Loan Agreement

(Sustainable Development Investment Project)

between

REPUBLIC OF COLOMBIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Dated November 23, 2005
LOAN NUMBER 7335-CO

LOAN AGREEMENT

AGREEMENT, dated November 23, 2005, between the REPUBLIC OF COLOMBIA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Bank received from the Borrower a letter, dated April 15, 2005: (i) describing a program of actions, objectives and policies to achieve sustainable development, covering environmental sustainability, social protection (water supply and housing), and public health (the Program), which Program consists of actions that have already been taken and actions and policies that the Borrower intends to take and adopt in the near future; (ii) declaring the Borrower’s commitment to the execution of the Program; and (iii) requesting assistance from the Bank in support of the Program during the execution thereof;

WHEREAS (B) the Bank by Loan Agreement 7309-CO, dated September 13, 2005 between the Bank and the Borrower, has extended to the Borrower a loan in the amount of one hundred fifty million Dollars ($150,000,000) in support of the Program; and

WHEREAS (C) the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The “General Conditions Applicable to Loan and Guarantee Agreements for Fixed-Spread Loans” of the Bank dated September 1, 1999 (as amended through May 1, 2004), with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) Section 5.08 of the General Conditions is amended to read as follows:

“Section 5.08. Treatment of Taxes

Except as otherwise provided in the Loan Agreement, the proceeds of the Loan may be withdrawn to pay for taxes levied by, or in the territory of, the Borrower or the Guarantor on the goods or services to be financed under the Loan, or on their
importation, manufacture, procurement or supply. Financing of such taxes is subject to
the Bank’s policy of requiring economy and efficiency in the use of the proceeds of its
loans. To that end, if the Bank shall at any time determine that the amount of any taxes
levied on, or in respect of any item to be financed out of, the proceeds of the Loan is
excessive or otherwise unreasonable, the Bank may, by notice to the Borrower, adjust the
percentage for withdrawal set forth or referred to in respect of such item in the Loan
Agreement as required to be consistent with such policy of the Bank.”

(b) Section 6.03 (c) of the General Conditions is amended by replacing the
words “corrupt or fraudulent” with the words “corrupt, fraudulent, collusive or coercive”.

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) “Administrator” means the management support agent referred to in
Section 3.10 (a) of this Agreement;

(b) “Annual Operational Plan” means any of the plans referred to in Section
3.07 (a) (i) of this Agreement;

(c) “CAR” means Corporaciones Autónomas Regionales, the Borrower’s
regional autonomous corporations established pursuant to Law No. 99 of 1993 with the
objective to assist in the implementation of the Borrower’s environmental policy at the
regional level;

(d) “Decree No. 1200”, means the Borrower’s decree dated April 20, 2004,
establishing planning instruments to prepare three-year environmental action plans for the
CARs;

(e) “DNP” means Departamento Nacional de Planeación, the Borrower’s
National Planning Department;

(f) “Eligible Categories” means Categories (1) through (3) set forth in the
table in Part A.1 of Schedule 1 to this Agreement;

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

(h) “FMR” means each financial monitoring report prepared in accordance
with Section 4.02 of this Agreement;
(i) “IDEAM” means Instituto de Hidrología, Meteorología y Estudios Ambientales, the Borrower’s Institute of Hydrology, Meteorology and Environmental Studies;

(j) “Inter-Institutional Arrangements” means the arrangements referred to in Section 3.09 (a) of this Agreement;

(k) “Key Performance Indicators” means the indicators, set forth in the Operational Manual, for monitoring and evaluating progress towards the attainment of the Project objectives;

(l) “Management Support Agreement” means the agreement referred to in Section 3.10 (a) to this Agreement;

(m) “MAVDT” means Ministerio de Ambiente, Vivienda y Desarrollo Territorial, the Borrower’s Ministry of the Environment, Housing and Territorial Development;

(n) “MPS” means Ministerio de la Protección Social, the Borrower’s Ministry of Social Protection;

(o) “Operational Manual” means the manual referred to in Section 3.05 of this Agreement;

(p) “Procurement Plan” means the Borrower’s procurement plan, dated September 21, 2005 covering the initial 18-month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement, to cover succeeding 18-month periods (or longer) of Project implementation;

(q) “Project Implementing Entity” means either DNP, IDEAM or MPS; “Project Implementing Entities” means collectively the plural thereof;

(r) “Report-based Disbursements” means the Borrower’s option for withdrawal of funds from the Loan Account referred to in Part A.5 of Schedule 1 to this Agreement;

(s) “Solid Waste Decree” means Decree (Decreto) No. 838 of March 23, 2005, which established the Borrower’s guidelines for the final disposal of solid waste; and

(t) “Special Account” means the account referred to in Part B of Schedule 1 to this Agreement.
ARTICLE II

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount equal to seven million Dollars ($7,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.09 of this Agreement.

