

CONFORMED COPY

LOAN NUMBER 7434-CO

Loan Agreement

(La Guajira Water and Sanitation Infrastructure and Service Management Project)

between

DEPARTMENT OF LA GUAJIRA

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated April 16, 2007

LOAN AGREEMENT

Agreement dated April 16, 2007, between the DEPARTMENT OF LA GUAJIRA (the “Borrower”) and the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the “Bank”). The Borrower and the Bank hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — LOAN

- 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of ninety million Dollars (\$90,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.08 of this Agreement (“Loan”), to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Commitment Charge payable by the Borrower shall be equal to three-fourths of one percent (3/4 of 1%) per annum on the Unwithdrawn Loan Balance, subject to any waiver of a portion of such charge as may be determined by the Bank from time to time.
- 2.04. The Front-end Fee payable by the Borrower shall be equal to one percent (1.0%) of the Loan amount, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time. In the event that the Borrower elects not to capitalize the Front-End Fee, the Borrower shall pay the Front-end Fee not later than 60 days after the Effective Date.
- 2.05. The interest payable by the Borrower for each Interest Period shall be at a rate equal to LIBOR for the Loan Currency plus the Fixed Spread, subject to any waiver of a portion of such interest as may be determined by the Bank from time to time; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions.

- 2.06. The Payment Dates are April 15 and October 15 in each year.
- 2.07. The principal amount of the Loan shall be repaid in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.
- 2.08. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management: (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency; (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan from a Variable Rate to a Fixed Rate, or vice versa; and (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on the Variable Rate.
- (b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a “Conversion”, as defined in the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

ARTICLE III — PROJECT

- 3.01. The Borrower declares its commitment to the objective of the Project and the Program. To this end, the Borrower shall carry out the Project through the PIU in accordance with the provisions of Article V of the General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV — EFFECTIVENESS; TERMINATION

- 4.01. The Additional Conditions of Effectiveness consist of the following:
- (a) The Fiduciary Contract has been executed and delivered and all conditions precedent to its effectiveness or to the ability of the Fiduciary Agent to receive the proceeds of the Loan or any other proceeds, including implementation of a financial management system acceptable to the Bank (other than the effectiveness of this Agreement) have been fulfilled.
- (b) The Operational Manual has been adopted by the PIU.
- 4.02. The Additional Legal Matters consist of the following.
- (a) The Fiduciary Contract (i) has been duly authorized or ratified by the Borrower and the Fiduciary Agent, and (ii) is legally binding upon the Borrower and the Fiduciary Agent in accordance with its terms.

- (b) The Operational Manual has been duly adopted by the PIU in accordance with the applicable laws and regulations of the Borrower.
- 4.03. Without prejudice to the provisions of the General Conditions, the Effectiveness Deadline is the date ninety (90) days after the date of this Agreement, but in no case later than the eighteen (18) months after the Bank's approval of the Loan which expire on September 15, 2008.

ARTICLE V — REPRESENTATIVE; ADDRESSES

5.01. The Borrower's Representative is the Governor of the Borrower.

5.02. The Borrower's Address is:

Departamento de La Guajira
Calle 1º, #06-04
Palacio de La Marina
Riohacha, La Guajira
Colombia

Facsimile:
+57-5-727-2226

5.03. The Bank's Address is:

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

Cable address:	Telex:	Facsimile:
INTBAFRAD Washington, D.C.	248423(MCI) or 64145(MCI)	1-202-477-6391

AGREED at the District of Columbia, United States of America, as of the day and year first above written.

DEPARTMENT OF LA GUAJIRA

By /s/ José Luis González Crespo
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Pamela Cox
Authorized Representative

HONORARY WITNESS

By /s/ Francisco Santos Calderón
Vice President of the Republic of Colombia

SCHEDULE 1

Project Description

The objective of the Project is to improve the quality of water supply and sanitation services in urban and peri-urban areas of the Borrower's territory by: (a) supporting utility institutional performance through the use of "specialized operators"; and (b) delivering the necessary water and sanitation infrastructure.

The Project constitutes the first phase of the Program and consists of the following parts:

Part 1. Urban Water Supply and Sanitation Infrastructure

1. Carrying out of investments (each, an "Urban Infrastructure Investment") in the water supply and sanitation infrastructure of the Participating Municipalities consisting of civil works, equipment, and services in support of one or more of the following types of infrastructure projects:
 - (a) rehabilitation, construction, and/or expansion of primary and secondary water and sewerage networks;
 - (b) construction of water treatment plants, pumping stations and main collectors;
 - (c) construction of wastewater treatment infrastructure, including, *inter alia*, treatment plants and discharge infrastructure; and
 - (d) investments for the improvement of system performance, *inter alia*, isolation valves, macro- and micro-metering, computer systems, network registries, and cadastres of users.
2. Provision of technical assistance for the carrying out of engineering designs and environmental and social assessments of any proposed Urban Infrastructure Investment.

