Loan Agreement

(Second Programmatic Business Productivity and Efficiency Development Policy Loan)

between

REPUBLIC OF COLOMBIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Dated December 6, 2006
LOAN AGREEMENT

Agreement dated December 6, 2006, entered into between REPUBLIC OF COLOMBIA (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Bank has decided to provide this financing on the basis, inter alia, of: (a) the actions which the Borrower has already taken under the Program and which are described in Section I of Schedule 1 to this Agreement; and (b) the Borrower’s maintenance of an appropriate macro-economic policy framework. The Borrower and the Bank therefore hereby agree as follows:

ARTICLE I—GENERAL CONDITIONS; DEFINITIONS

1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.

1.02. Unless the context requires otherwise, the capitalized terms used in the Loan Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II—LOAN

2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of $300,000,000 (three hundred million Dollars) as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.08 of this Agreement (“Loan”).

2.02. The Borrower may withdraw the proceeds of the Loan in support of the Program in accordance with Section II of Schedule 1 to this Agreement.

2.03. The Commitment Charge payable by the Borrower shall be equal to three-fourths of one percent (3/4 of 1%) per annum on the Unwithdrawn Loan Balance, subject to any waiver of a portion of such charge as may be determined by the Bank from time to time.

2.04. The Front-end Fee payable by the Borrower shall be equal to one percent (1.0%) of the Loan amount, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time. In the event that the Borrower selects not to capitalize the Front-end Fee, the Borrower shall pay the Front-end Fee not later than 60 days after the Effective Date.
2.05. The interest payable by the Borrower for each Interest Period shall be at a rate equal to LIBOR for the Loan Currency plus the Fixed Spread, subject to any waiver of a portion of such interest as may be determined by the Bank from time to time; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions.

2.06. The Payment Dates are February 15 and August 15 in each year.

2.07. The principal amount of the Loan shall be repaid in accordance with the provisions of Schedule 2 to this Agreement.

2.08. (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 the Variable Rate.

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

2.09. Without limitation upon the provisions of Section 5.10 of the General Conditions, the Borrower shall promptly furnish to the Bank such information relating to the provisions of this Article II as the Bank may, from time to time, reasonably request.

ARTICLE III—PROGRAM

3.01. The Borrower declares its commitment to the Program and its implementation. To this end:

(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; and

(c) without limitation upon the provisions of paragraphs (a) and (b) 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 Section I of Schedule 1 to this Agreement.

ARTICLE IV—REMEDIES OF THE BANK

4.01. The Additional Events of Suspension consist of the following:

(a) At any time after requesting an exchange of views with the Borrower as provided for in Section 3.01 (a) of this Agreement, the Bank has determined that a situation has arisen which, in the opinion of the Bank, shall make it improbable that the Program or a significant part thereof will be carried out.

(b) At any time after requesting an exchange of views with the Borrower as provided for in Section 3.01 (a) of this Agreement, the Borrower’s macroeconomic policy framework has, in the opinion of the Bank, become inconsistent with the objectives of the Program.

(c) At any time after requesting an exchange of views with the Borrower as provided for in section 3.01 (a) of this Agreement, the Bank has determined that an action has been taken or a policy has been adopted to reverse any action or policy under the Program, including any action listed under Section I of Schedule 1 to this Agreement, in a manner that would, in the opinion of the Bank, adversely affect the achievement of the objectives of the Program.

ARTICLE V—EFFECTIVENESS

5.01. Without prejudice to the provisions of the General Conditions, the Effectiveness Deadline is the date ninety (90) days after the date of this Agreement, but in no case later than the eighteen months after the Bank’s approval of the Loan which expires on June 9, 2008.
ARTICLE VI — REPRESENTATIVE; ADDRESSES

6.01. The Borrower’s Representative is its Minister of Finance and Public Credit.

6.02. The Borrower’s Address is:

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

Facsimile: (57-1) 350-9344

6.03. The Bank’s Address is:

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

Cable address: INTBAFRAD
Telex: 248423(MCI) or 64145(MCI)
Facsimile: 1-202-477-6391
AGREED at the District of Columbia, United States of America, as of the day and year first above written.