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

Section 2.03. The Closing Date shall be December 31, 2009 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a front-end fee in an amount equal to one percent (1%) of the amount of the Loan, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time. Such fee shall be payable not later than 60 days after the Effective Date.

Section 2.05. The Borrower shall pay to the Bank a commitment charge on the principal amount of the Loan not withdrawn from time to time, at a rate equal to: (i) eighty five one-hundredths of one per cent (0.85%) per annum from the date on which such charge commences to accrue in accordance with the provisions of Section 3.02 of the General Conditions to but not including the fourth anniversary of such date; and (ii) seventy five one-hundredths of one per cent (0.75%) per annum thereafter.

Section 2.06. The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, in respect of each Interest Period at the Variable Rate; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the Borrower shall, during the Conversion Period, pay interest on such amount in accordance with the relevant provisions of Article IV of the General Conditions.

Section 2.07. Interest and commitment charges shall be payable semiannually in arrears on May 15 and November 15 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the provisions of Schedule 3 to this Agreement.

Section 2.09. (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 said 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 Section 2.01(7) of 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

Execution of the Project

Section 3.01. The Borrower declares its commitment to the objective of the Project, and, to this end, shall carry out:

(a) Part A.1 of the Project through MAVDT with the assistance of IDEAM and MPS (pursuant to the Inter-Institutional Arrangements);

(b) Part A.2 of the Project through MAVDT with the assistance of MPS (pursuant to the Inter-Institutional Arrangements);

(c) Part B, Parts C.1 and C.3 and Parts D.1, D.3 and D.4 of the Project through MAVDT;

(d) Part C.2 of the Project through MAVDT with the assistance of IDEAM (pursuant to the Inter-Institutional Arrangements); and

(e) Part D.2 of the Project through MAVDT with the assistance of DNP (pursuant to the Inter-Institutional Arrangements);

all with due diligence and efficiency and in conformity with appropriate administrative, social, financial, public utility and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.
Section 3.02. (a) Except as the Bank shall otherwise agree, procurement of the goods 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, as said provisions may be further elaborated in the Procurement Plan.

(b) The Borrower, through MAVDT, shall update the Procurement Plan in accordance with guidelines acceptable to the Bank, and furnish such update to the Bank not later than 12 months after the date of the preceding Procurement Plan, for the Bank’s approval.

Section 3.03. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Bank may otherwise agree, the Borrower, through MAVDT, shall carry out the Project in accordance with: (a) the Operational Manual; (b) the Annual Operational Plans, each satisfactory to the Bank; and (c) the Key Performance Indicators. Except as the Bank shall otherwise agree, the Borrower shall not amend or waive any provision of these documents without the Bank’s prior written approval. In case of any conflict between the terms of said documents and those of this Agreement, the terms of this Agreement shall prevail.

Section 3.04. At all times during Project implementation the Borrower, through MAVDT, shall maintain an implementation system within MAVDT, responsible for overall Project planning, coordination, implementation, supervision, monitoring and evaluation, and with a structure, functions and responsibilities acceptable to the Bank, staffed with at least a financial management specialist and a procurement specialist, all with qualifications and experience acceptable to the Bank, operating under terms of reference satisfactory to the Bank.

