

CONFORMED COPY

ANNEX
LOAN NUMBER 2961 CO

(Water Supply and Sewerage Sector Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

FINANCIERA DE DESARROLLO TERRITORIAL

Dated February 8, 1989
(as amended on November 8, 1991)

LOAN NUMBER 2961 CO

LOAN AGREEMENT

AGREEMENT, dated February 8, 1989, (as amended on November 8, 1991) between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and FINANCIERA DE DESARROLLO TERRITORIAL (the Borrower).

WHEREAS (A) Republic of Colombia (the Guarantor) and the Borrower, having been satisfied as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, have requested the Bank to assist in the financing of the Project, since it is consistent with, and supports the execution of, the Guarantor's Water Supply and Sewerage Sector Reform Program (SRP); and

(B) by an agreement (the Guarantee Agreement) of even date herewith between the Guarantor and the Bank, the Guarantor has agreed to guarantee the obligations of the Borrower in respect of the Loan and to undertake such other obligations as set forth in the Guarantee Agreement; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to

extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, dated January 1, 1985, with the last sentence of Section 3.02 deleted (the General Conditions) constitute an integral part of this Agreement.

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

(a) "MOPT" means Ministerio de Obras P?licas y Transporte, the Guarantor's Ministry of Public Works and Transport;

(b) "JNT" means Junta Nacional de Tarifas, the Guarantor's National Tariff Board;

(c) "FONADE" means Fondo Nacional de Proyectos de Desarrollo, the Guarantor's National Fund for Development Projects;

(d) "SRP" means the Guarantor's Water Supply and Sewerage Sector Reform Program set forth in the letter of the Guarantor dated May 15, 1988;

(e) "SIR Legislation" means the Guarantor's legislation containing the institutional reorganization of the water supply and sewerage sector, as set forth in Decree No. 77 of January 15, 1987, published in Diario Oficial on January 15, 1987; and Decree No. 1723 of September 4, 1987, published in Diario Oficial on September 7, 1987, both as amended to the date of this Agreement;

(f) "DNP" means Departamento Nacional de Planeaci?n, the Guarantor's National Planning Department;

(g) "DWSS" means Direcci?n de Agua Potable y Saneamiento Basico, MOPT's Directorate of Water Supply and Sanitation;

(h) "Tariff Law" means the Guarantor's Decree Law No.3069 of December 16, 1968, published in Diario Oficial on January 21, 1969, Decree Law No. 149 of January 27, 1976, published in Diario Oficial on February 23, 1976; and Decree No.394 of February 26, 1987, published in Diario Oficial on February 27, 1987, as amended to the date of this Agreement;

(i) "Financial Intermediary" means any duly established financial institution operating in Colombia which: (i) has been approved by the Borrower to participate in the carrying out of Part A of the Project; and (ii) has entered or proposes to enter into a Participation Agreement (as such term is hereinafter defined) with the Borrower on terms and conditions satisfactory to the Bank;

(j) "Participation Agreement" means the contractual arrangements entered or to be entered into between the Borrower and each Financial Intermediary pursuant to Section 3.01 (c) of this Agreement;

(k) "Subsidiary Loan Agreement" means the agreement satisfactory to the Bank between the Guarantor and the Borrower referred to in Section 3.01 (b) of this Agreement;

(l) "Project Entity" means a municipal, departmental or regional water supply, sewerage and sanitation company or a departmental or municipal government operating water supply and

sewerage services through financially and administratively independent agencies or units;

(m) "Eligible Project Entity" means a Project Entity which is eligible to receive financial assistance under the Project pursuant to the Operating Manual Statement;

(n) "Subproject" means a specific development project consisting of one or more of the following: rehabilitation and expansion of water supply and sewerage systems, upgrading of solid waste services, pre-investment studies and programs for institutional strengthening of Eligible Project Entities, which meet the criteria set forth in the Operating Manual Statement;

(o) "Participating Loan" means a loan made or proposed to be made out of the proceeds of the Loan by the Borrower to a Financial Intermediary under a Participation Agreement to refinance Subloans (as such term is hereinafter defined) made by such Financial Intermediary under Part A of the Project;

(p) "Subloan" means a loan made or proposed to be made by a Financial Intermediary out of the proceeds of the Loan to an Eligible Project Entity or a Sponsor Agency (as hereinafter defined) to finance the execution of a Subproject;

(q) "Sponsor Agency" means any agency or entity (other than the Borrower or a Financial Intermediary) which is providing or intends to provide financing, in the form of grants, to an Eligible Project Entity for the execution of a Subproject, with its own resources or the proceeds of a Subloan or both;

