

CONFORMED COPY

LOAN NUMBER 7092 - CO

Loan Agreement

(Structural Fiscal Adjustment Loan)

between

REPUBLIC OF COLOMBIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated December 19, 2001

LOAN NUMBER 7092 - CO

LOAN AGREEMENT

AGREEMENT, dated December 19, 2001, between the REPUBLIC OF COLOMBIA (the Borrower) and the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Bank has received from the Borrower a letter, dated November 14, 2001, describing a program of actions, objectives and policies designed to improve the Borrower's fiscal situation (hereinafter called the Program), declaring the Borrower's commitment to the execution of the Program, and requesting assistance from the Bank in support of the Program during the execution thereof; and

(B) on the basis, inter alia, of the foregoing, the Bank has decided in support of the Program to provide such assistance to the Borrower by making the Loan in three tranches as hereinafter provided;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements for Fixed-Spread Loans" of the Bank, dated September 1, 1999, with the

modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) Section 2.01, paragraph 41, is modified to read:

"'Project' means the program, referred to in the Preamble to the Loan Agreement, in support of which the Loan is made.";

(b) Section 3.08 is modified to read:

"Each withdrawal of an amount of the Loan from the Loan Account shall be made in the Loan Currency of such amount. If the Loan Currency is not the currency of the deposit account specified in Section 2.02 of the Loan Agreement, the Bank, at the request and acting as an agent of the Borrower, shall purchase with the Loan Currency withdrawn from the Loan Account the currency of such deposit account as shall be required to deposit the withdrawn amount into such deposit account.";

(c) Section 5.01 is modified to read:

"The Borrower shall be entitled to withdraw the proceeds of the Loan from the Loan Account in accordance with the provisions of the Loan Agreement and of these General Conditions.";

(d) The last sentence of Section 5.03 is deleted;

(e) Section 9.07 (c) shall be modified to read:

"(c) Not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, the Borrower shall prepare and furnish to the Bank a report, of such scope and in such detail as the Bank shall reasonably request, on the execution of the program referred to in the Preamble to the Loan Agreement, the performance by the Borrower and the Bank of their respective obligations under the Loan Agreement and the accomplishment of the purposes of the Loan."; and

(f) Section 9.05 is deleted and Sections 9.06, 9.07 (as modified above), 9.08 and 9.09 are renumbered, respectively, Sections 9.05, 9.06, 9.07 and 9.08.

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

(a) "Central Government" means the Borrower's central government as defined in Article 38 of the Borrower's Law 489, of December 29, 1998;

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

(c) "First Tranche" means the portion of the Loan, not exceeding \$160,000,000, to be released by the Bank to the Borrower upon fulfillment of the conditions set forth in Sections 2.02(a) and 5.01 of this Agreement, and Sections 12.01 and 12.02 of the General Conditions;

(d) "Floating Tranche" means the portion of the Loan, not exceeding \$60,000,000, to be released by the Bank to the Borrower upon fulfillment of the conditions set forth or referred to in Section 2.02 (e) of this Agreement;

(e) "ISS" means Instituto de Seguros Sociales, the Borrower's Social Security Institute, established pursuant to the Borrower's Law No. 90/1946, as amended by Article 275 of the Borrower's Law 100/1993;

(f) "Second Tranche" means the portion of the Loan, not exceeding \$180,000,000, to be released by the Bank to the Borrower upon fulfillment of the conditions set forth or referred to in Section 2.02 (d) of this Agreement; and

(g) "Territorial Entities" means the Borrower's entidades territoriales defined in Article 286 of the Borrower's Constitution, which consist of the departments, districts, municipalities and indigenous territories.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount equal to four hundred million Dollars (\$400,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.09 of this Agreement.

Section 2.02. (a) The Borrower shall, prior to furnishing to the Bank the first request for withdrawal from the Loan Account: (i) pay the front-end fee referred to in Section 2.04 of this Agreement; (ii) open and thereafter maintain in its central bank a deposit account in Dollars on terms and conditions satisfactory to the Bank. All withdrawals from the Loan Account shall be deposited by the Bank into the Deposit Account.

