

Public Disclosure Authorized

CONFORMED COPY

LOAN NUMBER 7534-CO

Loan Agreement

**(Third Programmatic Business Productivity and Efficiency
Development Policy Loan)**

between

REPUBLIC OF COLOMBIA

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated September 26, 2008

Public Disclosure Authorized

LOAN NUMBER 7534-CO

LOAN AGREEMENT

Agreement dated September 26, 2008, entered into between REPUBLIC OF COLOMBIA (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Bank has decided to provide this financing on the basis, *inter alia*, of: (a) the actions which the Borrower has already taken under the Program and which are described in Section I of Schedule 1 to this Agreement; and (b) the Borrower’s maintenance of an appropriate macro-economic policy framework. The Borrower and the Bank therefore hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — LOAN

- 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of US\$550,000,000 (five hundred fifty million Dollars, as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.07 of this Agreement (“Loan”).
- 2.02. The Borrower may withdraw the proceeds of the Loan in support of the Program in accordance with Section II of Schedule 1 to this Agreement.
- 2.03. The Front-end Fee payable by the Borrower shall be equal to one quarter of one percent (0.25%) of the Loan amount. In the event that the Borrower elects not to capitalize the Front-end Fee, the Borrower shall pay the Front-end Fee not later than 60 days after the Effective Date.
- 2.04. The interest payable by the Borrower for each Interest Period shall be at a rate equal to LIBOR for the Loan Currency plus the Fixed Spread; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of

the General Conditions. Notwithstanding the foregoing, if any amount of the

Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the interest payable by the Borrower shall instead be calculated as provided in Section 3.02 (d) of the General Conditions.

- 2.05. The Payment Dates are April 15 and October 15 in each year.
- 2.06. (a) Except as otherwise provided in paragraph (b) of this Section, the principal amount of the Loan shall be repaid in accordance with the provisions of Schedule 2 to this Agreement.
- (b) The Bank and the Borrower may at any time agree on repayment provisions different from those set out in Schedule 2 to this Agreement for the then Unwithdrawn Loan Balance, provided that: (i) the average maturity of each Withdrawal of an amount of such Unwithdrawn Loan Balance does not exceed 18 years from the Maturity Fixing Date and the final maturity of such Withdrawal does not exceed 30 years from the Maturity Fixing Date (or such other average maturity and/or final maturity as may be generally applicable to loans made by the Bank to the Borrower at the time of such agreement); and (ii) such repayment provisions have been agreed between the Borrower and the Bank prior to the Withdrawal Date of any such Withdrawal
- 2.07. (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 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 withdrawn and outstanding 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 the 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 the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.
- 2.08. Without limitation upon the provisions of Section 5.10 of the General Conditions, the Borrower shall promptly furnish to the Bank such information relating to the provisions of this Article II as the Bank may, from time to time, reasonably request.

ARTICLE III — PROGRAM

- 3.01. The Borrower declares its commitment to the Program and its implementation. To this end, and further to Section 5.10 of the General Conditions:
- (a) the Borrower and the Bank shall: (i) regularly monitor the Borrower's macroeconomic policy framework and the progress achieved in carrying out the Program; and (ii) from time to time, at the request of either party, exchange views on these matters;
 - (b) prior to each such exchange of views, the Borrower shall furnish to the Bank for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Bank shall reasonably request; and
 - (c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Borrower shall promptly inform the Bank of any situation that has arisen that has or would have the effect of materially reversing the objectives of the Program, or any action taken under the Program, including any action specified in Section I of Schedule 1 to this Agreement.

ARTICLE IV — EFFECTIVENESS

- 4.01. Without prejudice to the provisions of the General Conditions, the Effectiveness Deadline is the date ninety (90) days after the date of this Agreement, but in no case later than the eighteen (18) months after the Bank's approval of the Loan which expire on October 8, 2009.

ARTICLE V — REPRESENTATIVE; ADDRESSES

- 5.01. The Borrower's Representative is its Minister of Finance and Public Credit.
- 5.02. The Borrower's Address is:

Ministry of Finance and Public Credit
Carrera 7-A. No. 6-45, Piso 3
Bogotá, República de Colombia

Facsimile: (57-1) 350-9344

5.03. The Bank's Address is:

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)	1-202-477-6391

AGREED at the District of Columbia, United States of America, as of the day and year first above written.

