a manner that may, in the opinion of the Bank, after consultation with the Guarantor, adversely affect the operation of the Project Account as required under this Agreement.

Section 5.02. Pursuant to Section 7.01 (k) of the General Conditions, the following additional event is specified, namely, that any event specified in paragraph (a), (d), (e) or (f) 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 the Guarantor.

ARTICLE VI

Effective Date; Termination

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

(a) the Subsidiary Agreement and the Contrato de Encargo Fiduciario have been executed on behalf of the respective parties thereto;

(b) the Guarantor has issued, in accordance with the provisions of the Guarantor's Decretos No. 111 and 568, of January 15 and March 21, 1996, respectively, a Certificado de Vigencias Futuras providing for budgetary contributions for the Project (the Guarantor's Counterpart Funds) to be made available to the Borrower in the period from 1999 through 2004 (not later than March 31 in each of the years from 2000 through 2004), as follows: (i) at least \$1,720,000 equivalent in 1999; (ii) \$3,400,000 equivalent in 2000; (iii) at least \$4,560,000 equivalent in 2001; (iv) at least \$4,870,000 equivalent in 2002; (v) at least \$4,320,000 equivalent in 2003; and (vi) at least \$1,130,000 equivalent in 2004; and

(c) an amount equivalent to at least \$200,000 has been deposited into the Project Account.

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

ACUACAR, and is legally binding upon ACUACAR in accordance with its terms;

(b) that the Subsidiary Agreement and the Contrato de Encargo Fiduciario have been duly authorized or ratified by the respective parties thereto and are legally binding upon their respective parties in accordance with their terms; and

(c) that the Certificado de Vigencias Futuras referred to in Section 6.01 (b) above has been validly issued by the Guarantor and constitutes a binding obligation of the Guarantor to provide the Guarantor's Counterpart Funds.

Section 6.03. The date March 10, 2000 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 Mayor 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:

Alcaldia Distrital de Cartagena de Indias
Plaza de la Aduana
Cartagena, Bolívar
Colombia

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:

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.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Andrés Solimano

Acting Regional Vice President
Latin America and the Caribbean

DISTRITO TURISTICO Y CULTURAL DE
CARTAGENA DE INDIAS

By /s/ Gina Benedetti de Vélez

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

A. General

1. The table below sets forth the Categories of items to be financed out of the

proceeds of the Loan, the allocation of the amounts of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Loan Allocated (Expressed in Dollars)	% of Expenditures to be Financed
(1) Works	42,000,000	75%
(2) Goods	28,000,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 75 % of local expenditures for other items procured locally
(3) Consultants' services and training (other than for design and supervision activities under Parts A and B of the Project and overall management of the Project)	7,100,000	100%
(4) Fee	850,000	Amount due under Section 2.04 of this Agreement
(5) Unallocated	7,050,000	
TOTAL	85,000,000	

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 Guarantor for goods or services supplied from the territory of any country other than that of the Guarantor;

(b) the term "local expenditures" means expenditures in the currency of the Guarantor or for goods or services supplied from the territory of the Guarantor; and

(c) the term "training" includes travel costs and per diems of trainees, and costs of training materials and facilities.

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 \$8,500,000, may be made on account of payments made for expenditures before that date but after a date which is twelve months before the date of this Agreement; and

(b) expenditures for civil works under Part E of the Project, unless progress, satisfactory to the Bank, has occurred in the carrying out of the program referred to in Section 3.04 (b) of this Agreement.

B. Special Account

1. The Borrower shall open and maintain in Dollars a special deposit account in a commercial bank acceptable to the Bank, on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment. Except as the Bank shall otherwise specify by notice to the Borrower, all withdrawals from the Loan Account shall be deposited by the Bank into the Special Account in accordance with the provisions of this Schedule. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence

showing that such payment was made exclusively for Eligible Expenditures.

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

(a) Each application for withdrawal from the Loan Account shall be supported by a Project Management Report.

(b) Upon receipt of each application for withdrawal of an amount of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account an amount equal to the lesser of: (i) the amount so requested; and (ii) the amount which the Bank has determined, based on the Project Management Report accompanying said application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such report; provided, however, that the amount so deposited, when added to the amount indicated by said report to be remaining in the Special Account, shall not exceed the amount of \$10,000,000. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Eligible Categories.

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

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

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

(c) if the Borrower shall have failed to furnish to the Bank within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of: (A) the records and accounts for the Special Account, or (B) the records and accounts reflecting expenditures with respect to which withdrawals were made on the basis of Project Management Reports.

4. The Bank shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Bank shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

5. (a) If the Bank determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank, provide such additional evidence as the Bank may request, or deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment.