Section 3.05. The Borrower, through MAVDT, shall issue an operational manual satisfactory to the Bank, containing, inter alia, specific provisions on detailed arrangements for the carrying out of the Project, including:

(a) the procurement, financial management and disbursement requirements thereof;

(b) a model to be used in the preparation of FMRs;

(c) the Inter-Institutional Arrangements;

(d) a model to be used in the preparation of the Annual Operational Plans;

and

(e) the Key Performance Indicators.
Section 3.06. The Borrower, through MAVDT, shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the Key Performance Indicators, the carrying out of the Project and the achievement of the objective thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about March 31 of each year of Project implementation, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date;

(c) review with the Bank, by April 30, or such later date as the Bank shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of said report and the Bank’s views on the matter; and

(d) carry out an in-depth Project review (the mid-term review), jointly with the Bank by not later than November 30, 2007, of such scope as set forth in the Operational Manual, on the progress achieved in the implementation of the Project.

Section 3.07. (a) The Borrower, through MAVDT, shall:

(i) not later than March 31 of each year of Project implementation, starting in March 31, 2006, furnish to the Bank, for its review, a Project operational plan for the following calendar year, such plan to specify: (A) the activities to be financed out of the proceeds of the Loan during the respective calendar year; (B) the implementation schedule; and (C) the required financial and human resources; and

(ii) upon the Bank’s approval, carry out the Annual Operational Plan in accordance with its terms.

(b) The Bank may refrain from approving any Annual Operational Plan if the Bank has determined that the Borrower is not carrying out the Project as provided in this Agreement and no appropriate remedial actions, satisfactory to the Bank, have been taken therefor.

Section 3.08. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower, through MAVDT, shall:
(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan for the future operation of the Project; and

(b) afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan.

Section 3.09. (a) Without limitation upon the provisions of Section 3.01 of this Agreement, the Borrower, through MAVDT, shall establish written arrangements among the Implementing Entities, on terms and conditions satisfactory to the Bank, said arrangements to include, inter alia, the obligation of each Project Implementing Entity to, with respect to its corresponding Part of the Project: (i) provide the necessary facilities, services and other resources to supplement those provided through MAVDT; (ii) assist MAVDT in the implementation of the corresponding Annual Operational Plan and in achieving Borrower compliance with the terms of this Agreement; and (iii) follow the provisions of the Operational Manual.

(b) The Inter-Institutional Arrangements shall be applied throughout Project implementation in such a manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan. Except as the Bank may otherwise agree, the Borrower shall not assign, amend, abrogate, suspend, waive, terminate or fail to enforce the Inter-Institutional Arrangements or any provision thereof.

(c) In case of any conflict among the terms of the Inter-Institutional Arrangements, the Operational Manual and those of this Agreement, the terms of this Agreement shall prevail.

Section 3.10. (a) For the purposes of providing management support to MAVDT with respect to the carrying out the Project, the Borrower, through MAVDT, shall enter into an agreement with a management support agent (the Administrator) under terms and conditions satisfactory to the Bank (the Management Support Agreement), which agreement shall include, inter alia, the Administrator’s obligation to maintain, on behalf of MAVDT, records and accounts adequate to reflect the operations, resources and expenditures of the Project, in order to enable the Borrower to comply with its obligations under Sections 4.01 and 4.02 of this Agreement.

(b) (i) The Borrower, through MAVDT, shall exercise its rights and carry out its obligations under the Management Support Agreement in such a manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan; and

(ii) except as the Bank may otherwise agree, the Borrower shall not assign, amend, abrogate, suspend, waive, terminate or fail to
enforce the Management Support Agreement or any provision thereof.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower, through MAVDT, shall cause the Administrator (pursuant to the Management Support Agreement) to establish and maintain a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower, through MAVDT, shall:

(i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Bank), audited, in accordance with consistently applied auditing standards acceptable to the Bank, by independent auditors acceptable to the Bank;

(ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year (or such other period agreed to by the Bank): (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Bank), as so audited; and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Bank; and

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

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of reports referred to in Part A.5 of Schedule 1 to this Agreement (Report-based Disbursements) or on the basis of statements of expenditure, the Borrower shall:

(i) retain, until at least one year after the Bank has received the audit report for, or covering, 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;
enable the Bank’s representatives to examine such records; and

(ii) ensure that such reports and statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Bank), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower’s progress reporting obligations set out in Section 3.06 of this Agreement, the Borrower, through MAVDT, shall cause the Administrator (pursuant to the Management Support Agreement) to prepare and furnish (through MAVDT) to the Bank a financial monitoring report, in form and substance satisfactory to the Bank, which sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Loan, and explains variances between the actual and planned uses of such funds;

(b) The first FMR shall be furnished to the Bank not later than 45 days after the end of the first semester after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar semester; thereafter, each FMR shall be furnished to the Bank not later than 45 days after each subsequent calendar semester, and shall cover such calendar semester.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (p) of the General Conditions, the following additional event is specified, namely that the Administrator shall have failed to perform any of its obligations under the Management Support Agreement.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following event is specified as additional condition to the effectiveness of this Agreement within the meaning of Section 12.01 (c) of the General Conditions, namely that the Management Support Agreement has been duly executed by the parties thereto.

