

CONFORMED COPY

LOAN NUMBER 7049-CO

Loan Agreement

(Public Financial Management Project II)

between

REPUBLIC OF COLOMBIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated April 18, 2001

LOAN NUMBER 7049-CO

LOAN AGREEMENT

AGREEMENT, dated April 18, 2001, between REPUBLIC OF COLOMBIA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS the Borrower, having satisfied itself as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project), has requested the Bank to assist in the financing of the Project; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the loan provided for in Article II of this Agreement (the Loan) upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee

Agreements for Fixed-Spread Loans" of the Bank, dated September 1, 1999 (the General Conditions), constitute an integral part of this Agreement.

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) "DIAN" means Dirección de Impuestos y Aduanas Nacionales, the Borrower's Directorate of National Taxes and Customs;

(b) "DNP" means Departamento Nacional de Planeación, the Borrower's National Planning Department;

(c) "MHCP" means Ministerio de Hacienda y Crédito Público, the Borrower's Ministry of Finance and Public Credit;

(d) "PMU-DNP" means the unit established in DNP for the purposes of coordinating and managing the carrying out of certain components of Part B of the Project;

(e) "PMU-MHCP" means the unit established in MHCP for the purposes of coordinating and managing the carrying out of Part A and certain components Part B of the Project;

(f) "Operational Manual" means the manual referred to in Section 5.01 (a) of this Agreement;

(g) "Project Administration Agent" means the UNDP or any other legal entity with procurement and administrative experience and qualifications acceptable to the Bank;

(h) "Project Administration Agreements" means the agreements referred to in Section 3.03 of this Agreement;

(i) "Project Coordination Committee" means the committee referred to in Section 3.04(b) of this Agreement, composed by: (i) the Vice-Minister of Finance; (ii) the Sub-Director of DNP; and (iii) the General Director of DIAN;

(j) "SIIF" means Sistema Integrado de Información Financiera, the Borrower's integrated financial management information system;

(k) "SINERGIA" means Sistema Nacional de Evaluación de Gestión y Resultados, the Borrower's national system for evaluation of results of public sector performance; and

(l) "UNDP" means the United Nations Development Program, an agency of the United Nations.

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 thirty-five million four hundred seventy thousand Dollars (\$35,470,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.09 of this Agreement.

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

Section 2.03. The Closing Date shall be October 31, 2006 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 payable not later than sixty (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 February 15 and August 15 in each year.

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

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

(i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency;

(ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan from a Variable Rate to a Fixed Rate, or vice versa; and

(iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on said Variable Rate.

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

(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 the aggregate principal amount of the Loan withdrawn during each Interest Period shall be changed from the initial Variable Rate to a Fixed Rate for the full maturity of such amount in accordance with the provisions of Article IV of

the General Conditions and of the Conversion Guidelines.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project, and, to this end, shall carry out the Project through DNP and MHCP with due diligence and efficiency and in conformity with appropriate administrative and financial practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation to the provisions of paragraph (a) above, the Borrower shall: (i) not later than October 31 of each year during the execution of the Project, furnish to the Bank, for approval, a plan containing a detailed list of the activities to be carried out and expenditures to be incurred, in respect of each of the Parts of the Project, during the immediately following calendar year; and (ii) carry out the Project in accordance with each such plan, as approved by the Bank, and the provisions of the Operational Manual.

Section 3.02. Except as the Bank shall otherwise agree, procurement of goods and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.03. (a) The Borrower, through DNP and MHCP shall enter into agreements with a Project Administration Agent, under terms and conditions satisfactory to the Bank (the Project Administration Agreements), whereby: (i) the Borrower will authorize the Project Administration Agent to undertake, on behalf of the Borrower, the procurement of goods and services under the Project in accordance with the procedures set forth or referred to in this Loan Agreement, and the bidding documents and requests for proposals prepared by the Borrower; (ii) the Project Administration Agent will undertake to keep separate records and accounts in respect of such goods and services, and to assist the Borrower in all other aspects of the carrying out of the Project and in complying with the Borrower's obligations under this Loan Agreement; and (iii) the Borrower will undertake to transfer to the Project Administration Agent the proceeds of the Loan and the counterpart funds as required for the Project Administration Agent to effect the payments of goods and services under the Project.

(b) The Borrower shall exercise its rights, and comply with its obligations under the Project Administration Agreements in such a manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Project, and, except as the Bank shall otherwise agree, the Borrower, shall not assign, amend, abrogate, waive or fail to enforce such agreement or any provision thereof.

