

CONFORMED COPY

LOAN NUMBER 3025 CO

(Fifth Small and Medium Scale Enterprise Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

BANCO DE LA REPUBLICA

Dated September 25, 1989

LOAN NUMBER 3025 CO

LOAN AGREEMENT

AGREEMENT, dated September 25, 1989, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and BANCO DE LA REPUBLICA (the Borrower).

WHEREAS (A) Republic of Colombia (the Guarantor) and the Borrower, having been satisfied as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, have requested the Bank to assist in the financing of the Project;

(B) by an agreement (the Guarantee Agreement) of even date herewith between the Guarantor and the Bank, the Guarantor has agreed to guarantee the obligations of the Borrower in respect of the Loan and to undertake such other obligations as set forth in the Guarantee Agreement; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower 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" of the Bank, dated January 1, 1985 (the General Conditions) constitute an integral part of this Agreement subject to the following modifications: (i) the last sentence of Section 3.02 shall be deleted; and (ii) in Section 6.03 the word "or" before "(e)" shall be deleted, and, after subparagraph (e) the words "or (f) after June 30, 1991 the Bank has received no applications for Sub-Loans other than Free-Limit Sub-Loans or Investments" shall be inserted.

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

- (a) "Account Bank" means Banco de la Republica;
- (b) "Corporaciones Financieras" means financial institutions duly established under the laws of the Guarantor;
- (c) "CFC" means each Compania de Financiamiento Comercial which is a financial institution providing medium and short-term credit established and operating under the laws and regulations of the Guarantor;
- (d) "CFP" means Corporacion Financiera Popular, a public entity established and operating under the laws and regulations of the Guarantor;
- (e) "CFP Project Agreement" means the project agreement (Fourth Small-Scale Enterprise Project) between the Bank and CFP dated September 21st 1984, as amended from time to time;
- (f) "CSA" means Caja Social de Ahorros, a private commercial entity established and operating under the laws and regulations of the Guarantor;
- (g) "DTF" means an annual interest rate equal to the average interest rate offered by private Corporaciones Financieras, CFCs, and commercial banks in Colombia on their 90-days Certificados de Deposito a Termino (term certificates of deposit) calculated and published by the Borrower on a weekly basis;
- (h) "FFI" means the Fondo Financiero Industrial, the Guarantor's industrial financing fund.
- (i) "FFI Regulations" means the regulations and other administrative measures taken by the Guarantor pursuant to Section 6.01 (b) of this Agreement.
- (j) "Financial Intermediary" means each of the financial institutions qualified as such by the Borrower and the Bank and which satisfy, inter alia, the eligibility criteria for a Financial Intermediary contained in Schedule 5, Part 4, to this Agreement and each of which shall have entered into a Participation Agreement (as hereinafter defined) with the Borrower;
- (k) "Free-Limit Sub-Loan" means a Sub-Loan other than a Sub-Loan for a Restructuring Project (as hereinafter defined) in an amount to be financed out of the proceeds of the Loan which shall not exceed the sum of \$400,000 equivalent;
- (l) "Investment" means an equity investment made or proposed to be made by a Financial Intermediary out of the proceeds of a Subsidiary Loan or a Sub-Borrower out of the proceeds of a Sub-Loan in an Investment Enterprise (all as hereinafter defined) to finance the purchase of fixed assets or the provision of working capital requirements for the purposes of carrying out an approved Restructuring Program or an

Investment Project (both as hereinafter defined) under Part A of the Project, which meets the rules and terms and conditions for Investments contained in Schedule 4, Part 6;

(m) "Investment Enterprise" means either a SME or a Microenterprise (both as hereinafter defined);

(n) "Investment Project" means a SME Project or a Microenterprise Project (each as hereinafter defined);

(o) "Managing Institution" means each of CFP and CSA when acting in their respective capacities as managing institution for the purpose of relending the proceeds of the Loan allocated to Part B of the Project to NGO's (as hereinafter defined) and providing NGOs with technical assistance, in accordance with Part B of the Project and each of which shall have entered into a Participation Agreement with the Borrower;

(p) "Microenterprise" means a SME (as hereinafter defined) which, in addition, meets the criteria and has the characteristics set out in Schedule 5, Part 2, to this Agreement;

(q) "Microenterprise Project" means a specific development project under Part B of the Project to be carried out by a Microenterprise utilizing the proceeds of a Microenterprise Sub-Loan (as hereinafter defined) in accordance with a Sub-Agreement (as hereinafter defined) or an Investment;

(r) "Microenterprise Sub-Loan" means a loan made or proposed to be made by an NGO (as hereinafter defined) to a Microenterprise for the purposes of a Microenterprise Project to finance the purchase of fixed assets or the provision of working capital requirements of the Microenterprise and to provide technical assistance to the Microenterprise;

(s) "NGO" means a non-governmental organization, other than a Financial Intermediary, which meets the criteria and has the characteristics set out in, Schedule 5, Part 3, to this Agreement;

(t) "NGO Agreement" means an agreement to be entered into between a Managing Institution and an NGO providing for an NGO Loan (as hereinafter defined) for the purposes of re-lending under Microenterprise Sub-Loans;

(u) "NGO Loan" means a loan made or proposed to be made by a Managing Institution out of the proceeds of a Subsidiary Loan (as hereinafter defined) to an NGO under an NGO Agreement for the purposes of the Project;

(v) "Participation Agreement" means an agreement to be entered into between the Borrower and a Financial Intermediary or a Managing Institution, as the case may be, providing for a Subsidiary Loan (as hereinafter defined) for the purposes of providing NGO Loans and Sub-Loans or Investments;

(w) "pesos" means the currency of the Guarantor;

(x) "Restructuring Program" means each of the programs involving an Investment Enterprise to assist it on suitable terms to become more economically efficient and financially self-sustaining and being a program which shall require the prior approval of the Bank before an Investment or a Sub-Loan may be made for such purposes, which program shall include specific analysis of production, marketing, financing and management by the Investment Enterprise and shall detail the restructuring measures to be undertaken by the Investment Enterprise in these regards and the proceeds of an Investment or a Sub-Loan made in accordance with such program shall be used for the purchase and financing of goods and services associated inter alia with product research and development, marketing and distribution network development and labor retraining;

(y) "Second National Microenterprise Development Program" means the program established under CONPES DNP 2366-UDS dated May 18, 1988;

(z) "SME" means a small or medium-scale enterprise (including a Microenterprise) which meets the criteria and has the characteristics set out in Schedule 5, Part 1, to this Agreement;

(aa) "SME Law" means the Guarantor's Law 78 dated December 21, 1988;

(bb) "SME Project" means a specific development project under Part A of the Project to be carried out by a SME utilizing the proceeds of a SME Sub-Loan (as hereinafter defined) in accordance with a Sub-Agreement (as hereinafter defined) or an Investment;

(cc) "SME Sub-Loan" means a loan made or proposed to be made by a Financial Intermediary to a SME for the purposes of financing a SME Project each such made: (i) to finance the purchase of machinery and equipment, spare parts, construction, or the purchase, of building facilities, and permanent working capital requirements necessary to increase SME productivity and expand production capacity, and to finance individual assistance to SME's in areas such as production, marketing techniques, organization and management; (ii) to finance a Restructuring Program; or (iii) to finance an Investment by a Sub-Borrower;

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

(ee) "Statement of Policy" means the lending regulations for the purposes of this Project and approved by the Directors of the Borrower pursuant to Section 6.01 of this Agreement;

(ff) "Statutes" means the statutes (estatutos) of the Borrower being Resolucion Ejecutiva No. 105 of 1982 of the Junta Directiva of the Borrower, as amended to the date of this Agreement;

(gg) "Sub-Agreement" means, in the case of a SME Sub-Loan, an agreement to be entered into between a Financial Intermediary and a SME providing for a SME Sub-Loan and, in the case of a Microenterprise Sub-Loan, an agreement to be entered into between an NGO and a Microenterprise providing for a Microenterprise Sub-Loan or an agreement to be entered into between a Financial Intermediary and a Sub-Borrower (as hereinafter defined) providing for an Investment;

(hh) "Sub-Borrower" means a natural or juridical person to which a Financial Intermediary has made or proposes to make a Sub-Loan to finance an Investment;

(ii) "Sub-Loan" means a loan to be partly financed out of the proceeds of the Loan to finance part of the cost of the Investment Project to be financed by the Investment Enterprise or a Sub-Borrower and which loan shall not exceed the equivalent of the sum of \$500,000 and which is either a SME Sub-Loan or a Microenterprise Sub-Loan and Sub-Loans shall mean all or any of them, as appropriate;

(jj) "Subsidiary Loan" means a loan made or proposed to be made by the Borrower out of the proceeds of the Loan to a Financial Intermediary under a Participation Agreement for the purpose of partly financing (together with the Financial Intermediary) one or more SME Sub-Loans or Investments, or to a Managing Institution for the purpose of financing one or more NGO Loans under which one or more Microenterprise Sub-Loans would be financed; and

(kk) "Superintendency of Banks" means the Superintendencia Bancaria of the Guarantor.

