

No. 5985

**INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
and
COLOMBIA**

**Guarantee Agreement—*Second Guadalupe Project* (with
annexed Loan Regulations No. 4 and Loan Agreement
between the Bank and Empresas Públicas de Medellín).
Signed at Washington, on 12 May 1961**

Official text: English.

*Registered by the International Bank for Reconstruction and Development on
1 December 1961.*

**BANQUE INTERNATIONALE POUR
LA RECONSTRUCTION ET LE DÉVELOPPEMENT
et
COLOMBIE**

**Contrat de garantie — *Deuxième projet de la Guadalupe*
(avec, en annexe, le Règlement n° 4 sur les emprunts
et le Contrat d'emprunt entre la Banque et les Empresas
Públicas de Medellín). Signé à Washington, le 12 mai
1961**

Texte officiel anglais.

*Enregistré par la Banque internationale pour la reconstruction et le développement le
1^{er} décembre 1961.*

No. 5985. GUARANTEE AGREEMENT¹ (*SECOND GUADALUPE PROJECT*) BETWEEN THE REPUBLIC OF COLOMBIA AND THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT. SIGNED AT WASHINGTON, ON 12 MAY 1961

AGREEMENT, dated May 12, 1961, between REPUBLIC OF COLOMBIA (hereinafter called the Guarantor) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called the Bank).

WHEREAS by an agreement of even date herewith between the Bank and Empresas Públicas de Medellín (hereinafter called the Borrower), which agreement and the schedules therein referred to are hereinafter called the Loan Agreement,² the Bank has agreed to make to the Borrower a loan in various currencies equivalent to twenty-two million dollars (\$22,000,000) on the terms and conditions set forth in the Loan Agreement, but only on condition that the Guarantor agree to guarantee the obligations of the Borrower in respect of such loan as hereinafter provided ; and

WHEREAS the Guarantor, in consideration of the Bank's entering into the Loan Agreement with the Borrower, has agreed so to guarantee such obligations of the Borrower ;

NOW THEREFORE the parties hereto hereby agree as follows :

Article I

Section 1.01. The parties to this Guarantee Agreement accept all the provisions of Loan Regulations No. 4 of the Bank dated February 15, 1961² (said Loan Regulations No. 4 being hereinafter called the Loan Regulations), with the same force and effect as if they were fully set forth herein.

Section 1.02. Wherever used in this Guarantee Agreement, unless the context shall otherwise require, the several terms defined in the Loan Agreement shall have the respective meanings herein set forth.

¹ Came into force on 20 September 1961, upon notification by the Bank to the Government of Colombia.

² See p. 180 of this volume.

Article II

Section 2.01. Without limitation or restriction upon any of the other covenants on its part in this Agreement contained, the Guarantor hereby unconditionally guarantees, as primary obligor and not as surety merely, the due and punctual payment of the principal of, and interest and other charges on, the Loan, the principal of and interest on the Bonds, the premium, if any, on the prepayment of the Loan or the redemption of the Bonds, and the punctual performance of all the covenants and agreements of the Borrower, all as set forth in the Loan Agreement and in the Bonds.

Section 2.02. Without limitation or restriction upon the provisions of Section 2.01 of this Agreement, the Guarantor specifically undertakes, whenever there is reasonable cause to believe that the funds available to the Borrower will be inadequate to meet the estimated expenditures required for carrying out the Project, to make arrangements, satisfactory to the Bank, promptly to provide the Borrower or cause the Borrower to be provided with such funds as are needed to meet such expenditures.

Article III

Section 3.01. It is the mutual intention of the Guarantor and the Bank that no other external debt shall enjoy any priority over the Loan by way of a lien on governmental assets. To that end, the Guarantor undertakes that, except as the Bank shall otherwise agree, if any lien shall be created on any assets of the Guarantor as security for any external debt, such lien will *ipso facto* equally and ratably secure the payment of the principal of, and interest and other charges on, the Loan and the Bonds, and that in the creation of any such lien express provision will be made to that effect ; provided, however, that the foregoing provisions of this Section shall not apply to : (i) any lien created on property, at the time of purchase thereof, solely as security for the payment of the purchase price of such property ; (ii) any lien on commercial goods to secure a debt maturing not more than one year after the date on which it is originally incurred and to be paid out of the proceeds of sale of such commercial goods ; or (iii) any lien arising in the ordinary course of banking transactions and securing a debt maturing not more than one year after its date.