(r) "Subloan Agreement" means the agreement satisfactory to the Bank and the Borrower entered or to be entered into between a Financial Intermediary and an Eligible Project Entity or a Sponsor Agency providing for a Subloan;

(s) "Subproject Agreement" means the agreement, satisfactory to the Bank, entered or to be entered into by the Borrower with each Eligible Project Entity or each Sponsor Agency pursuant to Section 3.01 (d) of this Agreement;

(t) "Sponsors Agreement" means the agreement satisfactory to the Bank and the Borrower entered or to be entered into by each Eligible Project Entity and a Sponsor Agency;

(u) "NPBRs" means Programa Nacional de Saneamiento Basico Rural, the Guarantor's National Program for Basic Rural Sanitation;

(v) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;

(w) "Charter" means the Borrower's Estatutos approved by Decreto No. 789 of the Guarantor, dated April 17, 1990;

(x) "FONADE Agreement" means the agreement satisfactory to the Bank between the Borrower and FONADE referred to in Section 3.01 (e) of this Agreement;

(y) "Operating Manual Statement" means the Borrower's Manual, satisfactory to the Bank, providing for credit policies and conditions and operating procedures;

(z) "Ongoing Project" means any investment project in Colombia's water supply and sewerage sector being partly financed with the proceeds of a loan made by the Bank or by another external financial institution;

(aa) "Peso" means the currency unit of the Guarantor;

(bb) "Free limit Subloan" means a Subloan, as so defined, which qualifies as a free-limit Subloan pursuant to the provisions of paragraph I. 1 (b) of Schedule 5 to this Agreement;

(cc) "Type 1 Subproject" means a Subproject, as so defined, which is to be

carried out by an existing Empresa P?blica Municipal (Public Municipal Enterprise);

(dd) "Type 2 Subproject" means a Subproject, as so defined, which is to be carried out by a Regional Water Company already existing or to be established in the carrying out of such Sub-project;

(ee) "Type 3 Subproject" means a Subproject, as so defined, which is to be carried out in communities with less than 12,000 inhabitants under the NPBRs;

(ff) "DTF" means an annual interest rate equal to the average interest rate offered by private Corporaciones Financieras (as hereinafter defined), CFCs (as hereinafter defined) and commercial banks in Colombia on their 90 days Certificados de Deposito a Turmino (term certificates of deposit) calculated and published by the Guarantor, through its Central Bank (Banco de la Rep?blica) on a weekly basis;

(gg) "Corporaciones Financieras" means financial institutions duly established under the law of the Guarantor; and

(hh) "CFC" means each CompaÑõa de Financiamiento Comercial which is a financial institution providing medium and short-term credit established and operating under the laws and regulations of the Guarantor.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount in various currencies equivalent to one hundred fifty million dollars (\$150,000,000).

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower shall, for the purposes of Parts A, B and C of the Project, open and maintain in dollars a special account in Banco de la Rep?blica, on terms and conditions satisfactory to the Bank. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 1996 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 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 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time at a rate per annum for each Interest Period equal to one-half of one percent per annum above the Cost of Qualified Borrowings for the last Semester ending prior to the commencement of such Interest Period.

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

(c) For purposes of this Section:

(i) "Interest Period" means the six-month period commencing on each date specified in Section 2.06 of this Agreement, including the Interest Period in which this Agreement is signed.

(ii) "Cost of Qualified Borrowings" means the cost of the outstanding

borrowings of the Bank drawn down after June 30, 1982, expressed as a percentage per annum, as reasonably determined by the Bank.

(iii) "Semester" means the first six months or the second six months of a calendar year.

Section 2.06. Interest and other charges shall be payable semiannually on March 1 and September 1 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

ARTICLE III

Execution of the Project; Management and Operations of the Borrower

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement and, to this end, shall carry out Parts A and B of the Project and conduct its operations and affairs in accordance with sound administrative and financial standards and practices, with qualified management and personnel, and in accordance with the Charter, the SRP and the Operating Manual Statement, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for Parts A and B of the Project.

(b) The Borrower shall relend to the Guarantor, for purposes of Part C of the Project, the amounts allocated from time to time to Category (3) in the table of paragraph 1 of Schedule 1 to this Agreement, under a Subsidiary Loan Agreement to be entered into between the Borrower and the Guarantor, through MOPT, which shall have terms and conditions satisfactory to the Bank.

(c) The Borrower shall enter into contractual arrangements (the Participation Agreements) with each Financial Intermediary participating in the financing of Subprojects under Part A of the Project, on terms and conditions satisfactory to the Bank.

(d) The Borrower shall enter into a Subproject Agreement, with each Eligible Project Entity and each Sponsor Agency (except in respect of Subprojects for which no Subloan is provided to a Sponsor Agency) willing to participate in the execution of Sub-projects under Part A of the Project, on terms and conditions satisfactory to the Bank, including those set forth in paragraph II B of Schedule 5 to this Agreement.