Part 2. Rural Pilots

Carrying out of small pilot projects (each, a "Rural Pilot Project") in Selected Rural Areas to improve the access to water supply and sanitation services in those areas consisting of the following activities:

- (a) design of the proposed Rural Pilot Project, including, *inter alia*, its social formulation using participatory methodologies and preparation of an IPP, if required by the IPPF;
- (b) carrying out of civil works based on the final design of the Rural Pilot Project;
- (c) establishment of community-based institutional arrangements for sustainable management of those communities' water supply and sanitation services, including, *inter alia*, through the creation of a community micro-enterprise to manage the operation of the basic service; and

- (d) design and implementation of culturally-appropriate educational programs on hygiene and water resources management.

Part 3. Project Management and Analytical Activities

1. Provision of technical assistance, equipment, training and operating costs to the PIU for use in implementing, managing, supervising and auditing of the Project, including, *inter alia*, the benchmarking and monitoring and evaluation of the Project.
2. Provision of technical assistance, equipment, training and operating costs to the PIU in connection with certain environmental and social studies and activities related to the Project, including, *inter alia* the following:
 - (a) development of a drinking water quality and hand washing program of outreach and learning;
 - (b) activities supporting the institutional strengthening of the PIU, including the contracting of environmental and social specialists;
 - (c) carrying out of a strategic water resources management assessment of the Project and the Program;
 - (d) carrying out of a study on the reduction of vulnerability to urban floods;
 - (e) carrying out of periodic environmental audits;
 - (f) environmental and social training activities for staff of the PIU; and
 - (g) carrying out an environmental health impact assessment.
3. Provision of technical assistance to the PIU for the design and implementation of a citizen accountability mechanism for the Project.
4. Provision of technical assistance, equipment and training to the PIU for activities related to the design and preparation of the second phase of the Program, including, *inter alia*, the carrying out of groundwater studies and the preparation of a program for increasing the participation of the rural indigenous people in the Program.
5. Provision of technical assistance and training to the Borrower, where appropriate, for capacity-building and institutional strengthening in the area of water supply and sanitation.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. For purposes of carrying out the Project, the Borrower shall during the implementation of the Project:
 - (a) (i) maintain the PIU to implement, manage and coordinate the Project with terms of reference, staff and resources in accordance with the Operational Manual and acceptable to the Bank; and (ii) ensure that the PIU and its staff have the ability, in the opinion of the Bank, to perform their obligations as contemplated under the provisions of this Agreement and the Operational Manual;
 - (b) constitute and maintain an executive committee for the Project (the "Project Executive Committee") to provide overall guidance on the implementation of the Project: (i) composed of representatives of the Borrower, CORPOGUAJIRA, the Participating Municipalities, DNP (or their designated representative), and MAVDT (with MAVDT retaining the right to veto decisions of the Project Executive Committee), and an observer from the Fiduciary Agent; and (ii) with the key responsibilities and purposes described in the Operational Manual, including, *inter alia*: (A) reviewing the performance of the PIU and Fiduciary Agent; (B) approving the POI, the designation of Project funds to specific contracts, the renegotiated and new contracts with existing or new Specialized Operators; and (C) providing guidance on specific implementation problems as they arise; and
 - (c) constitute and maintain a technical committee for the Project (the "Project Technical Committee") to provide technical guidance on the implementation of the Project: (i) composed of representatives from the technical staffs of the Borrower (including, *inter alia*, the PIU), MAVDT, the Participating Municipalities, and the Specialized Operators, and an observer from the Fiduciary Agent; and (ii) with the key responsibilities and purposes described in the Operational Manual, including, *inter alia*: (A) technical review of POI; (B) technical review and approval of designs, bidding documents and evaluations prepared by Specialized Operators; and (C) the provision of guidance on specific technical problems as they arise.
2. For purposes of carrying out the Project and repaying the Loan, the Borrower shall from the date of this Agreement and continuing until the full repayment of the Loan:
 - (a) ensure that any and all amounts payable to the Borrower in respect of the Royalties are deposited in the accounts specified by the Fiduciary Agent in accordance with the Fiduciary Contract and the Operational Manual; and
 - (b) maintain the Fiduciary Contract and the financial arrangements with the Fiduciary Agent for the administration of the Royalties, the proceeds of the Loan

and other counterpart funds for the Project, all as set forth in the Operational Manual and on terms and conditions acceptable to the Bank.

3. For purposes of carrying out the Project, the Borrower shall until the completion of the Project instruct the Fiduciary Agent to allocate and make available a portion of the Royalties equal to the amount of the Borrower's counterpart funding obligations for the Project as agreed with the Bank and set forth in the Operational Manual.