As used in this Section, (a) the term "assets of the Guarantor" includes assets of the Guarantor or of any of its political subdivisions or of any Agency or of *Banco de la Republica* or any other institution acting as the central bank of the Guarantor, and (b) the term "Agency" means any agency or instrumentality of the Guarantor or of any political subdivision of the Guarantor and shall include any institution or organization which is owned or controlled directly or indirectly by the Guarantor or by any political subdivision of the Guarantor or the operations of which are conducted primarily in the interest of or for account of the Guarantor or any political subdivision of the Guarantor.

Section 3.02. (a) The Guarantor and the Bank shall cooperate fully to assure that the purposes of the Loan will be accomplished. To that end, each of them shall furnish to the other all such information as it shall reasonably request with regard to the general status of the Loan. On the part of the Guarantor, such information shall include information with respect to financial and economic conditions in the territories of the Guarantor and the international balance of payments position of the Guarantor.

(b) The Guarantor and the Bank shall from time to time exchange views through their representatives with regard to matters relating to the purposes of the Loan and the maintenance of the service thereof. The Guarantor shall promptly inform the Bank of any condition which interferes with, or threatens to interfere with, the accomplishment of the purposes of the Loan or the maintenance of the service thereof.

(c) The Guarantor shall afford all reasonable opportunity for accredited representatives of the Bank to visit any part of the territories of the Guarantor for purposes related to the Loan.

Section 3.03. The principal of, and interest and other charges on, the Loan and the Bonds shall be paid without deduction for, and free from, any taxes or fees imposed under the laws of the Guarantor or laws in effect in its territories ; provided, however, that the provisions of this Section shall not apply to taxation of, or fees upon, payments under any Bond to a holder thereof other than the Bank when such Bond is beneficially owned by an individual or corporate resident of the Guarantor.

Section 3.04. This Agreement, the Loan Agreement and the Bonds shall be free from any taxes or fees that shall be imposed under the laws of the Guarantor or laws in effect in its territories on or in connection with the execution, issue, delivery or registration thereof.

Section 3.05. The principal of, and interest and other charges on, the Loan and the Bonds shall be paid free from all restrictions imposed under the laws of the Guarantor or laws in effect in its territories.

Section 3.06. The Guarantor covenants that it will not take or permit any of its political subdivisions or any of its agencies or any agency of any political subdivision to take any action which would prevent or interfere with the performance by the Borrower of any of the covenants, agreements and obligations of the Borrower in the Loan Agreement contained, and will take or cause to be taken all reasonable action which shall be necessary in order to enable the Borrower to perform such covenants, agreements and obligations.

Section 3.07. The Guarantor covenants that it will from time to time grant or cause to be granted to the Borrower rates which will provide revenues sufficient : (a) to cover operating expenses, including taxes, if any, and contributions to the Municipality of Medellin, adequate maintenance and depreciation, and interest ;

(b) to meet repayments on long-term indebtedness but only to the extent that such repayments shall exceed provision for depreciation ; and (c) to leave a reasonable surplus to finance new investment.

Article IV

Section 4.01. The Guarantor shall endorse, in accordance with the provisions of the Loan Regulations, its guarantee on the Bonds to be executed and delivered by the Borrower. The Minister of Finance and Public Credit of the Guarantor and such person or persons as he shall designate in writing are designated as the authorized representatives of the Guarantor for the purposes of Section 6.12 (b) of the Loan Regulations.