(e) The Borrower shall enter into an agreement, satisfactory to the Bank and the Borrower, with FONADE, establishing FONADE's obligation to finance pre-investment studies to be carried out by Eligible Entities as part of or with regard to a Subproject or Sub-projects.

(f) The Borrower shall utilize the proceeds accrued to the Borrower from the repayment of principal of Participating Loans which are not required for purposes of repayment of principal of the Loan, exclusively for making loans to Financial Intermediaries for the same purposes, and under similar terms and conditions as those set forth or referred to in this Agreement and the Operating Manual Statement.

(g) The Borrower shall duly perform all of its obligations under the FONADE Agreement, the Subsidiary Loan Agreement and each Participation Agreement and Sub-project Agreement. Except as the Bank and the Borrower shall otherwise agree, the Borrower shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the FONADE Agreement, the Subsidiary Loan Agreement, a Participation Agreement or a Sub-project Agreement, or any provision thereof.

(h) The Borrower shall carry out Part B of the Project in accordance with a plan of action and a timetable, satisfactory to the Bank.

Section 3.02. (a) The Borrower shall not approve Subprojects for financing under the Loan which may, in the Bank's opinion, have a negative impact on the execution of

Ongoing Projects or on the finances of the entity carrying out such Ongoing Project.

(b) Whenever the appraisal of a Subproject indicates that tariff adjustments would be required to ensure: (i) the financial feasibility of the Subproject; or (ii) that the Eligible Project Entity which would carry out such Subproject will attain the financial condition agreed upon with the Borrower in accordance with the provisions of the Operating Manual Statement, the Borrower shall request a preliminary ruling from JNT regarding such proposed tariff adjustments prior to the approval of the respective Subloan. Such approval shall not be granted by the Borrower unless JNT's preliminary ruling accepts the tariff adjustment proposal.

Section 3.03. Without limitation to the provision of Section 3.07 of this Agreement, the Borrower shall, not later than March 31 and September 30 of each year, prepare and furnish to the Bank a report on the progress of the execution of Parts A and B of the Project during the immediately preceding semester ending three months before that date, of such scope and detail as the Bank shall reasonably request, such report to include information on amounts committed and disbursed under Subloans, number and type of Subloans under preparation and execution, progress in physical Project execution, compliance with the provisions of Subproject Agreements, repayments and arrears under Subloans and Participating Loans.

Section 3.04. The Borrower shall carry out all lending operations, including lending operations utilizing funds from third parties administered by the Borrower in any capacity such as those under fiduciary arrangements (administraci>n fiduciaria), in accordance with the terms and conditions set forth in Schedule 7 to this Agreement.

Section 3.05. (a) The Borrower undertakes that, unless the Bank shall otherwise agree, Participating Loans will be made in accordance with the procedures and on the terms and conditions set forth or referred to in the Operating Manual Statement and in Schedule 5 to this Agreement.

(b) The Borrower shall exercise its rights in relation to each Subproject in such manner as to: (i) protect the interests of the Bank and the Borrower; (ii) comply with its obligations under this Agreement; and (iii) achieve the purposes of the Project.

Section 3.06. (a) Except as the Bank shall otherwise agree, procurement of the goods, works and services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement and Section 3.02 of the Guarantee Agreement.

(b) In the procurement of goods, works and services to be financed out of the proceeds of the Loan, the Borrower shall utilize, and shall cause the Project Entities to utilize, standard bidding documents satisfactory to the Bank.

Section 3.07. (a) The Borrower shall carry out the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of Parts A and B of the Project.

(b) Without limitation to the foregoing, the Borrower shall coordinate with MOPT the preparation of the completion report referred to in paragraph (c) of Section 9.07 of the General Conditions.

Section 3.08. (a) Not later than November 15 each year, the Borrower shall exchange views with the Bank, jointly with the Guarantor, and any Eligible Project Entities selected by the Borrower and the Bank on the matter referred to, and as provided in, Section 2.07 of the Guarantee Agreement.

(b) The Borrower shall carry out any plans of action prepared by the Guarantor pursuant to the provisions of Section 2.07 of the Guarantee Agreement, in a

manner satisfactory to the Bank.

Section 3.09. The Borrower undertakes that, unless the Bank shall otherwise agree, Subloans shall be made in accordance with the procedures set forth in Schedule 5 to this Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. The Borrower shall maintain, or cause to be maintained, procedures and separate records and accounts adequate to monitor and record the progress of, and procurement made under Parts A and B of the Project and each Subproject (including its cost and the benefits to be derived from it) and to reflect in accordance with consistently maintained sound accounting practices the operations and financial condition of the Borrower.