B. Anti-Corruption

The Borrower shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

C. Specific Procedures for Urban Infrastructure Investments

1. Before initiating any Urban Infrastructure Investment in a given Participating Municipality and as a condition to carrying out such Urban Infrastructure Investment and for making any withdrawal under Category (1), the Borrower shall first require that such Participating Municipality (the "Preliminary Requirements"):
 - (a) if such Participating Municipality has an existing Operator Contract, commence good faith renegotiations of such Operator Contract with the Specialized Operator that is the party to such Operator Contract in order to incorporate the provisions that are necessary to carry out such Urban Infrastructure Investment, including, *inter alia*, the applicable provisions of this Agreement, the new performance targets, the new investment requirements, and the Borrower's Intervention Rights (including, *inter alia*, those rights described in paragraph 4 of Section I.C of Schedule 2 to this Agreement);
 - (b) if such Participating Municipality does not have an existing Operator Contract, commence the bidding process for selecting a Specialized Operator in accordance with the procedures set forth in the Operational Manual;
 - (c) enter into a financial support agreement (*convenio de apoyo financiero*) with the Borrower, substantially in the form incorporated in the Operational Manual and on terms and conditions acceptable to the Bank ("Financial Support Agreement"), including, *inter alia*: (i) a description of any proposed Urban Infrastructure Investments; (ii) the amount of financing to be provided for such investments by the Borrower, the Participating Municipality and the Specialized Operator; (iii) the Participating Municipality's obligation to ensure that the Specialized Operator carries out all Urban Infrastructure Investments in accordance with the applicable provisions of this Agreement, the Operational Manual, the IPPF, the recommendations of the EA, the RPF, the Procurement Guidelines, the Consultant Guidelines, and the Procurement Plan; (iv) the Participating Municipality's obligation to deposit its Law 715 Transfers in the account specified by the Fiduciary Agent; (v) a procedure for compensating the Borrower for any Urban Infrastructure Investments carried out by the Borrower in the event that such Participating Municipality fails to satisfy the Secondary Requirements; (vi) a delegation of authority by such Participating Municipality to the Borrower to provide the Fiduciary Agent with instructions as to the

disbursement of its Law 715 Transfers; (vii) compliance with the requirements of this paragraph and with the applicable provisions of this Agreement and the Operational Manual; and (viii) any additional terms and conditions required by the Guarantor or the Borrower as a condition to allowing the Participating Municipality to participate in the Project; and

- (d) if such Participating Municipality has an existing Operator Contract, enter into a side agreement (*carta de compromiso y ejecución*) with the Specialized Operator, substantially in the form incorporated in the Operational Manual and on terms and conditions acceptable to the Bank (“Side Agreement”), including, *inter alia*: (i) the procedures that the Specialized Operator must follow in carrying out the proposed Urban Infrastructure Investment; (ii) the new execution and performance improvement arrangements for the Specialized Operator; and (iii) the amount of financing for the Urban Infrastructure Investment to be provided by the Borrower and the given Participating Municipality.
2. If the Bank receives evidence that the Preliminary Requirements have been satisfied with respect to a given Participating Municipality, the Borrower may make withdrawals of the proceeds of the Loan under Category (1), subject to the terms and conditions of this Agreement, for Eligible Expenditures related to any Urban Infrastructure Investment in such Participating Municipality, provided that:
- (a) the aggregate amount of all withdrawals by the Borrower under Category (1) (including the proposed withdrawal, any withdrawals that have been made, and any pending withdrawals that are being processed) for Urban Infrastructure Investments in Participating Municipalities that have not satisfied the Secondary Requirements shall not exceed 5% of the total amount allocated to Category (1);
 - (b) such Urban Infrastructure Investment is carried out by the Borrower through the PIU in accordance with the provisions of this Agreement and the Operational Manual; and
 - (c) the Borrower and such Participating Municipality furnish opinions from counsel satisfactory to the Bank that the applicable Financial Support Agreement has been duly authorized or ratified by the parties thereto and are legally binding upon such parties in accordance with their terms.
3. If the following requirements (the “Secondary Requirements”) have been satisfied with respect to a given Participating Municipality and the Bank has received the opinions described in paragraph 2(c) of this Section I.C, the Borrower may make withdrawals of the proceeds of the Loan under Category (1), subject to the terms and conditions of this Agreement, for Eligible Expenditures related to any Urban Infrastructure Investment in such Participating Municipality without being subject to the limitations set forth in paragraphs 2(a) and 2(b) of this Section I.C:
- (a) if such Participating Municipality had an existing Operator Contract: (i) the Bank has approved the final draft of the renegotiated Operator Contract incorporating the provisions described in paragraph 1(a) of Section I.C; and (ii) the Bank has received evidence that such Participating Municipality and the Specialized

Operator that was a party to such Operator Contract have signed the renegotiated Operator Contract approved by the Bank;