Article V

Section 5.01. The following addresses are specified for the purposes of Section 8.01 of the Loan Regulations :

For the Guarantor :

Republic of Colombia
Ministerio de Hacienda y Credito Publico
Palacio de los Ministerios, Plaza San Agustin
Bogotá, Colombia

Alternative address for cablegrams and radiograms :

Minhacienda
Bogotá, Colombia

For the Bank :

International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington 25, D.C.
United States of America

Alternative address for cablegrams and radiograms :

Intbafrad
Washington, D. C.

Section 5.02. The Minister of Finance and Public Credit of the Guarantor is designated for the purposes of Section 8.03 of the Loan Regulations.

IN WITNESS WHEREOF, the parties hereto, acting through their representatives thereunto duly authorized, have caused this Guarantee Agreement to be signed in their respective names and delivered in the District of Columbia, United States of America, as of the day and year first above written.

Republic of Colombia :

By C. S. DE SANTAMARIA
Authorized Representative

International Bank for Reconstruction and Development :

By W. A. B. ILIFF
Vice President

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

LOAN REGULATIONS No. 4, DATED 15 FEBRUARY 1961

REGULATIONS APPLICABLE TO LOANS MADE BY THE BANK TO BORROWERS OTHER THAN
MEMBER GOVERNMENTS

[*Not published herein. See United Nations, Treaty Series, Vol. 400, p. 212*]

LOAN AGREEMENT

(*SECOND GUADALUPE PROJECT*)

AGREEMENT, dated May 12, 1961 between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called the Bank) and EMPRESAS PÚBLICAS DE MEDELLIN (hereinafter called the Borrower).

Article I

LOAN REGULATIONS ; SPECIAL DEFINITIONS

Section 1.01. The parties to this Loan Agreement accept all the provisions of Loan Regulations No. 4 of the Bank dated February 15, 1961,¹ with the same force and effect as if they were fully set forth herein.

Section 1.02. Unless the context shall otherwise require, the following terms shall have the following meanings :

¹ See above.

(a) the term "Department" means one of the departments (Empresas) of the Borrower;

(b) the term "Power Department" means the electricity department (la Empresa de Energia Electrica) of the Borrower.

Article II

THE LOAN

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions in this Agreement set forth or referred to, an amount in various currencies equivalent to twenty-two million dollars (\$22,000,000).

Section 2.02. The Bank shall open a Loan Account on its books in the name of the Borrower and shall credit to such Account the amount of the Loan. The amount of the Loan may be withdrawn from the Loan Account as provided in this Agreement and in the Loan Regulations.

Section 2.03. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one per cent ($\frac{3}{4}$ of 1 %) per annum on the unwithdrawn amount of the Loan. Such commitment charge shall accrue from a date sixty days after the date of this Agreement to the respective dates on which amounts shall be withdrawn by the Borrower from the Loan Account as provided in Article IV of the Loan Regulations or shall be cancelled pursuant to Article V of the Loan Regulations.

Section 2.04. The Borrower shall pay interest at the rate of five and three-fourths per cent ($5\frac{3}{4}$ %) per annum on the principal amount of the Loan withdrawn from the Loan Account and outstanding from time to time.

Section 2.05. Except as the Bank and the Borrower shall otherwise agree, the charge payable for special commitments entered into by the Bank at the request of the Borrower pursuant to Section 4.02 of the Loan Regulations shall be at the rate of one half of one per cent ($\frac{1}{2}$ of 1 %) per annum on the principal amount of any such special commitments outstanding from time to time.

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

Section 2.07. The Borrower shall repay the principal of the Loan in accordance with the amortization schedule set forth in Schedule 1¹ to this Agreement.

Article III

USE OF PROCEEDS OF THE LOAN

Section 3.01. The Borrower shall apply the proceeds of the Loan exclusively to financing the cost of goods required to carry out the Project described in Schedule 2² to this Agreement. The specific goods to be financed out of the proceeds of the Loan

¹ See p. 194 of this volume.

² See p. 196 of this volume.

and the methods and procedures for procurement of such goods shall be determined by agreement between the Bank and the Borrower, subject to modification by further agreement between them.