Section 4.02. (a) The Borrower shall:

(i) have the records referred to in Section 4.01 of this Agreement, its accounts and financial statements (balance sheets, statements of income and expenses and related statements) and the records and accounts for the Special Account for each fiscal year audited in accordance with sound auditing principles consistently applied, by independent auditors acceptable to the Bank;

(ii) furnish to the Bank, as soon as available but in any case not later than four months after the end of each such year, (A) certified copies of said financial statements for such year as so audited and (B) the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(iii) furnish to the Bank such other information concerning the said records, accounts and financial statements and the audit thereof as the Bank shall from time to time reasonably request.

(b) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall:

(i) maintain, and cause to be maintained, in accordance with Section 4.01 of this Agreement, separate records and accounts reflecting such expenditures;

(ii) retain, or cause to be retained by the Eligible Project Entities until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable and cause the Eligible Project Entities to enable the Bank's representatives to examine such records; and

(iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (a) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal control involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.03. Not later than June 30 each year, the Borrower shall prepare and furnish to the Bank a report, of such scope and detail as the Bank shall reasonably request, on the audits of the financial statements of the Eligible Project Entities and of the separate records and accounts that such Entities maintain for purposes of the Project.

Section 4.04. (a) Except as the Bank shall otherwise agree, the Borrower shall earn, for each of its fiscal years after its fiscal year ending December 31, 1990, an annual return on its equity, such return to be in accordance with the minimum ratios agreed between the Bank and the Borrower.

(b) By March 30 and by September 30 of each fiscal year, the Borrower shall, on the basis of forecasts prepared by the Borrower and satisfactory to the Bank, review whether it would meet the requirements set forth in paragraph (a) in respect of such year and the following fiscal year and shall furnish to the Bank the results of such review upon its completion.

(c) If any such review shows that the Borrower would not meet the requirements set forth in paragraph (a) for the Borrower's fiscal years covered by such review, the Borrower shall promptly take all necessary measures (including, without limitation, changes in its lending or financing policies) in order to meet such requirements.

(d) For the purpose of this Section and unless the Bank and the Borrower shall agree on a different calculation method, the return on the Borrower's equity for any given fiscal year shall be calculated as the difference between: (i) the Borrower's net income before income tax for the fiscal year in question (as such net income is shown in the audited financial statements of the Borrower) divided by one half of the sum of the value of the Borrower's equity at the beginning and at the end of the same fiscal year; and (ii) the percentage variation of the Guarantor's consumer price index during the fiscal year in question, as such index is calculated by the Guarantor's Departamento Administrativo Nacional de Estadística.

(e) For the purpose of this Section, the term "equity" means the sum of the total unimpaired paid-up capital, retained earnings and reserves of the Borrower not allocated to cover specific liabilities.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (k) of the General Conditions, the following additional events are specified, provided, however, that if an event specified in any of paragraphs (b), (c) or (d) shall have occurred and be continuing, the suspension of the Borrower's right to make withdrawals from the Loan Account may be limited by the Bank to withdrawals in respect of Project expenditures related to the Financial Intermediary or Financial Intermediaries, or the Eligible Project Entity or Eligible Project Entities, as the case may be:

(a) that the Charter shall have been amended, suspended, abrogated, repealed or waived so as to affect, in the Bank's opinion, materially and adversely the operations or the financial condition of the Borrower or the Financial Intermediaries or the Borrower's ability to carry out the Project or to perform any of its obligations under this Agreement;

(b) a Financial Intermediary shall have failed to perform any of its obligations under a Participation Agreement;

(c) an Eligible Project Entity or a Sponsor Agency shall have failed to perform any of its obligations under a Subproject Agreement;

(d) a Sponsor Agency shall have failed to perform any of its obligations under a Sponsor's Agreement;

(e) the SRP or the SIR Legislation shall have been amended, suspended, abrogated, repealed or waived so as to affect, in the Bank's opinion, adversely the attainment of the objectives of the Project;

(f) FONADE shall have failed to perform any of its obligations under the FONADE Agreement;

(g) the Tariff Law shall have been repealed or amended to an extent which, in the Bank's reasonable opinion, shall adversely affect the policies set forth in the Tariff Law or the execution of the SRP; and

(h) the Guarantor, through its Central Bank (Banco de la Republica) shall have ceased to calculate or publish the DTF on a weekly basis or the DTF shall have, in the Bank's reasonable opinion, failed to reflect the average interest rate offered by private Corporaciones Financieras and CFCs and Commercial banks in Colombia on their 90-day Certificado de Deposito a Turmino, or any event shall have occurred which would make the application of interest rates based on the DTF inapplicable, unenforceable or illegal in Colombia.