- (b) if such Participating Municipality did not have an existing Operator Contract: (i) the proposed Specialized Operator meets the eligibility criteria specified in the Operational Manual; (ii) the Bank has approved the final draft of the proposed Operator Contract and Side Agreement, on terms and conditions acceptable to the Bank; and (iii) the Bank has received evidence that such Participating Municipality and Specialized Operator have signed the Operator Contract and Side Agreement approved by the Bank; and
 - (c) if requested by the Bank, such Participating Municipality and Specialized Operator have furnished opinions from counsel satisfactory to the Bank that the applicable Operator Contract and Side Agreement have been duly authorized or ratified by the parties thereto and are legally binding upon such parties in accordance with their terms.
4. The Borrower shall obtain rights under the applicable Implementation Agreements that are adequate to protect its interests and those of the Bank, including, *inter alia*, the right to:
- (a) suspend or terminate the right of any Implementing Party to receive or use the proceeds of the Loan, or obtain a refund of all or any part of the amount of the Loan then withdrawn, upon the Implementing Party's failure to perform any of its respective obligations under the Implementation Agreements to which it is a party; and
 - (b) require each Implementing Party to: (i) carry out its activities under the Project with due diligence and efficiency and in accordance with sound technical, economic, financial, managerial, environmental and social standards and practices satisfactory to the Bank, including in accordance with the provisions of the Anti-Corruption Guidelines applicable to recipients of Loan proceeds other than the Borrower; (ii) provide, promptly as needed, the resources required for the purpose; (iii) procure the goods, works and services to be financed out of the Loan in accordance with the provisions of this Agreement; (iv) maintain policies and procedures adequate to enable it to monitor and evaluate in accordance with indicators acceptable to the Bank, the progress of the Project and the achievement of its objectives; (v) (A) maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, both in a manner adequate to reflect the operations, resources and expenditures related to the Project; and (B) at the Bank's or the Borrower's request, have such financial statements audited by independent auditors acceptable to the Bank, in accordance with consistently applied auditing standards acceptable to the Bank, and promptly furnish the statements as so audited to the Borrower and the Bank; (vi) enable the Borrower and the Bank to inspect the Urban Infrastructure Investment or any Rural Pilot Project, its operation and any relevant records and documents; and (vii) prepare and furnish to the Borrower and the Bank all such information as the Borrower or the Bank shall reasonably request relating to the foregoing.

5. The Borrower shall: (a) exercise its rights under all of the Implementation Agreements in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan; and (b) ensure that no Implementing Party fails, in the opinion of the Bank, to perform any of its obligations under the Implementation Agreements to which it is a party, including, *inter alia*, those obligations described in paragraph 4(b) of Section I.C of this Schedule 2.
6. Except as the Bank shall otherwise agree, the Borrower shall not, and shall not cause or allow any Implementing Party to, assign, amend, abrogate or waive the Implementation Agreements or any of its provisions.

D. Safeguards

1. The Borrower shall carry out the Project in accordance with the provisions of:
 - (a) this Agreement, including, *inter alia*, the provisions in this Schedule 2 to this Agreement;
 - (b) the Operational Manual, the IPPF, any IPP, the EMP, the recommendations of the EA, the RPF, and the Procurement Plan;
 - (c) the Fiduciary Contract; and
 - (d) the Financial Support Agreements.
2. The Borrower shall cause each Implementing Party to carry out its respective activities under the Project in accordance with the provisions of:
 - (a) this Agreement, including, *inter alia*, the provisions in this Schedule 2 to this Agreement;
 - (b) the Anti-Corruption Guidelines;
 - (c) the Operational Manual, the IPPF, any IPP, the EMP, the recommendations of the EA, the RPF, and the Procurement Plan; and
 - (d) the Implementation Agreements to which such Implementing Party is a party.
3. The Borrower shall carry out, or cause the carrying out of the Project, in accordance with the provisions of a manual, in form and substance satisfactory to the Bank (the "Operational Manual"), that shall contain the policies and procedures for carrying out, monitoring and evaluating all parts of the Project, including, *inter alia*:
 - (a) the detailed eligibility criteria and procedures for selecting the Participating Municipalities;
 - (b) the detailed eligibility criteria and procedures for selecting a Specialized Operator in cases where a Participating Municipality does not have an existing Operator Contract;

- (c) the detailed funds flow and financial arrangements for both implementation of the Project and the repayment of the Loan, including, *inter alia*, the flow of proceeds of the Loan, the Royalties, and the Law 715 Transfers to the Fiduciary Agent;
 - (d) the steps of the process of selecting, implementing, monitoring and evaluating each of the Urban Infrastructure Investments, including, *inter alia*: (i) the PIU's review of each Specialized Operator's proposed POI, bidding documents, and procurement contracts; (ii) the PIU's review of the documentation provided by the Specialized Operators and the contractors in connection with payments to contractors; and (iii) the timing for the signing of the Implementation Agreements;
 - (e) the steps of the process for designing and implementing the Rural Pilot Projects, including, *inter alia*, the timing of the preparation of any IPP;
 - (f) the powers, functions, responsibilities, structure and key staff of the PIU, the Project Executive Committee, and Project Technical Committee;
 - (g) the model forms of all of the Implementation Agreements and the standard bidding documents and contracts to be used for procurement of goods, works and services under the Project;
 - (h) the final form of the interim unaudited financial reports and Financial Statements for the Project and the terms of reference for the audits of the Project; and
 - (i) the procurement, financial management and disbursement requirements, procedures, and documentation for all parts of the Project.
4. Except as the Bank shall otherwise agree, the Borrower shall not, and shall not cause or allow any Implementing Party to, amend, abrogate, waive or fail to enforce the Operational Manual, Fiduciary Contract, EA, EMP, IPPF, any IPP, the RPF or any provisions thereof. In case of any conflict between the terms of this Agreement and those of the Operational Manual or any Implementation Agreement, the terms of this Agreement shall prevail.
5. Before commencing any works under Part 2 of the Project, the Borrower shall cause the PIU to complete an IPP, if required under the IPPF, in accordance with the requirements and procedures in the Operational Manual and the IPPF.
6. The Borrower shall, through the PIU, require that:
- (a) all of the procurement of works under Part 1 of the Project, whether financed with proceeds of the Loan or from other sources, is carried out in accordance with the provisions of Section III of Schedule 2 of this Agreement, the Procurement Guidelines, and the Operational Manual;
 - (b) all contractors and consultants providing goods or carrying out works and services under the Project carry out their activities under the Project with due diligence and efficiency and in accordance with sound technical, economic,