Section 6.02. The date February 21, 2006 is hereby specified for the purposes of Section 12.04 of the General Conditions.
ARTICLE VIII

Representative of the Borrower; Addresses

Section 7.01. The Minister of Finance and Public Credit of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance and Public Credit
Carrera 7-A, No. 6-45, Piso 8
Bogotá, República de Colombia

Facsimile: (57-1) 350-9344

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
Telex: 248423 (MCI) or 64145 (MCI)
Facsimile: (202) 477-6391
IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

REPUBLIC OF COLOMBIA

By /s/ Jaime Ruiz

Authorized Representative

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By /s/ Pamela Cox
Regional Vice President
Latin America and the Caribbean
SCHEDULE 1

Withdrawal of the Proceeds of the Loan

A. General

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

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Loan Allocated (Expressed in Dollars)</th>
<th>% of Expenditures to be financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods</td>
<td>2,141,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Consultant’s Services and training</td>
<td>4,517,000</td>
<td>100%</td>
</tr>
<tr>
<td>(3) Operating costs</td>
<td>342,000</td>
<td>100%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>7,000,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

2. For the purposes of this Schedule the terms:

   (a) “training” means the non-consultant expenditures incurred by the Borrower in connection with the carrying out of training activities under the Project, including reasonable costs of travel and per diem of trainers and trainees, rental of training facilities and equipment and training materials, and other related miscellaneous expenses; and

   (b) “operating costs” means the reasonable incremental expenses incurred on account of Project implementation, management and monitoring, including reasonable costs of travel and per diem related to Project implementation and oversight.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding $700,000, may be made in respect of Categories (1) through (3) set forth in the table in paragraph 1 of this
Schedule on account of payments made for expenditures before that date but after April 25, 2005.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under contracts for which no prior review is contemplated in the Procurement Plan.

5. The Borrower may request withdrawals from the Loan Account to be made on the basis of reports to be submitted to the Bank in form and substance satisfactory to the Bank, such reports to include the FMR and any other information as the Bank shall specify by notice to the Borrower (Report-based Disbursements). In case the first such request submitted to the Bank occurs before any withdrawal has been made from the Loan Account, the Borrower shall submit to the Bank only a statement with the projected sources and applications of funds for the Project for the six-month period following the date of such request.

B. Special Account

1. The Borrower may open and maintain in Dollars a special deposit account in its Central Bank, on terms and conditions satisfactory to the Bank.

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

   (a) if the Borrower is not making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

   (b) if the Borrower is making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for Eligible Expenditures.

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

   (a) if the Bank, at any time, is not satisfied that the reports referred to in Part A.5 of this Schedule 1 adequately provide the information required for Report-based Disbursements;
(b) if the Bank determines at any time that all further withdrawals for payment of Eligible Expenditures should be made by the Borrower directly from the Loan Account; or

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

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

6. (a) If the Bank determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank, provide such additional evidence as the Bank may request, or deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

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

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

(d) Refunds to the Bank made pursuant to subparagraph (a), (b) or (c) of this paragraph 6 shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Loan Agreement.
Annex A
to
SCHEDULE 1

Operation of Special Account
When Withdrawals Are Not
Report-based Disbursements

1. For the purposes of this Annex, the term “Authorized Allocation” means the amount of seven hundred thousand Dollars ($700,000) to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 2 of this Annex.

2. Withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

   (a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for deposit into the Special Account of an amount or amounts which in the aggregate do not exceed the Authorized Allocation. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested.

   (b) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposit into the Special Account at such intervals as the Bank shall specify. Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to Part B.3 of Schedule 1 to this Agreement for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for Eligible Expenditures. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Eligible Categories.