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 the Loan Agreement, an amount in various currencies equivalent to eighty million

dollars (\$80,000,000).

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for amounts paid (or, if the Bank shall so agree, to be paid) by the Borrower: (i) under Part A of the Project on account of withdrawals made by a Financial Intermediary under a Participation Agreement for a Subsidiary Loan to meet and on account of withdrawals made: (A) in respect of amounts required to meet the reasonable cost of goods and services included under a Restructuring Program for which an Investment or Sub-loan has been made, or (B) by a SME under a Sub-Agreement for a SME Sub-Loan to meet the reasonable cost of goods and services required for the SME Project in respect of which the withdrawal from the Loan Account is requested; (ii) under Part B of the Project on account of withdrawals made by a Managing Institution under a Participation Agreement for a Subsidiary Loan to meet and on account of either: (A) withdrawals made by an NGO under an NGO Agreement for an NGO Loan to meet and on account of withdrawals made by a Microenterprise under a Sub-Agreement for a Microenterprise Sub-Loan to meet the reasonable cost of goods and services required for the Microenterprise Project in respect of which the withdrawal from the Loan Account is requested, or (B) the cost of providing technical assistance to the NGO's under Part B of the Project.

(b) The Borrower shall, for the purposes of the Project, open and maintain in the Account Bank a special account denominated in, and convertible into, dollars on terms and conditions satisfactory to the Bank. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 1993 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower and the Guarantor of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one per cent ($3/4$ of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time at a rate per annum for each Interest Period equal to one-half of one percent per annum above the Cost of Qualified Borrowings for the last Semester ending prior to the commencement of such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Guarantor and the Borrower of the Cost of Qualified Borrowings for such Semester.

(c) For the purposes of this Section:

(i) "Interest Period" means the six-month period commencing on each date specified in Section 2.06 of this Agreement, including the Interest Period in which this Agreement is signed.

(ii) "Cost of Qualified Borrowings" means the cost of the outstanding borrowings of the Bank drawn down after June 30, 1982, expressed as a percentage per annum, as reasonably determined by the Bank.

(iii) "Semester" means the first six months or the second six months of a calendar year.

Section 2.06. Interest and other charges shall be payable semi-annually on May 15 and November 15 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

ARTICLE III

Execution of the Project;
Management and Operations of the Borrower

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project, with the participation of CFP, the other Financial Intermediaries, Managing Institutions and NGOs', as appropriate and conduct its operations and affairs in accordance with sound financial standards and practices, with qualified management and personnel, and in accordance with the Statutes and the Statement of Policy.

(b) The Borrower shall, (i) under terms of reference satisfactory to the Bank, commence to carry out, by no later than June 30, 1989, the study included under Part C of the Project; and (ii) promptly upon completion of the study, furnish to the Bank for its review and comment, the results of such study.

Section 3.02. (a) Without any limitation or restriction upon any of its other obligations under the Loan Agreement, the Borrower shall enter into Participation Agreements, acceptable to the Bank and including the terms and conditions contained in Schedule 4, Part 1, to this Agreement with each of the Financial Intermediaries and Managing Institutions and CFP which: (i) in the case of Financial Intermediaries, either make or intend to make Investments, or enter into or intend to enter into Sub-Agreements for the purposes of SME Sub-Loans; and (ii) in the case of Managing Institutions, enter into or intend to enter into NGO Agreements with NGOs for the purposes of providing technical assistance to the NGOs and NGO Loans to NGOs which enter into or intend to enter into Sub-Agreements with Microenterprises for the purposes of providing technical assistance to the Microenterprises and Microenterprise Sub-Loans; and (iii) in the case of the Participation Agreement to be entered into with CFP includes the additional terms and conditions set out in Schedule 4, Part 2 of this Agreement.

(b) The Borrower undertakes that, unless the Bank shall otherwise agree, Investments, Subsidiary Loans, NGO Loans and Sub-Loans will be made in accordance with the procedures and on the terms and conditions set forth or referred to in Schedule 4 to this Agreement.

(c) The Borrower undertakes that it shall (i) qualify and monitor the condition of Financial Intermediaries and the Managing Institutions; (ii) review applications by Financial Intermediaries for proceeds of the Loan in excess of the maximum amounts specified in Schedule 4, Part 1, paragraph 1(b) of this Agreement; (iii) review applications for Investments and applications for Sub-Loans other than Free-Limit Sub-Loans and submit applications approved by it therefor for approval to the Bank in accordance with the obligations referred to in paragraphs (d) and (f) below; (iv) review applications for Free-Limit Sub-Loans and approve such applications as it considers qualify under the Project and request authorizations for withdrawals therefor; (v) provide during the term of the Project monitoring of SME loan appraisal, and supervision and portfolio quality control; and (vi) disburse and account for Project resources.

(d) When presenting a Sub-Loan (other than a Free-Limit Sub-Loan) to the Bank, the Borrower shall furnish to the Bank an application, together with: (i) a description of the Investment Enterprise and the Sub-Borrower (if applicable) and their financial performance; (ii) the terms and conditions of the Sub-Loan and including the schedule of amortization of the Sub-Loan and the terms of the promissory note entered into between the SME and the Financial Intermediary in accordance with the Superintendancy of Bank's regulations; (iii) a description of the expenditures proposed to be financed out of the proceeds of the Loan; (iv) a financing plan for the Investment Project; (v) an appraisal report as provided to it in respect of the Sub-Loan; and (vi) such other information as the Bank shall reasonably request.

(e) Each request by the Borrower for authorization to make withdrawals from the Loan Account in respect of a Free-Limit Sub-Loan or an NGO Loan shall contain: (i) a summary description of the NGO (if appropriate), the Investment Enterprise, the

Sub-Borrower (if appropriate) and the Investment Project, including a description of the expenditures proposed to be financed out of the proceeds of the Loan; (ii) the terms and conditions of the Sub-Loan, including the schedule of amortization therefor; and (iii) such other information as the Bank shall reasonably request.

(f) When presenting a Sub-Loan or an Investment to finance a Restructuring Program to the Bank, the Borrower shall furnish to the Bank: (i) a description of the SME and the Sub-Borrower (if appropriate) and their financial performance; (ii) the Restructuring Program proposed including a description of the expenditures proposed to be financed out of the proceeds of the Loan; (iii) the terms on which the Investment will be made; and (iv) such other information as the Bank shall reasonably request.

(g) Applications made pursuant to the provisions of sub-paragraphs (d), (e) and (f) above shall be presented to the Bank on or before June 30, 1991.

(h) Except as the Bank shall otherwise agree, the Borrower shall not amend, waive, abrogate or fail to enforce the provisions of any Participation Agreement, and the Borrower shall exercise its rights under each Participation Agreement in such manner as to: (i) protect the interests of the Bank and the Borrower; (ii) comply with its obligations under this Agreement and ensure that the Financial Intermediaries and Managing Institutions and NGOs ensure compliance by Investment Enterprises with the Sub-Agreements, and that the Managing Institutions ensure compliance by each NGO with each NGO Agreement; and (iii) pursue the purposes of the Project.