Section 3.04. The Borrower shall:

(a) maintain, during the execution of the Project, the PMU-MHCP and the PMU-DNP with a structure and functions satisfactory to the Bank, and staff with terms of reference, qualifications and experience satisfactory to the Bank, such staff as specified in the Operational Manual.

(b) appoint and maintain during the execution of the Project, a Project Coordination Committee, with membership satisfactory to the Bank, to be responsible for the overall implementation and coordination of the activities under the Project.

(c) employ, during the execution of the Project, a professional, with qualifications and experience, and under terms of reference, satisfactory to the Bank (the Secretary of the Project Coordination Committee), responsible for supporting the Project Coordination Committee in implementing and coordinating the activities of the

Project.

Section 3.05. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in _____ the Operational Manual, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about the 35th month after the Effective Date, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank, on the 36th month after the Effective Date, or such later date as the Bank shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter.

Section 3.06. For the purposes of Section 9.08 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank 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, a plan for the continuing achievement of the objectives of the Project; and

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

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall establish and maintain financial management systems in the PMU-MHCP and the PMU-DNP, including records and accounts, and prepare financial statements in a format acceptable to the Bank, adequate to reflect the operations, resources and expenditures of the Borrower related to the Project.

(b) The Borrower shall:

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

(ii) furnish to the Bank as soon as available, but in any case not later than four months after the end of each such year, (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited, and (B) an opinion on such statements, records and accounts and the report of such audit, by said auditors, of such scope and such detail as the Bank shall have reasonably requested; and

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

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure or Project Management Reports, the Borrower shall:

(i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;

(ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Bank's representatives to examine such records; and

(iv) ensure that such records and accounts are included in the annual audit report referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure or Project Management Reports, as the case may be, submitted during such year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. (a) Without limitation upon the provisions of Section 4.01 of this Agreement, the Borrower shall carry out a time-bound action plan acceptable to the Bank for the strengthening of the financial management systems referred to in paragraph (a) of said Section 4.01 in order to enable the Borrower, not later than six months after the Effective Date, or such later date as the Bank shall agree, to prepare quarterly Project management reports, acceptable to the Bank, each of which:

(i) (A) sets forth actual sources and applications of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for the Project for the six-month period following the period covered by said report, and (B) shows separately expenditures financed out of the proceeds of the Loan during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Loan during the six-month period following the period covered by said report;

(ii) (A) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and (B) explains variances between the actual and previously forecast implementation targets; and

(iii) sets forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the Loan, as at the end of the period covered by said report.

(b) Upon the completion of the action plan referred to in paragraph (a) of this Section, the Borrower shall prepare, in accordance with guidelines acceptable to the Bank, and furnish to the Bank not later than 45 days after the end of each calendar quarter a report for such period as provided in paragraph (a) above.

Section 4.03. The Borrower shall furnish to the Bank, not later than four

months after the Effective Date, a report, of such scope and in such detail as the Bank shall request, by the auditors referred to in Section 4.01 (b) (i) above on the internal financial management controls of the PMU-MHCP and PMU-DNP.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (p) of the General Conditions, the following additional event is specified, namely that the Project Administration Agent shall have failed to perform any of its obligations under the Project Administration Agreements.

ARTICLE VI

Effectiveness; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of this Agreement, within the meaning of Section 12.01 (c) of the General Conditions:

(a) the Borrower has adopted a manual, satisfactory to the Bank (the Operational Manual), containing the detailed procedures for the carrying out of the Project, such as the responsibilities, structure and staffing requirements of the PMU-MHCP and the PMU-DNP, the mechanisms for coordination of the activities of such units, the procurement procedures (including standard bidding documents and contracts) and the financial management procedures for the Project, and the indicators for the monitoring and evaluation of the Project;

(b) the PMU-MHCP and the PMU-DNP have been staffed as provided in Section 3.04 (a) of this Agreement;

(c) the professional referred to in Section 3.04 (b) has been employed;

(d) the financial management systems referred to in Section 4.01 (a) of this Agreement have been strengthened in a manner satisfactory to the Bank;

(e) the Project Administration Agreements have become effective; and

(f) the Borrower has prepared the drafts of the documents for international and national competitive bidding procedures for the procurement of goods, and the requests for proposals in respect of consulting firms' services to be undertaken during the first six months of Project execution.

(f) The financial management system referred to in Section 4.01 (a) of this Agreement has been established in a manner satisfactory to the Bank.

Section 6.02. The date July 18, 2001, is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

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

General Conditions.