(b) Subject to the provisions of paragraphs (c), (d) and (e) of this Section, the Borrower shall be entitled to use the proceeds of the Loan withdrawn from the Loan Account and deposited in the Deposit Account in support of the Program.

(c) The Borrower undertakes that the proceeds of the Loan shall not be used to finance expenditures excluded pursuant to the provisions of Schedule 1 to this Agreement. If the Bank shall have determined at any time that any proceeds of the Loan shall have been used to make a payment for an expenditure so excluded, the Borrower shall, promptly upon notice from the Bank: (i) deposit into the Deposit Account an amount equal to the amount of said payment; or (ii) if the Bank shall so request, refund such amount to the Bank. Amounts refunded to the Bank upon such request shall be credited to the Loan Account for cancellation.

(d) No withdrawals shall be made from the Loan Account in respect of the Second Tranche unless: (i) the amount of the First Tranche has been disbursed by the Bank to the Borrower; and (ii) the Bank shall be satisfied, after an exchange of views as described in Section 3.01 of this Agreement based on evidence satisfactory to the Bank: (A) with the progress achieved by the Borrower in the carrying out of the Program; (B) that the macroeconomic policy framework of the Borrower is consistent with the objectives of the Program; and (C) that the actions described in Schedule 3 to this Agreement have been taken in form and substance satisfactory to the Bank. If, after said exchange of views, the Bank shall have given notice to the Borrower that the applicable conditions referred to in this paragraph have not been fulfilled, and, within 90 days after such notice, any such conditions continue to be unfulfilled, then the Bank may, by notice to the Borrower, cancel the unwithdrawn amount of the Second Tranche.

(e) No withdrawals shall be made from the Loan Account in respect of the Floating Tranche unless: (i) the amount of the First Tranche has been disbursed by the Bank to the Borrower; and (ii) the Bank shall be satisfied, after an exchange of views as described in Section 3.01 of this Agreement based on evidence satisfactory to the Bank: (A) with the progress achieved by the Borrower in the carrying out of the Program; (B) that the macroeconomic policy framework of the Borrower is consistent with the objectives of the Program; and (C) that the actions described in Schedule 4 to this Agreement have been taken in form and substance satisfactory to the Bank. If, after said exchange of views, the Bank shall have given notice to the Borrower that the applicable conditions referred to in this paragraph have not been fulfilled, and, within 90 days after such notice, any such conditions continue to be unfulfilled, then the Bank may, by notice to the Borrower, cancel the unwithdrawn amount of the Floating Tranche.

Section 2.03. The Closing Date shall be December 31, 2002 or such later date as

the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a front-end fee in an amount equal to one per cent (1%) of the amount of the Loan. Such fee shall be paid by the Borrower not later than 60 days after the Effective Date.

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

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

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

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the provisions of Schedule 2 to this Agreement.

Section 2.09. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management:

- (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency;
- (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan from a Variable Rate to a Fixed Rate, or vice versa; and
- (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on said Variable Rate.

(b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a "Conversion," as defined in Section 2.01 (7) of the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

(c) Without limitation upon the provisions of paragraph (a) of this Section, the Borrower and the Bank hereby agree that, unless otherwise notified by the Borrower in accordance with the provisions of the Conversion Guidelines, the interest rate basis applicable to consecutive withdrawals from the Loan Account which in the aggregate equal \$20,000,000 shall be converted from the initial Variable Rate to a Fixed Rate in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

ARTICLE III

Particular Covenants

Section 3.01. (a) The Borrower and the Bank shall from time to time, at the request of either party, exchange views on the progress achieved in the carrying out of the Program and the actions specified in Schedules 3 and 4 to this Agreement.

(b) Prior to each such exchange of views, the Borrower shall furnish to the Bank for its review and comments a report on the progress achieved in the carrying out

of the Program, in such detail as the Bank shall reasonably request.