financial, managerial, environmental and social standards and practices satisfactory to the Bank, including in accordance with the provisions of the EA, EMP, IPPF, any IPP, the RPF, the Anti-Corruption Guidelines applicable to recipients of Loan proceeds other than the Borrower, and the applicable provisions of the Operational Manual;

- (c) all bidding documents and contracts under the Project incorporate the environmental and social standards satisfactory to the Bank and provide the Borrower with Borrower's Intervention Rights, including, *inter alia*: (i) upon the contractors or consultant's failure to perform any of its obligations under the applicable contract, the ability to: (A) suspend or terminate the right of any contractor or consultant to receive or use the proceeds of the Loan; or (B) obtain a refund of all or any part of the amount of the Loan withdrawn as of then; (ii) the right to inspect any Urban Infrastructure Investment or Rural Pilot Project, its operation and any relevant records and documents; and (iii) the right to request all such information as the Borrower or the Bank shall reasonably request relating to the Project; and
- (d) the Specialized Operators monitor the compliance of contractors and consultants with the financial, managerial, environmental and social standards and practices satisfactory to the Bank.

Section II. Project Monitoring Reporting and Evaluation

A. Project Reports

- 1. The Borrower shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of the Indicators. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Bank not later than one month after the end of the period covered by such report.
- 2. For purposes of Section 5.08(c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Bank not later than six months after the Closing Date.

B. Financial Management, Financial Reports and Audits

- 1. The Borrower shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 5.09 of the General Conditions.
- 2. Without limitation on the provisions of Part A of this Section, the Borrower shall prepare and furnish, or shall cause to be prepared and furnished, to the Bank not later than 45 days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Bank.
- 3. The Borrower shall have the Financial Statements for the Project audited in accordance with the provisions of Section 5.09(b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Borrower. The

audited Financial Statements for each such period shall be furnished to the Bank not later than six months after the end of such period.

Section III. Procurement

A. General

1. **Goods and Works.** All goods and works required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, Annex A to this Schedule, and with the provisions of this Section.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines and with the provisions of this Section.
3. **Definitions.** The capitalized terms used below in this Section and in Annex A to this Schedule to describe particular procurement methods or methods of review by the Bank of particular contracts refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods and Works

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding.
2. **Other Methods of Procurement of Goods and Works.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods and works. Annex A to this Schedule 2 specifies the circumstances under which such methods may be used.

<u>Procurement Method</u>	
(a)	National Competitive Bidding, subject to the additional provisions set forth in Section I of Annex A to this Schedule 2.
(b)	Shopping, subject to the additional provisions set forth in Section II of Annex A to this Schedule 2.

C. Particular Methods of Procurement of Consultants' Services

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultant firms for services estimated to cost less than \$350,000 equivalent per contract may comprise entirely national consultants.

2. **Other Methods of Procurement of Consultants' Services.** The following table specifies the methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants' services. Except as otherwise indicated in the following table, the Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Method
(a) Quality-based Selection
(b) Selection under a Fixed Budget
(c) Least Cost Selection
(d) Selection based on Consultants' Qualifications for those contracts that cost less than \$200,000 equivalent per contract
(e) Single-source Selection
(f) Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants

D. Review by the Bank of Procurement Decisions

1. Except as the Bank shall otherwise determine by notice to the Borrower, the following processes and documents shall be subject to Prior Review by the Bank:
 - (a) the procurement process, including, *inter alia*, all forms and models of requests for quotations and bidding documents, for the procurement of goods or works procured on the basis of International Competitive Bidding, National Competitive Bidding, or Shopping; and
 - (b) the selection process, including, *inter alia*, all forms and models of requests for proposals and proposal documents, for consultants' services that are provided by:
 - (i) a firm and estimated to cost the equivalent of \$100,000 or more; or
 - (ii) an individual and estimated to cost the equivalent of \$50,000 or more.
2. Except as the Bank shall otherwise agree, neither the Borrower nor any Implementing Party shall revise or otherwise modify or change the documents that have been approved by the Bank in accordance with paragraph 1 of this Section III.D.
3. Except as the Bank shall otherwise determine by notice to the Borrower, the following contracts shall be subject to Prior Review by the Bank:
 - (a) all contracts for goods and works procured on the basis of International Competitive Bidding or National Competitive Bidding;
 - (b) each contract for consultants' services provided by: (i) a firm and estimated to cost the equivalent of \$100,000 or more; and (ii) an individual and estimated to cost \$50,000 or more; and
 - (c) all contracts for consultants' services awarded on the basis of Single-source Selection.