Section 3.03. The Borrower undertakes to ensure that the Financial Intermediaries and Managing Institutions shall ensure that goods and services procured under contracts entered into for Investment Projects and financed from the proceeds of the Loan shall be purchased or provided at a reasonable price, taking into account other relevant factors such as time of delivery and efficiency and reliability of the goods and availability of maintenance facilities and spare parts therefor, and, in the case of works and services of the quality thereof, and the competence of the parties performing such works and providing such services.

Section 3.04. The Borrower shall supervise the Project and shall carry out individual reviews of Investment Projects and of the Managing Institutions and Financial Intermediaries appraisal and supervision of NGOs and SMEs and Sub-Borrowers and Investment Projects, and the Borrower in supervising the Financial Intermediaries shall have the right to suspend a Financial Intermediary's access to funds under a Participation Agreement for the purposes of financing new Sub-Loans if performance by it during a quarter for which accounts are prepared, shows that it has achieved less than a 90% recovery of principal and interest due and payable to such Financial Intermediary in respect of SME Sub-Loans during such quarter, or, in the case of a Managing Institution, in respect of NGO Loans during such quarter.

Section 3.05. To the extent that any amounts repaid by Financial Intermediaries or Managing Institutions in accordance with the provisions of the respective Participation Agreements are not utilized by the Borrower to make payments to the Bank pursuant to the obligations contained in Section 2.07 of this Agreement such amounts shall be available for lending by the Financial Intermediaries to Investment Enterprises on similar terms and conditions as those required for Sub-Loans, and for similar purposes.

Section 3.06. Without limitation to the provisions of Section 9.01 of the General Conditions not later than February 28th and August 31st of each year the Borrower shall prepare and furnish to the Bank a report, of such scope and detail as the Bank shall reasonably request, on the execution of the Project, and the performance of the Financial Intermediaries, Managing Institutions, and the NGO's, including a specific report on the compliance by the Managing Institutions and the NGOs with the requirements set forth in Schedule 4, Part 3, paragraph 3 to this Agreement.

Section 3.07. The Borrower shall monitor and supervise that CFP maintain a ratio of annual administrative expenses to average total assets of not more than 6.0 in the

year 1989 and 5.5 in the year 1990 as agreed to in Section 4.06 (b) of the CFP Project Agreement and, in the event that CFP shall not maintain such ratio the Borrower shall immediately notify the Bank and CFP of the same and automatically suspend all disbursements to CFP out of the proceeds of the Loan.

ARTICLE IV

Financial Covenants

Section 4.01. The Borrower shall (i) cause the Financial Intermediaries, the Managing Institutions, and the NGOs, to maintain procedures, and separate records and accounts, adequate to monitor and record, in accordance with sound accounting practices, the progress of Parts A and B of the Project and of each Investment Project; and (ii) cause each Financial Intermediary, each Managing Institution, and each NGO, to maintain records to reflect its operations and financial situation in a form satisfactory to the Bank.

Section 4.02. (a) The Borrower shall:

(i) have the records referred to in Section 4.01 of this Agreement including the financial statements of each of the Borrower, the Financial Intermediaries and the Managing Institutions, and each such party's accounts and financial statements (balance sheets, statements of income and expenses and related statements) and records and accounts for the Special Account for each fiscal year audited in accordance with sound auditing principles 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 six months after the end of each fiscal year: (A) certified copies of said financial statements for such year as so audited; (B) the report of such audit (if appropriate) by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and (C) opinions as to the reliability of statements of expenditures submitted during such fiscal year to support claims for disbursements and to properly reflect the expenditures eligible for financing under the Project; and

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

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

(i) maintain, or cause to be maintained, in accordance with Section 4.01 of this Agreement, records and accounts reflecting such expenditures;

(ii) retain, or cause to be retained, 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 referred to in paragraph (a)(i) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (k) of the General Conditions, the following additional events are specified, provided however, that if any of the events specified in paragraphs (b), (d) or (f) below shall have occurred and be continuing and such event relates only to one or more Financial Intermediary or Managing Institution the suspension of the Borrower's rights to make withdrawals from the Loan Account may be limited by the Bank to withdrawals related to such Financial Intermediary or Managing Institution:

(a) That the Statutes or the Statement of Policy shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the operations or the financial condition of the Borrower or its ability to carry out the Project or to perform any of its obligations under this Agreement or each of Participation Agreements.

(b) A resolution shall have been passed for the dissolution or liquidation of a Financial Intermediary or a Managing Institution, or, the Guarantor or any other authority having jurisdiction shall have taken any action which: (i) in the opinion of the Bank, affects the financial condition or operations of a Financial Intermediary or a Managing Institution carrying out Parts A and B of the Project, or (ii) for the suspension of a Financial Intermediary's or a Managing Institution's operations.

(c) The Borrower shall have ceased to calculate or publish the DTF on a weekly basis or the DTF shall have, in the Bank's reasonable opinion, failed to reflect the average interest rate offered by private Corporaciones Financieras and CFCs and commercial banks in Colombia on their 90 day Certificados de Deposito a Termino or any event shall have occurred which would make the application of interest rates based on the DTF inapplicable, unenforceable or illegal in Colombia.

(d) A default shall occur in the performance of any obligation on the part of any Financial Intermediary, Managing Institution under any Participation Agreement entered into by such party.

(e) The FFI Regulations shall have been amended, repealed or abrogated to an extent which in the reasonable opinion of the Bank shall materially and adversely affect the implementation of the Project.

(f) As a result of events which have occurred after the date of this Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable that one or more of the Financial Intermediaries or Managing Institutions will be able to perform its obligations in respect of the Project.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified, namely, the events specified in paragraphs (a), (b) (c) (d), (e) or (f) of Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

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

(a) that the Borrower has entered into Participation Agreements with at least 3 Financial Intermediaries which in the aggregate represent commitments to relend funds under the Project in an amount equal to at least 40% (forty percent) of the amount of the Loan.

(b) all necessary regulatory and administrative action shall have been take to amend the regulations of the Fondo Financiero Industrial to the satisfaction of the

Bank so as to inter alia:

(i) eliminate interest rate subsidies and expand financial margins to Financial Intermediaries; (ii) extend maturities and grace periods in respect of loans available to SMEs; (iii) adopt substantially higher automatic rediscount ceilings and to simplify loan documentation and reduce loan processing time and cost; (iv) adopt repayment performance as the key ex-post monitoring criterion; (v) relax the present capitalization and production minimum requirements for SMEs; and (vi) eliminate the discretionary basis for cancellation of already approved discounts;

(c) that at least one of CFP and CSA as a Managing Institution has entered into a Participation Agreement; and

(d) that the Borrower shall have issued regulations (the Statement of Policy) satisfactory to the Bank for the purposes of the Project.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank: (a) that the Participation Agreements provided to the Bank in accordance with Section 6.01 (a) and (c) above have been duly authorized or ratified by the Borrower and each of the Financial Intermediaries and Managing Institutions (as appropriate) and that each such is legally binding upon the Borrower and the respective Financial Intermediary or Managing Institution in accordance with its terms; and (b) that the necessary regulatory and administrative action referred to in Section 6.01 (b) of this Agreement shall have been taken in accordance with the laws of the Guarantor and that the same is legal, valid and binding and is in full force and effect.