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

(a) an event specified in paragraph (a) or paragraph (e) or paragraph (g) or paragraph (h) of Section 5.01 of this Agreement shall occur; and

(b) an event specified in paragraph (b) or paragraph (c) or paragraph (d) or paragraph (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.

ARTICLE VI

Representative of the Borrower; Addresses

Section 6.01. The General Manager of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the 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:

197688 (TRT)
248423 (RCA)
64145 (WUI) or
82987 (FTCC)

For the Borrower:

Financiera de Desarrollo Territorial
Calle 16 No. 5-13 Piso 6
Bogota, Colombia

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/ S. Shahid Husain

Regional Vice President
Latin America and the Caribbean

FINANCIERA DE DESARROLLO TERRITORIAL

By /s/ Jaime Garcóa Parra

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Goods, civil works, consultants' services and training under Part A of the Project	146,000,000	85% of the amounts disbursed by the Borrower under Participating Loans
(2) Goods, consultants' services and training under Part B of the Project	1,000,000	50%
(3) Goods, consultants' services and training under:		100%
(a) Part C.1 of the Project	1,500,000	
(b) Part C.2 of the Project	1,500,000	
TOTAL	150,000,000 =====	

2. 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 the equivalent of \$6,000,000, may be made in respect of Category (1) on account of payments made for expenditures before that date but after November 1, 1987; and (b) expenditures under a Subloan unless:

(i) the respective Subproject meets the eligibility criteria set forth in the Operating Manual Statement and has been approved by the Borrower and the Bank for financing under the Project as provided in Schedule 5 to this Agreement;

(ii) the Bank has received evidence satisfactory to the Bank showing that: (A) the Subproject has entered into a valid and binding Participating Agreement with the Borrower; (B) the Eligible Project Entity and the Sponsor Agencies have entered into a valid and binding Subloan Agreement, satisfactory to the Bank and the Borrower with regard to such Subproject; (C) the Eligible Project Entity and/or the Sponsor Agency or Agencies have entered into one or more valid and binding Subloan Agreements satisfactory to the Bank and the Borrower providing (together with the funds to be contributed by such Project Entity and/or Sponsor Agency or Agencies) for full financing for the execution of the Subproject; and (D) the Eligible Project Entity has entered into a valid and binding Subproject Agreement, satisfactory to the Bank, with the Borrower with regard to such Subproject;

(c) unless the Bank shall otherwise agree, expenditures under a Subproject if such expenditures relate to works, goods or services included and financed under the original project description and financing plan of an Ongoing Project; and

(d) expenditures for investments in solid waste collection and disposal services, unless the Bank has received evidence, satisfactory to the Bank, showing that: (i) the Eligible Project Entity making such expenditures already provides such solid waste collection and disposal services in addition to water supply and sewerage services; and (ii) that such investments are: (A) needed to upgrade these services in terms satisfactory to the Bank; and (B) aimed at making such services financially self-sufficient.

SCHEDULE 2

Description of the Project

The objectives of the Project are to strengthen Colombia's water supply and sewerage sector (the Sector) and increase the coverage of water and sewerage services by: (i) carrying out the 1988-1992 program for investments in the sector aimed at providing additional water services to about one million and nine hundred thousand people and sewerage services to about one million three hundred thousand people; (ii) carrying out the lending and financial policies set forth in the SRP; (iii) improving the sector's institutions at national and local levels; (iv) promoting the formulation of more cost effective and appropriate investment programs through the review and update of current design practices and norms; and (v) establishing a permanent training system for sector personnel.

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:

The financing of Subprojects consisting of rehabilitation and expansion of water supply and sewerage systems, upgrading of solid waste services, institutional strengthening programs and training.

Part B:

A program to strengthen the Borrower's operating capabilities, including staff training and the preparation and implementation of: (i) a comprehensive operating manual statement reflecting SRP policies; (ii) investment project preparation and evaluation guidelines; and (iii) improved computerized management systems for lending and supervision.

Part C:

(1) A program to strengthen DWSS including staff training, acquisition and

utilization of equipment and the carrying out of studies: (i) to review and update existing technical norms and parameters for the design, construction and maintenance of water and sewerage facilities; (ii) to prepare guidelines for the application of low-cost appropriate technologies; (iii) to update NPBR procedures and technologies for rural water supply; and (iv) to prepare an inventory of Colombia's water supply and sewerage sector.

(2) A comprehensive training program for the personnel of Colombia's water supply and sewerage sector.