(c) Without limitation upon the provisions of paragraph (a) of this Section, the Borrower shall exchange views with the Bank on any proposed action to be taken after the disbursement of the Loan which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program, including any action specified in Schedules 3 or 4 to this Agreement.

Section 3.02. Upon the Bank's request, the Borrower shall:

(a) have the Deposit Account audited in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

(b) furnish to the Bank as soon as available, but in any case not later than four months after the date of the Bank's request for such audit, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(c) furnish to the Bank such other information concerning the Deposit Account and the audit thereof as the Bank shall have reasonably requested.

ARTICLE IV

Additional Event of Suspension

Section 4.01. Pursuant to Section 6.02 (p) of the General Conditions, the following additional event is specified, namely, that a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

ARTICLE V

Effective Date; Termination

Section 5.01. The following event is specified as an additional condition to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions, namely, that the macroeconomic framework of the Borrower is consistent with the objectives of the Program.

Section 5.02. The date February 19, 2002 is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Borrower; Addresses

Section 6.01. The Minister of Finance and Public Credit of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

Ministry of Finance and Public Credit
Palacio de los Ministerios
Plaza San Agustín
Carrera 7a, No. 6-45, Piso 3
Santa Fé de Bogotá
Colombia

Cable address:

Telex:

Facsimile:

MINHACIENDA

43289 MHAC CO

(571) 350-9344

For the Bank:

International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

Telex:

Facsimile:

477-6391

INTBAFRAD

248423 (MCI) or

(202)

Washington, D.C.

64145 (MCI)

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

REPUBLIC OF COLOMBIA

By /s/ Luis Alberto Moreno

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Olivier Lafourcade

Acting Regional Vice President
Latin America and the Caribbean

SCHEDULE 1

Excluded Expenditures

For purposes of Section 2.02 (c) of this Agreement, the proceeds of the Loan shall not be used to finance any of the following expenditures:

1. expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;
2. expenditures for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association shall have financed or agreed to finance, or which the Bank or the Association shall have financed or agreed to finance under another loan or a credit;
3. expenditures for goods included in the following groups or subgroups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Bank by notice to the Borrower:

Group	Subgroup	Description of Items
112	-	Alcoholic beverages

121	-	Tobacco, unmanufactured, tobacco refuse
122	-	Tobacco, manufactured (whether or not containing tobacco substitutes)
525	-	Radioactive and associated materials
667	-	Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971	-	Gold, non-monetary (excluding gold ores and concentrates)

4. expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;

5. expenditures for environmentally hazardous goods (for purposes of this paragraph the term "environmentally hazardous goods" means goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party);

6. expenditures: (a) in the territories of any country which is not a member of the Bank or for goods procured in, or services supplied from, such territories; or (b) on account of any payment to persons or entities, or any import of goods, if such payment or import is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and

7. expenditures under a contract in respect of which the Bank determines that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Loan during the procurement or execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Bank to remedy the situation.

SCHEDULE 2

Amortization Schedule

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (Installment Share). If the proceeds of the Loan shall have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by

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

Payment Date	Installment Share (Expressed as a %)
On each May 15 and November 15	
Beginning November 15, 2010 through May 15, 2015	10%

2. If the proceeds of the Loan shall not have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:

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

(b) Any withdrawal made after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which shall be the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (the Original Installment Share) and the denominator of which shall be the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such repayment amounts to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

3. (a) Withdrawals made within two (2) calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

(b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph 3, if at any time the Bank shall adopt a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.

