

CONFORMED COPY

LOAN NUMBER 7193-CO

Loan Agreement

(Programmatic Labor Reform and Social Structural Adjustment Loan)

between

REPUBLIC OF COLOMBIA

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated September 11, 2003

LOAN NUMBER 7193-CO

LOAN AGREEMENT

AGREEMENT, dated September 11, 2003, between the REPUBLIC OF COLOMBIA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Bank has received a letter, dated August 6, 2003 (the Development Policy Letter), from the Borrower: (i) describing its macroeconomic framework and a program of actions, objectives and policies for labor and social reform, covering social protection, labor law, public health and education (the Program), which Program consists of actions that have already been taken as described in Schedule 3 to this Agreement (the First Phase of the Program), and actions and policies that the Borrower intends to take and adopt in the near future; (ii) declaring the Borrower's commitment to the objectives of the Program; and (iii) requesting assistance from the Bank in support of the Program during the execution thereof; and

(B) on the basis, *inter alia*, of the foregoing, the Bank has decided in support of the First Phase of the Program to provide such assistance to the Borrower by making the loan provided for in Article II of this Agreement (the Loan) as hereinafter provided;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements for Fixed-Spread Loans" of the Bank dated September 1, 1999, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

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

“ ‘Project’ means the program, referred to in the Preamble to the Loan Agreement, in support of which the Loan is made.”;

(b) Section 3.08 is modified to read:

“Each withdrawal of an amount of the Loan from the Loan Account shall be made in the Loan Currency of such amount. If the Loan Currency is not the currency of the deposit account specified in Section 2.02 of the

Loan Agreement, the Bank, at the request and acting as an agent of the Borrower, shall purchase with the Loan Currency withdrawn from the Loan Account the currency of such deposit account as shall be required to deposit the withdrawn amount into such deposit account.”;

- (c) Section 5.01 is modified to read:

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

- (d) the last sentence of Section 5.03 is deleted;

- (e) Section 9.07 (c) is modified to read:

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

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

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

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

(b) “DNP” means *Departamento Nacional de Planeación*, the Borrower’s National Planning Department;

(c) “General Budget Law” means *Ley de Presupuesto General de la Nación*, approved by the Borrower on December 18, 2002 for the period covering the fiscal year starting on January 1, 2003 and ending on December 31, 2003;

(d) “*Hogares de Bienestar Familiar*” means the day care center program supported and administered by ICBF (as hereinafter defined) aimed to support the social, moral and physical development of children under 7 years of age;

(e) “ICBF” means *Instituto Colombiano de Bienestar Familiar*, the Borrower’s Institute for Family Welfare;

(f) “ISS” means *Instituto de Seguros Sociales*, the Borrower’s Social Security Institute;

(g) “Law 789” means the Borrower’s “*Ley por la cual se dictan Normas para Apoyar el Empleo y Ampliar la Protección Social y se modifican algunos artículos del Código Sustantivo de Trabajo*”, published in the Borrower’s Official Gazette on December 27, 2002;

(h) “MEN” means *Ministerio de Educación*, the Borrower’s Ministry of Education;

(i) “MOF” means *Ministerio de Hacienda y Crédito Público*, the Borrower’s Ministry of Finance and Public Credit;

(j) “MSP” means *Ministerio de Protección Social*, the Borrower’s Ministry of Social Protection;

(k) “PAI” means *Programa Ampliado de Inmunizaciones*, the Borrower’s expanded program of immunizations;

(l) “Presidential Decree No. 2030” means the Borrower’s *Decreto por el cual se establecen los criterios y procedimientos para organizar las plantas de personal docente y administrativo del servicio educativo estatal que prestan las entidades territoriales*;

(m) “SENA” means *Servicio Nacional de Aprendizaje*, the Borrower’s Learning National Service; and

(n) “SISBEN” means *Sistema de Identificación y Selección de Beneficiarios de Programas Sociales*; referred as targeting instrument of social public expenditures under Law 715 dated December 2001, a system to rank households according to several socio economic variables. Families classified as SISBEN 1 are generally those with earnings below the extreme poverty line; families classified as SISBEN 2 are generally those with earnings above the extreme poverty line but below the poverty line.

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 equal to two hundred million Dollars (\$200,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.09 of this Agreement.

Section 2.02. (a) Subject to the provisions of paragraphs (b) and (c) of this Section, the Borrower shall be entitled to withdraw the amount of \$198,000,000 from the Loan Account in support of the Program.

(b) The Borrower shall, prior to furnishing to the Bank the first request for withdrawal from the Loan Account, open and thereafter maintain in its central bank a deposit account in Dollars on terms and conditions satisfactory to the Bank. All withdrawals from the Loan Account shall be deposited by the Bank into the Deposit Account.

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

Section 2.03. The Closing Date shall be March 31, 2004 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a front-end fee in an amount equal to one per cent (1%) of the amount of the Loan. The Borrower agrees that on or promptly after the Effective Date, the Bank shall, on behalf of the Borrower withdraw from the Loan Account and pay to itself the amount of such fee.

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

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

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

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

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

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

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

(c) Without limitation upon the provisions of paragraph (a) of this Section and unless otherwise agreed by the Bank and the Borrower, the interest rate basis applicable to consecutive withdrawals from the Loan Account which in the aggregate equal \$200,000,000 shall be converted from the initial Variable Rate to a Fixed Rate for the full maturity of such amount in accordance with the provisions of the General Conditions and of the Conversion Guidelines.

ARTICLE III

Particular Covenants

Section 3.01. The Borrower shall exchange views with the Bank on any proposed action to be taken after the disbursement of the Loan which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program, including any measure or action specified in Schedule 3 to this Agreement.