Section 6.03. The date December 27, 1989, is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representatives of the Borrower; Addresses

Section 7.01. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Bank:

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

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

440098 (ITT),
248423 (RCA) or
64145 (WUI)

For the Borrower:

Banco de la Republica
Carrera Septima No. 14-78
Bogota
Colombia

Cable address:

REDESBANCO
Bogota

Telex:

44559
44560

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.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ S. Shahid Husain

Regional Vice President
Latin America and the Caribbean

BANCO DE LA REPUBLICA

By /s/ Francisco Ortega

Authorized Representative

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 Dollar Equivalent)	% of Expenditures to be Financed
(1) (a) SME Sub- Loans and Invest- ments	77,000,000	80% of each amount disbursed by a Financial Inter- mediary under a SME Sub-Loan, and 50% of each amount invested by a Financial Intermediary under an Investment.
(b) Micro- enter- prise Sub- Loans	2,900,000	100% of each amount disbursed by a Managing Institution under an NGO Loan
(2) Technical Assistance under Part B of the Project	100,000	100%
TOTAL	80,000,000	

2. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made:

(a) in respect of a Sub-Loan or an NGO Loan unless the Sub-Loan or NGO Loan

has been made in accordance with the procedures and on the terms and conditions set forth or referred to in Schedule 4, Parts 3, 4 and 5 (as appropriate), to this Agreement and has been approved and authorized by the Bank pursuant to Section 3.02 (d), (e) and (f);

(b) in respect of an Investment unless the Investment has been made in accordance with the rules and on terms and conditions contained in Schedule 4, Part 6, to this Agreement and has been approved and authorized by the Bank pursuant to Section 3.02 (f);

(c) in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of \$8,000,000, may be made on account of payments made by Financial Intermediaries meeting the criteria contained in Schedule 5, Part 4 in respect of Categories (1) and (2) for expenditures incurred under SME Projects and Microenterprise Projects before that date (and authorized by the Bank) but after January 15, 1989; and

(d) in respect of Sub-Loans or Investments made by a Financial Intermediary or Managing Institution, except those referred to in Section 6.01 (a) and (c) of this Agreement, until the Bank shall have received a duly certified copy of the Participation Agreement entered into by such Financial Intermediary or Managing Institution and the Borrower together with a legal opinion or opinions satisfactory to the Bank showing that such Participation Agreement has been duly authorized or ratified by such Financial Intermediary or Managing Institution (as appropriate) and is legally binding upon the Borrower and the respective Financial Intermediary or Managing Institution in accordance with its terms.

SCHEDULE 2

Description of the Project

The objectives of the Project are to: (i) increase the provision of funds to SMEs to assist in their development; (ii) support changes in existing regulations and investment abilities of financial institutions to improve the provision of long-term credit to SMEs; (iii) expand the number of financial institutions making long-term loans to SMEs and the volume of long-term loans made by financial institutions by directed credit and with their own resources; (iv) simplify loan processing in relation to loans to SMEs, and increase technical co-operation to SMEs; and (v) prepare studies and recommendations relating to capital intensity, business establishment and operations to help promote a non-discriminatory environment for the development of SMEs.

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

Part A: The financing of Investment Projects through Subsidiary Loans to Financial Intermediaries in accordance with the Participation Agreements for the purposes of providing to Investment Enterprises and Sub-Borrowers within the manufacturing, mining and related service industries sector: (i) SME Sub-Loans under Sub-Agreements, and (ii) SME Sub-Loans and Investments for the purpose of implementation of Restructuring Programs and Investment Projects.

Part B: The financing of: (i) Microenterprise Projects through Subsidiary Loans to Managing Institutions in accordance with the Participation Agreements for the purposes of providing NGO Loans for the purposes of providing Microenterprise Sub-Loans to Microenterprises within the manufacturing, mining and related service industries sector, and (ii) the provision of technical assistance by a Managing Institution as required to strengthen the capacity of an NGO to provide credit and technical assistance, including in such areas as staff training, data management systems, monitoring and evaluation of Microenterprise Projects.

Part C: Studies on policies influencing the capital intensity, business

establishment and operations in Colombia, which shall include recommendations as warranted for changes in the Guarantor's policy and regulations to help to promote a neutral environment for SME development in Colombia.

* * *

The Project is expected to be completed by June 30, 1993.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each May 15 and November 15 beginning November 15, 1994 through November 15, 2005	3,335,000
On May 15, 2006	3,295,000

* The figures in this column represent dollar equivalent determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

Premiums on Prepayment

The following premiums are specified for the purposes of Section 3.04 (b) of the General Conditions:

Time of Prepayment	Premium
outstanding	The interest rate (expressed as a percentage per annum) applicable to the balance
multiplied	on the Loan on the day of prepayment
	by:

Not more than three years before maturity	0.18
More than three years but not more than six years before maturity	0.35
More than six years but not more than eleven years before maturity	0.65
More than eleven years but not more than fifteen years before maturity	0.88
More than fifteen years before maturity	1.00

SCHEDULE 4

Part 1: Procedures for and Terms and Conditions of Subsidiary Loans under Participation Agreements

Procedures for Subsidiary Loans

The Borrower shall re-lend the proceeds of the Loan to a Financial Intermediary or a Managing Institution under a Participation Agreement for each respective Subsidiary Loan thereunder on terms and conditions satisfactory to the Bank, providing inter alia that:

1. (a) The Borrower shall ensure: (i) that the Financial Intermediary or Managing Institution shall re-lend the proceeds of the Loan either under an NGO Agreement entered into with an NGO upon the terms and conditions contained in Schedule 4, Part 3 to this Agreement or under a Sub-Agreement entered into with an Investment Enterprise, in both such cases with due regard to, and in accordance with, the procedures for and terms and conditions of Sub-Loans contained in Schedule 4, Part 4 to this Agreement, or (ii) that the Financial Intermediary shall use the proceeds of the Loan for an Investment which complies with the rules for Investments and on terms and conditions for Investments contained in Schedule 4, Part 6 to this Agreement; and (iii) that the Financial Intermediary or Managing Institution shall at all times comply with and enforce the terms of the agreements referred to in (i) hereof.

(b) The Borrower shall ensure, and at all times survey and monitor, that the Financial Intermediaries and Managing Institutions, without requiring the prior approval of the Borrower, shall re-lend the proceeds of Subsidiary Loans for Sub-Loans up to a maximum amount of: (i) \$250,000 equivalent in the case of CFP and those Corporaciones Financieras approved to such limit by the Borrower; (ii) \$120,000,000 in the case of Corporaciones Financieras which in the opinion of the Borrower, have less experience in re-lending, and (iii) \$80,000 equivalent in the case of commercial banks.

(c) The Borrower shall review applications by Financial Intermediaries to re-lend amounts in excess of the maximum amounts referred to in (b) above, and the Financial Intermediary shall furnish to the Borrower an application, together with: (i) a description of the Investment Enterprise and its financial performance; (ii) the terms and conditions of the Sub-Loan including the schedule of amortization of the Sub-Loan and the terms of the promissory note entered into between the SME and the Financial Intermediary in accordance with the Superintendancy of Bank's regulations; (iii) a description of the expenditures proposed to be financed out of the proceeds of the Sub-Loan; (iv) a financing plan for the Investment Project; and (v) such other information as the Borrower shall reasonably request.

(d) The Borrower shall review all applications by Financial Intermediaries to make Sub-Loans and Investments under Restructuring Programs, and shall present

applications approved by it for approval by the Bank together with the information it is required to submit in respect thereof in accordance with its obligations under Section 3.02 (e) of the Loan Agreement.

(e) Approval by the Borrower or the Financial Intermediaries or Managing Institutions of Sub-Loans as provided herein shall not imply or be construed as approval by the Bank of such Sub-Loans.

2. Each Financial Intermediary shall designate a specific department within its organization responsible for its SME lending program, to which it shall allocate specific staff; additionally it shall conform its lending regulations and procedures as required to be consistent with the Project prior to making any Sub-Loan or Investment.

3. The Borrower shall ensure that the Managing Institutions prepare guidelines for NGOs to implement Part B of the Project and shall approve such guidelines together with the technical assistance to be provided by Managing Institutions to NGOs prior to making any Sub-Loan or Investment.

4. The Borrower shall have the right to suspend its disbursements to a Financial Intermediary or Managing Institution, as the case may be, not maintaining a specific recovery rate of 90% of interest and principal obligations due in respect of SME Sub-Loans, or NGO Loans, as the case may be, in each quarter.

5. The Borrower shall exercise its rights under each Participation Agreement in such manner as to protect the interests of the Bank and the Borrower and to accomplish the purposes of the Loan, and except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive any Participation Agreement or any provision thereof.