4. In addition to the contracts described in paragraph 3 of this Section III.D, the Procurement Plan shall set forth those other contracts which shall be subject to the Bank’s Prior Review. All other contracts shall be subject to Post Review by the Bank. In the case of a conflict between the provisions of the Procurement Plan and the provisions of this Agreement, the Borrower will ensure that the provisions of this Agreement will prevail.

Section IV. Withdrawal of Loan Proceeds

A. General

1. The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Bank shall specify by notice to the Borrower (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.
2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Loan (“Category”), the allocation of the amounts of the Loan to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category.

Category	Amount of the Loan Allocated (expressed in USD)	Percentage of Expenditures to be financed (inclusive of Taxes)
(1) Goods, works and consultants’ services under Part 1 of the Project	76,000,000	75%
(2) Goods, works and consultants’ services under Part 2 of the Project	7,000,000	100%
(3) Goods, consultants’ services and Operating Costs under Part 3 of the Project	7,000,000	100%
(4) Front-end Fee	0	Amount payable pursuant to Section 2.04 of this Agreement in accordance with Section 2.07 (b) of the General Conditions
TOTAL AMOUNT	90,000,000	

3. Capitalized terms used in the table in paragraph 2 above are defined in the Appendix to this Agreement.

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made from the Loan Account until the Bank has received payment in full of the Front-end Fee, if any and if the Borrower selects not to capitalize the Front-end Fee.
2. The Closing Date is October 15, 2011.

**Annex A
to
SCHEDULE 2**

**Additional Provisions Relating to
Particular Methods of Procurement**

Section I. National Competitive Bidding

Goods estimated to cost less than \$300,000 equivalent per contract and works estimated to cost less than \$5,000,000 equivalent per contract, may be procured under contracts awarded on the basis of National Competitive Bidding, subject to the following additional provisions:

- (a) Before issuing any invitation to bid, the Borrower shall use, or cause to be used, standard bidding documents, as approved by the Bank for bidding under the Project and incorporated in the Operational Manual (the "Standard Bidding Documents"). Any change or departure from the Standard Bidding Document approved by the Bank shall require its prior approval.
- (b) All bidders, irrespective of whether they are foreigners or citizens of the Guarantor's territory, will be treated equally and, particularly, no preference will be granted to any bidder or group of bidders for bid evaluation purposes. Bidders shall be allowed to submit their bids by hand or through the post office or private mailing services. There shall not be any requirement for any bidder to show evidence of the bidder's registration in any public registry, chamber of commerce or similar entity, whether in the Guarantor's territory or elsewhere, or to appoint a representative domiciled in Guarantor's territory, unless and until such bidder is awarded the corresponding contract.
- (c) Bids shall be opened in a public meeting to which bidders and their representatives shall be allowed to attend if they so wish. Date, time and place for the opening meeting shall be set forth in the bidding documents. Bid opening shall coincide with, or take place promptly after, the final date and time of the period for bid submission stipulated in the bidding documents.
- (d) Each bid shall be evaluated and the corresponding contract awarded to the responsive bidder who meets appropriate technical and financial standards of capability and whose bid has been determined to be the lowest evaluated bid. Such determination shall be made exclusively on the basis of the specifications, conditions and evaluation criteria stipulated in the bidding documents. If any factor additional to the amount or amounts of each bid is to be considered in bid evaluation, such factor or factors and the quantified manner on which they will be applied for purposes of determining the lowest evaluated bid shall be precisely stipulated in the bidding documents. For purposes of bid evaluation and comparison, the only bid amount or amounts to be used as a factor shall be the bid amount or amounts as quoted in the corresponding bid, including correction of arithmetic errors.

- (e) The provisions of paragraph 2.46 of the Guidelines shall fully apply and, more specifically, bids shall not be disclosed to persons other than the persons officially charged with the task of comparing and/or evaluating the bids while they are performing their official duties, without the corresponding bidder's written authorization. Moreover, bidders shall not be required to provide such authorization as a condition to be entitled to bid. This confidentiality requirement shall apply until the award of contract is notified to the successful bidder. Thereafter, confidentiality of the bids shall be limited to those bid portions for which confidentiality has been specifically requested by the bidder in question.