Section 3.02. The Borrower shall cause all goods financed out of the proceeds of the Loan to be imported into the territories of the Guarantor and there to be used exclusively in the carrying out of the Project.

Article IV

BONDS

Section 4.01. The Borrower shall execute and deliver Bonds representing the principal amount of the Loan as provided in the Loan Regulations.

Section 4.02. The General Manager (*Gerente General*) of the Borrower and such person or persons as he shall appoint in writing are designated as authorized representatives of the Borrower for the purposes of Section 6.12 (a) of the Loan Regulations.

Article V

PARTICULAR COVENANTS

Section 5.01. (a) The Borrower shall carry out the Project with due diligence and efficiency and in conformity with sound engineering and financial practices. To assist it in carrying out the Project, the Borrower shall employ competent and experienced engineering consultants and contractors and the terms and conditions of their employment shall be mutually satisfactory to the Bank and the Borrower.

(b) The Borrower shall furnish to the Bank, promptly upon their preparation, the plans and specifications for the Project and any material modifications subsequently made therein, in such detail as the Bank shall from time to time request.

(c) The Borrower shall maintain records adequate to identify the goods financed out of the proceeds of the Loan, to disclose the use thereof in the Project, to record the progress of the Project (including the cost thereof) and to reflect in accordance with consistently maintained sound accounting practices the operations and financial condition of the Borrower; shall enable the Bank's representatives to inspect the Project, the goods, the Borrower's properties and any relevant records and documents; and shall furnish to the Bank all such information as the Bank shall reasonably request concerning the expenditure of the proceeds of the Loan, the Project, the goods, and the operations and financial condition of the Borrower.

Section 5.02. (a) The Bank and the Borrower shall cooperate fully to assure that the purposes of the Loan will be accomplished. To that end, each of them shall furnish

to the other all such information as it shall reasonably request with regard to the general status of the Loan.

(b) The Bank and the Borrower shall from time to time exchange views through their representatives with regard to matters relating to the purposes of the Loan and the maintenance of the service thereof. The Borrower shall promptly inform the Bank of any condition which interferes with, or threatens to interfere with, the accomplishment of the purposes of the Loan or the maintenance of the service thereof.

Section 5.03. The Borrower undertakes that, except as the Bank shall otherwise agree, if any lien shall be created on any assets of the Borrower or of any corporation or company all or a majority of the capital stock of which shall be owned by the Borrower, as security for any debt, such lien will *ipso facto* equally and ratably secure the payment of the principal of, and interest and other charges on, the Loan and the Bonds, and that in the creation of any such lien express provision will be made to that effect; provided, however, that the foregoing provisions of this Section shall not apply to: (i) any lien created on property, at the time of purchase thereof, solely as security for the payment of the purchase price of such property; (ii) any lien arising in the ordinary course of banking transactions and securing a debt maturing not more than one year after its date; or (iii) any lien created on revenues of any Department of the Borrower, other than the Power Department, to secure a debt of any such other Department.

Section 5.04. The Borrower shall pay or cause to be paid all taxes or fees, if any, imposed under the laws of the Guarantor or laws in effect in the territories of the Guarantor on or in connection with the execution, issue, delivery or registration of this Agreement, the Guarantee Agreement¹ or the Bonds, or the payment of principal, interest or other charges thereunder; provided, however, that the provisions of this Section shall not apply to taxation of, or fees upon, payments under any Bond to a holder thereof other than the Bank when such Bond is beneficially owned by an individual or corporate resident of the Guarantor.

Section 5.05. The Borrower shall pay or cause to be paid all taxes and fees, if any, imposed under the laws of the country or countries in whose currency the Loan and the Bonds are payable or laws in effect in the territories of such country or countries on or in connection with the execution, issue, delivery or registration of this Agreement, the Guarantee Agreement or the Bonds.