Terms and Conditions of Participation Agreements

Each Participation Agreement shall include provisions to reflect the matters required under the procedures for Subsidiary Loans, and provide that:

1. The Borrower shall lend to each Financial Intermediary or Managing Institution in pesos proceeds of the Loan required to make Sub-Loans or Investments under Part A of the Project and Microenterprise Sub-Loans under Part B of the Project pursuant to a Sub-Agreement, provided that Investments shall be made in accordance with the rules for Investments, and on the additional terms and conditions for Investments contained in Part 6 of this Schedule.

2. Each Financial Intermediary and Managing Institution shall pay interest on the principal of the proceeds of the Loan made available to it for purposes of the Project at a rate set out in the Annex to this Schedule 4.

3. The Financial Intermediary's or Managing Institution's obligation to repay the proceeds of the Loan made available to it which Subsidiary Loans shall be repayable over periods equal to the periods of the Sub-loans for which the proceeds are used, being periods of between 4-10 years for the financing of fixed assets, and 1-5 years for the financing of working capital in accordance with the amortization schedule of each Sub-Loan, and which shall include in each case a grace period of up to 3 years being for the same grace period as is given to each Investment Enterprise in respect of each Sub-Loan provided that, in the case of a Sub-Loan the purpose of which is to finance working capital, the grace period shall not exceed one year.

4. Each Financial Intermediary or Managing Institution, as the case may be, shall be under an obligation to maintain an adequate overall financial condition, to employ an adequate number of staff capable of managing the Investments or Sub-Loans made by it or Sub-Loans made by an NGO receiving an NGO Loan from it, as the case may be, in accordance with the Project and to ensure proper control and supervision of SME arrears under the Sub-Loans.

5. (a) Financial Intermediaries and Managing Institutions shall maintain adequate records to accurately reflect their operations and financial situation, in accordance with sound accounting practices and principles, in a form satisfactory to the Borrower and the Bank. Such records to include separate records in respect of each Investment Project, which shall be audited annually by independent auditors acceptable to the Bank and the Borrower.

(b) Within six months of the end of its fiscal year each Financial Intermediary or Managing Institution shall submit its records in respect of each Investment Project, together with copies of financial statements and institutional audit information as required by Colombia's Superintendency of Banks, including, inter alia opinions as to the reliability of the statement of expenditure supporting claims for disbursement and expenditures properly eligible for disbursement under the Project.

6. (a) When presenting: (i) a Sub-Loan (other than a Free-Limit Sub-Loan), or (ii) a Free-Limit Sub-Loan which requires the Borrowers prior approval owing to the fact that the amount in respect of which the Sub-Loan is requested exceeds the maximum amount which the Financial Intermediary or Managing Institution is entitled to lend in accordance with the relevant Participation Agreement; to the Borrower for approval so that (in the case of Sub-Loans referred to in (i)) the Borrower may submit the same to the Bank, the Financial Intermediary, Managing Institution, or NGO, as appropriate, shall furnish to the Borrower an application, together with the details and information required to be supplied by the Borrower to the Bank in accordance with Section 3.02 (d) and such other information as the Borrower shall reasonably request.

(b) Each request by the Financial Intermediary or Managing Institution for the Borrower, to request authorization to make withdrawals from the Loan Account in respect of a Free-Limit Sub-Loan which does not exceed the maximum amount that such Financial Intermediary or Managing Institution is entitled to lend in accordance with the relevant Participation Agreement shall contain: (i) the details and information required to be supplied by the Borrower to the Bank in accordance with Section 3.02 (e) and (ii) confirmation that the Sub-Loan is for an amount which does not exceed the maximum amount which the Financial Intermediary or Managing Institution may lend without prior approval in accordance with paragraph (1)(b) of the procedures for Subsidiary Loans set out above.

(c) Each request by the Financial Intermediary for the Borrower to approve an Investment so that the Borrower may submit the same to the Bank for approval shall contain details of the Restructuring Program for approval together with the details and information required to be supplied by the Borrower to the Bank in accordance with Section 3.02 (f).

7. Financial Intermediaries and Managing Institutions shall maintain until the Borrower has prepared and furnished to the Bank the report referred to in Section 9.07 (c) of the General Conditions, for inspection by the Borrower or the Bank, essential information concerning each Investment Project for which they have provided a Sub-Loan or an Investment, the SME's financial performance, and the procurement characteristics under the Investment Project including adequate records to enable examination of the procurement procedures used, responses and price quotations received and the criteria in use for selection of suppliers in relation to the Investment Project.

8. The Financial Intermediaries or Managing Institutions, as the case may be, will process all applications for Sub-Loans or Investments in accordance with adequate administration procedures and will evaluate the creditworthiness of the Investment Enterprises and the technical, financial and economical aspects of each of the Investment Projects.

9. Sub-Loans proposed to be made to Investment Enterprises will be supported by appraisal reports concerning the Investment Enterprise and the Investment Project and its merits prepared by the Financial Intermediary, or the NGO; such appraisal reports to include in relation to Sub-Loans: (i) proposed in excess of \$100,000 equivalent, a financial rate of return calculation, market evaluation, and technical and management assessment; and (ii) proposed for an amount less than \$100,000 a cash-flow analysis.

Approval for a proposed SME Sub-Loan shall require at least an 11% financial rate of return calculated in accordance with a methodology and on assumptions satisfactory to the Borrower and the Bank.

10. Sub-Loans will finance: (i) a Restructuring Program for an Investment Enterprise, or (ii) fixed assets required for the carrying out of the Investment Project such as materials, spare parts and other supplies, the construction of industrial building facilities and the permanent working capital requirements directly related to the Investment Project together with, in the case of Microenterprise Sub-Loans, the technical co-operation to be provided to the Microenterprise Project.

11. The staff of the Financial Intermediary, or the Managing Institution, will regularly visit the Investment Enterprises where Investment Projects are being carried out to ensure that Investment Enterprises are effectively and punctually carrying out their Investment Projects and complying with their obligations under their respective Sub-Agreements.

12. Where a Participation Agreement is entered into with a Managing Institution for the purpose of making NGO Loans: (i) the maximum amount which a Managing Institution may receive under the Participation Agreement shall be an amount which, when added to the amount borrowed by the other Managing Institution, does not exceed a maximum aggregate amount of \$2,900,000 equivalent; and (ii) the Managing Institution shall use the proceeds of the Subsidiary Loan under the Participation Agreement to finance both the NGO Loans and the provision of technical assistance by it to the NGOs to strengthen their capacity to provide credit and technical assistance.

13. Where a Participation Agreement is entered into by a Financial Intermediary for the purposes of providing Investments for Restructuring Programs, the Financial Intermediary shall provide the Borrower with full details and information concerning the proposed Investment and proposed Restructuring Program, and the Participation Agreement shall include inter alia the terms and conditions for Investments under Participation Agreements contained in Schedule 4, Part 6 (B) of this Agreement.

Part 2: Additional Terms and Conditions to be contained in the Participation Agreement to be entered into between the Borrower and CFP

The Participation Agreement to be entered into between the Borrower and CFP shall include the following additional provisions:

1. The Borrower shall be committed to re-lend to CFP a minimum amount of \$25,000,000 equivalent in pesos and thereafter shall relend the proceeds of the Loan to CFP up to a maximum aggregate amount equal to 35% of the amount of the total annual commitments of CFP for the period of 1989-1990.

For the purposes of this paragraph:

"commitments" means CFP's commitments in relation to lending operations under which CFP (i) assumes the credit risk and (ii) is directly in charge of the portfolio management and supervision of the lending operation.

2. The parties shall agree that: (i) CFP shall attain a ratio of debt to equity, not exceeding 7.5 for the period 1989-1990 and thereafter, (as stated in Section 3.02 of the Guarantee Agreement), and CFP shall maintain at all times such ratio of debt to equity; and the Borrower shall have the right to suspend its disbursements to CFP if it fails to maintain such ratio.