REPUBLIC OF COLOMBIA

By /s/ Mariana Pacheco  
Authorized Representative

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By /s/ Isabel Guerrero  
Authorized Representative
SCHEDULE 1

Program Actions; Availability of Loan Proceeds

Section I.  Actions Taken Under the Program

The actions taken by the Borrower under the Program include the following:

1. To enhance competitiveness, specifically in respect of advancing the implementation of regional and sector competitiveness plans, the Borrower has:

   (a) Issued, through CONPES, policy directive No. 3439 dated August 14, 2006, which establishes the basis for the development of a productivity and competitiveness policy, including the institutional framework in relation thereto.

   (b) Issued Presidential Decree No. 2828 dated August 23, 2006, which establishes the roles and responsibilities of Borrower’s agencies and contents and substance of the programs involved in or concerned with the formulation, implementation and monitoring of its competitiveness policy.

   (c) Published electronically, through DNP and on its website Agenda Interna, implementation plans for no less than 10 regions and 10 economic sectors.

2. To strengthen its financial system and capital markets, the Borrower has:

   (a) Issued, through CONPES, for the purpose of strengthening supervision of the sector, policy directive No. 3399 dated November 28, 2005, which mandates that: (i) an evaluation of the effectiveness of the merger process of the banking and securities superintendencies be carried out; and (ii) all the enabling legislation required to increase the legal and budgetary independence of the resulting merged superintendency be elaborated.

   (b) Issued, through MHCP, for the purpose of ensuring increased access to and diversity of financial products, a mid-term roadmap dated October 02, 2006, for selected reforms of the financial sector supported by sound analytical underpinnings.

   (c) (i) Submitted on July 21, 2006, through MHCP, for adoption by the Borrower’s legislative branch, the draft credit information Law No. 27S (Ley de Habesas Data); (ii) issued, through MHCP, Decree No. 2233 dated July 07, 2006, authorizing the establishment of banking
correspondents; and (iii) issued, through MHCP, Decree No. 2230 dated July 06, 2006, mandating the disclosure of fees charged by issuers of payment and credit cards, all for the purpose of modernizing the legal framework for the supply of credit with a view to promoting transparency and access to financial services.

(d) Issued, through MHCP, for the purpose of fostering development and integrity of the Borrower’s capital markets as required pursuant to Law No. 964 of the Borrower, the following Decrees which together set forth the implementing regulations to the Borrower’s securities law and establish new supervisory powers in the Borrower’s Superintendency of Finance with respect to:

(i) qualifications and registry requirements for financial market intermediaries, through Decree No. 3139 dated September 12, 2006;

(ii) self-regulation of market participants, through Decree No. 1565 dated May 19, 2006;

(iii) investor protection rules, through Decree No. 4759 dated December 30, 2005;

(iv) agricultural commodities exchanges, through Decree No. 1511 dated May 15, 2006;

(v) the custody and settlement and payment of foreign exchange, through Decree No. 700 dated March 08, 2006;

(vi) foreign issuers, through Decree No. 1564 dated May 19, 2006; and

(vii) public tender offers, through Decree No. 1941 dated June 13, 2006.

(e) Issued, through MHCP, for the purpose of supporting the development of a sound money market, Decree No. 4708 dated December 26, 2005, which establishes the legal characteristics of selected financial instruments.

(f) Submitted on December 19, 2005, to the Borrower’s legislative branch, through MHCP, MIJ and MD for the purpose of combating money laundering and the financing of terrorism, draft Law No. 208 of 2005, which would criminalize the financing of terrorism and strengthen the
budgetary and institutional capacity of the Unidad de Información y Análisis Financiero.

(g) Issued, through MHCP, Decree No. 2515 dated July 22, 2005, for the strengthening of the budgetary and institutional capacity of the Unidad de Información y Análisis Financiero.

3. To improve product quality standards and foster technological innovation, the Borrower has:

(a) (i) issued, through CONPES, policy directive No. 3446 dated October 30, 2006, which, for the purpose of improving the quality and conformity assessment framework needed to enhance competitiveness in international markets, sets forth the guidelines for establishing independent accreditation and metrology entities to facilitate their international recognition;

(ii) issued, through CONPES, document No. 3375 dated September 05, 2005, which establishes the national policy for the system of sanitary and phytosanitary measures destined to improve the health and innocuity conditions of national food and agricultural products and to facilitate their admission to international markets; and

(iii) adopted, through its legislative branch, on October 18, 2006, the national budget for 2007 which records no less than a six fold increase of the resources devoted to strengthening the metrology infrastructure, as compared to the national budget for 2006.