Section 5.06. (a) Except as shall be otherwise agreed between the Bank and the Borrower, the Borrower shall insure or cause to be insured with responsible insurers all goods financed with the proceeds of the Loan. Such insurance shall cover such marine, transit and other hazards incident to purchase and importation of the goods into the territories of the Guarantor and to delivery thereof to the site of the Project, and shall be for such amounts as shall be consistent with sound commercial practice. Such insur-

¹ See p. 172 of this volume.

ance shall be payable in dollars or in the currency in which the cost of the goods insured thereunder shall be payable.

(b) In addition, the Borrower shall insure against such other risks and in such amounts as shall be consistent with sound public utility and business practices.

Section 5.07. (a) The Borrower shall at all times maintain its existence and right to carry on operations and shall, except as the Bank shall otherwise agree, take all steps necessary to maintain and renew all rights, powers, privileges and franchises which are necessary or useful in the conduct of its business.

(b) The Borrower shall operate and maintain its plants, equipment and property, and from time to time make all necessary renewals and repairs thereof, all in accordance with sound engineering standards ; and shall at all times operate its plants and equipment and maintain its financial position in accordance with sound business and public utility practices.

(c) The Borrower shall operate each of its Departments separately and shall maintain separate records for the assets, revenues and expenditures of each of its Departments.

Section 5.08. The Borrower shall not, without the consent of the Bank, sell or otherwise dispose of all or substantially all of its property and assets or all or substantially all the property included in the Project or any plant included therein, unless the Borrower shall first redeem and pay, or make adequate provision satisfactory to the Bank for redemption or payment of, all of the Loan which shall then be outstanding and unpaid.

Section 5.09. Except as the Bank shall otherwise agree : (a) the Power Department shall not incur any long-term indebtedness if thereby the proportion of its long-term indebtedness to equity would exceed a ratio of 60 to 40 ; and (b) no other Department shall incur long-term indebtedness unless its revenues will be sufficient to cover as they come due : (i) such other Department's operating expenses, including taxes, if any, and (ii) all debt service payments (interest, amortization, sinking fund and other charges on debt) on its existing debt and on the debt to be incurred by it.

The term "long-term indebtedness" shall mean debt maturing by its terms more than one year after the date on which it is incurred. Whenever for the purpose of this Section it shall be necessary to value in Colombian currency debt payable in another currency, such valuation shall be made on the basis of the rate of exchange at which such other currency, at the time such valuation is made, is obtainable for the purposes of servicing such debt, or if such other currency is not so obtainable, at the rate of exchange reasonably determined by the Bank.

The term "equity" shall include capital and surplus determined in accordance with sound accounting practices.

Section 5.10. The Departments of the Borrower, other than the Power Department, shall not incur debt maturing by its terms more than one year after the date on which

it is incurred unless the holder of such debt explicitly agrees to forego any rights he may have to obtain satisfaction of his debt from the assets or revenues of the Power Department.

Section 5.11. Whenever necessary and in any case not less frequently than every two years the Borrower shall take all steps necessary or desirable to obtain such adjustments in the rates for each operating Department as will provide revenues sufficient : (a) to cover operating expenses, including taxes, if any, and contributions to the Municipality of Medellin, adequate maintenance and depreciation, and interest ; (b) to meet repayments on long-term indebtedness but only to the extent that such repayments shall exceed provision for depreciation ; and (c) to leave a reasonable surplus to finance new investment.

Article VI

REMEDIES OF THE BANK

Section 6.01. (i) If any event specified in paragraph (a), paragraph (b), paragraph (e) or paragraph (f) of Section 5.02 of the Loan Regulations shall occur and shall continue for a period of thirty days, or (ii) if the event specified in paragraph (a) of Section 6.02 of this Agreement for the purpose of Section 5.02 (j) of the Loan Regulations shall occur and shall continue for a period of thirty days, or (iii) if any event specified or referred to in Section 6.01 of the loan agreement between the Bank and the Borrower, dated May 20, 1959,¹ shall have occurred and shall continue for the period therein specified, or (iv) if any event specified in paragraph (c) of Section 5.02 of the Loan Regulations shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Bank to the Borrower, then at any subsequent time during the continuance thereof, the Bank, at its option, may declare the principal of the Loan and of all the Bonds then outstanding to be due and payable immediately, and upon any such declaration such principal shall become due and payable immediately, anything in this Agreement or in the Bonds to the contrary notwithstanding.