(b) If the Bank determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

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

(d) Refunds to the Bank made pursuant to sub-paragraph (a), (b) or (c) of this paragraph 5 shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the provisions of this Agreement.

SCHEDULE 2

Description of the Project

The objectives of the Project are to: (a) improve the water and sewerage services in the territory of the Borrower and the sanitary conditions of the

Borrower's poorest population; (b) facilitate the environmental cleanup of water bodies surrounding the territory of the Borrower (Cartagena Bay, the Caribbean beaches and the Ciénaga de la Virgen lake); and (c) improve the sustainability of water and sewerage services in the Borrower's territory through a private sector participation model.

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: Water Supply System

Carrying out of the following activities for the expansion of the water supply system in the territory of the Borrower: (i) expansion and improvement of the water production system; (ii) expansion of the water service coverage; (iii) replacement of primary distribution mains; (iv) mitigation of adverse effects of water treatment sludge; (v) installation of remote control systems; and (vi) carrying out of a plan to reduce unaccounted water.

Part B: Sewerage System

Carrying out of the following activities for the expansion of the sewerage system in the Ciénaga de la Virgen basin: (i) enhancement of the conveyance capacity of the existing sewage collectors in the southwest, southeast and central parts of the Borrower's territory which currently drain into the Ciénaga de la Virgen basin; (ii) expansion of the secondary sewerage network in those parts of the Borrower's territory, and in the Boquilla area, which currently drain into such basin; (iii) construction of new pressure lines and pumping stations; and (iv) construction of new gravity collectors in residential areas.

Part C: Wastewater Conveyance System

Construction of the main wastewater conveyance system consisting of a 72" reinforced concrete cylindrical pressure pipe with a total length of about 23.85 kilometers, including upgrading of the Paraíso pumping station, construction of the pipeline from such station to the treatment plant site, and construction of the effluent pipeline from the treatment plant to the submarine outfall under Part E of the Project.

Part D: Wastewater Treatment

Construction of wastewater treatment facilities to remove floatable materials, grease, oil, sand and grit. The facilities will include the following or equivalent installations: (i) six rotary screens which will remove rags, floatable materials and large solids, with an expected volume of screenings of about 8.5 cubic meters per day; and (ii) two vortex-type grit chambers which will remove about 5.1 cubic meter per day of sand and grit.

Part E: Submarine Outfall

Construction of a submarine outfall for the safe discharge of pre-treated effluents into the Caribbean sea near Punta Canoa. The outfall will be constructed using a 72" reinforced concrete pipe, will have a length of about 2,850 meters and its discharge point will be submerged at a depth of 20 meters.

Part F: Industrial Wastewater Discharge Control

Provision of technical assistance for: (i) the carrying out of a survey to identify key sources of industrial pollution in the territory of the Borrower; (ii) the establishment of a system to regulate discharge of industrial wastes, either to the sewerage system or to receiving bodies; (iii) the establishment of a system to audit the status of industrial wastes discharge; (iv) the development of strategies for control of small and dispersed sources of industrial pollution discharging to the sewerage networks; and (v) selection and design of industrial waste pre-treatment processes.

Part G: Environmental and Social Component

Carrying out of: (a) the environmental management program, described in Chapter V of the Environmental Impact Assessment Report prepared by ACUACAR in March 1999, for the activities under Parts B through F of the Project, consisting, inter alia, of: (i) environmental supervision during construction works under such Parts of the Project;

(ii) restoration and conservation of the Cienaga de la Virgen nature reserve, including an environmental education program in communities living in such area; (iii) a monitoring program before and after construction of the submarine outfall under Part E of the Project to study the fate of pathogenic coliforms and other contaminants discharged through such outfall; and (iv) an environmental institutional strengthening program; and (b) the social management program, described in the Project Social Assessment Report dated October 1998, consisting, inter alia, of: (i) a social consultation and communication program; (ii) organization and strengthening of the communities of La Boquilla, Punta Canoa, Las Palmeras, El Pozon, and Manzanillo del Mar; (iii) construction, rehabilitation and equipping of community centers in La Boquilla, Punta Canoa, and Las Palmeras; (iv) support of in-house basic sanitation in La Boquilla and other poor neighborhoods in the Borrower's territory; and (v) strengthening of the community relations unit of ACUACAR.

Part H: Project Management

Provision of technical assistance in the design and supervision of the activities under Parts A, B, C, D and E of the Project, the auditing of procurement procedures, and the overall management of the Project.

* * *

The Project is expected to be completed by December 31, 2004.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (Expressed in Dollars)*
On each March 15 and September 15	
beginning March 15, 2005 through March 15, 2016	3,540,000
On September 15, 2016	3,580,000

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

