

PUBLIC

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

**COLOMBIA**

**LOAN TO INTERCONEXIÓN ELÉCTRICA S.A.  
SAN CARLOS I HYDROELECTRIC PROJECT**

**(CO0038; 1769/OC-CO-1,19/IC-CO)**

**LOAN PROPOSAL**

**1977**

COLOMBIA

SAN CARLOS I HYDROELECTRIC PROJECT  
(CO-0038)

LOAN PROPOSAL

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# Basic Data on Colombia

Population (thousands) 1975 = 26,900  
 Rate of growth = 2.7%  
 Economically active population (total) 1/ = 5,975  
 Agriculture = 1,546  
 Manufacturing = 678  
 Construction = 200  
 Transportation = 167  
 Others = 3,384

## A. Total Production (millions of 1970 pesos)

	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>
GDP (at factor cost)	147,178	156,708	164,353	173,885
Agriculture	39,157	41,517	44,251	
Manufacturing	27,828	29,657	30,733	
Construction	7,839	8,142	7,872	
Electricity, gas and water	2,473	2,615	2,753	
Others	69,781	74,007	78,744	
Total domestic spending	158,747	174,026	177,656	
(Total investment)	26,837	35,652	27,558	
Imports	19,757	24,217	20,551	
Exports	20,205	18,978	19,372	

## B. Fiscal Statistics (million of pesos) 2/

Current revenues	20,361	26,354	38,328	47,480
Current expenditures	12,798	15,327	25,159	31,185
Investment	10,361	13,798	13,302	15,832
External financing	3,052	283	-591	-778

## C. Money and Prices

Money (millions of pesos)	38,484	46,058	59,014	79,530
Quasimoney (millions of pesos)	21,600	29,781	43,027	
Credit (millions of pesos)	82,161	109,777	138,328	
Public credit, net				
(millions of pesos)	14,564	17,760	22,885	
Private credit, net				
(millions of pesos)	67,597	92,017	115,443	
International reserves				
(millions of pesos)	5,017	-4,040	-830	
Consumer prices (1970 = 100)	150	185	226	272
Wholesale prices (1970 = 100)	169	230	289	354

1/ Population as of October 1973, in thousands.

2/ National Government.

	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>
D. <u>Foreign Trade</u> (millions of dollars)				
Exports	1,662	1,494	1,694	2,378
Imports	982	1,510	1,480	1,676
Services (net)	-372	-390	-437	-419
Capital flow <u>1/</u>	269	-38	294	195
Changes in reserves (increase is -)	-213	389	-118	-549
Net Reserves, Banco de la República	516	429	547	1,166

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1/ Include errors and omissions.

## UNIDADES Y SUS EQUIVALENTES

1 Kilovoltio (KV)	1.000 voltios (v)
1 Megavoltio/Amperio (MVA)	1.000 Kilovoltios/Amperios (KVA)
1 Megavatio (MW)	1.000 Kilovatios (KW)
1 Gigavatio/Hora (GWH)	1 millón Kilovatios/Hora (KWH)

## SIGLAS

BIRF	Banco Internacional de Reconstrucción y Fomento
CHIDRAL	Central Hidroeléctrica del Río Anchicayá Ltda.
CORELCA	Corporación Eléctrica de la Costa Atlántica
CNTH	Cauca, Nariño, Tolima, Huila
CQR	Caldas, Quindío, Rizaralda
CVC	Corporación Autónoma Regional del Cauca
CHEC	Central Hidroeléctrica de Caldas S.A.
EEEB	Empresa de Energía Eléctrica de Bogotá
ELECTRAGUAS	Instituto de Aprovechamiento de Aguas y Fomento Eléctrico
EMCALI	Empresas Municipales de Cali
EPM	Empresas Municipales de Medellín
ICEL	Instituto Colombiano de Energía Eléctrica
ISA	Interconexión Eléctrica S.A.
JNTSP	Junta Nacional de Tarifas de Servicio Público
KFW	Kreditanstalt Fur Wiederaufbau
PIDUZOB	Programa Integrado de Desarrollo Urbano de la Zona Oriental de Bogotá.

## I. THE PROJECT

### 1. FRAME OF REFERENCE

In Colombia electricity is supplied basically by public enterprises and by the national government and the departments or municipalities. At present five companies supply over 90% of electricity provided by the country's public sector, as follows: Empresa de Energía Eléctrica de Bogotá (EEB), Instituto Colombiano de Energía Eléctrica (ICEL), Empresas Públicas de Medellín (EPM), Corporación Autónoma Regional del Valle del Cauca (CVC) and Corporación Eléctrica de la Costa Atlántica (CORELCA). These companies are also the major shareholders of Interconexión Eléctrica S.A. (ISA).

Installed generating capacity, including output of the self-generating industrial companies themselves, rose from 1,248 MW in 1975 to 3,154 in 1976, representing an annual average growth of approximately 9.7%.

Total consumption of energy in Colombia in 1976 was about 13,100 GWH. Of that total energy consumed the residential sector accounted for approximately 43% and the industrial sector 34%. Residential consumption expanded in 1975 by 10.3%, while industrial use rose by 7.7%. Much of that consumption was concentrated in Bogotá and the Departments of Antioquia and Valle del Cauca, with a share of about 67% of the total.

Of all power supplied in 1976 around 74.3% derived from hydroelectric generation and the remainder, 25.7%, was thermally generated. Because of its geography, Colombia has a great hydroelectric potential and the Colombian Government under its expansion policy for the electric sector, has assigned priority to construction of hydroelectric plants in order to meet future energy demand.

The Colombian electrical system should be fully interconnected by 1980, when it will link up the central system with the system along the northern coast of the country. Studies of the project for construction of the interconnection line have been completed, and the project would be financed by IBRD and the KFW.

The Bank has been closely tied to generation and transmission programs of the energy sector in Colombia, having made a total contribution of US\$232.7 million to financing of sectoral investments, of which US\$178.2 million had been disbursed as of October 31, 1977. The IBRD, for its part, had contributed US\$344.3 million, of which US\$324.3 million had been disbursed as of October 31, 1977.

### 2. THE PROJECT: PURPOSES AND DESCRIPTION

The basic aim of the project is to increase installed energy capacity by 620 MW and energy output of the Colombian electrical system by 3,880 GWH. At the same time, to ensure supply of consumer centers,

it is planned to install 250 km of 220-KV transmission lines with their step-down substations.

The project covered by this document constitutes the first stage of the San Carlos hydroelectric plant, since it is planned subsequently, by doubling the adduction works and expanding the powerhouse, to increase the plant's generation with six additional units that would raise installed potential to 1,550 MW. This additional equipment, combined with the new Jaguas plant upstream, would expand San Carlos production in its final stage to 5,760 GWH.