Section 6.02. For the purpose of Section 5.02 (j) of the Loan Regulations the following additional events are specified :

(a) the Borrower shall have used the revenues or assets of the Power Department to meet an obligation of any other Department ;

(b) a default shall have occurred in the performance of any covenant or agreement on the part of the borrower or the guarantor under the loan agreement between the Bank and the Borrower dated May 20, 1959 or the guarantee agreement between the Guarantor and the Bank of even date therewith or any bonds delivered pursuant to such loan agreement, other than a default in payment of principal or interest or any other payment required under such loan agreement, guarantee agreement and bonds.

¹ United Nations, *Treaty Series*, Vol. 344, p. 251.

Article VII

TERMINATION ; MISCELLANEOUS

Section 7.01. A date 90 days after the date of this Agreement is hereby specified for the purposes of Section 9.04 of the Loan Regulations.

Section 7.02. The Closing Date shall be January 31, 1966.

Section 7.03. The following addresses are specified for the purposes of Section 8.01 of the Loan Regulations :

For the Borrower :

Empresas Públicas de Medellín
Medellin, Colombia

Alternative address for cablegrams and radiograms :

Empresas
Medellin, Colombia

For the Bank :

International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington 25, D. C.
United States of America

Alternative address for cablegrams and radiograms :

Intbafrad
Washington, D. C.

IN WITNESS WHEREOF, the parties hereto, acting through their representatives thereunto duly authorized, have caused this Loan Agreement to be signed in their respective names and delivered 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 W. A. B. LIFF
Vice President

Empresas Públicas de Medellín :

By Ignacio MESA
Authorized Representative

SCHEDULE I

AMORTIZATION SCHEDULE

<i>Date Payment Due</i>	<i>Payment of Principal (expressed in dollars)*</i>	<i>Date Payment Due</i>	<i>Payment of Principal (expressed in dollars)*</i>
March 1, 1966	\$ 300,000	March 1, 1976	\$ 529,000
September 1, 1966	309,000	September 1, 1976	544,000
March 1, 1967	318,000	March 1, 1977	560,000
September 1, 1967	327,000	September 1, 1977	576,000
March 1, 1968	336,000	March 1, 1978	593,000
September 1, 1968	346,000	September 1, 1978	610,000
March 1, 1969	356,000	March 1, 1979	627,000
September 1, 1969	366,000	September 1, 1979	645,000
March 1, 1970	377,000	March 1, 1980	664,000
September 1, 1970	387,000	September 1, 1980	683,000
March 1, 1971	398,000	March 1, 1981	702,000
September 1, 1971	410,000	September 1, 1981	723,000
March 1, 1972	422,000	March 1, 1982	743,000
September 1, 1972	434,000	September 1, 1982	765,000
March 1, 1973	446,000	March 1, 1983	787,000
September 1, 1973	459,000	September 1, 1983	809,000
March 1, 1974	472,000	March 1, 1984	833,000
September 1, 1974	486,000	September 1, 1984	857,000
March 1, 1975	500,000	March 1, 1985	881,000
September 1, 1975	514,000	September 1, 1985	906,000

* To the extent that any part of the Loan is repayable in a currency other than dollars (see Loan Regulations, Section 3.03), the figures in this column represent dollar equivalents determined as for purposes of withdrawal.