For the purposes of this paragraph:

(i) The term "debt" means any indebtedness of CFP maturing by its terms more than one year after the date on which it is originally incurred.

(ii) Debt shall be deemed to be incurred: (A) under a loan contract or

agreement or other instrument providing for such debt or for the modification of its terms of payment on the date of such contract, agreement or instrument; and (B) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into.

(iii) The term "equity" means the sum of the total unimpaired paid-up capital including compulsorily convertible bonds and subordinated debt, retained earnings (undistributed net profits) and reserves of CFP not allocated to cover specific liabilities.

(iv) Whenever for the purposes of this paragraph it shall be necessary to value, in terms of the currency of the Guarantor, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Bank.

4. CFP shall maintain such accounting system and operational procedures as shall be required to enable CFP to keep adequate control of the administrative costs and the operational efficiency of its headquarters and regional offices.

5. The Borrower shall have the right to automatically suspend disbursements of the proceeds of the Loan to CFP if CFP does not comply with the ratio requirements contained in Section 4.06 (b) of the CFP Project Agreement.

Part 3: Procedures for and Terms and Conditions of NGO Loans under NGO Agreements

Procedures for NGO Loans

1. NGO loans may be made by Managing Institutions to NGOs which: (i) comply with the criteria and characteristics for NGOs set out in Schedule 5, Part 3, to this Agreement, (ii) requires the NGO Loan for the purposes of making a Microenterprise Sub-Loan to a Microenterprise for a Microenterprise Project; and (iii) agrees to provide advisory services to the Microenterprise and manage and supervise the Microenterprise Project on terms satisfactory to the Managing Institution and approved by the Borrower, and in accordance with the guidelines to be agreed with the Managing Institution.

2. Interest on the principal amount of the NGO Loan shall be payable at a rate, satisfactory to the Bank and the Borrower, which shall be determined by the NGO and the Managing Institution.

3. NGO Loans shall be made by a Managing Institution to an NGO up to a maximum amount equal to 40% of the total aggregate amount of the annual lending program of the NGO for the previous year, and each respective Managing Institution shall monitor the annual lending program of each respective NGO and review its annual lending program for the previous year in order to establish the maximum amount that may be lent by it, for such purposes the NGO shall supply such details and information as the Managing Institution shall require.

Terms and Conditions of NGO Agreements

Each NGO Agreement shall include inter alia the following provisions:

1. Provisions obliging the NGO: (i) to make the respective Microenterprise Sub-Loan in pesos out of the proceeds of the NGO Loan and the Microenterprise's obligation to repay in pesos; (ii) to pay interest on the proceeds of the Sub-Loan made available to it at the rate agreed with the Managing Institution; (iii) to repay the proceeds of the NGO Loan provided that the repayment terms shall reflect the repayment terms agreed with the respective Microenterprise to which the proceeds of the NGO Loan are relent; and (iv) to make Sub-Loans for periods of up to 36 months, and

with in each case up to a three-month grace period, and requiring quarterly amortization.

2. A provision obliging the NGO to enter into an agreement with the Microenterprise to which the NGO has made or proposes to make a Sub-Loan containing: (i) the terms and conditions for Sub-Agreements contained in this Schedule, Part 4, and additionally; (ii) the terms and conditions for Microenterprise Sub-Loans contained in this Schedule, Part 5; and to exercise its rights under such agreements in such a manner as to protect at all times the interest of the Bank, the Borrower and the Managing Institution and to achieve the objectives of the Project.

3. A provision ensuring: (i) the right of the Bank, the Borrower, the Managing Institution and the NGO to obtain all such information as any of them shall reasonably request regarding the Microenterprise, the Microenterprise Project and the Microenterprise Sub-Loan, and (ii) the right for Managing Institutions to supervise the performance of the NGO's to Microenterprises.

4. A provision ensuring the right of the Bank or the Borrower or the Managing Institution to suspend or terminate the right of the NGO to use the proceeds of the NGO Loan upon failure of the NGO to perform its obligations under the NGO Agreement.

5. A provision ensuring that the NGO: (i) comply with the Managing Institutions guidelines agreed with the NGO, and satisfactory to the Bank, for Microenterprise selection, approval and supervision; (ii) maintain in accordance with sound accounting principles and practices adequate financial records and accounts in relation to its performance; (iii) provide to the Managing Institution semi-annual statements of its overall financial condition and annual audited financial statements; and (iv) provide to the Managing Institution quarterly reports based on the results of quarterly reviews of the proposed lending programs, of its quarterly tranche disbursements, of its repayment monitoring, and on the condition of its loan portfolio.

6. A provision that: (i) the NGO maintain a specific recovery rate of at least 90% of interest and principal obligations due in respect of Microenterprise Sub-Loans; (ii) the NGO may obtain collective guarantees from Microenterprises receiving Microenterprise Sub-Loans from the respective NGO; and (iii) the Managing Institution shall have the right to suspend disbursements and its lending activity to an NGO not maintaining the specific recovery rate referred to in (i) hereof.

7. A provision that the proceeds of the NGO Loan may be used to meet expenditures in relation to Microenterprise Projects of 100% of the fixed assets, working capital and technical assistance requirements of Microenterprises financed by the NGO Loan.

8. A provision that the Managing Institution may finance out of the proceeds of the NGO Loan technical assistance for the NGO to assist in the appraisal, monitoring and supervision of Microenterprises, and that the NGO may provide technical assistance to Microenterprises including credit and bookkeeping advice to Microenterprises lacking basic accounting systems.

Part 4: Procedures for and Terms and Conditions of Sub-Loans under Sub-Agreements
Procedures for Sub-Loans

1. A Financial Institution or NGO, as the case may be, shall relend the proceeds of a Subsidiary Loan or an NGO Loan, as the case may be, to an Investment Enterprise: (a) under a Sub-Agreement on terms and conditions satisfactory to the Bank, which shall include adequate rights protecting the interest of the Bank, the Borrower, and the Financial Intermediary or Managing Institution and ensuring each such party is able to carry out its respective obligations under this Agreement, and which shall include inter alia the terms and conditions set out in the part headed 'Terms and Conditions of Sub-Agreements' below; and (b) the Financial Intermediary or NGO, as the case may be, shall exercise its rights under a Sub-Agreement in such manner as to protect the interests of the Bank and the Borrower, and the Managing Institution (if appropriate) and to accomplish the purposes of the Loan, and, except as the Bank shall otherwise

agree, the Financial Institution or NGO as the case may be shall not assign, amend, abrogate or waive the Sub-Agreement or any provision thereof.

2. (a) Sub-Loans shall be made up to a maximum amount of \$500,000 equivalent to any one Investment Enterprise; and (b) the goods and services financed out of the proceeds of the Sub-Loan will be used exclusively in the carrying out of the Investment Project. No expenditures for goods or services required for an Investment Project shall be eligible for financing out of the proceeds of the Loan unless:

(i) the Sub-Loan for such Investment Project shall have been approved by the Borrower and the Bank and such expenditures shall have been made not earlier than one hundred and eighty days prior to the date on which the Borrower shall have received the application and information required under Section 3.02 (d) and (f) of this Agreement in respect of such Sub-Loan; or

(ii) the Sub-Loan for such Investment Project shall have been a Free-Limit Sub-Loan for which the Bank has authorized withdrawals from the Loan Account and such expenditures shall have been made not earlier than one hundred and eighty days prior to the date on which the Borrower shall have received the request and information required under Section 3.02 (e) of this Loan Agreement in respect of such Free-Limit Sub-Loan; or

(iii) the Sub-Loan for such Investment Project shall have been for an amount which the Financial Intermediary is authorized to re-lend without the prior consent of the Borrower, being an amount of less than \$250,000 equivalent, \$120,000 equivalent or \$80,000 equivalent (in each case as appropriate to such Financial Intermediary) or the Sub-Loan shall be for an amount in excess of such amount and the Borrower's prior approval shall have been obtained by the Financial Intermediary for such Sub-Loan and such expenditures shall have been made not earlier than one hundred and eighty days prior to the date on which the Borrower shall have received the request and information required under Section 3.02 (c) of this Loan Agreement.