* * *

The Project is expected to be completed by June 30, 1996.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each March 1 and September 1	
beginning March 1, 1994	
through September 1, 2005	6,250,000

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

Premiums on Prepayment

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

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the balance outstanding on the Loan on the day of prepayment

	multiplied by:
Not more than three years before maturity	0.18
More than three years but not more than six years before maturity	0.35
More than six years but not more than eleven years before maturity	0.65
More than eleven years but not more than fifteen years before maturity	0.88
More than fifteen years before maturity	1.00

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

Except as provided in Part C hereof, goods and works shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines).

Part B: Preference for Domestic Manufacturers

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

Part C: Other Procurement Procedures

1. Contracts for civil works estimated to cost less than the equivalent of \$2,000,000 but more than the equivalent of \$200,000 and contracts for goods estimated to cost less than the equivalent of \$300,000 but more than the equivalent of \$20,000, may be procured on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank.

2. Contracts for civil works estimated to cost the equivalent of \$300,000 or less and contracts for goods estimated to cost the equivalent of \$20,000 or less, may be procured under contracts awarded on the basis of comparison of price quotations solicited from a list of at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Bank.

Part D:

Without limitation upon the provisions of the Guidelines, in respect of procurement of goods, works and services:

1. No requirement of local agents for foreign bidders shall be made.
2. No prior registration of foreign bidders shall be required.
3. No provision regarding minimum number of bidders shall be applied.

4. Bids for goods shall be evaluated on a C.I.F. basis.
5. Freight costs quoted freely by each bidder shall be used for purposes of bid evaluation.
6. Awards shall be made to the lowest evaluated bidders.

Part E: Review by the Bank of Procurement Decisions

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

(a) With respect to the first three contracts for goods and civil works procured under the procedures referred to in Part C of this Schedule under the limits set forth in this paragraph and each contract for goods estimated to cost the equivalent of \$300,000 and each contract for civil works estimated to cost the equivalent of \$2,000,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Bank pursuant to said paragraph 2 (d) shall be furnished to the Bank prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Bank pursuant to said paragraph 3 shall be furnished to the Bank as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 6 to this Agreement.

(c) The provisions of the preceding subparagraphs (a) and (b) shall not apply to contracts on account of which the Bank has authorized withdrawals from the Loan Account on the basis of statements of expenditure. Such contracts shall be retained in accordance with Section 4.02 (b) (ii) of this Agreement.

2. The figure of 10% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

In order to assist the Borrower and the Project Entities in the carrying out of Parts A and B of the Project, the Borrower and the Project entities shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981.

SCHEDULE 5

I. Procedures for approval for
Subloans; Other provisions.

1. No expenditures for goods or services required for a Sub-project shall be eligible for financing out of the proceeds of the Loan unless:

(a) the Subloan for such Subprojects shall have been approved by the Bank and such expenditures shall have been made not earlier than ninety days prior to the date on which the Bank shall have received the application and information required under paragraph 2 (a) of this Schedule in respect of such Subloan; or

(b) the Subloan for such Subproject shall have been a free-limit Subloan for which the Bank has authorized withdrawals from the Loan Account and such expenditures shall have been made not earlier than ninety days prior to the date on which the Bank shall have received the request and information required under paragraph 2 (b) of this Schedule in respect of such free-limit Subloan. For the purposes of this Agreement, a free-limit Subloan shall be a Subloan for a Subproject which estimated total cost

shall not exceed \$6,000,000 equivalent, provided, however, that the Subloans for the first two Subprojects Type 1, Type 2 and Type 3 submitted by the Borrower to the Bank for financing under the Loan shall not be free-limit Subloans, regardless of the cost of such Subprojects.

2. (a) When presenting a Subloan (other than a free-limit Subloan) to the Bank for approval, the Borrower shall furnish to the Bank an application, in form satisfactory to the Bank, together with: (i) a description of the Eligible Project Entity or Sponsor Agency and an appraisal of the Subproject, including a description of the expenditures proposed to be financed out of the proceeds of the Loan; (ii) the proposed terms and conditions of the Subloan, including the schedule of amortization of the Subloan; and (iii) such other technical, financial, institutional and economic information as the Bank shall reasonably request to ascertain if the Subproject meets the Subproject selection criteria set forth in the Operating Manual Statement, such application shall be presented to the Bank before the Borrower's Board of Directors shall have formally approved such Subloan.

(b) Each request by the Borrower for authorization to make withdrawals from the Loan Account in respect of a free-limit Subloan shall contain: (i) a summary description of the Eligible Project Entity or Sponsor Agency and the Subproject, including a description of the expenditures proposed to be financed out of the proceeds of the Loan; (ii) the terms and conditions of the Subloan, including the schedule of amortization therefor; and (iii) such other information as the Bank shall reasonably request.

(c) Applications and requests made pursuant to the provisions of subparagraphs (a) and (b) of this paragraph shall be presented to the Bank on or before December 31, 1995.