REPUBLIC OF COLOMBIA

By /s/ Mariana Pacheco
Authorized Representative

**INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT**

By /s/ Keith Hansen
Authorized Representative

SCHEDULE 1**Program Actions; Availability of Loan Proceeds****Section I. Actions Taken Under the Program**

- A. The actions taken by the Borrower under the Program to strengthen its fiscal management, financial system and capital markets include the following:
1. The enactment, by the Borrower's legislative branch, of legislative act (*Acto Legislativo*) No. 4 of 2007 published in the Borrower's *Diario Oficial* No. 46,686 (July 11, 2007), which has the objective of limiting and stabilizing the growth rate of fiscal transfers to sub-national governments by amending selected articles of the Borrower's Constitution.
 2. The issuance, by MHCP, of Decree No. 519 of 2007 dated February 26, 2007, which liberalizes the interest rate regime of capital markets by establishing risk-adjusted predatory lending interest rate caps.
 3. The enactment, by the Borrower's legislative branch, of fiscal reform law No. 1111 dated December 27, 2006, which exempts the basic savings accounts for the poor from any financial transaction tax.
 4. The issuance, by the Borrower's Superintendence of Finance, of circular (*Carta Circular*) No. 37 dated August 9, 2006, which establishes know-your-customer regulations with a view to removing undue barriers for access to financial services (particularly savings accounts for lower income individuals) and differentiating between mandatory and optional requirements.
 5. The enactment, by the Borrower's legislative branch, of the 2007 budget law No. 1110 dated December 27, 2006, which allocates budgetary resources to subsidize, on a declining basis, the opening of banking branches in underserved areas of the Borrower's territory.
- B. The actions taken by the Borrower under the Program to improve industry quality standards and foster technological innovation include the following:
1. The enactment, by the Borrower's legislative branch, of law No. 1151 dated July 24, 2007, which establishes a National Development Plan Law setting forth, *inter alia*, the institutional framework that will enable the improvement of industry quality standards.

2. The enactment, by the Borrower's legislative branch, of law No. 1151 dated July 24, 2007, which, in relevant sections thereof, establishes the Borrower's National Development Plan, setting forth therein a new innovation and technology policy framework.
 3. The enactment, by the Borrower's legislative branch, of section No. 0320 respectively in: (a) the 2006 Budget Law No. 998 dated November 29, 2005; (b) the 2007 Budget Law No. 1110 dated December 27, 2006; and (c) the 2008 Budget Law No. 1169 dated December 5, 2007, all evidencing the increase in the 2007 and 2008 budgetary allocations for science and technology to support the implementation of the Borrower's National Development Plan.
- C. The actions taken by the Borrower under the Program to strengthen private sector participation in infrastructure and logistics include the following:
1. The adoption, by the Borrower's Energy and Gas Regulation Committee (CREG), of the resolution No. 071 dated October 3, 2006; the resolution No. 086 dated November 1, 2006; the resolution No. 112 dated December 19, 2006; the resolution No. 031 dated April 20, 2007; the resolution No. 094 dated November 09, 2007, which together establish the necessary steps to implement the auction of energy supply by the end of 2007.
 2. The conclusion by the Borrower's ministry of transport, pursuant to CONPES document No. 3342 dated March 14, 2005 issued by DNP, of several memoranda of understanding with, respectively: (a) the *Sociedad Portuaria Regional de Santa Marta SA* (dated July 8, 2007); (b) the *Sociedad Portuaria Regional de Barranquilla SA* (dated July 26, 2007); and (c) the *Sociedad Portuaria Regional de Buenaventura SA* (dated August 2, 2007), to carry out actions leading to the definition of the new scheme for ports operation, with the objective of securing their required expansion and improving logistic services.
 3. The issuance, by DNP, of CONPES document No. 3469 (April 30, 2007), which facilitates import/export logistics (*inspección simultánea*).
 4. The issuance, by DNP, of CONPES document No. 3489 for the trucking industry dated October 1, 2007, which facilitates a more efficient national logistics system.