3. An Investment Enterprise requesting withdrawals in accordance with the Sub-Loan shall provide all such information in respect of itself, the expenditures for which such withdrawal is required, and any other matter as requested by the Financial Intermediary or Managing Institution.

4. A Sub-Loan shall be made to an Investment Enterprise provided inter alia that: (i) the Investment Enterprise shall meet an amount of expenditures in relation to the Investment Project equal to 20% (if the Investment Enterprise is an existing Investment Enterprise) or 30% (if the Investment Enterprise is a new Investment Enterprise) of the total cost of the Investment Project, and (ii) that the Financial Intermediary has agreed to fund from its own resources at least 20% of the amount of the Sub-Loan made to the Investment Enterprise or Sub-Borrower for the purposes of the Investment Project.

Terms and Conditions of Sub-Agreements

1. Sub-Loans shall be made on terms and conditions including inter alia that:

(i) the Financial Intermediary or NGO shall lend to the Investment Enterprise in pesos proceeds of the Subsidiary-Loan or NGO Loan required by the Investment Enterprise for the Investment Project and the Investment Enterprise's obligation to repay in pesos;

(ii) the Investment Enterprise shall pay interest on the principal of the proceeds of the Sub-Loan made available to it at a rate set out in the Annex to this Schedule 4; and

(iii) the Investment Enterprise shall repay the proceeds of the Loan made available to it by the Financial Intermediary or NGO as the

case may be under the respective Sub-Loan provided that the repayment terms will reflect the capacity of the Investment Enterprise to repay and the cash flow of the Investment Project and shall be in the case of a SME Sub-Loan for a period: (a) not less than four years nor more than ten years, including a grace period of one to three years of grace, or (b) of a maximum of five years, including a grace period of one year's grace where the proceeds of the SME Sub-Loan are to be utilized as permanent working capital of the SME.

2. Sub-Loans shall be made on terms whereby the Borrower through the Financial Intermediary or Managing Institution and NGO shall obtain, by written contract with the Investment Enterprise or by other appropriate legal means, rights adequate to protect the interests of the Bank and the Borrower, including, in the case of each Sub-Loan, the right to:

(a) require the Investment Enterprise to carry out and operate the Investment Project, as approved, with due diligence and efficiency and in accordance with sound technical, financial and management standards and to maintain adequate records;

(b) require that: (i) the goods and services to be financed out of the proceeds of the Loan shall be purchased at a reasonable price, account being taken also of other relevant factors such as time of delivery and efficiency and reliability of the goods and availability of maintenance facilities and spare parts therefor, and, in the case of services, of their quality and the competence of the parties rendering them; and (ii) such goods and services shall be used exclusively in the carrying out of the Investment Project;

(c) inspect, by itself or jointly with representatives of the Borrower and the Bank if the Bank shall so request, such goods and the sites, works, plants and construction included in the Investment Project, the operation thereof, and any relevant records and documents;

(d) require that: (i) the Investment Enterprise shall take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound business practice; and (ii) without any limitation upon the foregoing, such insurance shall cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Loan to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the Investment Enterprise to replace or repair such goods;

(e) obtain all such information as the Bank or the Borrower or the relevant Financial Intermediary, Managing Institution or NGO, as appropriate, shall request relating to (i) the administration, operations and financial condition of the Investment Enterprise; (ii) the benefits to be derived from the Investment Project and (iii) the goods and services to be supplied in accordance with the Investment Project inter alia to allow each party to comply with its reporting and accounting requirements under this Agreement; and

(f) suspend or terminate the right of the Investment Enterprise to use the proceeds of the Sub-Loan upon failure by such Investment Enterprise to perform its obligations under its Sub-Agreement, or NGO Agreement, with the Financial Intermediary, or NGO, as the case may be.

Part 5: Additional Terms and Conditions for Microenterprise Sub-Loans under Sub-Agreements

Each Microenterprise Sub-Loan shall contain the terms and conditions set out in Schedule 4, Part 4, for Sub-Loans. In addition, each Microenterprise Sub-Loan Agreement shall include:

1. A provision that the NGO supply technical assistance to the Microenterprise for the Microenterprise Project and that the NGO co-finance the Microenterprise Project as required.

2. A provision that the NGO select, appraise, approve, monitor and supervise the

Microenterprise Project.

3. A provision that the Microenterprise Sub-Loan be for a period of up to 36 months, with a grace period of up to 3 months and with quarterly amortization.

4. A provision that the Managing Institution and the NGO shall have the right to supervise the Microenterprise Project, as the Managing Institution or NGO deems necessary.

5. A provision that the Microenterprise provide to the NGO sufficient information on a regular basis for the NGO to prepare reports on the condition of the Microenterprise Project, statements of the Microenterprise's financial condition and annual audited financial statements in accordance with its obligations to provide the same to the Managing Institution.

6. A provision that the proceeds of the Microenterprise Sub-Loans may be used to meet expenditures in relation to the Microenterprise Project of 100% of the cost of fixed assets and working capital and technical assistance to be financed by the Microenterprise Sub-Loan.

Part 6: Rules for, and Terms and Conditions on which Investments shall be made

A. Rules for Investments

Investments shall be made by Financial Intermediaries which have entered into Participation Agreements to Investment Enterprises which meet the eligibility criteria and characteristics contained in Schedule 5, Part 5, of this Agreement in accordance with the following:

1. Investments of up to a maximum of \$500,000 equivalent may be made by a Financial Intermediary after it has: (i) submitted to the Borrower for submission to the Bank the information required under Section 3.02 (f), and (ii) received the approval of the Borrower and the Bank to the making of such Investment and the Restructuring Program.

2. A Subsidiary Loan provided by the Borrower to a Financial Intermediary for an Investment shall be provided for a minimum of four years and a maximum of ten years, and with a minimum grace period of one year and a maximum grace period of three years and such Investment shall be held by the Financial Intermediary over a period not exceeding ten years from the date on which the Investment was made.

3. An Investment made or to be made for the purposes of a Restructuring Program for an Investment Enterprise shall be made pursuant to such approved Restructuring Program and shall finance goods and services for inter alia: (a) applied research and development in relation to the Investment Enterprises business; (b) retraining of workers if appropriate; (c) permanent working capital needs to cover all physical production inputs for a period set out in the Restructuring Program and based upon the Investment Enterprise's production cycle; and (d) the marketing and distribution under the Restructuring Program the cost of which: (i) exceed current expenses of the Investment Enterprise and (ii) are associated with either trade fairs, exhibitions and other promotion campaigns or with investments in distribution systems for the Investment Enterprise. Investments shall not finance the transfer of ownership of existing assets or the repayment of existing indebtedness.

4. An Investment made or to be made for the purposes of a Restructuring Program which allows for purchase or creation of equity or, subordinated debt on compulsory convertible bonds of the Investment Enterprise shall be made for a maximum amount of the lesser of: (a) 30% of the total value of the total equity of the Investment Enterprise as at the date on which the application is made, or (b) 50% of the total cost or value of the equity being purchased or created pursuant to the Restructuring Program. Terms and conditions for equity instruments will be negotiated on a case-by-case basis between the Financial Intermediary and the Investment Enterprise. For these purposes "total equity of the Investment Enterprise" shall mean the sum of the total unimpaired paid-up capital, retained earnings, subordinated debt, compulsory convertible bonds,

and reserves of the Investment Enterprise not allocated to cover specific liabilities.

5. An Investment shall be made for no purposes other than those contained in paragraphs (3) and (4) above.

6. The proceeds of an Investment shall be used for the procurement of goods and services for the Investment Enterprise in which such Investment is made.

7. The Financial Intermediary shall actively assist the Investment Enterprise to develop in accordance with the Restructuring Program for which the Investment is made.