3. Subloans shall be made on terms whereby the Borrower shall obtain, by written contract with the Eligible Project Entity or Sponsor Agency or by other appropriate legal means, rights adequate to protect the interests of the Bank and the Borrower.

4. Disbursements under Subloans shall be made to each Eligible Project Entity or Sponsor Agency to finance specific expenditures incurred during the execution of the Subproject.

5. When tariff adjustments are required pursuant to Section 3.02 (f) of this Agreement, no disbursements under a Subloan shall be authorized by the Borrower unless and until JNT has issued a resolution approving such tariff adjustments.

II. Obligations of the Sponsor Agencies under the Sponsors Agreements and Subproject Agreements and of the Eligible Project Entities under the Subproject Agreements.

A. Obligations of the Sponsor Agencies

(1) Each Sponsor Agency shall covenant and warrant that the Sub-project to be carried out under the Project in such Department or Municipality is of importance to its economic development and the social welfare of its inhabitants, and that it will fully support the implementation of the Project by cooperating with the respective Eligible Project Entity in the execution of such Subprojects by providing, promptly as needed, the funds required to enable such Entity to carry out the Subproject and for the operation and maintenance of the facilities and services included in such Subproject as provided in the Sponsors Agreement.

(2) Each Sponsor Agency shall take, or cause its agencies and instrumentalities to take, all such action as shall be required to assist the Project Entity in the performance of the obligations of such Project Entity set forth in this Schedule.

(3) The Borrower shall have the right to suspend disbursements under any or all Subloans made to a Sponsor Agency if such Agency fails to comply with any of its obligations under a Subproject Agreement.

B. Obligations of the Eligible Project Entities

(1) The Project Entities shall carry out Part A of the Project all with due diligence and efficiency and in conformity with appropriate administrative, financial, ecological and public utility practices.

(2) In order to assist in the carrying out of Subprojects under Part A of the Project, each Eligible Project Entity shall employ qualified and experienced consultants, such consultants to be selected in accordance with principles and procedures satisfactory to the Bank, as provided in Schedule 4 to this Agreement; the terms and conditions of each contract with any such consultants, which is to be financed out of the proceeds of the Loan, shall be satisfactory to the Bank and the Borrower.

(3) (a) Each Eligible Project Entity shall, with respect to the Part of the Project to be carried out by each such Entity, undertake to insure, or make adequate provision for the insurance of, the imported goods to be financed out of the proceeds of the Loan against hazards incident to the acquisition, transportation and delivery thereof to the place of use or installation, and for such insurance any indemnity shall be payable in a currency freely usable by such Entity to replace or repair such goods.

(b) Except as the Borrower shall otherwise agree, each Eligible Project Entity shall cause all goods and services financed out of the proceeds of the Loan to be used exclusively for Sub-projects being carried out by each such Entity.

(4) (a) With respect to each Subproject being carried out by each Eligible Project Entity, each such Entity shall furnish to the Borrower and, if so requested, make available to the Bank, promptly upon their preparation, the plans, specifications, reports, contracts documents and construction and procurement schedules for each such Subproject, and any material modifications thereof or additions thereto.

(b) Each Eligible Project Entity shall, with respect to each Subproject being carried out by each such Entity, maintain separate records and procedures adequate to record and monitor the progress of each such Subproject (including the cost and the benefits to be derived from each such Subproject), to identify the goods and services financed out of the proceeds of the Loan, and to disclose their use in each Subproject.

(c) Each Eligible Project Entity shall enable the authorized representatives of the Bank and the Borrower to visit the facilities and construction sites included in each Subproject and to examine the goods financed out of the proceeds of the Loan and any relevant records and documents in respect of each Subproject.

(5) Each Eligible Project Entity shall maintain a system of monitoring indicators satisfactory to the Borrower and the Bank.

(6) Each Eligible Project Entity shall furnish to the Borrower, two months after each semester, a progress report containing all such information as the Bank shall reasonably request concerning each Subproject carried out or being carried out by it, its cost and, where appropriate, the benefits and results to be derived from it, the expenditure of the proceeds of the Loan, the goods and services financed out of such proceeds, the monitoring indicators and the status of compliance with the provisions of the Subloan Agreement and Subproject Agreement.

(7) Promptly after completion of the Project, but in any event not later than three months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, each Eligible Project Entity shall prepare a report satisfactory to the Bank and the Borrower on the execution of the Sub-project carried out by each such Entity.

(8) Each Eligible Project Entity shall at all times manage its affairs, maintain its financial position, plan its future expansion and conduct its business and undertaking, all in accordance with appropriate business, financial and public utility

practices, and under the supervision of experienced and competent management assisted by adequate and competent staff and shall carry out all financial, institutional, management and other obligations set forth or referred to in the Subproject Agreement in a timely manner.