The project is located on the Nare River in the Department of Antioquia approximately 150 km from the city of Medellín. It would consist of the following works, whose major features and dimensions are described below:

a) Impoundment and Intake Works

An earthen dam 70 m high with a volume of approximately 6 million cubic meters when filled. The reservoir served by the dam would store 72 million cubic meters, of which 50 million would be used to regulate the flow of the Nare River. A diversion conduit 414 m long and a concrete spillway with a discharge capacity of 7,000 cubic meters per second. Catchment works would be built for both stages of the plant and consist of two towers 54 meters high.

b) Abduction Works

This call for construction of a concrete-lined charge tunnel 6.10 meters in diameter and approximately 4,500 meters long to feed the four generating units in the first stage.

c) Generation and Transformation Works

These consist of a powerhouse situated in two caverns, one for generating equipment and the other for transformers, including the following main equipment: (i) four Pelton turbines with a nominal potential of 160 MW each; (ii) four synchronized generators of 160 MW and 13.8 KV each; (iii) seven monophasic transformers of 110 MVA; (iv) supplementary electromechanical equipment, and (v) control and telecommunications equipment.

d) Transmission Works 1/

To convey energy to the several consumer centers, two dual circuit 220-KV transmission lines must be built that will be 40 and

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1/ These works are included in the project but would not be financed with resources from the Bank loans.

210 kms long, respectively, to link up the Guatapé and Torca substations located within the present national interconnected network.

e) Infrastructure Works

These will include relocation of the present San Carlos-Nare highway over a segment approximately 23 km and construction of access roads to the various work sites for an estimated length of 18 kms. Construction of the camps and facilities needed to accommodate personnel of the contractors and the administrative staff is also projected.

3. BORROWER AND EXECUTING AGENCY

The borrower and executing agency would be Interconexión Eléctrica S.A. (ISA), a corporation set up on September 14, 1967 by the Empresa de Energía Eléctrica de Bogotá (EEEB), the Empresas Públicas de Medellín (EPM), Corporación Autónoma Regional del Cauca (CVC), Central Hidroeléctrica del Río Anchicayá Ltda. (CHIDRAL) <sup>1/</sup>, Instituto Colombiano de Energía Eléctrica (ICEL) and Central Hidroeléctrica de Caldas (CHEC) <sup>1/</sup>. On October 21, 1976, a special general shareholders meeting authorized the admission of Corporación Eléctrica de la Costa Atlántica (CORELCA) as an ISA shareholder.

Taking into account that the ISA shareholders are public corporations, the Executive Branch, by Decree 3,130 of 1968, declared ISA to be a decentralized government commercial and industrial enterprise operating under the Ministry of Mines and Energy.

4. LOAN TERMS AND CONDITIONS

The IDB financing would total US\$70 million from the Bank's interregional capital resources. The loan would be granted to ISA and guaranteed by the Republic of Colombia; its conditions would be as follows: term 20 years, grace period 5-1/2 years, disbursement period 5 years, interest rate 10% per annum, and credit commission 1-1/4%.

II. COST AND FINANCING

1. TOTAL PROJECT COST

The total cost of the project is estimated at US\$420,457,000 equivalent, itemized by basic investment categories as follows:

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<sup>1/</sup> CHIDRAL is an affiliate of the CVC and CHEC an affiliate of ICEL.



Table I

TOTAL PROJECT COST  
(In US\$ thousands)

CATEGORY	INVESTMENTS			
	Foreign Exchange	Local Currency	Total	%
1. <u>Engineering and Administration</u>	<u>1,727</u>	<u>13,830</u>	<u>15,557</u>	<u>3.7</u>
2. <u>Direct Construction Cost</u>				
2.1 Infrastructure works	463	12,812	13,275	3.2
2.2 Major civil works	74,014	48,827	122,841	39.2
2.3 Electromechanical equipment	48,744	7,112	55,856	13.3
2.4 Transmission system	14,117	4,951	19,068	4.5
2.5 Telecommunications and control systems	<u>1,060</u>	<u>359</u>	<u>1,419</u>	<u>0.3</u>
Total category 2	<u>138,398</u>	<u>74,061</u>	<u>212,459</u>	<u>50.5</u>
3. <u>Finance Charges</u>				
3.1 External loans	53,246	-	53,246	12.6
3.2 Domestic loans <u>2/</u>	-	28,930	28,930	6.9
3.3 IDB inspection charge	<u>700</u>	-	<u>700</u>	<u>0.2</u>
Total Category 3	<u>53,946</u>	<u>28,930</u>	<u>82,876</u>	<u>19.7</u>
4. <u>Unspecified</u>				
4.1 General contingencies	12,546	7,057	19,603	4.7
4.2 Escalation provision	<u>46,952</u>	<u>43,010</u>	<u>89,962</u>	<u>21.4</u>
Total Category 4	<u>59,498</u>	<u>50,067</u>	<u>109,565</u>	<u>26.1</u>
Total Investment	<u>253,569</u>	<u>166,888</u>	<u>420,457</u>	<u>100.0</u>
Percentage	60.3	39.7	100.0	

1/ Does not include indirect costs.

2/ Interest on bonds to be sold by ISA to its shareholders to finance part of the local contribution to the project.

## 2. FINANCE PLAN

The project finance plan in accordance with sources and uses of funds would be as shown in the following table:

Table II

Source and Use of Currencies  
(In US\$ thousands equivalent)

	<u>Currency of Origin</u>		<u>Currency of Use</u>		<u>Total</u>	<u>%</u>
	<u>Foreign</u>	<u>Local</u>	<u>Foreign</u>	<u>Local</u>		
IDB Loan	70,000	-	70,000	-	70,000	16.6
IBRD Loan	126,000	-	126,000	-	126,000	30.0
Suppliers	35,045	-	35,045	-	35,045	8.3
ISA	-	189,412	22,524	166,888	189,412	45.1
Total	231,045	189,412	253,569	166,888	420,457	100.0
Percentage	54.9	45.1	60.3	39.7	100.0	

## 3. USE OF LOAN RESOURCES

Of the total of US\$70 million proposed as the amount of the IDB-IC loan, approximately US\$32.1 million would be used to cover direct foreign exchange cost of construction of the Punchiná Dam, about US\$6.5 million to cover the cost of pressure pipe, and around US\$16.8 million to finance contingencies and escalation of the dam and piping. The remainder would cover finance charges during the construction period and contracting of a team of individual consultants to advise on specific dam construction matters.

The IDB-IC loan would be governed by the international bidding and country eligibility rules applicable to the use of those resources.

## 4. COMPLEMENTARY LINE OF CREDIT

The Management of the Bank had considered the possibility of a complementary line of credit of an estimated amount of US\$20-35 million for the San Carlos I project. The preliminary negotiations in that direction were carried out by Merrill Lynch, which indicated fixed terms and conditions to the Colombian authorities that the latter did not consider acceptable. The national authorities then requested the Bank to discontinue those efforts.