B. Terms and Conditions of Investments

1. A Subsidiary Loan for the purposes of an Investment shall be made on additional terms and conditions to a Financial Intermediary under a Participation Agreement satisfactory to the Bank, which will include adequate rights, protecting the interests of the Bank, the Borrower and the Financial Intermediary and ensuring that each such party is able to carry out its respective obligations in relation to the Investment under this Agreement, which shall include inter alia the following terms and conditions:

(i) the Financial Intermediary shall invest the proceeds of the Subsidiary Loan made for the Investment in pesos in the Investment Enterprise;

(ii) the Financial Intermediary shall impose on the Investment Enterprise an obligation to comply with the Restructuring Program, which compliance the Financial Intermediary shall monitor;

(iii) the Financial Intermediary shall pay interest on the proceeds of the Subsidiary Loan made for the Investment to the Borrower at a rate set out in the Annex to this Schedule 4; and

(iv) the Financial Intermediary shall repay the Investment in accordance with a schedule of repayment submitted to, and approved by, the Borrower.

2. Such terms and conditions to reflect the provisions of the rules for the making of an Investment contained in Part A of this Part 6 of this Schedule 4 to this Agreement as adequately ensure that such rules can be properly complied with throughout the term of the Investment.

3. The Financial Intermediary shall: (i) inspect by itself or jointly with representatives of the Borrower and the Bank, if the Bank shall so request, such goods and the sites, works, plants and construction to be financed by the Investment, as appropriate, the operation thereof, and any relevant records and documents; (ii) take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound business practice; and (iii) without any limitation upon the foregoing, such insurance shall cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Investment to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the Financial Intermediary and Investment Enterprise to replace or repair such goods.

4. No expenditures required under a Restructuring Program shall be eligible for financing out of the proceeds of the Loan unless the Investment shall have been approved by the Borrower and the Bank and such expenditures shall have been made not earlier than one hundred and eighty days prior to the date on which the Borrower shall have received the information required under Section 3.02 (f) of this Agreement, together with a request for withdrawal from the Financial Intermediary containing inter alia all information in respect of the Investment, the expenditures for which such withdrawal is required, its own contributions for the purchase of the goods or the provision of services or amounts for which such withdrawals are required (which shall be a minimum of 20% of the total amount required for such goods or services or of such amounts), and any other matter as requested by the Borrower or the Bank.

5. The Financial Intermediary shall obtain all such information as the Bank or the Borrower shall request relating to the Investment, and to the administration, operations and financial condition of the Investment Enterprise and to the benefits to be derived from the Investment.

6. The Borrower shall suspend or terminate the right of the Financial Intermediary to use the proceeds of the Subsidiary Loan for the Investment upon failure by the Financial Intermediary or the Investment Enterprise to perform its obligations in respect of the Investment and the Restructuring Program, including, without limitation, the Financial Intermediary's obligation to monitor the Investment Enterprise and ensure that it supplies all financial information necessary in accordance with the rules set out in Part A of this Part 6 of this Schedule.

SCHEDULE 5

Criteria and Characteristics for Classification as a SME for the purposes of this Agreement

Part 1:

A SME shall be any entity which at the time the application to lend to such SME is made:

(i) is an entity established under and in accordance with the law of Colombia and is situated in Colombia;

(ii) is engaged in manufacturing, agro-industry, mining and related service industries; and

(iii) either, meets the total assets and employee definition for SMEs under the SME Law, or is a Microenterprise under this Agreement.

Part 2: Criteria and Characteristics for Classification as a Microenterprise for the purposes of this Agreement

A microenterprise shall be any entity which at the time the application to lend to such Microenterprise is made:

(i) complies with the criteria and characteristics of classification contained in Schedule 5, Part 1 paragraph (i) and (ii) to this Agreement; and

(ii) meets the total asset and employee definition for Microenterprises under the SME Law.

Part 3: Criteria and Characteristics for Classification as an NGO for the purposes of this Agreement

1. An NGO shall be any entity which:

(i) is an association, partnership or co-operative which has more than 10 members in the same sub-sector, and other entities registered with the Second National Microenterprise Development Program with objectives to promote Microenterprise development through credit, training and technical assistance; or

(ii) is a trading company operating solely for the provision of inputs for, and product marketing of, Microenterprises, and which is registered with the Second National Microenterprise Development Program. Such companies may also provide assistance for product design, quality control, packaging and related issues.

2. An NGO shall be eligible to participate for the purpose of making NGO Loans on confirmation from the Borrower to the Bank that the NGO: (a) has been approved by the Departamento Nacional

de Planeacion for participation in the Second National Microenterprise Development Program, and (b) substantially meets the following criteria, which is that it has:

- (i) socio-economic objectives consistent with the overall objectives of the Project and an absence of conflicting political, religious or other aims;
- (ii) regional or national scale of support for Microenterprise development, evidenced by trends in the numbers, coverage and success of Microenterprises it has assisted;
- (iii) a demonstrated ability to design activities which can be subsequently sustained by the Microenterprise beneficiaries;
- (iv) managerial and technical capability to satisfactorily make Sub-Loans to Microenterprises under Part B of the Project, particularly with respect to its organization and field staff used to identify, select, appraise and supervise Microenterprises for Microenterprise Projects;
- (v) a sound repayment record of credits, and adequate accounting and information infrastructure to provide early warning of non-payment;
- (vi) adequate fee income, spreads and financial reserves in relation to administrative costs and credit risks; and
- (vii) a record of financing to a significant level Microenterprises, with the NGO's and Microenterprise's own resources, Microenterprise Projects, without a record of dependency on official sources of funds.

Part 4: Eligibility criteria for classification as a Financial Intermediary for the purposes of this Agreement

A Financial Intermediary shall be a development or commercial financial institution constituted under the laws of Colombia which to the satisfaction of the Borrower and the Bank:

- (i) complies with the requirements of the Superintendency of Banks in Colombia in respect of its overall operating policies and practices, financial condition and reporting requirements;
- (ii) in the case of a Corporacion Financiera, meets each of the operating and financial standards established under Decree 2041 of November 1987 of the Guarantor and as varied from time to time; and
- (iii) has undergone a satisfactory examination by the Borrower of its organization, staffing, loan appraisal and supervision procedures for SME lending under the Project.

Part 5: Eligibility Criteria and Characteristics for a SME in which a Financial Intermediary proposes to make a Sub-Loan or an Investment for a Restructuring Program

An Investment Enterprise in which a Financial Intermediary or Sub-Borrower may make a Sub-Loan or an Investment for a Restructuring Program shall be any Investment Enterprise which:

- (i) complies with the criteria and characteristics of classification as a SME contained in Schedule 5, Part 1, to this Agreement; and
- (ii) is either (a) unable to meet its current or long-term liabilities under existing borrowings made by it; or (b) is willing to undertake a Restructuring Program.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

(a) the term "Eligible Categories" means Categories (1) and (2) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "Eligible Expenditures" means expenditures in respect of the reasonable cost of goods and services required for Parts A and B of the Project and to be financed out of the proceeds of the Loan allocated from time to time to the Eligible Categories in accordance with the provisions of Schedule 1 to this Agreement, provided, however, that notwithstanding the provisions of paragraph 2 (d) of Schedule 4, Part 2, to this Agreement, payments for expenditures to be financed out of the proceeds of Free-Limit Sub-Loans may be made out of the Special Account before the Bank shall have authorized withdrawals from the Loan Account in respect thereof. Such expenditures, however, shall qualify as Eligible Expenditures only if the Bank shall subsequently authorize such withdrawals; and

(c) the term "Authorized Allocation" means an amount equivalent to \$8,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the Special Account shall be made exclusively for Eligible Expenditures in accordance with the provisions of this Schedule.

3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for a deposit or deposits which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit in the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been made out of the Special Account for Eligible Expenditures.

All such deposits shall be withdrawn by the Bank from the Loan Account under the respective Eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for Eligible Expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in

accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or

(b) once the total unwithdrawn amount of the Loan allocated to the Eligible Categories for Parts A and B of the Project, less the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to Parts A and B of the Project, shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the Eligible Categories for Parts A and B of the Project shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for Eligible Expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