3. The Bank shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Loan minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan 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.
Annex B

to

SCHEDULE 1

Operation of Special Account
When Withdrawals Are
Report-based Disbursements

1. Withdrawals from the Loan Account shall be deposited by the Bank into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Eligible Categories.

2. Upon receipt of each application for withdrawal of an amount of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Bank has determined, based on the reports referred to in Part A.5 of this Schedule 1 applicable to such withdrawal application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such reports.
SCHEDULE 2

Description of the Project

The objective of the Project is to support the Borrower in the development and implementation of policy reforms and related investments in line with the Program’s framework, particularly those polices and investments that address environmental problems affecting the quality of life and well being of the Borrower’s population.

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 objective:

Part A: Environmental Health

1. Design and implementation of an air pollution control policy, through: (a) the provision of equipment and technical assistance for air quality management and monitoring, supporting improvements in the monitoring of those pollutants that are most harmful to human health; (b) the development and implementation of a consistent protocol for air quality monitoring; (c) the collection and transfer of air quality information gathered by selected air monitoring networks, including the development of a national, unified report on air quality; (d) the carrying out of studies to characterize particulate matter and develop a protocol for emission inventories; (e) the characterization of meteorological conditions to provide a greater understanding of these conditions on pollutant dispersion and increase knowledge of the health impacts of air pollution; and (f) the carrying out of studies to support the design of mechanisms and incentives for local authorities to control air pollution in selected cities and the preparation of a national guide for air quality modeling.

2. Design and implementation of a program to prevent hygiene-related diseases among the most vulnerable segments of the population in selected areas, through: (a) the design and implementation of a hand washing campaign at the national and local levels; and (b) the monitoring and evaluation of the effectiveness of said campaign.

Part B: Sustainable Urban Development

1. Provision of support for the implementation of the Borrower’s sustainable urban development policy, through: (a) the development of guidelines on inter-sectoral coordination of public services and the carrying out of workshops to increase regional knowledge of the guidelines and promote inter-sectoral coordination; (b) the design and implementation of mechanisms that regulate and provide incentives for improved urban drainage infrastructure; (c) the strengthening of public space indicators; (d) the assessment of management instruments related to public transport systems in cities with less than 600,000 inhabitants; (e) the development of a methodology to integrate mobility plans within municipal ten-year development plans; (f) the improvement of planning for
urban redensification and renewal, through the design of a legal framework to promote more effective use of public property and the promotion of private sector involvement in redensification and renewal programs; and (g) the improvement of the planning process for areas subject to urban expansion, through the development of guidelines that establish procedures and responsibilities of the CARs and other environmental authorities in reviewing expansion plans.

2. Provision of support for the implementation of the Solid Waste Decree, through: (a) the development of associated regulations that take into consideration legal, economic and financial instruments; and (b) the provision of technical assistance to 200 municipalities, through workshops and the dissemination of materials related to support the closure of open dumps and the opening of sanitary landfills.

Part C: Integrated Water Resource Management

1. Updating the national legal framework for water resource management, through: (a) the provision of training to develop wastewater discharge standards and regulations for pollution fees; and (b) the carrying out of workshops to promote regional knowledge and consultations on a draft water law.

2. Strengthening of the water quality laboratory accreditation process, through: (a) the carrying out of an assessment of the analytical capacity of regional laboratories responsible for monitoring water quality; (b) the development and implementation of an action plan to improve laboratory accreditation; and (c) the provision of technical support to IDEAM in conducting audits and accrediting laboratories.

3. Strengthening knowledge on water resources at the regional level, through the development of a guide for modeling the availability of water resources.

Part D: Planning and Oversight of Environmental Management

1. Provision of support for the development of planning, monitoring and oversight instruments to support policy implementation and to monitor indicators established in Decree No.1200.

2. Provision of support for the improvement of planning, monitoring, and oversight of regional and local environmental management and policies, through the provision of technical support to: (a) DNP in the identification of environmental priorities; (b) MAVDT and DNP in developing an information and regulatory instruments to strengthen their capacity to design and implement policies that address environmental priorities, and to enhance coordination with key SINA actors; and (c) MAVDT to disseminate environmental data more broadly to the public.
3. Provision of support to MAVDT and DNP in the design and implementation of two strategic environmental assessments on environmental health and fuel quality, and the development of guidelines for an environmental health policy.