(9) Each Eligible Project Entity shall: (a) at all times take necessary steps to maintain its existence and its right to carry on operations, and to acquire and retain all rights, powers, privileges and franchises which are necessary or useful for the purpose of complying with its obligations under this Schedule or for the efficient conduct of its business and undertaking;

(b) each Eligible Project Entity shall at all times operate and maintain the plants, machinery, equipment and other property owned or operated by it and promptly make all necessary repairs and renewals thereof, all in accordance with appropriate engineering and public utility practices; and

(c) each Eligible Project Entity shall not sell, lease, transfer or otherwise dispose of any of the property or assets owned or operated by it, if such sale, lease, transfer or disposition would materially and adversely affect the efficient carrying out of the Project.

(10) Each Eligible Project Entity shall make provisions satisfactory to the Bank and the Borrower for insurance against such risks and in such amounts as shall be consistent with sound public utility practices.

(11) Each Eligible Project Entity shall maintain records and accounts adequate to reflect, in accordance with appropriate accounting practices consistently applied, its operations and financial condition, including separate records and accounts to reflect all resources and expenditures with respect to the Sub-project. Such accounts shall be audited for each fiscal year in accordance with procedures and by auditors all acceptable to the Bank and the Borrower. Each Eligible Project Entity shall furnish to the Borrower all information concerning its accounts and financial statements and the audit thereof as the Bank or the Borrower shall from time to time reasonably request.

(12) Each Eligible Project Entity shall put into effect the tariff resolutions of JNT and take all such action (including timely action with respect to the filing of appropriate applications to adjust its rates for water supply and sewerage services) as shall be necessary in each calendar year for such Entity to generate revenues from operations in amounts which shall be sufficient to enable such Entity to comply with its financial obligations under the Sub-project Agreement.

(13) Each Eligible Project Entity shall procure the goods and civil works required for Subprojects in accordance with the provisions of Schedule 4 to this Agreement.

(14) Each Eligible Project Entity shall carry out institutional development and training programs to enable such Entity to attain the institutional, administrative and operational improvements set forth in the Subloan Agreement.

(15) The Borrower and the Financial Intermediary shall have the right to suspend disbursements under any or all Subloans made to an Eligible Project Entity if such Entity fails to comply with any of its obligations under a Subproject Agreement.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means the Categories set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the

provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$15,000,000 to be withdrawn from the Loan Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Except as the Bank shall otherwise agree, payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account may be made as follows:

(a) on the basis of a request or requests by the Borrower for a deposit or deposits which add up to the aggregate amount of the Authorized Allocation, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit in the Special Account such amount or amounts as the Borrower shall have requested; and

(b) the Borrower shall furnish to the Bank requests for replenishment of the Special Account at such intervals as the Bank shall specify. On the basis of such requests, the Bank shall withdraw from the Loan Account and deposit into the Special Account such amounts as shall be required to replenish the Special Account with amounts not exceeding the amount of payments made out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by the evidence supporting the request for such deposit furnished pursuant to paragraph 4 of this Schedule.

4. For each payment made by the Borrower out of the Special Account for which the Borrower requests replenishment pursuant to paragraph 3 (b) of this Schedule, the Borrower shall furnish to the Bank, prior to or at the time of such request, such documents and other evidence as the Bank shall reasonably request, showing that such payment was made for eligible expenditures.

5. (a) Notwithstanding the provisions of paragraph 3 of this Schedule, no further deposit into the Special Account shall be made by the Bank when either of the following situations first arises:

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

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

(b) Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

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

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

SCHEDULE 7

Terms and Conditions of the Borrower's Lending Operations

(a) The Borrower shall only lend to financial institutions which meet the following requirements: (i) receive and lend or otherwise invest, on a customary basis, voluntary savings from the general public; (ii) are subject to supervision by, and in good standing with, the Borrower's Superintendency of Banks; and (iii) have been satisfactorily accepted by the Borrower in terms of their financial soundness and appropriate management control.

(b) The Borrower's rediscount rate shall not be lower than DTF plus one and one-half (1 1/2) percentage points.

(c) (i) The interest rate charged by intermediaries to beneficiaries on funds onlent by the Borrower shall be freely agreed between such intermediaries and beneficiaries; and (ii) the interest rate referred to in (c) (i) above may be subject to an interest rate ceiling provided that, unless otherwise agreed by the Bank, such ceiling shall, at all times, be set not lower than DTF plus five percentage points and that such interest rate ceiling ensures, in the opinion of the Bank, an adequate participation of intermediaries in the Borrower's lending operations.