Section II. Availability of Loan Proceeds

- A. General.** The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of this Section and such additional instructions as the Bank may specify by notice to the Borrower.
- B. Allocation of Loan Amounts.** The Loan shall be withdrawn in various drawdowns of a single tranche. The categories of items that may be financed out of the proceeds of the Loan (“Category”), and the allocation of the amounts of the Loan to each Category are set out in the table below:

<u>Allocations</u>	Amount of the Tranche Allocated (expressed in Dollars)
Single Tranche	550,000,000
TOTAL AMOUNT	550,000,000

- C. Payment of Front-end Fee.** No withdrawal shall be made from the Loan Account until the Bank has received payment in full of the Front-end Fee.
- D. Withdrawal of Loan Proceeds.** If at any time prior to the receipt by the Bank of a request for withdrawal of an amount of the Loan, in the course of its monitoring referred to in Section 3.01 of this Agreement, the Bank determines that a review of the Borrower’s macroeconomic policy framework or of its progress in carrying out the Program is warranted, the Bank shall give notice to the Borrower to that effect. Upon the giving of such notice, no withdrawals shall be made of the Unwithdrawn Loan Balance unless and until the Bank has notified the Borrower of its satisfaction, after an exchange of views as described in paragraphs (a) and (b) of said Section 3.01, with: (1) the progress achieved by the Borrower in carrying out the Program; and (2) the appropriateness of the Borrower’s macroeconomic policy framework.
- E. Deposits of Loan Amounts.** Except as the Bank may otherwise agree:
1. all withdrawals from the Loan Account shall be deposited by the Bank into an account designated by the Borrower and acceptable to the Bank; and
 2. the Borrower shall ensure that upon each deposit of an amount of the Loan into this account, an equivalent amount is accounted for in the Borrower’s budget management system, in a manner acceptable to the Bank.

- F. Excluded Expenditures.** The Borrower undertakes that the proceeds of the Loan shall not be used to finance Excluded Expenditures. If the Bank determines at any time that an amount of the Loan was used to make a payment for an Excluded Expenditure, the Borrower shall, promptly upon notice from the Bank, refund an amount equal to the amount of such payment to the Bank. Amounts refunded to the Bank upon such request shall be cancelled.
- G. Closing Date.** The Closing Date is June 30, 2011.

SCHEDULE 2**Amortization Schedule**

1. Subject to the provisions of paragraph 2 of this Schedule, the Borrower shall repay each Disbursed Amount in semiannual installments payable on each April 15 and October 15, the first installment to be payable on the 20th Interest Payment Date following the Maturity Fixing Date for the Disbursed Amount and the last installment to be payable on the 52nd Interest Payment Date following the Maturity Fixing Date for the Disbursed Amount.

Principal Payment Date	Installment Share (Expressed as a Percentage)
First through to and including 32 nd	3.03 %
33 rd	3.04 %

2. The Bank shall notify the Loan Parties of the amortization schedule for each Disbursed Amount promptly after the Maturity Fixing Date for the Disbursed Amount.
3. Notwithstanding the provisions of paragraphs 1 through 3 of this Schedule, in the event of a Currency Conversion of all or any portion of a Disbursed Amount to an Approved Currency, the amount so converted in the Approved Currency that is 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 the Conversion by either: (i) the exchange rate that reflects the amounts of principal in the Approved Currency payable by the Bank under the Currency Hedge Transaction relating to the Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

APPENDIX

Section I. Definitions

1. “CONPES” means *Consejo Nacional de Política Económica y Social*, the Borrower’s National Council on Economic and Social Policy.
2. “DNP” means *Departamento Nacional de Planeación*, the Borrower’s National Planning Department.
3. “Excluded Expenditure” means any expenditure:
 - (a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association has financed or agreed to finance, or which the Bank or the Association has financed or agreed to finance under another loan, credit, or grant;
 - (b) for goods included in the following groups or sub-groups 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	Sub-group	Description of Item
112		Alcoholic beverages
121		Tobacco, un-manufactured, 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)

- (c) for goods intended for a military or paramilitary purpose or for luxury consumption;
 - (d) for environmentally hazardous 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;
 - (e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and
 - (f) with respect to which the Bank determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Borrower or other recipient of the Loan proceeds, without the Borrower (or other such recipient) having taken timely and appropriate action satisfactory to the Bank to address such practices when they occur.
4. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 (as amended through February 12, 2008) with the modifications set forth in Section II of this Appendix.
 5. “MHCP” means *Ministerio de Hacienda y Crédito Público*, the Borrower’s Ministry of Finance and Public Credit.
 6. “Program” means the program of actions, objectives and policies designed to promote growth and achieve sustainable reductions in poverty and set forth or referred to in the letter dated March 07, 2008 from the Borrower to the Bank declaring the Borrower’s commitment to the execution of the Program, and requesting assistance from the Bank in support of the Program during its execution.
 7. “Single Tranche” means the amount of the Loan allocated to the category entitled “Single Tranche” in the table set forth in Part B of Section II of Schedule 1 to this Agreement.