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

For the Borrower:

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

Cable address:	Telex:	Facsimile:
MINHACIENDA	43289 MHAC CO	(571) 3509344

With copies to:

Departamento Nacional de Planeación
Subdirección General
Calle 26, No. 13-19, Piso 14
Santa Fé de Bogotá
Colombia

Facsimile:
(571) 3340221

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:
INTBAFRAD Washington, D.C.	248423 (MCI) or 64145 (MCI)	(202) 477-6391

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

REPUBLIC OF COLOMBIA

By /s/ Juan Esteban Orduz

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ David de Ferranti

Regional Vice President
Latin America and the Caribbean

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

Category	Amount of the Loan Allocated (Expressed in Dollars)	% of Expenditures to be Financed
(1) Goods	17,040,000	100% of foreign expenditures, 100% of local expenditures (ex- factory cost) and 85% of local expenditures for other items procured locally
(2) Consultants' services and training	18,430,000	100%
TOTAL	35,470,000	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower; and

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) any expenditure under any of the Categories in the table in paragraph 1 above, unless and until the Borrower shall have paid to the Bank in full the front-end fee referred to in Section 2.04 of this Agreement; and

(b) payments made for expenditures prior to the date of this Agreement, except that withdrawals in the aggregate amount of \$500,000, may be made on account of payments made for expenditures incurred within one year from the date of this Agreement, but not before March 1, 2001.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditures for expenditures for training, and under contracts for goods and consultants' services that are not subject to prior review by the Bank pursuant to Part D.2 of Section I and Part D.2 of Section II of Schedule 4 to this Agreement, under such terms and conditions as the Bank shall specify by notice to the Borrower.

5. Once the action plan referred to in Section 4.02 (a) of this Agreement has been completed in a manner satisfactory to the Bank, the Borrower will have the option to request withdrawals from the Loan Account on the basis of Project management reports,

such withdrawals to be made under terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are: (a) to strengthen DIAN's institutional capacity to foster voluntary compliance by taxpayers with tax laws and regulations, to collect revenues efficiently, effectively and equitably, and to combat tax evasion and smuggling so as to enable DIAN to mobilize adequate tax revenues to finance public expenditures; and (b) to strengthen the Borrower's public expenditure management policies and practices at the central government level in order to facilitate achievement of fiscal and national development objectives, improve cost effectiveness of public services, and increase accountability and transparency of public expenditures.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Bank may agree upon from time to time to achieve such objectives:

Part A - Revenue Administration

Provision of technical assistance (including acquisition of goods and provision of training in connection therewith) in:

(a) the strengthening of critical areas of DIAN's organization and management, such as strategic planning and management, personnel management and professional development, prevention and control of corruption, information management, and management of notifications, official correspondence and archives;

(b) the promotion of voluntary compliance with tax policies, laws and regulations by supporting the setting-up of integrated taxpayers education and assistance centers, training external stakeholders in tax and customs policies and procedures, expanding the reach and scope of electronic interaction between DIAN and taxpayers, establishing and putting into operations the Office of the Taxpayer Ombudsman, and fostering a tax compliance culture;

(c) (i) the increase in the efficiency and productivity of routine tax administration operations, by updating, expanding and improving the systems for registration of taxpayers, taxpayer current account, accounting of tax and customs duty collections, control of tax refunds and credits, and monitoring of filing of tax declarations and payments, and (ii) the development and implementation of a system for assessment of presumptive taxes for small and medium size enterprises;

(d) (i) the improvement of routine customs operations, such as cargo processing, processing of customs declarations and payments, release of merchandise, monitoring and control of warehouses, and sale of confiscated goods, and (ii) the enhancement of taxpayer current accounts to include customs transactions;

(e) the strengthening of DIAN's enforcement capacity, by improving its capacity to carry out economic studies, to manage external information, to carry out intelligence operations, risk analysis for selection of cases for tax audits, tax audits and investigations, risk analysis for selection of cargo consignments for inspection, and post-release customs audits, to control value-added tax (VAT) invoices, and to recover tax arrears, and by strengthening DIAN's legal area; and

(f) the review and revision of tax and customs policies, laws and regulations, and the strengthening of DIAN's ability to participate in international tax and customs negotiations.