Section II. Shopping

Contracts for goods or works estimated to cost less than \$50,000 equivalent per contract may be procured under contracts awarded on the basis of Shopping subject to the following additional provisions:

- (a) The Borrower shall obtain and compare at least three quotations to establish reasonableness of price. Comparison of two quotations is justified only when there is evidence, satisfactory to the Bank, that there are only two reliable sources of supply (national or foreign as the case may be). For international shopping, the Borrower shall request quotations of suppliers from at least two different countries, including the country of the Guarantor. Quotation for foreign goods located in the Guarantor's country and offered by a firm located in the Guarantor's country, are considered as quoted from abroad for purposes of satisfying the "two different countries" rule.
- (b) The Borrower shall verify that the firms invited to quote are reputable, well established, and are suppliers of the goods or services being purchased as part of their normal business.
- (c) The Borrower shall request quotations by letter, fax, telex, electronic messaging, etc., (with proof of receipt and record keeping). Since quotation requests must be sent to reputable and well-established suppliers only, the requests should not be open to any other supplier and should not be made public. Suppliers shall submit their quotations in writing, (i.e., by fax, telex, letter, or electronic messaging with copies to be kept for the records). No bid security is required. There is no requirement for strict time and date for submission of quotations and for public opening, but normally requests for quotes indicate the expected date of submission of quotes, within one or two weeks of the initial request.

SCHEDULE 3

Amortization Schedule

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (“Installment Share”). If the proceeds of the Loan have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) Withdrawn Loan Balance as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayable amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

Principal Payment Date	Installment Share (Expressed as a Percentage)
On each April 15 and October 15 Beginning April 15, 2011 through April 15, 2022	4.17%
On October 15, 2022	4.09%

2. If the proceeds of the Loan have not been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:
 - (a) To the extent that any proceeds of the Loan have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the Withdrawn Loan Balance as of such date in accordance with paragraph 1 of this Schedule.
 - (b) Any amount withdrawn after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which is the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (“Original Installment Share”) and the denominator of which is the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such amounts repayable to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.
3. (a) Amounts of the Loan withdrawn within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

- (b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph, if at any time the Bank adopts a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.
- 4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the Withdrawn Loan Balance to an Approved Currency, the amount so converted in the Approved Currency that is repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to the Conversion by either: (i) the exchange rate that reflects the amounts of principal in the Approved Currency payable by the Bank under the Currency Hedge Transaction relating to the Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

APPENDIX

Definitions

1. “ANH” means the *Agencia Nacional de Hidrocarburos* and any successor entity of the Guarantor authorized by the Guarantor’s Ministry of Mines and Energy (*Ministerio de Minas y Energía*) pursuant to the Guarantor’s Decree No. 1760 of 2003, to calculate, collect and administer any royalties (*regalías*) or other monetary compensation related to the extraction of hydrocarbons in the Guarantor’s territory.
2. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006.
3. “Borrower’s Intervention Rights” means those rights of intervention (*derechos de intervención*) granted to the Borrower under the Implementation Agreements and any other contracts related to the Project to which the Borrower is not otherwise a party or signatory.
4. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
5. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006.
6. “CORPOGUAJIRA” means the environmental agency (*Corporación Autónoma Regional*) for the Borrower’s territory that was created pursuant to Guarantor’s Law No. 99 of 1993.
7. “DNP” means the Guarantor’s Department of National Planning (*Departamento Nacional de Planeación*).
8. “EA” means the Environmental Analysis (*Análisis Ambiental*) dated July 27, 2006, that was prepared by the Borrower and approved by the Bank on July 27, 2006, as the same may be amended, supplemented or otherwise modified from time to time with the consent of the Bank.
9. “EMP” means the Environmental Management Plan (*Plan de Manejo Ambiental*) dated July 27, 2006, that was prepared by the Borrower and approved by the Bank on July 27, 2006, as the same may be amended, supplemented or otherwise modified from time to time with the consent of the Bank.
10. “Fiduciary Agent” means a financial institution acceptable to the Bank that shall act as the fiduciary agent (*fiduciaria*) under the Fiduciary Contract, or any successor agent acceptable to the Guarantor and the Bank.
11. “Fiduciary Contract” means the fiduciary contract (*contrato de encargo fiduciario de administración y pagos*) to be entered into between the Borrower and the Fiduciary Agent for the administration of the various funds of the Project, including *inter alia*, the