## 5. WORLD BANK LOAN

The IBRD loan of US\$126 million would be used as follows: US\$12,777,000 for equipment purchases; an estimated US\$39,678,000 for direct construction costs of the tunnels and powerhouse; US\$14,117,000 to cover foreign exchange costs of the transmission lines; and US\$33,434,000 for contingencies and escalation and a part of the foreign exchange costs of project supervision and engineering.

During its analysis of the proposed operation the Bank has been in constant touch with IBRD to coordinate the action of the two institutions in considering the loan request. As a result of the advanced stage of project analysis and the recent coordination meetings, it is estimated that the IBRD loan will be approved during the first quarter of 1978.

In view of the procedural differences between the processing of loan applications in the IDB and the IBRD, it is felt that IDB loan proposal should be submitted to our Board of Executive Directors at this time so as to assure that the pertinent loan contracts can be signed almost simultaneously during the first quarter of 1978. The above mentioned procedural differences and the fact that the IDB loan approval process would in effect antedate that of the World Bank make it advisable that the borrower, guarantor and the respective international financial institutions enter into contractual conditions relating to execution of the project which are consistent to the maximum extent possible. The Administration therefore recommends that the proposed resolution stipulate that whatever further assurance or guarantee in this regard which may be granted to any international financial agency that extends financial aid for the project be subsequently extended to the Bank. Furthermore, a condition has been included in the proposed resolution to the effect that the first disbursement from our loan cannot be made unless the IBRD loan has been formally approved.

## 6. RECOGNITION OF EXPENDITURES

According to the project execution schedule (see Chapter 4, Section 1), the engineering works and construction of infrastructure and access roads were to be started in 1976, so that the plant could go into service in 1983 as scheduled. In view of this it is anticipated that expenditures incurred by ISA before the date of the loan contract and after the date of the application, December 12, 1975, but not exceeding 18 months, will have to be recognized. These expenditures would total approximately US\$21.7 million, of which approximately US\$4.8 million would be engineering and administration costs and about US\$16.9 million costs for infrastructure works and access roads.

### III. PROJECT JUSTIFICATION

#### 1. TECHNICAL AND INSTITUTIONAL FEASIBILITY

The technical design for the project is the result of detailed studies carried out at the prefeasibility and feasibility stages. The geology and hydrology studies were made by consultants of the highest caliber. The cost estimates were prepared originally (1973) by Jacobs Associates (a U.S. firm) and later (1976), were brought up to date by the Colombian firm INTEGRAL on the basis of the design at bidding stage and updated unit prices.

ISA has the requisite legal authority to execute the project and to contract for external loans and has an adequate organization in its technical, administrative and financial units, as well as qualified staff with experience in the supervision and execution of similar projects (Chivor I and Chivor II). In addition it will have the advisory services of a specialized consulting firm and individual consultants.

The above considerations warrant the following conclusions: the project is soundly conceived from the technical point of view; its costs have been carefully figured, the six-year term for its execution is reasonable; the organization of ISA is adequate; and accordingly the project is feasible in its technical and institutional aspects.

#### 2. FINANCIAL FEASIBILITY

The financial analysis of ISA, according to the assumptions used in the formulation of the projections, indicate that the firm would have a satisfactory financial position.

The financing of the project (see Table II, page 5) would be based on a local contribution by ISA totaling the equivalent of US\$189,412,000 and external credits (IDB, IBRD and suppliers) totaling US\$231,045,000. ISA's contribution to the project would come from the following sources: 40% from capital contributions in the form of shares to be subscribed by the company's stockholder firms and the other 60% from contributions to be made by those same firms in exchange for bonds issued by ISA. (The feasibility of the local contribution is detailed in Chapter IV, Section 2, of this document.) As for the external credits, ISA's negotiations with the IBRD are well advanced and the preliminary negotiations with the prospective suppliers indicate the feasibility of obtaining the credits from them on a timely basis.

The estimated financial plan for the project is considered satisfactory, and the disbursement schedule submitted would assure timely availability of the resources required for meeting the construction and equipment purchase timetables.

### 3. ECONOMIC FEASIBILITY

The economic analysis indicates that the San Carlos Hydroelectric Plant is the cheapest alternative for meeting the medium-term demand for energy in Colombia. The unit cost per installed KW would be approximately US\$307.7, and the annual costs per KWH generated would be US\$0.0063. <sup>1/</sup> These units and annual costs are considered among the lowest for this type of project. Owing to the requirements of the Colombian interconnected system in 1982-1983 the only real alternative to construction of San Carlos would be construction of an equivalent thermal plant. The analysis made indicates that based on international fuel prices the annual costs per KWH generated would be US\$0.0166 and US\$0.0185 respectively for a coal-fired thermal steam plant and a fuel-oil thermal steam plant. These costs are substantially higher than those of San Carlos.

The project's impact on the development process in Colombia rests essentially on the economic and social effects of an additional availability of 3,880 GWH of hydroelectric energy. This energy is needed in order to sustain an adequate level of growth of the gross national product and avert the need for rationing energy in Colombia.

## IV. PROJECT EXECUTION

### 1. TECHNICAL ASPECTS

The project would be executed under the responsibility of ISA through the San Carlos Department, which is part of its Technical Deputy Manager's Office.

In executing the San Carlos I Hydroelectric Plant project, a system developed by PRA's Physical Infrastructure Division known as the Project Monitoring System (PMS) would be used. This system is detailed in Chapter IV, Project Execution Plan, of the project report. Its basic aim is to assure adequate planning, programming and monitoring of all activities required for efficient and timely accomplishment of the goals established for the projects, evaluating the activities, from the legal, financial and technical-physical points of view.

In February 1976 ISA engaged the services of INTEGRAL, a consulting firm, to draw up the designs and supervise execution of the project.

The project's execution schedule was estimated at 72 months. Proposals for the civil works have been received as a result of bidding conducted

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<sup>1/</sup> Engineering and transmission line costs were not included in the calculation of these costs. Including them, the annual costs per KWH generated would be US\$0.0083.

procedures and specifications reviewed and approved by the Bank. The calls for bids for the purchase of equipment will be issued in accordance with a schedule timed for meeting the overall project execution schedule.

## 2. FINANCIAL ASPECTS

The total estimated cost of the project is the equivalent of US\$420,457,000 and its financing would include funds from the IDB, IBRD, and suppliers' credits, in addition to the local contribution, in accordance with Table II, Currencies of Origin and Use.

ISA would be responsible for providing the local contribution, which, as already stated, would come 40% from the purchase of shares by its stockholders and 60% from the sale of bonds to the same stockholders.