Section II. Modifications to the General Conditions

The modifications to the General Conditions are as follows:

1. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.

2. Sections 2.04 (*Designated Accounts*) and 2.05 (*Eligible Expenditures*) are deleted in their entirety, and the remaining Sections in Article II are renumbered accordingly.
3. Sections 5.01 (*Project Execution Generally*), and 5.09 (*Financial Management; Financial Statements; Audits*) are deleted in their entirety, and the remaining Sections in Article V are renumbered accordingly.
4. Paragraph (a) of Section 5.05 (renumbered as such pursuant to paragraph 3 above and relating to *Use of Goods, Works and Services*) is deleted in its entirety.
5. Paragraph (c) of Section 5.06 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

“Section 5.06. *Plans; Documents; Records*

... (c) The Borrower shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Loan until two years after the Closing Date. The Borrower shall enable the Bank’s representatives to examine such records.”

6. Paragraph (c) of Section 5.07 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

“Section 5.07. *Program Monitoring and Evaluation*

... (c) The Borrower shall prepare, or cause to be prepared, and furnish to the Bank not later than six months after the Closing Date, a report of such scope and in such detail as the Bank shall reasonably request, on the execution of the Program, the performance by the Loan Parties and the Bank of their respective obligations under the Legal Agreements and the accomplishment of the purposes of the Loan.”

7. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

- (a) The definition of the term “Eligible Expenditure” is modified to read as follows:

“‘Eligible Expenditure’ means any use to which the Loan is put in support of the Program, other than to finance expenditures excluded pursuant to the Loan Agreement.”

(b) The term “Financial Statements” and its definition as set forth in the Appendix are deleted in their entirety.

(c) The term “Fixed Spread” is modified to read as follows:

“Fixed Spread” means, for each Withdrawal, the Bank’s fixed spread for the Loan Currency of the Withdrawal in effect at 12:01 a.m. Washington, D.C. time, on the Withdrawal Date; provided, that: (a) for purposes of determining the Default Interest Rate, pursuant to Section 3.02 (d), that is applicable to an amount of the Withdrawn Loan Balance on which interest is payable at a Fixed Rate, the “Fixed Spread” means the Bank’s fixed spread in effect at 12:01 a.m. Washington, D.C. time, one calendar day prior to the date of the Loan Agreement, for the Currency of denomination of such amount; (b) for purposes of fixing the Variable Spread pursuant to Section 4.02, “Fixed Spread” means the Bank’s fixed spread for the Loan Currency in effect at 12:01 a.m. Washington, D.C. time on the Conversion Date; and (c) upon a Currency Conversion of all or any amount of the Unwithdrawn Loan Balance pursuant to Section 4.04 (a), the Fixed Spread shall be adjusted on the Execution Date in the manner specified in the Conversion Guidelines.

(d) The term “Project” is modified to read “Program” and its definition is modified to read as follows (and all references to “Project” throughout these General Conditions are deemed to be references to “Program”):

“‘Program’ means the program referred to in the Loan Agreement in support of which the Loan is made.”

(e) The term “Variable Spread” is modified to read as follows:

“Variable Spread” means, for each Withdrawal and each Interest Period: (1) the Bank’s standard variable spread for Loans in effect at 12:01 a.m. Washington, D.C. time, on the Withdrawal Date; (2) minus (or plus) the weighted average margin, for the Interest Period, below (or above) LIBOR, or other reference rates, for six-month deposits, in respect of the Bank’s outstanding borrowings or portions thereof allocated by it to fund loans that carry interest at a rate based on the Variable Spread; as reasonably determined by the Bank and expressed as a percentage per annum. In the case of a Loan denominated in more than one Currency, “Variable Spread” applies separately to each of such Currencies.

(f) A new term “Withdrawal” is added to read as follows:

“Withdrawal” means each amount of the Loan withdrawn by the Borrower from the Loan Account pursuant to Section 2.01.

(g) A new term “Withdrawal Date” is added to read as follows:

“Withdrawal Date” means, for each Withdrawal, the date on which the Bank pays the Withdrawal.