

**CONFORMED**

**LOAN NUMBER 7167-CO**

# **Loan Agreement**

**(Programmatic Financial Sector Adjustment Loan)**

**between**

**REPUBLIC OF COLOMBIA**

**and**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**Dated May 28, 2003**

**LOAN NUMBER 7167-CO**

**LOAN AGREEMENT**

AGREEMENT, dated May 28, 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 March 31, 2003, from the Borrower: (i) describing its macroeconomic framework and a program of actions, objectives and policies for financial reform, covering financial sustainability, institutional reform and management of public liabilities (the Program), which Program consists of actions that have already been taken as described in Schedule 2 to this Agreement, to the satisfaction of the Bank, (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;

(B) the Borrower has maintained a macroeconomic policy framework satisfactory to the Bank; and

(C) 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 First Phase of 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Loan Agreement, the Bank, at the request and acting as an agent of the Borrower, shall purchase with the Loan Currency withdrawn from the Loan Account the currency of such deposit account as shall be required to deposit the withdrawn amount into such deposit account.”;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) “BANCAFE” means *Banco Cafetero*, the Borrower’s Bank mainly serving the Colombian coffee sector;

(b) “BANCOLDEX” means *Banco de Comercio Exterior*, the Borrower’s foreign trade bank;

(c) “Central Bank” means *Banco de la República*, the Borrower’s central bank;

(d) “CONPES” means *Consejo Nacional de Política Económica y Social*, the Borrower’s highest national planning and government advisory committee on issues related to economic and social development;

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

(f) “FI” means *Institución Financiera Supervisada*, the Borrower’s Financial Institution subject to SB’s (as hereinafter defined) supervision, as set forth in Decree 663, dated April 2, 1993;

(g) “FOGAFIN” means *Fondo de Garantías de Instituciones Financieras*, the Borrower’s deposit insurance agency;

(h) “FRECH” means *Fondo de Reserva para la Estabilización de la Cartera Hipotecaria*, the Fund Administered by the Central Bank for the Stabilization of the Portfolio of the Mortgage Banks;

(i) “IFI” means *Instituto de Fomento Industrial*, the Borrower’s Industrial Development Bank;

(j) “Law 794-2003” means *Ley por la cual se modifica el Código de Procedimiento Civil*, the Borrower’s Law that amended its Civil Procedure Code, dated January 8, 2003, duly published in the Borrower’s official gazette on January 9, 2003;

(k) Law 795-2003 means *Ley de Reforma al Estatuto Orgánico del Sistema Financiero*, the Borrower’s law that amended its Financial Sector Law, dated January 14, 2003, duly published in the Borrower’s official gazette on January 15, 2003;

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

(m) “Peso” or “P\$” means the lawful currency of the Borrower;

(n) “SB” means *Superintendencia Bancaria*, the Borrower’s Superintendency of Banks;

(o) “ST” means *Patrimonio Autónomo para Recepción de Activos y Emisión de Títulos Valores*, the Autonomous Financial Trust for Receiving Patrimonial Assets and Issuing Securities in the Borrower’s territory; and

(p) “SV” means *Superintendencia de Valores*, the Borrower’s Securities Superintendency.

## ARTICLE II

### The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount equal to one hundred fifty million Dollars (\$150,000,000), 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 one hundred forty-eight five hundred million Dollars (\$148,500,000) from the Loan Account in support of the First Phase of the Program.

(b) The Borrower shall open, prior to furnishing to the Bank the first request for withdrawal from the Loan Account, and thereafter maintain in the Central Bank, a deposit account in Dollars on terms and conditions satisfactory to the Bank. All withdrawals of the amount referred to in paragraph (a) above 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 June 30, 2003 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 percent (1%) of the amount of the Loan. 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 said 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: (a) 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 of the General Conditions to but not including the fourth anniversary of such date; and (b) 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 May 15 and November 15 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in full on May 15, 2014.

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.

Section 2.10. Without limitation upon the provisions of paragraph (a) of Section 2.09 of this Agreement and unless otherwise notified by the Borrower to the Bank in accordance with the provisions of the Conversion Guidelines, the interest rate basis applicable to the aggregate principal amount of the Loan withdrawn during each Interest Period shall be changed from the initial Variable Rate to a Fixed Rate for the full maturity of such amount in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

### **ARTICLE III**

#### **Particular Covenants**

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

(b) Prior to each such exchange of views, the Borrower shall furnish to the Bank for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Bank shall reasonably request.

(c) Without limitation upon the provisions of paragraph (a) of this Section, the Borrower shall exchange views with the Bank on any proposed action to be taken after the disbursement of the Loan which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program (including any action specified in Schedule 2 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) A situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

(b) The Borrower's macroeconomic policy framework has become inconsistent with the objectives of the Program.