PREMIUMS ON PREPAYMENT AND REDEMPTION

The following percentages are specified as the premiums payable on repayment in advance of maturity of any part of the principal amount of the Loan pursuant to Section 2.05 (b) of the Loan Regulations or on the redemption of any Bond prior to its maturity pursuant to Section 6.16 of the Loan Regulations :

<i>Time of Prepayment or Redemption</i>	<i>Premium</i>
Not more than 3 years before maturity	½ %
More than 3 years but not more than 6 years before maturity	1 %
More than 6 years but not more than 11 years before maturity	1 ¾ %
More than 11 years but not more than 16 years before maturity	2 ½ %
More than 16 years but not more than 21 years before maturity	3 ½ %
More than 21 years but not more than 23 years before maturity	4 ¾ %
More than 23 years before maturity	5 ¾ %

SCHEDULE 2

DESCRIPTION OF THE PROJECT

The Project consists of the following :

1. Expansion of the Troneras power plant by the installation of a second 18,000 kw generating unit equipped with a Francis type turbine and auxiliary equipment.
2. Expansion of the Guadalupe III power plant by the installation of three additional 40,000 kw generating units equipped with vertical-shaft turbines of the Pelton type and of penstocks for four turbines, a transformer bank for each of the three units, and auxiliary and control equipment for the units.
3. Construction on the Tenche River at the Miraflores site of an earth-fill dam with a length of about 200 meters, and a maximum height of about 50 meters above the foundation, with a spillway and spillway tunnel and control works in the left abutment of the dam.
4. Expansion of the transmission facilities by either the construction of one additional double-circuit 120 kv transmission line about 70 km long between the Guadalupe switchyard and Medellin, or by providing the existing transmission facilities with capacitors or condensers.
5. Expansion of the distribution system by the construction of two new substations of 50,000 Kva each ; by additions to existing substations in the Medellin area ; by the construction of about 25 km of 120 kv lines to interconnect the substations ; by the addition to the primary distribution system of about 250 km of three-phase and about 250 km of single-phase lines at 13.2 kv ; by the addition of about 80,000 Kva of stepdown transformers ; and by the addition of about 600 km of secondary distribution system lines.
6. Completion of the project described in Schedule 2 to the loan agreement between the Bank and the Borrower dated May 20, 1959, as amended by further agreement between the parties.

LETTER RELATING TO THE LOAN AGREEMENT

EMPRESAS PÚBLICAS DE MEDELLÍN

Washington, D. C., May 12, 1961

International Bank for Reconstruction
and Development
1818 H Street, N.W.
Washington 25, D. C.

Re : *Loan No. 282 CO (Second Guadalupe Project)*

Gentlemen :

We refer to Section 5.11 of the Loan Agreement¹ of even date between us which provides that, whenever necessary and in any case not less frequently than every two years, Empresas Públicas de Medellín ("EPM") will take all steps necessary or desirable to obtain rate adjustments sufficient, *inter alia*, "to leave a reasonable surplus to finance new investment".

During negotiations for the Loan Agreement we agreed that, on the basis of present power tariffs and of present plans and estimates, EPM will be able to provide, from cash internally generated, about 40% of the total investment expenditures envisaged during the five years beginning 1961 and ending 1965. It was also agreed that EPM should generate this proportion of cash required to carry out said investment expenditures.

Accordingly, we understand the above quoted clause in Section 5.11 of the Loan Agreement to mean that electric power rates should be set at a level which will permit EPM :

- (i) to finance from cash generated internally 40 % of the total cost of EPM's electric power generating, transmission and distribution expansion work now under construction or scheduled for construction during the period 1961-1965, corresponding to the construction period of the Project described in the Loan Agreement ;
- (ii) to continue after 1965 to finance from cash generated internally 40 % of the cost of EPM's system expansion work, provided, however, that such amount, determined on the basis of plans and estimates now available, will be reviewed from time to time and may be varied, in the light of the then existing circumstances, by agreement between EPM and the Bank.

¹ See p. 180 of this volume.

Please confirm that you also so construe the quoted clause by signing and returning to us the enclosed copy of this letter.

Very truly yours,

Empresas Públicas de Medellín :

By Ignacio MESA
Authorized Representative

Confirmed :

International Bank for Reconstruction
and Development :

By W. A. B. ILIFF

Vice President

Dated : May 12, 1961