The analysis by the Bank to determine the feasibility of the local contribution of US\$189 million required for the project indicated that during the period 1977-1983: (i) the total amount of resources required for the general program of investments of the stockholders of ISA would total approximately US\$2.146 billion; (ii) the earnings of the stockholders before deduction of financial costs would be approximately US\$1.631 billion; (iii) after deducting the financial costs, the earnings would be approximately US\$1.274 billion; and (iv) the shortage for fully financing the investments program would be approximately US\$771 million. This shortage would arise from the impact of the investment programs that the companies proposed to carry out, especially ICEL 1/ and ELCA 2/ which account for almost 95% of the shortage. However, this shortage could be reduced or eliminated through the following actions or a combination of them: (i) an increase in rates; (ii) capitalization of the companies by the Government; and (iii) reduction and/or postponement of some of the projects included in the investment program.

As a result of the comments made above, contractual conditions are included in the document that it is felt will enable the stockholders of ISA to have sufficient resources available for making timely and adequate provision of the contribution forming an integral part of the local counterpart funds for the proposed project. This would be achieved, subject to whatever policy the Government develops in the future, either through authorization of the rate increases required by those companies or through capitalization of the companies.

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1/ ICEL is a government-owned corporation which controls 15 electrification agencies (small enterprises that serve 20 of the country's departments and receives yearly appropriation from the national government.

2/ CORELCA, also a government corporation, is responsible for generation and for interconnection of the principal markets in the northern part of the country. Its main source of energy is thermal. This company would be the executing agency for the Atlantic coast interconnection project to link up the CORELCA and ISA systems. Part of the cost of the project would be financed by the IBRD and KFW.

In addition to the IDB's negotiations aimed at assuring that the power companies will generate the resources needed for execution of their expansion programs, 1/ the IBRD, which is considering a very significant participation in energy programs in Colombia over the next few years, has conducted various negotiations directed to having those companies increase their rates more quickly. As a result of all those efforts the following results have been obtained to date:

- With respect to EEEB, increases for 1978 that would represent an average of 35% a year for residential users and 50% for industrial users, plus approximately an additional 30% for 1979 and later years.
- In regard to EPM, increases at a cumulative rate of 2.2% per month beginning in January 1978, continuing as long as may be necessary, and additional increases that would be defined later.
- With respect to CVC, a proposal is expected soon for increasing the current rates. This would represent a cumulative rate of increase of 2.2% per month;
- With respect to CORELCA, an increase of approximately 25% per year has been agreed upon in principle and a definitive proposal that would be equal or higher is awaited.
- With respect to ICEL, given the nature of its operations with the Electrificadoras (electrification agencies) and the government's traditional policy of providing that company with the financial resources it needs each year, the situation would remain unchanged in general terms.
- Taking into consideration the recent rate measures agreed upon, as described above, which would surely help to facilitate the mobilization of resources by ISA from its stockholders, and the conservative assumptions used in formulating the financial projections and recommendations included in this document, it is considered that ISA would have the necessary resources available for providing the required counterpart funds.

In addition to the local contribution and the Bank's loan, the project would be financed by a loan from the IBRD and by suppliers' credits. The negotiations for IBRD financing are well advanced and the proceeds of that loan would be used to cover the costs of the subterranean facilities in the project (tunnel and powerhouse), part of the complementary equipment, the transmission system and the financial charges

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1/ The Bank has the following firms as borrowers: ISA, EEEB, CVC-CHIDRAL, ICEL, CHEC and EMP (the latter under a water and sewerage project).

during the construction period. In regard to suppliers' credits, the good experience of ISA in the utilization of this type of credit for the financing of equipment under the Chivor I and Chivor II projects, as well as the preliminary indications received from the same suppliers, afford assurance of timely availability of those resources. The suppliers' credits would be used to finance 85% of the FOB cost of the main equipment items for the project, i.e. turbines, generators and transformers.

### 3. INSTITUTIONAL ASPECTS

The organization of ISA is regarded as satisfactory and the firm is qualified to execute the project. Its Finance Division was recently raised to the category of an Office of the Deputy Manager for Finance, and a Treasury Department was established at that time in the new Office. This measure was aimed at improving the structure of ISA and giving it support to enable it to discharge its growing responsibilities more effectively.

The institutional analysis indicated 2 need to provide the Office of the Deputy Manager for Technical Matters with a Program Control Unit having as its chief responsibility that of monitoring the progress of the borrower's projects to see that they remain on schedule and taking action to correct any deviation from the schedules or any delays. As a result, a recommendation on establishment of such a Program Contract Unit is included in this document.

## V. EVALUATION OF EARLIER LOANS

### 1. Loan 214/OC-CO

In May 1971 the Bank approved loan 214/OC-CO in the equivalent of US\$39,546,774 <sup>1/</sup> to assist in financing the Chivor I Hydroelectric Plant, with a 500 MW capacity. The project was completed and the generating units included in it are operating on a regular basis. The present cost of the project is the equivalent of approximately US\$195,804,000, representing a 33.8% increase over the originally estimated cost of US\$146,250,000. To finance this increase the local contribution was raised from the equivalent of US\$59,800,000 to US\$73,600,000 and the borrower secured loans from private banks and suppliers for approximately US\$24,900,000 and US\$5,500,000, respectively.

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<sup>1/</sup> Reflecting monetary adjustments (as of June 30, 1977). The original amount of the loan was the equivalent of US\$34.1 million.



The borrower is complying satisfactorily with the conditions of the loan contract. With the Bank's approval, some changes <sup>1/</sup> considered essential for proper execution, were made in the original project and the final disbursement deadline was extended 18 months. The financial statements of the borrower were being audited by a firm of independent public accountants (up to 1975), but beginning in 1976 these duties were performed by the Contraloría General de la República.

2. Loan 263/OC-CO

In December 1973 the Bank approved Loan 263/OC-CO in the equivalent of US\$48,500,000 to assist in financing the second stage of the Chivor Hydroelectric plant, designed to increase total capacity of the plant to 1,000 MW. Although there was a considerable delay in starting the project, this problem has since been solved and the civil works construction and equipment procurement is now proceeding in accordance with the updated project timetable. The present cost of the project is estimated at the equivalent of US\$144,600,000, which is 29.7% more than the originally estimated cost of US\$111,483,000. The difference would be covered by suppliers' and private bank credits.

The borrowers is complying satisfactorily with the conditions set forth in the loan contracts, including notably that on strengthening the Office of the deputy Technical Manager of ISA. Only one important change has been made to date in the design of the project as approved by the Bank. This change involves not lining the charge tunnel with concrete as was originally planned.