(b) Carried out, through Colciencias, for the purpose of strengthening the foundations of the science, technology and innovation policies of the Borrower, an evaluation of the ongoing support mechanisms and institutions involved in technology support and transfer to the productive sector, the conclusions of which are recorded in several reports furnished to the Bank on October 13, 2006.

Section II. Availability of Loan Proceeds

A. General. The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of this Section and such additional instructions as the Bank may specify by notice to the Borrower.
B. **Allocation of Loan Amounts.** The Loan shall be withdrawn in a single tranche. The allocation of the amounts of the Loan to this end is set out in the table below:

<table>
<thead>
<tr>
<th>Allocation</th>
<th>Amount of the Loan Allocated (expressed in Dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single Tranche</td>
<td>300,000,000</td>
</tr>
<tr>
<td>Front-end Fee</td>
<td>0</td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td><strong>300,000,000</strong></td>
</tr>
</tbody>
</table>

C. **Payment of Front-end Fee.** Subject to applicable provisions of Section 2.04, in respect of any waiver of the Front-end Fee, if the Borrower selects not to capitalize the Front-end Fee, no withdrawal shall be made from the Loan Account until the Bank has received payment in full of the Front-end Fee.

D. **Deposits of Loan Amounts.** Except as the Bank may otherwise agree:

1. all withdrawals from the Loan Account shall be deposited by the Bank into an account designated by the Borrower and acceptable to the Bank; and

2. the Borrower shall ensure that upon each deposit of an amount of the Loan into this account, an equivalent amount is accounted for in the Borrower’s budget management system, in a manner acceptable to the Bank.

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

F. **Closing Date.** The Closing Date is June 30, 2007.
SCHEDULE 2
Amortization Schedule

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 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) Withdrawn Loan Balance as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayable amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

<table>
<thead>
<tr>
<th>Principal Payment Date</th>
<th>Installment Share (Expressed as a Percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each February 15 and August 15 Beginning:</td>
<td></td>
</tr>
<tr>
<td>February 15, 2013 through August 15, 2013;</td>
<td>8.33 %</td>
</tr>
<tr>
<td>February 15, 2016 through August 15, 2017;</td>
<td>6.67 %</td>
</tr>
<tr>
<td>February 15, 2018 through August 15, 2019;</td>
<td>10.00 %</td>
</tr>
<tr>
<td>February 15, 2020 through August 15, 2020;</td>
<td>3.33 %</td>
</tr>
<tr>
<td>February 15, 2021 through February 15, 2023; and</td>
<td>1.67 %</td>
</tr>
<tr>
<td>On August 15, 2023.</td>
<td>1.65 %</td>
</tr>
</tbody>
</table>

2. If the proceeds of the Loan have not 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 have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the Withdrawn Loan Balance as of such date in accordance with paragraph 1 of this Schedule.
(b) Any amount withdrawn 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 is the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (“Original Installment Share”) and the denominator of which is the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such amounts repayable 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) Amounts of the Loan withdrawn within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

(b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph, if at any time the Bank adopts 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 Loan Balance to an Approved Currency, the amount so converted in the Approved Currency that is repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to the Conversion by either: (a) the exchange rate that reflects the amounts of principal in the Approved Currency payable by the Bank under the Currency Hedge Transaction relating to the Conversion; or (b) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.
APPENDIX

Section I. Definitions

1. “Agenda Interna” means the Internal Productivity and Competitiveness Agenda developed by the Borrower following a wide consultative process of local businesses and enterprises and aimed at identifying bottlenecks to competitiveness and key policies for addressing them.

2. “Colciencias” means Instituto Colombiano para el Desarrollo de la Ciencia y Tecnología Francisco José de Caldas, a Borrower’s agency under the administrative authority of the Borrower’s DNP, established in 1968 and entrusted with the responsibility of implementing the Borrower’s programs in matters of science and technology.

3. “CONPES” means Consejo Nacional de Política Económica y Social, the Borrower’s National Council on Economic and Social Policy.