- Royalties and the proceeds of the Loan, in accordance with the laws of the Guarantor and on terms and conditions acceptable to the Guarantor and the Bank.
12. “Financial Support Agreement” has the meaning given to it in Section I.C.1(c) of Schedule 2 of this Agreement.
 13. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 (as amended through October 15, 2006).
 14. “Implementation Agreement” means, any of the following: the Fiduciary Contract, Financial Support Agreements, Operator Contracts, and Side Agreements. “Implementation Agreements” means collectively, all of such agreements.
 15. “Implementing Party” means any of the following: the Fiduciary Agent, a Participating Municipality, or a Specialized Operator. “Implementing Parties” means collectively, all such persons.
 16. “Indicators” means the impact, performance and implementation indicators set forth in the Operational Manual.
 17. “INGEOMINAS” means the Guarantor’s *Instituto Colombiano de Geología y Minería* and any successor entity of the Guarantor authorized by the Guarantor’s Ministry of Mines and Energy (*Ministerio de Minas y Energía*) pursuant to the Guarantor’s Resolution No. 180074 of January 27, 2004, to calculate, collect and transfer any royalties (*regalías*) or other monetary compensation related to the extraction of coal in the Guarantor’s territory.
 18. “IPP” means any Indigenous Peoples Plan prepared by the Borrower during the implementation of the Project pursuant to the requirements of the IPPF that has been approved by the Bank, as the same may be amended, supplemented or otherwise modified from time to time with the consent of the Bank.
 19. “IPPF” means the Indigenous Peoples Planning Framework (*Marco de Planeamiento de Pueblos Indígenas*) dated January 29, 2007, that was prepared by the Borrower and approved by the Bank on January 29, 2007, as the same may be amended, supplemented or otherwise modified from time to time with the consent of the Bank.
 20. “Law 715 Transfers” means those financial resources provided by the Guarantor to each Participating Municipality for investments for water supply and sanitation pursuant to the general purposes of the Guarantor’s Law 715 of December 21, 2001, as amended.
 21. “MAVDT” means the Guarantor’s Ministry of Environment, Housing, and Regional Development (*Ministerio de Ambiente, Vivienda, y Desarrollo Territorial*).
 22. “Operating Costs” means reasonable expenditures (other than those expenditures for goods and consultants’ services) that the Bank agrees have been reasonably incurred by the PIU in connection with incremental recurrent costs associated with the implementation of the Project by the PIU, including, *inter alia*, office expenses, rent and utilities, transportation, and other reasonable costs related to the Project.

23. “Operational Manual” has the meaning given to it in paragraph 3 of Section I.D of Schedule 2 to this Agreement, as the same may be amended, supplemented or otherwise modified from time to time with the consent of the Bank.
24. “Operator Contract” means an agreement between a Participating Municipality and a Specialized Operator for the operation and maintenance of the Participating Municipality’s water supply and sanitation service infrastructure.
25. “Participating Municipality” means any municipality in the territory of the Borrower that meets the eligibility criteria described in the Operational Manual for participating in Part 1 of the Project and whose participation in Part 1 of the Project has been approved by the Bank.
26. “PIU” means the implementation committee for the Project and the Program constituted by the Borrower’s Governor pursuant to Resolution No. 081 of 2007.
27. “POI” means the capital investment plans for infrastructure works (*Plan de Obras e Inversión*) prepared on an annual and multi-annual basis by each Specialized Operator.
28. “Preliminary Requirements” has the meaning given to it in paragraph 1 of Section I.C of Schedule 2 to this Agreement.
29. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October 2006.
30. “Procurement Plan” means the Borrower’s procurement plan for the Project, dated February 2, 2007, and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
31. “Program” means the Borrower’s Program of Infrastructure and Administration of Water and Sanitation Services for the Department of La Guajira (*Programa de Infraestructura y Gestión de los Servicios de Agua y Saneamiento para el Departamento de la Guajira*, also known as the *Programa de Transformación Estructural de la Prestación de los Servicios de Agua Potable y Saneamiento Básico en el Departamento de La Guajira* and *La Revolución del Agua*) designed to improve the quality of water and optimize potable water and basic sanitation services in the territory of the Borrower and described in the letter dated February 7, 2007, from the Borrower to the Bank.
32. “Project Executive Committee” has the meaning given to it in paragraph 1(b) of Section I.A of Schedule 2 of this Agreement.
33. “Project Technical Committee” has the meaning given to it in paragraph 1(c) of Section I.A of Schedule 2 of this Agreement.
34. “RPF” means the Resettlement Policy Framework dated July 27, 2006, that was prepared by the Borrower and approved by the Bank on July 27, 2006, as the same may be amended, supplemented or otherwise modified from time to time with the consent of the Bank.

35. “Royalties” means the royalties (*regalias*) or other monetary compensation to which the Borrower is entitled as a result of the development, extraction or sale of hydrocarbons and coal located in the Borrower’s territory, including, *inter alia*, any amounts collected by INGEOMINAS and ANH on behalf of the Borrower.
36. “Rural Pilot Project” has the meaning given to it in the first paragraph of Part 2 to Schedule 1 of this Agreement.
37. “Secondary Requirements” has the meaning given to it in paragraph 3 of Section I.C of Schedule 2 to this Agreement.
38. “Selected Rural Areas” means any area in the territory of the Borrower that meets the eligibility criteria described in the Operational Manual for participating in Part 2 of the Project and whose inclusion in Part 2 of the Project has been approved by the Bank.
39. “Side Agreement” as the meaning given to it in paragraph 1(d) of Section I.C of Schedule 2 to this Agreement.
40. “Specialized Operator” means an entity that meets the eligibility criteria specified in the Operational Manual, including, *inter alia*, being a public or private, commercially independent entity that has full responsibility for managing the water supply and sanitation service infrastructure of one or more municipalities, including, *inter alia*, tariff setting, billing and collection, and the provision of services.
41. “Standard Bidding Documents” has the meaning given to it in clause (a) of Section I of Annex A to Schedule 2 to this Agreement.
42. “Urban Infrastructure Investment” has the meaning given to it in paragraph 1 of Part 1 of Schedule 1 of this Agreement.