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

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

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

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

ARTICLE IV

Additional Events of Suspension

Section 4.01. Pursuant to Section 6.02 (p) of the General Conditions, the following additional events are specified: (a) the Borrower's macroeconomic policy framework has become inconsistent with the objectives of the Program; and (b) an action has been taken or a policy has been adopted to reverse any action or policy under the Program (including any action or policy listed in Schedule 3 to this Agreement) in a manner that would, in the opinion of the Bank, after consultation with the Borrower, adversely affect the achievement of the objectives of the Program.

ARTICLE V

Termination

Section 5.01. The date December 10, 2003 is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representatives of the Borrower; Addresses

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

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

For the Borrower:

Ministry of Finance and Public Credit
Palacio de los Ministerios
Plaza San Agustín
Carrera 7a, No. 6-45, Piso 8
Bogotá, D.C.
Colombia

Cable address:	Telex:	Facsimile:
MINHACIENDA	43289 MHAC CO	(571) 350-9344

For the Bank:

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

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

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

REPUBLIC OF COLOMBIA

By /s/ Bernardo Ortiz-Bravo
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Isabel Guerrero
Acting Regional Vice President
Latin America and the Caribbean Region

SCHEDULE 1

Excluded Expenditures

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

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

<u>Group</u>	<u>Subgroup</u>	<u>Description of Items</u>
112	-	Alcoholic beverages
121	-	Tobacco, unmanufactured, tobacco refuse
122	-	Tobacco, manufactured (whether or not containing tobacco substitutes)
525	-	Radioactive and associated materials
667	-	Pearls, precious and semiprecious stones, unworked or worked

718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971	-	Gold, non-monetary (excluding gold ores and concentrates)

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

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

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

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

SCHEDULE 2

Amortization Schedule

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

<u>Payment Date</u>	<u>Installment Share (Expressed as a %)</u>
On each March 15 and September 15	
Beginning March 15, 2009 through March 15, 2019	4.55%
On September 15, 2019	4.45%

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

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

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

3. (a) Withdrawals made within two (2) calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable

on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

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

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

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

SCHEDULE 3

Actions Referred to in Recital (A) of the Preamble to this Agreement

1. The Borrower's Executive, through the issuance of a Presidential Decree, has created the Ministry of Social Protection, as a result of the merging of the Borrower's former Ministries of Labor and Health, which ministry will have under its responsibility the autonomous agencies formerly assigned to the Ministries of Labor and Health, including SENA, ISS and ICBF.
2. ICBF, through an agreement of its board, has: (a) developed a policy to target ICBF's assistance programs so as to benefit children belonging to SISBEN 1 and 2 families; and (b) mandated ICBF management to: (i) develop, by March 2004, methodologies to estimate the share of the benefits going to such children; (ii) establish, by September 2004, quantitative targets to increase the share of said benefits for the period covering 2004-2006, based on a methodology acceptable to both the Borrower and the Bank; and (iii) establish by March 2004 a system for monitoring compliance with the above-mentioned targets and disseminating such information to the public.
3. ICBF and DNP, through a joint memorandum of understanding, have committed to the evaluation of the impact and cost of the nutrition and other selected major programs detailed in the Development Policy Letter for the period 2003-2006, following a time-line acceptable to both the Borrower (through ICBF and DNP) and the Bank.
4. The Borrower has undertaken the following actions to strengthen the PAI: (i) issuance by MSP and MOF of a joint official document showing that the allocated resources in the Borrower's 2003 budget are sufficient for reaching a ninety-five percentage (95%) immunization coverage target by 2006 for the targeted infant population; and (ii) issuance of a presidential decree which would require issuance of an immunization card to all children enrolled in public and private schools, as well as child care centers including *Hogares de Bienestar Familiar*.
5. The Borrower, through an official document issued by MSP, has expanded the subsidized health insurance coverage (*Régimen Subsidiado*) by at least 300,000 new affiliates, when compared to the number of said affiliates as of July 2002.
6. Approval by the Borrower's legislature and entry into effect of Law 789, as well as enactment of regulations for the implementation of said Law with respect to: (i) the waiving of the payment of payroll taxes allocated for ICBF and SENA, as well as those allocated to the compulsory workers compensation fund (*Régimen de Cajas de Compensación*), in order to promote the employment of hard to employ groups (including those of age 16-25, individuals over 50 years of age, unemployed household heads, and handicapped workers), as mandated by article 13 of Law 789; (ii) the reform of the compulsory workers compensation funds, to permit the use of said funds for employment

support and social protection, as mandated by articles 6, 7, 10 and 11 of Law 789; and (iii) the expansion of the apprenticeship program in order to permit, *inter alia*, the hiring of individuals from any accredited post-secondary or training program and the participation of private firms in the provision of training, as mandated by articles 12, 30 and 32 of Law 789.

7. The Borrower, through an official document issued by SENA, certifies that the total numbers of SENA short-course graduates during the period of August 2002-July 2003 has increased by equal to more than fifty percent (50%) when compared to the number of said graduates during the immediately previous twelve month period, all without exceeding the resources provided by the General Budget Law.

8. The Borrower, through an official document issued by MEN, certifies that during the period covering the school year July 2002-June 2003, has attained an increase in: (i) the number of students enrolling in public basic and secondary education by at least 300,000 students; and (ii) the student to teacher ratio by at least one additional student per teacher in public primary and secondary schools.

9. The Borrower's has issued: (i) Presidential Decree No. 3020; and (ii) *Oficio No.* 288 dated July 31, 2003, certifying that the student learning achievement testing in mathematics and language for grades 5 of primary school and grade 9 of secondary school has been completed in at least 90% of the Borrower's municipalities.