Part B - Public Expenditure Management

Provision of technical assistance (including acquisition of goods and training in connection therewith) in:

1. the improvement of macro-programming and formulation and monitoring of the budget, through:

(a) clarification and adjustment of the roles and responsibilities of different entities that participate in the programming, budgeting, execution and evaluation of public expenditures;

(b) development, enhancement and implementation of models and information for: (i) medium-term and long-term macro-economic projections and simulations, (ii) evaluation of expenditure and revenue policies to assist in decisions regarding reforms in the fiscal structure, (iii) generation of consolidated economic, fiscal and budgetary accounts of the public sector, (iv) classification of budget execution information contained in the SIIF according to economic categories, and (v) monitoring of public sector finances;

(c) development, improvement and implementation of methodologies and systems for: (i) analysis of budget programming, (ii) quantification of expenditures earmarked by different laws and development of options for reforms aimed at reducing earmarking, (iii) projection of revenues, with interfaces with DIAN's information systems, (iv) calculation of unit costs of inputs and outputs, initially for the Borrower's transport sector and the Borrower's judiciary and, subsequently, for the Borrower's education and health sectors, (v) formulation and monitoring of the investment budget of the Borrower's central government, (vi) analysis of public policies, programs and projects, (vii) projection of cash flows of the non-financial public sector, and (viii) financial monitoring of the budget;

(d) improvement of interfaces between the information systems of the Budget Directorate of the MHCP and those of the sector ministries; and

(e) implementation of existing inter-institutional agreements between MHCP, DNP and the Borrower's Controller's General Office to reduce the costs of monitoring budgetary expenditures, by identifying shared information needs, eliminating duplicate reports, establishing primary sources of information and developing systems to provide access to these sources;

2. the strengthening of budget execution, and the treasury, public credit and accounting activities, through:

(a) expansion and enhancement of the SIIF by: (i) implementing it in about 145 regional offices of the Borrower's central government entities, (ii) developing a modified version of such system for decentralized entities partially funded by the central budget and implementing the system in 11 major entities that spend about 12% of the national budget, (iii) enhancing the functionality of such system in accordance with user feedback and increasing its capacity to include additional users, and (iv) developing a module of such system to allow execution and accounting of externally funded projects through the system;

(b) development and implementation of a system to improve the capacity of the Borrower's treasury to better manage its investment portfolios;

(c) development and implementation of a new system for management of the public debt portfolio; and

(d) improvement of the quality of accounting information in public entities by: (i) enhancing mechanisms for the registration and reconciliation of accounting records covering income, debt transactions, expenditures and physical assets, (ii)

supporting dissemination, advisory services and training to improve accounting practices, and (iii) strengthening the information systems of the Borrower's Accountant General Office, to capture and integrate accounting information at the national, decentralized, and territorial levels;

3. the improvement of the evaluation of results of public expenditure, through:

(a) the enhancement of SINERGIA by (i) expanding its evaluation module to include, inter alia, recurrent expenditures in the evaluation process, (ii) developing new modules for strategic evaluations of different sectors and evaluation of performance of territorial and decentralized entities, (iii) developing and implementing, on a pilot basis, an incentive model linked to public policy outcomes in the Borrower's Ministry of Foreign Trade and the Ministry of Economic Development, and (iv) strengthening the information system supporting SINERGIA;

(b) development of a systematic methodology for identification of inputs and outputs of different sectors to establish efficiency standards for the delivery of public policy outcomes for each sector; and

(c) design and implementation of dissemination strategies to provide information to the public on performance targets for different policies, programs, projects and public sector entities, evaluation of the actual results achieved and the amount of money spent in the process;

4. the strengthening of public procurement and contracting policies and practices, through:

(a) drafting of legislation and regulations proposals for modifications to the Borrower's Procurement and Contracting Law (Ley 80) with a view to improve the legal framework for public procurement;

(b) design and implementation of institutional arrangements, including the possibility of establishing a national body for developing and regulating public procurement and contracting policy; standardizing and disseminating procurement procedures, bidding documents and contracts; and assisting central and territorial entities in procurement and contracting matters on an ongoing basis;

(c) development and implementation of a system for monitoring and evaluation of procurement and contracting practices in the public sector, piloting the system in two entities of the Borrower at the central government level, one decentralized entity and two territorial entities;

(d) design and implementation of an internet based public procurement information system aimed at disseminating all information regarding procurement notices, bidding documents and contract awards to interested parties and the public, thereby setting the basis for online public procurement; and

(e) carrying out of a survey to determine procurement training needs, and development and implementation of a pedagogical system aimed at providing public sector personnel with learning tools relating to the conceptual, technical, legal and procedural aspects of public procurement and contracting.