4. Provision of technical support to MAVDT to support Project implementation and oversight, including the carrying out of consultation and dissemination workshops and other public outreach activities.

* * *

The Project is expected to be completed by June 30, 2009.
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 shall 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) the total principal amount of the Loan withdrawn and outstanding as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayment amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

<table>
<thead>
<tr>
<th>Payment Date</th>
<th>Installment Share (Expressed as a %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each May 15 and November 15</td>
<td></td>
</tr>
<tr>
<td>On November 15, 2016</td>
<td>50%</td>
</tr>
<tr>
<td>On May 15, 2017</td>
<td>50%</td>
</tr>
</tbody>
</table>

2. If the proceeds of the Loan shall not 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 as follows:

   (a) To the extent that any proceeds of the Loan shall have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the amount withdrawn and outstanding as of such date in accordance with paragraph 1 of this Schedule.

   (b) Any withdrawal made 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 shall be the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (the Original Installment Share) and the denominator of which shall be the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such repayment amounts 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) Withdrawals made 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 3, if at any time the Bank shall adopt 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 principal amount of the Loan to an Approved Currency, the amount so converted in said Approved Currency that shall be 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 said Conversion by either: (i) the exchange rate that reflects the amounts of principal in said Approved Currency payable by the Bank under the Currency Hedge Transaction relating to said Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

5. If the principal amount of the Loan withdrawn and outstanding from time to time shall be denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.
SCHEDULE 4

Procurement

Section I. General

A. All goods and services (other than consultants’ services) shall be procured in accordance with the provisions of Section I of the “Guidelines: Procurement under IBRD Loans and IDA Credits” dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants’ services shall be procured in accordance with Sections I and IV of the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

C. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Bank of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

Section II. Particular Methods of Procurement of Goods and Services (other than Consultants’ Services)

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Borrower.

B. Other Procurement Procedures

1. National Competitive Bidding. Goods, estimated to cost less than $250,000 equivalent per contract, may be procured under contracts awarded on the basis of National Competitive Bidding and the following additional provisions:

   (a) Before issuing any invitation to bid, the Borrower shall prepare and furnish or cause to be prepared and furnished to the Bank for approval, appropriate model bidding documents. Once approved by the Bank, the Borrower shall use, or cause to be used, said model bidding documents, as approved for bidding under the Project. Any change or departure from the model approved shall require Bank’s prior approval.

   (b) All bidders, irrespective of whether they are foreigners or Colombians, 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 Colombia or elsewhere, or to appoint a representative domiciled in Colombia, 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 in 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 2.467 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.

2. **Shopping.** Goods, estimated to cost less than $50,000 equivalent per contract, may be procured under contracts awarded on the basis of Shopping.

**Section III. Particular Methods of Procurement of Consultants’ Services**

A. **Quality- and Cost-based Selection.** Except as otherwise provided in Part B of this Section, 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 consultants for services estimated to cost less than $350,000 equivalent per contract may comprise entirely national consultants.
B. **Other Procedures**

1. **Quality-based Selection.** Services for assignments which the Bank agrees meet the requirements set forth in paragraph 3.2 of the Consultant Guidelines may be procured under contracts awarded on the basis of Quality-based Selection in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. **Selection Under a Fixed Budget.** Services for assignments which the Bank agrees meet the requirements of paragraph 3.5 of the Consultant Guidelines may be procured under contracts awarded on the basis of a Fixed Budget in accordance with the provisions of paragraphs 3.1 and 3.5 of the Consultant Guidelines.

3. **Selection Based on Consultants’ Qualifications.** Services estimated to cost less than $200,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines.

4. **Single Source Selection.** Services for tasks in circumstances which meet the requirements of paragraph 3.10 of the Consultant Guidelines for Single Source Selection, including the services provided by the Administrator estimated to cost less than $60,000 and up to a maximum period of one year after the Effective Date, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.

**Section IV. Review by the Bank of Procurement Decisions**

The Procurement Plan shall set forth those contracts which shall be subject to the Bank’s Prior Review. All other contracts shall be subject to Post Review by the Bank.