## VI. SPECIAL ASPECTS

1. For design of the project and supervision of its execution, ISA in February 1976 engaged the services of INTEGRAL S.A., the consulting firm that did the initial project studies, which were completed subsequently with the corresponding prefeasibility and feasibility studies. INTEGRAL S.A. of Medellín, has wide experience in the construction of hydroelectric facilities in Colombia, notably the Guatapé plant, a facility similar to San Carlos with a capacity of 560 MW whose first stage is already completed. In accordance with Section 2.03 of the "Policies and Procedures for Selection and Contracting of Professional Service Firms by Borrowers and Beneficiaries of the Bank", it is recommended that the Bank authorize ISA to continue using the consulting services of INTEGRAL S.A.. However, the Bank reserves the right to review and

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<sup>1/</sup> The principal changes were: reduction of the number of spillway gates from four to three; replacement of two sections of surface pressure pipe by two underground sections and the consequent adjustments of the list of investment categories.

approve the terms of reference for the services contracted and the price agreed upon for such services; it is also appropriate to point out that the services of the consulting firm would not be financed with funds from the Bank's loan.

PROPOSED RESOLUTION

COLOMBIA. LOAN /IC-CO TO INTERCONEXION ELECTRICA S.A.  
(San Carlos Hydroelectric Plant Project -  
First Stage)

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with Interconexión Eléctrica S.A., of Colombia, as borrower, and the Republic of Colombia, as guarantor, for the purpose of granting the former financing to cooperate in the execution of a project consisting of the first stage of construction of the San Carlos Hydroelectric plant. This financing shall be subject substantially to the following conditions:

1. Amount and Currencies: Up to US\$70,000,000 or the equivalent in other currencies which are part of the inter-regional capital resources of the Bank, to pay for goods and services acquired through international competition and for such other purposes as may be specified in the loan contract. Payments of amortization and interest shall be made in the currencies disbursed.
2. Source of Funds: The inter-regional capital resources of the Bank.
3. Guarantee: Joint and several guarantee of the Republic of Colombia
4. Credit Fee: 1-1/4% per annum on the undisbursed portion of the financing, commencing to accrue 60 days after the date of the contract and payable in dollars of the United States of America on the same dates as the interest.
5. Amortization: The borrower shall amortize the loan in a period of 20 years from the date of the contract, by means of 30 consecutive semiannual and, so far as possible, equal installments. The first installment shall be paid 5-1/2 years after such date.

6. Interest: 8% per annum, payable semiannually on principal amounts outstanding. The first payment shall be made 6 months after the date of the contract. At the request of the borrower, resources from the financing may be used to pay the interest during the disbursement period of the financing.
7. Disbursement: Total disbursement of the financing shall be made within a period of 5 years from the effective date of the contract.
8. Special Conditions:
  - (a) The resources of the loan shall be utilized in their entirety by the borrower. If modifications in the legal provisions, charter or in the basic regulations concerning the borrower are approved, which in the opinion of the Bank, may substantially affect the project, the Bank may take such measures as it deems appropriate in accordance with provisions to be set forth in the loan contract.
  - (b) The loan shall be used to participate in the execution of a project estimated at the equivalent of US\$420,457,000. Consequently, the loan and guarantee contracts shall contain such provisions as the Bank deems appropriate to assure that such resources as may be necessary, in addition to the loan, for the complete execution of the project shall be duly provided, in accordance with a schedule of investments satisfactory to the Bank, in a total amount estimated at the equivalent of US\$350,457,000, which includes the estimated US\$35,045,000 or the equivalent from suppliers and the loan for US\$126,000,000 from the International Bank for Reconstruction and Development.
  - (c) Prior to the first disbursement of the loan, the borrower shall submit to the satisfaction of the Bank evidencia that:
    - (i) It has hired a group of individual consultants to advise the borrower on specific technical matters relating to the project.
    - (ii) The stockholders meeting of the borrower has approved an increase in the borrower's capital and authorized the borrower to finance all the local-currency investments for the project for a total estimated at US\$189,412,000.
    - (iii) The participation of the Corporación Eléctrica de la Costa Atlántica (CORELCA) has been formally agreed upon in the capital stock of the borrower and the financing of the investments of the project been settled.

- (iv) The shareholders of the borrower have assumed a commitment to the borrower to subscribe the shares to be issued by the latter in compliance with the provisions set forth in (ii) above and to pay for them at such times as the borrower may require.
- (v) The borrower has sufficient title for the use of the lands required for construction of the civil works of the project.
- (vi) Evidence that the International Bank for Reconstruction and Development loan referred to in (b) above, has been approved.
- (d) Within the first quarter of each year, beginning in 1978, and throughout the execution of the project, the guarantor, through the Ministerio de Minas y Energía, and the borrower shall present evidence to the Bank that Empresas Públicas de Medellín, Empresa de Energía Eléctrica de Bogotá and Corporación autónoma Regional del Cauca (CVC) shall have the necessary funds for their investment programs, including their contributions to ISA for the San Carlos Project, or alternatively, that they have submitted for the approval of the Junta Nacional de Tarifas the necessary studies to permit the firms to generate such funds.
- (e) The guarantor shall undertake to include annually in the investment program part of the draft of the national budget, the counterpart funds to the project to be given by the stockholders of the borrower, the Instituto Colombiano de Energía Eléctrica (ICEL) and the Corporación de la Costa Atlántica (CORELCA), in the eventuality that such stockholders are not able to contribute their contributions on time and in amounts of their own resources.
- (f) When the borrower declares or pays dividends, unless they are declared or paid in its own shares, it shall have fulfilled the following requirements, except with the previous authorization of the Bank:
  - (i) that it is up-to-date in its compliance with all of its obligations to the Bank;
  - (ii) that it has established that it will have available adequate funds to meet its obligations falling due within the following 12 months;
  - (iii) that, after deducting amounts entailed in the declaring or payment of dividends, its current assets, at the close of each fiscal year, shall not be less than 120% of its current liabilities; and

- (iv) that it shall not use for the payment of dividends more than 50% of its net earnings accumulated after December 31, 1977. Nevertheless, payment of dividends amounting to a percentage greater than 50% will be allowed if the borrower has applied to the prepayment of the remaining principal installments of the loan, an amount equal to the dividends to be distributed in excess of such percentage.
- (g) Except with prior approval of the Bank, the borrower shall not acquire or redeem any of its outstanding stock, or distribute any part of its capital.
- (h) The borrower and the guarantor shall take the necessary measures acceptable to the Bank to ensure that the rates for the sale of electricity from the borrower's system, comprising the assets utilized in the generation, transmission, generated energy and the central interconnected network: (i) produce revenues at least sufficient to cover all operating expenses of the system, including those related to operation, maintenance, administration and depreciation; (ii) provide annually a reasonable return on revaluated net utility investment of the system, (iii) generate the additional revenues that are necessary to cover the timely amortization of all the obligations of the borrower.
- (i) In the acquisition of machinery, equipment and other materials for the project and in the awarding of construction contracts, the system of public bids shall be followed in each case in which the value of such acquisitions or contracts exceeds the equivalent of US\$100,000. The bidding shall be subject to the procedure to be included as an annex of the loan contract. This provision shall not apply to acquisitions made with the suppliers' credit referred to in subparagraph 8(b) of this resolution, nor to those made with the proceeds of the loan from the IBRD.
- (j) The debtor and the guarantor shall agree in the respective contracts to extend to the Bank whatever type of assurance or guarantee related to the execution of the project they may grant to any international financial agency that extends financial aid for the project.
- (k) The Bank shall establish such inspection procedures as it deems necessary to assure the satisfactory execution of the project, and the borrower and the guarantor shall extend all cooperation which is required for the most effective accomplishment of this purpose. From the amount of the financing, the sum of US\$700,000 shall be allocated for credit to the general income accounts of the Bank to meet expenses of general inspection and supervision.