Part C - Project Management

Strengthening, through the provision of technical assistance, equipment and training, of the capacity of the PMU-MHCP and the PMU-DNP to manage the Project, to disseminate the Project objectives and activities to stakeholders, to collect data on Project monitoring indicators, and to obtain stakeholder feedback.

The Project is expected to be completed by 2April 30, 2006.

SCHEDULE 3

Amortization Schedule

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (Installment Share). If the proceeds of the Loan shall have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) the total principal amount of the Loan withdrawn and outstanding as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayment amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

Payment Date	Installment Share (Expressed as a %)
On each February 15 and August 15	
Beginning August 15, 2006 through August 15, 2017	4.17%
On February 15, 2018	4.09%

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

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

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

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

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

4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the withdrawn principal amount of the

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

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

SCHEDULE 4

Procurement

Section I. Procurement of Goods

Part A: General

Goods shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the following provisions of this Section, as applicable.

Part B: International Competitive Bidding

1. Except as provided in Part C of this Section, goods shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto, regarding preference for domestically manufactured goods, shall apply to goods manufactured in the territory of the Borrower.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Goods estimated to cost less than \$250,000 equivalent per contract, up to an aggregate amount of \$1,000,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines regarding national competitive bidding procedures. Bidding documents, acceptable to the Bank and in a standardized form for the Project, shall be used in the procurement under this Part C.1. Without limitation to any other provision of this Schedule or the Guidelines, the following shall apply to the procurement of goods to be undertaken pursuant to this Part C.1:

(a) All bidders, irrespective of whether they are foreigners or Colombians, will be treated equally and, particularly, no preference will be granted to any bidder or group of bidders for bid evaluation purposes. Bidders shall be allowed to submit their bids by hand or through the post office or private mailing services. There shall not be any requirement for any bidder to show evidence of the bidder's registration in any public registry, chamber of commerce or similar entity, whether in Colombia or elsewhere, or to appoint a representative domiciled in Colombia, unless and until such bidder is awarded the corresponding contract.

(b) Bids shall be opened in a public meeting to which bidders and their

representatives shall be allowed to attend if they so wish. Date, time and place for the opening meeting shall be set forth in the bidding documents. Bid opening shall coincide with, or take place promptly after, the final date and time of the period for bid submission stipulated in the bidding documents.

(c) Each bid shall be evaluated and the corresponding contract awarded to the responsive bidder who meets appropriate technical and financial standards of capability and whose bid has been determined to be the lowest evaluated bid. Such determination shall be made exclusively on the basis of the specifications, conditions and evaluation criteria stipulated in the bidding documents. If any factor additional to the amount or amounts of each bid is to be considered in bid evaluation, such factor or factors and the quantified manner on which they will be applied for purposes of determining the lowest evaluated bid shall be precisely stipulated in the bidding documents. For purposes of bid evaluation and comparison, the only bid amount or amounts to be used as a factor shall be the bid amount or amounts as quoted in the corresponding bid, including correction of arithmetic errors.

(d) The provisions of paragraph 2.46 of the Guidelines shall fully apply and, more specifically, bids shall not be disclosed to persons other than the persons officially charged with the task of comparing and/or evaluating the bids while they are performing their official duties, without the corresponding bidder's written authorization. Moreover, bidders shall not be required to provide such authorization as a condition to be entitled to bid. This confidentiality requirement shall apply until the award of contract is notified to the successful bidder. Thereafter, confidentiality of the bids shall be limited to those bid portions for which confidentiality has been specifically requested by the bidder in question.

2. Shopping

Goods estimated to cost \$100,000 equivalent or less per contract, up to an aggregate amount equivalent to \$1,500,000, may be procured under contracts awarded on the basis of shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitation to bid for contracts during any year of Project implementation, the proposed procurement plan for the Project during such year shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works during any such year shall be undertaken in accordance with the corresponding procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

With respect to: (i) the contracts for goods to be awarded pursuant to the provisions of Part B of this Section I; and (ii) the first contract for goods to be awarded pursuant to the provisions of Part C.1 of this Section I, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part D, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997 and January 1999 (the Consultant Guidelines) and the following provisions of Section II of this Annex.

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The short-list of consultants for services to be procured in accordance with the procedures referred to in paragraph 1 above, estimated to cost less than \$100,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

Individual Consultants

Consultants' services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Bank of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals during any year of Project implementation, the proposed plan for the selection of consultants under the Project during such year shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services during any such year shall be undertaken in accordance with the corresponding selection plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply, provided, however, that the terms of reference for the respective assignments

shall be subject to the Bank's prior review and approval.