4. “DNP” means Departamento Nacional de Planeación, the Borrower’s National Planning Department.

5. “Excluded Expenditure” means any expenditure:

   (a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association has financed or agreed to finance, or which the Bank or the Association has financed or agreed to finance under another loan, credit, or grant;

   (b) for goods included in the following groups or sub-groups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Bank by notice to the Borrower:

<table>
<thead>
<tr>
<th>Group</th>
<th>Sub-group</th>
<th>Description of Item</th>
</tr>
</thead>
<tbody>
<tr>
<td>112</td>
<td></td>
<td>Alcoholic beverages</td>
</tr>
<tr>
<td>121</td>
<td></td>
<td>Tobacco, un-manufactured, tobacco refuse</td>
</tr>
<tr>
<td>122</td>
<td></td>
<td>Tobacco, manufactured (whether or not containing tobacco substitutes)</td>
</tr>
<tr>
<td>525</td>
<td></td>
<td>Radioactive and associated materials</td>
</tr>
<tr>
<td>667</td>
<td></td>
<td>Pearls, precious and semiprecious stones, unworked or worked</td>
</tr>
<tr>
<td>Group</td>
<td>Sub-group</td>
<td>Description of Item</td>
</tr>
<tr>
<td>-------</td>
<td>-----------</td>
<td>---------------------</td>
</tr>
<tr>
<td>718</td>
<td>718.7</td>
<td>Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors</td>
</tr>
<tr>
<td>728</td>
<td>728.43</td>
<td>Tobacco processing machinery</td>
</tr>
<tr>
<td>897</td>
<td>897.3</td>
<td>Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths’ or silversmiths’ wares (including set gems)</td>
</tr>
<tr>
<td>971</td>
<td></td>
<td>Gold, non-monetary (excluding gold ores and concentrates)</td>
</tr>
</tbody>
</table>

(c) for goods intended for a military or paramilitary purpose or for luxury consumption;

(d) for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party;

(e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and

(f) under a contract with respect to which the Bank determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Borrower or other recipient of the Loan proceeds during the procurement or execution of such contract, without the Borrower (or other such recipient) having taken timely and appropriate action satisfactory to the Bank to remedy the situation.

6. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 with the modifications set forth in Section II of this Appendix.

7. “MCIT” means Ministerio de Comercio, Industria y Turismo, the Borrower’s Ministry of Trade, Industry and Tourism.


9. “MHCP” means Ministerio de Hacienda y Crédito Público, the Borrower’s Ministry of Finance and Public Credit.
10. “MIJ” means Ministerio del Interior y de Justicia, the Borrower’s Ministry of Interior and Justice.

11. “Program” means the program of actions, objectives and policies designed to promote growth and achieve sustainable reductions in poverty and set forth or referred to in the letter dated October 27, 2006 from the Borrower to the Bank declaring the Borrower’s commitment to the execution of the Program, and requesting assistance from the Bank in support of the Program during its execution.

12. “Single Tranche” means the amount of the Loan allocated to the category entitled “Single Tranche” in the table set forth in Part B of Section II of Schedule 1 to this Agreement.

13. “Unidad de Información y Análisis Financiero” means the financial intelligence unit of MHCP.

Section II. Modifications to the General Conditions

The modifications to the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 are as follows:

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

2. Sections 2.04 (Designated Accounts) and 2.05 (Eligible Expenditures) are deleted in their entirety, and the remaining Sections in Article II are renumbered accordingly.

3. Sections 5.01 (Project Execution Generally), and 5.09 (Financial Management; Financial Statements; Audits) are deleted in their entirety, and the remaining Sections in Article V are renumbered accordingly.

4. Paragraph (a) of Section 5.05 (renumbered as such pursuant to paragraph 3 above and relating to Use of Goods, Works and Services) is deleted in its entirety.

5. Paragraph (c) of Section 5.06 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

“Section 5.06. Plans; Documents; Records

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

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

“Section 5.07. Program Monitoring and Evaluation

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

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

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

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

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

(c) The term “Project” is modified to read “Program” and its definition is modified to read as follows:

“‘Program’ means the program referred to in the Loan Agreement in support of which the Loan is made.” All references to “Project” throughout these General Conditions are deemed to be references to “Program.”