RECOMMENDATIONS

In addition to the requirements set forth in the resolution, the following conditions shall be fulfilled to the satisfaction of the Bank:

1. Purchase and contract awards financed with the suppliers credits referred to in subparagraph 8(b) of Resolution DE- /77, shall be made observing procedures acceptable to the Bank that imply obtaining reasonable prices, taking into account considerations of quality, efficiency, favorable financing conditions and other appropriate factors, including the interest of the borrower.
2. The borrower shall take the necessary step so that:
  - (i) Within the period ending December 31, 1979, the borrower's shareholders shall have paid it the amount pertaining to depreciation which it owes calculated as of the last day of the month in which the loan contract is signed; and
  - (ii) from the date specified in (i) above, submit evidence annually showing that the cost for depreciation has been covered in accordance with the provisions of its charter.
3. Within the 12 months from the date of the loan contract, the borrower shall submit evidence to the Bank that it has established, within the office of its Technical Manager, with the required specialized staff, a control unit having as its principal purpose monitoring the overall achievement of the schedules for executing the borrower's projects and taking the necessary corrective measures to resolve any deviation from or delay with respect to such schedules.
4. The Bank may recognize as part of the local contribution to the project, expenditures incurred up to a total amount equivalent to US\$21.721.000 to cover engineering and infrastructure costs of the project, provided that such expenditures have been made within the 18 months preceding the date of signature of the loan contract, that requirements substantially similar to those set forth in the loan contract have been fulfilled and that the Bank has not objected to such expenditures.
5. The annual financial statements of the borrower shall be presented to the Bank certified by the Contraloría General de la República according to procedures satisfactory to the Bank, provided however that, if the borrower agrees upon it with the IBRD, that its financial statements be certified by a firm of independent public accountants such system of external auditing with be applicable to the Bank loan.
6. An annex substantially similar in context to Appendix IV (Project Description) shall be included in the loan contract.

## PROJECT DESCRIPTION

(Annex A to Loan Contract)

### A. Purpose

The basic purpose of the Project is to augment the installed energy capacity by 620 MW and the production of energy of the Colombian Electric system by 3,880 GWH. Concurrently, and for the purpose of being able to supply the consumption centers, the installation of 250 kilometers of 220 KV transmission lines with their corresponding step-down sub-stations is planned.

### B. Description of Project

The Project calls for the following works:

#### 1. Impoundment and intake facilities

An earthwork dam at the site called Punchiná with its corresponding intake structures, diversion facilities and spillway.

#### 2. Adduction facilities

The adduction facilities consist of a power tunnel approximately 4,500 meters long, an outlet channel and a pressure line.

#### 3. Generating and transformer facilities

These consist of a powerhouse to be lodged in two caves, one for generating equipment and the other for the transformers.

#### 4. Transmission facilities

Two 200 KV dual circuit transmission lines, one approximately 40 kilometers long and the other approximately 210 kilometers long.

#### 5. Infrastructure Work

Realignment of a section approximately 23 kilometers long of the existing San Carlos-Nare road and construction of access roads to the various work sites.



C. Project Cost

The total cost of the Project is estimated at the equivalent of US\$420.457.000. Following is a detail of the total cost of the Project in foreign and local currencies:

(In US\$ thousands or equivalents)

	FOREIGN EXCHANGE			LOCAL CURRENCY		Total Investment	%
	BANK-IC	IERD	Suppliers	ISA 1/	Total		
1. Engineering & Administration	500	1,209	-	18	1,727	15,557	3.7
2. Direct Construction Cost	38,571	66,566	25,953	7,308	138,398	212,459	50.5
2.1 Infrastructure works	-	-	-	463	463	13,275	3.2
2.2 Principal civil works	32,070	39,678	-	2,266	74,014	122,841	29.2
2.3 Electromechanical equipment	6,501	11,711	25,953	4,579	48,744	55,856	13.3
2.4 Transmission system	-	14,117	-	-	14,117	19,068	4.5
2.5 Telecom. & control system	-	1,060	-	-	1,060	1,419	0.3
3. Financial Costs	14,048	26,000	-	13,898	53,946	82,876	19.7
3.1 External loans	13,348	26,000	-	13,898	53,246	53,246	12.6
3.2 Domestic loans 2/	-	-	-	-	-	28,930	6.9
3.3 Bank inspection charge	700	-	-	-	700	700	0.2
4. No Specific Allocation	16,881	32,225	9,092	1,300	59,498	109,565	26.1
4.1 General contingencies	3,727	6,174	2,075	570	12,546	19,603	4.7
4.2 Provision for escalation	13,154	26,051	7,017	730	46,952	89,962	21.4
Total Investment	70,000	126,000	35,045	22,524	252,569	420,457	100.0
Percentage	16.6	30.0	8.3	5.4	60.3	39.7	100.0

1/ The proceeds of ISA's contribution correspond to: 40% from the sale of its shares among its shareholders and 60% in bonds placed among its shareholders pursuant to its Charter provisions.

2/ Interest on bonds to be sold by ISA to its partners.

D. Financing Plan

The following table shows the sources of financing and currencies of origin and use for the Project:

(in US\$ thousands equivalent)

	<u>Currency of Origin</u>		<u>Currency of Use</u>		<u>Total</u>	<u>%</u>
	<u>Foreign Exchange</u>	<u>Local Currency</u>	<u>Foreign Exchange</u>	<u>Local Currency</u>		
Bank Loan	70,000	-	70,000	-	70,000	16.6
IBRD loan	126,000	-	126,000	-	126,000	30.0
Suppliers	35,045	-	35,045	-	35,045	8.3
ISA	-	189,412	22,524	166,888	189,412	45.1
Totals	<u>231,045</u>	<u>189,412</u>	<u>253,569</u>	<u>166,888</u>	<u>420,457</u>	<u>100.0</u>
Percentages	54.9	45.1	60.3	39.7	100.0	

The IC Loan in the amount of US\$70,000,000 shall be used to finance the direct foreign exchange costs of construction of the Punchiná dam, with its corresponding intake structure, diversion facilities and spillway, including the corresponding contingencies and escalation, the interest on the Loan during the Project execution period, and the hiring of individual consultants.