4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the withdrawn principal amount of the Loan to an Approved Currency, the amount so converted in said Approved Currency that shall be repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to said Conversion by either: (i) the exchange rate that reflects the amounts of principal in said Approved Currency payable by the Bank under the Currency Hedge Transaction relating to said Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

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

SCHEDULE 3

Actions Referred to in Section 2.02 (d) (ii) (C)
of this Agreement (Second Tranche Conditions)

1. The constitutional amendment (Acto Legislativo No. 1, dated July 30, 2001), which amended Articles 347, 356 and 357 of the Borrower's Constitution, regarding transfers of resources from the Central Government to Territorial Entities, is being implemented in accordance with its terms, including by limiting the rate of growth of: (a) total transfers of resources to Territorial Entities to a rate equivalent to the rate of inflation in 2001 plus two percentage points; and (b) the operational expenditures of the entities of the Central Government set forth in Article 38, paragraph 1, of the Borrower's Law No. 489, of December 29, 1998, to a rate equivalent to the rate of inflation in 2001 plus 1.5 percentage point.

2. (a) The Borrower's Presidential Decree No. 2540, of November 27, 2001, governing debt and borrowing of Territorial Entities, is being implemented in accordance with its terms; and (b) since July 1, 2001, Territorial Entities have not received any bailouts or guarantees of their debt, as provided in the Borrower's Law No. 617, of October 6, 2000.

3. (a) The Borrower's Law No. 60 of 1993 has been amended to provide for certification of municipalities that, together with districts, represent at least 40 percent of the country's school enrollment enabling such municipalities to autonomously manage the provision of education services (including teacher payroll) and to establish education performance monitoring mechanisms; or (b) the Central Government has certified municipalities that, together with districts, represent at least 14 percent of the country's school enrollment enabling such municipalities to autonomously manage the provision of education services (including teacher payroll), and performance agreements, satisfactory to the Bank, have been entered into between the Central Government and such certified districts and municipalities. In either case, no extra budgetary transfers for education to such certified districts or municipalities shall have taken place.

4. The Central Government has signed and has started the implementation of contracts with at least three Territorial Entities to finance the restructuring of the hospitals of such Territorial Entities, such contracts to include specific annual targets for productivity increases in inpatient and outpatient services and labor cost reductions with a view to achieving, in a manner satisfactory to the Bank, fiscal savings for such Territorial Entities equivalent to at least five percent per month on average, in real terms, in relation to the same period in 2001.

5. At least 60 percent of the health-related funds of the situado fiscal (budgetary transfers) (after deducting mandatory legal contributions) set forth in the Borrower's budget for 2001 have been transformed to finance demand subsidies for health services.

6. The Central Government and the ISS have reached an agreement to generate annual savings in ISS's total costs over a ten-year period which will, in the opinion of the Bank, make ISS financially and economically viable.

7. (a) The Central Government is carrying out and controlling the transfers of public pension regimes into a single agency, reducing payments of ineligible pension claims; and (b) controls, inter alia, of payments of ineligible pension claims by the Central Government are generating fiscal savings of, on average, at least \$10,000,000 equivalent per month.

8. The Central Government's total actual current expenditures (net of interest payments and transfers to Territorial Entities and to social security) that are being incurred in 2002 are generating average savings of more than 4 percent in real terms in relation to the same expenditures incurred during the same period in 2001.

9. The Borrower's budget approved for 2002 has included general expenditures (gastos generales) that in real terms are not higher than those effectively incurred under the Borrower's executed budget for 2001.

SCHEDULE 4

Actions Referred to in Section 2.02 (e) (ii) (C) of this Agreement (Floating Tranche Conditions)

1. The draft law (Proyecto de Ley) No. 086, reforming the tax system of the

Territorial Entities (Estatuto de Ingresos Territoriales), which was submitted to the Borrower's Congress on September 6, 2001, has become a law substantially in accordance with the submitted draft law.

2. (a) The Borrower's Congress has approved a law to reform the Borrower's general pension system governed by the Borrower's Law No. 100/1993 in order to put such system on a sustainable path, in a manner satisfactory to the Bank; or (b) the Borrower's Congress has approved a law to reform at least one of the pension regimes which are exempted from the rules applicable to the Borrower's general pension system in a manner that brings the reformed regime or regimes, in the opinion of the Bank, in line with the Borrower's general pension system.

