

PROJECT ABSTRACT

Project number	CO-0208
Project name	Río Bogotá Project
Country	Colombia
Total project cost	US\$125 million
IDB Participation	IDB Guarantee: US\$31.3 million
Department	Private Sector Department
Status	Approved by the Board of Executive Directors
Date	April 9, 1997

DESCRIPTION OF THE PROJECT

The District of Bogotá (the “District”) has developed a comprehensive pollution control program for the Bogotá River. This program utilizes a number of measures to retard the level of contaminants that are discharged into the river, including the recent implementation of an industrial “polluters tax”, coupled with the construction of a series of wastewater treatment plants to clean the river. The District intends to develop wastewater treatment plants at the mouths of the Salitre, Fucha and Tunjelo rivers at the points where they flow into the Bogotá River. Each of these plants will be developed in two phases. Phase I will consist of primary treatment (the removal of sedimentation), and Phase II will consist of secondary or biological treatment.

Following an international request for proposals, the District has awarded a 30 year concession (the “Concession”) to a consortium composed of Lyonnaise des Eaux and Degremont S.A. (the “Sponsors”) to build, own and operate Phase I of the first of the wastewater treatment plants to be developed under the program, such plant to be situated at the juncture of the Salitre and Bogotá Rivers (the “Project”). The plant will be capable of processing an average flow of 4 cubic meters per second of wastewater for 24 hours per day, 365 days per year. The Concession is structured as a global concession such that it expressly provides for the development of the subsequent plants as the necessary financial resources become available. With respect to Phase II of the Project, the Concession grants the District an option to mandate the build-out of Phase II upon predetermined financial and technical terms. The Concession currently contemplates Phase II development following a period of one year of good operation of Phase I.

Financing for the Project will consist of US\$100 million in senior debt and US\$33 million in Sponsor equity contributions. The first source of senior debt in an amount of US\$30 million will receive the benefit of the assignment of a partial risk guarantee to be provided to the project company by the Inter-American Development Bank. This guarantee in an amount of US\$31 million will cover specific risks associated with the District’s payment obligations and the convertibility and transferability of currency in the event the Concession is terminated. The second source of senior debt in an amount of US\$70 million will be provided by international financial institutions and will not directly receive the benefit of this guarantee.

DESCRIPTION OF THE PROPOSED GUARANTEE

Nature of Guarantee:	Guarantee performance of one specific obligation of the District of Bogotá under a concession contract.
Contract Obligation:	If the concession contract is terminated early (for any reason), the Project will revert to the District and the District is obligated to compensate the Project Company for the fair value of the Project at that point in time (less contractually specified penalties). This compensation is referred to as the Termination Payment.
Termination Payment Amount:	The procedure for determining the amount of the Termination Payment is established in the concession contract. In summary, the Termination Payment will be equal to the residual value of the assets of the Project Company calculated in US dollars <u>plus</u> any amounts due to the Project Company at the moment of termination <u>minus</u> any performance penalties incurred by the Project Company.
Termination Payment Procedure:	Upon termination, the Project Company informs the District of its estimate of the net amount of the Termination Payment. If the District agrees, this amount is final. If the District disagrees, a binding arbitration procedure will be utilized to determine the final amount of the Termination Payment. Once this amount is conclusively determined, the District then has 7 days to make payment.
Risks Covered under Guarantee:	The Bank's guarantee would only cover <u>two</u> clearly defined risks -the risk that the District would not make the required Termination Payment when due and the convertibility and transferability of currency associated with that termination event.
Beneficiaries:	The beneficiaries of the Bank's guarantee would be certain financial institutions that would be providing long-term debt financing to the project. Only a portion of the financial institutions' pro-rata share of the Termination Payment would be covered by the guarantee (estimated at between 75% and 90%).
Triggering Events:	The IDB guarantee would only be triggered if each of the following events occurred (i) the District or the borrower terminates the concession contract, (ii) the District fails to pay to the borrower the Termination Payment payable by the District under the concession contract, and (iii) as a result of such failure by the District, the borrower fails to pay when due any amount of principal or accrued interest payable.
Events of Default:	<p>The occurrence of any of the following will constitute an event of default under the Guarantee:</p> <p>A) the failure to pay when due the Guarantee Fee; or</p>

- B) the breach of any covenant of the guaranteed beneficiaries under the Intercreditor Agreement.

Upon the occurrence and continuation of any event of default, and subject to the expiration of any applicable cure period, the Guarantee will terminate for any payment default and IDB will have the right to terminate the Guarantee for any covenant default.

Security:

As security for the repayment of amounts disbursed by IDB under the Guarantee (i) IDB will enter into a consent agreement with the District, (ii) IDB shall receive at least 30 days notice prior to any termination of the concession contract, (iii) IDB shall be entitled to rely upon the termination payment formulas contained in the concession contract and upon notices received by either the District or the borrower, and (iv) IDB shall have the right to participate in any arbitration or other proceeding under the concession contract relating to the termination or the calculation of any Termination Payment.