E. Procurement of Goods and Services

When goods or services to be acquired through competitive bidding are to be financed in whole or in part with funds from Loan /IC-CO, the bidding procedures and specific bidding requirements shall permit unrestricted participation of bidders of or from member countries in accordance with the eligibility rules governing the use of funds from the Bank's inter-regional capital. Consequently, no conditions precluding or restricting the participation of such bidders shall be established in such procedures and/or specific requirements.

F. Consultants

The Borrower shall have available during the Project execution period the services of a firm of consulting engineers for engineering and supervision of the Project, and of a group of individual consultants to advise it in specific technical matters pertaining to the Project.

In the case of the firm of consulting engineers, the Bank will allow ISA to continue using the services of the firm INTEGRAL S.A. of Colombia. However, the Bank reserves the right to review and approve the terms of reference for the services so contracted, as well as the price agreed upon for such services.

G. CORELCA Participation

The participation of CORELCA in the Borrower's capital stock shall not be less than 35% of the participation of ICEL in such capital.

H. Tariffs and Rates of Return

In view of the objectives stipulated in Article V, Section 5.01, of the Loan Contract, the electricity rates for the electric system of the Project, formed by the assets dedicated to generation, transmission related to such generation and in the central inter-communication network, shall be so established as to produce a rate of return of at least 9% per annum on the revalued net utility investment.

GENERAL RULES AND PROCEDURES APPLICABLE TO BIDDING AND  
TO SUPPLY CONTRACTS

(San Carlos Hydroelectric Project)

I. NATURE OF THE BIDDING

In the acquisition of machinery, equipment and other materials for the Project and in the awarding of construction contract, the system of public bids will be followed in each case in which the value of such acquisitions or contracts exceeds the equivalent of one hundred thousand dollars of the United States of America (US\$100,000).

The international public bidding procedure will be applied whenever foreign exchange from the loan is used, and in such cases the bidding will be restricted to member countries of the Bank and to member countries of the International Monetary Fund that are eligible under the Bank's pertinent policies.

II. PREQUALIFICATION

- (a) Prequalification will be used in bidding on civil works. In cases of procurement of significant electrical and mechanical equipment, prequalification may also be carried out if considered necessary, or the interested firms may be required to satisfy minimum requirements in order to present proposals. Such requirements should be stated in the basic conditions for the bidding in question and in the bidding announcements, as well as in the relevant letters of invitation.
- (b) For purposes of prequalification, interested firms will be required to submit information on the following matters:
  - (i) Legal nature of the firm and other pertinent legal background information.
  - (ii) Experience of the firm in the field covered by the bidding for which the prequalification procedure is being conducted.
  - (iii) Equipment and technical staff that the firm, if given the award, will use in the matter which is the subject of the bidding.
  - (iv) Report on the financial position of the firm.

- (v) References from third parties with which the firm has contracted in the past in connection with matters similar to those that are the subject of the bidding, as well as banking and commercial references.
- (vi) Name of the banking institution or company that would issue the performance bond.
- (c) Prior to qualifying the firms that have presented information, the Borrower will submit the qualification method for the Bank's approval.
- (d) The call for bids or prequalification announcement will be publicized by means of three notices in two or more of Colombia's largest-circulation dailies on three non-consecutive days, with an interval of at least two days between notices. In addition, the Borrower will send circular letters to the embassies or consulates of the countries eligible in accordance with the provisions of these regulations notifying them of the call for bids and attaching a copy of the aforesaid announcements.
- (e) The announcements should include the following:
  - (i) A description of the goods or services on which the bidding will be held.
  - (ii) The term within which interested firms should present the information necessary for qualification.

This term should be at least 30 days beginning on the date of publication of the last announcement, unless the Borrower and the Bank agree on another term.
  - (iii) An indication of the Bank's participation in the financing and of the countries eligible to participate in the bidding.
- (f) When the Borrower has evaluated the information presented by the firms with a view to prequalification, it will submit for the Bank's consideration a report on the results of the prequalification. After the Bank has expressed its concurrence with the report, opinions and comments of the Borrower, the Borrower will make its decision. However, should the Bank's opinion not coincide with the judgement of the Borrower, an effort will be made to arrive at an understanding satisfactory to both parties before a decision is made.

- (g) The Borrower will make a written record of the final decision concerning the firms qualified and arrange for the interested parties to be notified of the decision.
- (h) Only those firms that were prequalified may participate in the bidding for which the prequalification was carried out, and considerations of capacity and financial responsibility will not be taken into account in making the pertinent award unless there have been fundamental changes in these respects since the prequalification.

### III. BIDDING

#### (a) Announcement

The Borrower will publicize the call for bids by means of at least three (3) announcements in two (2) or more of Colombia's largest-circulation dailies and at least one announcement in two (2) widely circulating international journals and will send letters with copies of such announcements to the embassies of the countries eligible under Bank policy. In addition, letters of invitation will be sent to the firms that were prequalified, when this is applicable. The announcements and invitations should include the following:

- (i) Description of the construction to be done or items to be supplied.
- (ii) Dates of opening of the bidding, place, date and hour of closing of the bidding and receipt of proposals.
- (iii) Amount and term of validity of the deposit to ensure the earnestness of the proposal.
- (iv) Where and beginning on what date the specifications will be available.
- (v) The non-refundable amount to be paid for the specifications.
- (vi) Information on the Bank's participation in financing the subject of the bidding and an indication of the countries eligible to participate.

The specific bidding requirements must be submitted for the Bank's approval together with the text of the notice or letter to be addressed to the embassies or consulates of the countries eligible under Bank's policy simultaneously with the publication of the call for bids in the press.

Copies of the announcements published and of the invitations for each bidding operation must be sent to the Bank.

(b) Term for Submitting Bids

The term for submitting bids will vary according to the complexity of the bidding operation but will not be shorter than 90 days for the principal civil works or 60 days for equipment and for other bidding operations; in all cases, the term will be counted from the date of publication of the last announcement in the dailies mentioned in Paragraph III (a).

(c) Acquisition of the Bidding Documents

In order to acquire the bidding documents, interested parties should deposit to the order of Interconexion Eléctrica S.A., in such checking account as indicated in the announcements, the value of those documents. By presenting the deposit receipt they can then obtain the documentation at the place stated in the announcements.

Interested parties not residing in Bogotá, Colombia, may send the Borrower a certified cashier's check for 125% of the amount indicated in the announcements and invitations, to cover the cost of the documentation and registered air mail postage.

(d) Registration of Entities Obtaining the Documentation

The Borrower will keep a registry of the entities that have withdrawn specifications, indicating the date they withdrew them, the number of copies withdrawn and the address and telephone of the entity.