(c) An action has been taken or a policy has been adopted to reverse any action or policy under the Program in a manner that would, in the opinion of the Bank, adversely affect the achievement of the objectives of the Program.

(d) An action has been taken or a policy has been adopted to reverse any action listed in Schedule 2 to this Agreement.



**ARTICLE V**

**Termination**

Section 5.01. The date August 28, 2003 is hereby specified for the purposes of Section 12.04 of the General Conditions.

**ARTICLE VI**

**Representative of the Borrower; Addresses**

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

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

For the Borrower:

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

Cable address:	Telex:	Facsimile:
MINHACIENDA	43289 MHAC CO	57-1-350-9344

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/David de Ferranti

Regional Vice President  
Latin America and the Caribbean

## SCHEDULE 1

### Excluded Expenditures

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

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

<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

### First Phase of the Program

1. The Borrower has enacted Law 795-2003 to regulate, *inter alia*: (a) the independence of decision making by FIs' board of directors; (b) the enhancement of the existing code of conduct for managers and directors at FIs; (c) the integration of sanction rules applicable to administrative officers, board directors and auditors at FIs; (d) the powers of SB to conduct supervision of financial groups (including the authority of SB to inspect companies in those financial groups not directly under its supervision); (e) the prevention of conflict of interests related to the operations of FIs; (f) the enhancement of SB's mechanisms to intervene FIs and apply sanctions; (g) FIs' obligations to directly report information on financial cash transactions to MH's anti-money laundering monitoring unit; (h) the compulsory procedures for asset-liability transfers and for carve-outs from failing banking institutions; (i) FOGAFIN's issuance of guarantees backed with deposit insurance funds; (j) FOGAFIN's powers for swapping bonds issued by ST with FOGAFIN bonds; (k) the increase of access to segments of the population with limited or no access to financial services with respect to housing micro-credit; (l) the participation of banks in the housing lease market; (m) MH's powers to establish solvency margins and technical reserves of the insurance industry; (n) the minimum capital requirements for insurers and re-insurers; and (o) MH's powers to establish minimum capital requirements for the different business lines of insurance.
2. The Borrower, through SB, has issued *Circular Externa* Number 046, dated October 29, 2002, which strengthens existing regulations that prevent money laundering in the Borrower's financial sector.
3. The Borrower, through MH, has issued a commitment letter to the Bank dated March 28, 2003, to undertake a stocktaking review of the Borrower's financial sector, including, *inter alia*, a review of: (a) the risks affecting weak banking institutions under low economic growth scenarios; (b) the banking sector cash flow generation; (c) the Borrower's public debt securities held by commercial banks and the possible risks affecting said banks as holders of said debt securities; and (d) contingency plans to address any potential risks caused by internal and/or external factors affecting the financial sector.
4. The Borrower: (a) through IFI's shareholders assembly of January 27, 2003, has approved the transfer of IFI's selected assets and liabilities to BANCOLDEX; (b) through CONPES Document Number 3214, dated January 9, 2003, has requested FOGAFIN to commence the privatization process of BANCAFE; and (c) through FOGAFIN has selected an investment firm that will carry out said privatization.

5. The Borrower: (a) has enacted Law 794-2003 to, *inter alia*, streamline banking foreclosure related judicial proceedings, and therefore execute collaterals in a timely manner; and (b) through MH, has issued Decree Number 710, dated March 20, 2003, establishing procedures for finance companies (*compañías de financiamiento comercial*) to obtain financing from commercial banks so as to increase their micro-credit lending.

6. The Borrower: (a) through FOGAFIN, has issued operational guidelines for a new swap program to protect mortgage borrowers against the risks of inflation; and (b) through the Central Bank, has adopted and published on its web site procedures for swapping of mortgage backed securities through the FRECH fund in order to acquire more liquid treasury securities.

7. (a) The Borrower, through SB, has issued Circular Number 33, dated August 2, 2002 to update and adjust market valuation regulations; (b) the Borrower, through SV, has issued Resolution Number 0550, dated August 2, 2002, to regulate a common securities and financial asset valuation methodology to unify market pricing norms; and (c) SB and SV have signed a memorandum of understanding dated November 13, 2002, *inter alia*, to carry out a joint supervision and surveillance of FIs and securities' brokers and dealers in accordance with the procedures set forth therein.

8. (a) The Central Bank's board has issued the procedures for said institution's purchase of *títulos valores de la serie más reciente emitida* (on-the run treasury securities); (b) the Borrower, through MH, has issued Resolution Number 001, dated January 2, 2003, to regulate, *inter alia*, primary dealer operations; and (c) the Borrower, through SV, has issued Resolutions Number 0964 and 1047, dated December 13, 2002 and December 30, 2002, respectively, to regulate the valuation of domestic treasury securities.

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