IV. SCHEDULES OF CONDITIONS AND PROCEDURES

Scope and Content of the Schedules of Conditions

The schedules of conditions should be drafted in such a way as to permit unrestricted international competition. They shall contain a clear and precise description of the construction to be done or equipment or services requested. They shall also indicate the main factors to be taken into account in the evaluation and comparison of proposals.

For equipment or materials, the standards to which the proposals are to conform should be mentioned, and to the extent possible no reference should be made to trade marks, catalog numbers or types of equipment from a particular manufacturer.

The schedules of conditions for each bidding operation will consist of the following six parts:



## Part I. Information for Bidders

This part should contain general information for bidders, the invitation, a description of the project, and information on how the supply would be financed, what countries are eligible under Bank policy, and any special conditions.

## Part II. Instructions to Bidders

### (a) Presentation of offers; prices and escalation

Completed instructions should be given on preparing and presenting the offers, together with the necessary information on all the documents to be presented with the offer; in addition, this part should contain instructions and explanations as to how the data and information required in the specifications sheets of the call for bids should be presented. All the offers must be accompanied by a deposit to ensure the earnestness of the offer, which should not be less than 5% of the total value of the proposal. The prices of the offers should indicate the foreign exchange and local currency components separately. Prices in foreign currencies may be stated in the currency of the bidder's country, in the currency of the country of the firm heading the consortium, if any, or in dollars. Clear indications should be given as to the escalation clauses, if any are considered, maximum delivery times, optional alternatives, plans, etc. The bidders will be required to supply information on their experience and production capacity, as well as their financial statements. In the event it should be necessary to introduce changes into the specifications or time periods, the borrower and the Bank will by common agreement decide on the period required under paragraph III (b), and the Borrower will communicate the changes to all the firms that obtained specification sheets. The firms should acknowledge receipt of the amendments. Any changes made will be considered an integral part of the specification sheets. Copies of the changes should also be sent to the embassies.

In examining the proposals the Borrower will reject any offers not conforming to the schedules of conditions. However, if the non-conformance refers to minor aspects, the Borrower may refrain from rejecting the proposal provided the Bank so agrees. In addition, the Borrower reserves the right to declare a bidding operation void when the results are not in its interest, but in order to do so there must be prior consent of the Bank based on submission of justifying information. In such case the Borrower will review the bidding specifications and bases in order to

determine the factors that led to the bidding being voided; depending upon the results of that review, and with the prior consent of the Bank, the Borrower will call a second bidding operation, following, if advisable, the same procedures as were used in the first bidding operation. Should this second bidding operation also be voided, the borrower will consult with the Bank to determine the future course of action.

(b) Evaluation of Proposals and Adjudication

The factors to be taken into consideration in evaluating the proposals and making the award should be contained in this section. In analyzing and comparing the offers and making the selection, the prices, delivery times and escalation clauses will be taken into consideration if the main contract for civil works is involved; in bidding operations for machinery and equipment and in minor bidding on civil works, the technical characteristics of the offer and the experience of the bidders will also be considered. In cases of bidding on equipment to be financed with suppliers' credit and/or credit from export financing institutions, the terms of financing will be considered in evaluating the offers.

The Borrower will consider only those proposals that in its judgment conform essentially to the bidding conditions contained in the announcements or in the specification sheets and have been presented by bidders with adequate experience and financial soundness.

In the case of a bidding operation in which the Borrower requests the submission of a basic offer but also allows submission of optional offers, the Borrower will compare and evaluate the basic offers and determine which of them is best in order to make the award to the bidder that presented it; however, once that determination has been made, the Borrower may compare the optional alternatives presented by the bidder that made the best basic offer and, in lieu of the latter, may select the optional alternative best meeting its own interests.

In the case of bidding in which the Borrower requests the submission of "required alternative" offers the Borrower will determine which "required alternative" is the best; once it has been determined, that offer will be designated as the "required basic alternative". The Borrower will then compare and evaluate the "required basic alternative" offers of all the bidders and select the best one of them. This offer may be compared by the Borrower with the "optional alternative" offers presented by the bidder that submitted the best "required basic alternative" which had already been selected. In such case the Borrower may choose one of those "optional alternative offers" if it is better than the corresponding required basic offer.

After the Borrower has formed a judgement regarding the award, it will present all the pertinent information to the Bank, including the comparative table of offers and the relevant resolution of its Board of Directors. When the Bank's concurrence has been communicated in writing, the Borrower may publically announce the result of the bidding and communicate it to the winning firm or firms, sending them the draft contract or purchase order and their annexes. The order should be returned by the contractor duly signed and accompanied by the required documentation, such as proforma invoice, required guarantees, etc.

(c) Margins of Preference

In evaluating the offers received as a result of international bidding on the supply of goods, the Borrower may apply a margin of preference of up to 15% in favor of goods of national origin and may also apply, if the award was not made to a national supplier, a subregional or regional margin of preference, as appropriate, when the goods come from countries that are members of an integration agreement to which the Borrower's country is also a party.

In applying national, subregional or regional margins of preference, the pertinent policies of the Bank will be observed.

Part III. Conditions of the Contract

This part should include provisions on the following matters: Purpose of the contract, contract documents, value of the contract, prices in the contract and contractor's costs, work volumes, form of payment, readjustment formulas, guarantees and insurance, work schedule, completion date and penalties, information on the work and representations made by the contractor, areas, access roads, other temporary work for which the contractor is responsible, extra and additional work, plans, specifications and changes, supply of materials and services, importation of materials for the construction in question, changes, technical inspection of the work, technical supervision of the work and personnel of the contractor, materials and quality of the work, subcontracts, suppliers and assignment of the contract, relations with other contractors, nonliability of the Borrower, responsibility of the contractor and legal rules, amendments of the work schedule and form of payment and suspensions of the work, unforeseen situations, damages or delays for reasons of force majeure, records and progress payments for work done, claims, grounds for termination of the contract, financial penalties, tests and inspections for final delivery of work, final delivery and reception of work, final payments and settlement of the contract, stability of the work and period of guarantee, home jurisdiction, joint and several responsibility, compromise clause, language, communications, and perfecting of the contract. The model forms of purchase order and special conditions of the performance bond will also be included.

The draft of the contract to be entered into with the winning firm shall be submitted for the Bank's consideration to allow it to express its observations, if any. The Borrower will send the Bank a copy of the contract once it is signed to the Bank's satisfaction. Any amendment to such contract will be subject to prior approval by the Bank.

Part IV. General Conditions

Part V. Technical Specifications and Plans

Part VI. Proposal Form

(a) General Aspects

The text should include general information, valid for any alternative, on the following matters: letter of presentation, experience of the bidder, proposed subcontractors, and escalation clauses.

(b) Forms

These should include all the information required for each alternative, including prices, lists of replacement parts and tools, plans, guaranteed delivery time, schedule for delivery of basic plans and for assembly and field tests, and guaranteed characteristics.