Loan Agreement

(Second Programmatic Labor Reform
and Social Structural Adjustment Loan)

between

REPUBLIC OF COLOMBIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated November 4, 2004
AGREEMENT, dated November 4, 2004, between the REPUBLIC OF COLOMBIA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) pursuant to the loan provided to the Borrower under the Loan Agreement dated September 11, 2003 (Loan No. 7193-CO), the Bank has provided assistance to the Borrower in support of the first phase of the Borrower’s program of actions, objectives and policies for labor and social reform, covering social protection, labor law, public health and education (the Program), as such program was described in the letter, dated August 6, 2003, from the Borrower to the Bank;

(B) the Bank has received a letter, dated July 30, 2004, from the Borrower: (i) describing the Program as revised since the date of the letter referred to in (A) above, which Program consists of actions taken under the first phase referred to in (A) above, actions taken as described in Schedule 3 to this Agreement (the Second Phase of the Program), and actions and policies that the Borrower intends to take and adopt in the 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;

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

(D) on the basis, inter alia, of the foregoing, the Bank has decided in support of the Second 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 (as amended through May 1, 2004), 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 Second 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) “Bogotá Como Vamos” means a civil society based reporting and feedback initiative being implemented in the Borrower’s municipality of Bogotá;
(b) “CONPES” means an authoritative statement of government policy and guidelines issued by the Colombian Executive’s National Council of Social and Economic Policy;

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

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

(e) “DPT” means a vaccine package for immunization against diphtheria, pertussis and tetanus;

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

(g) “Law 715” means the Borrower’s “Ley por la cual se dictan normas orgánicas en materia de recursos y competencias de conformidad con los artículos 151, 288, 365 y 357 (Acto Legislativo 01 de 2001) de la Constitución Política y se dictan otras disposiciones para organizar la prestación de servicios de educación entre otros” published in the Borrower’s Official Gazette on December 21, 2001;

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

(i) “SISBEN” means Sistema de Identificación y Selección de Beneficiarios de Programas Sociales, a targeting instrument for social public expenditures under Law 715, which system ranks 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; and

(j) “Triple Viral” means a vaccine package for immunization against measles, rubella and mumps.

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 $200,000,000 from the Loan Account in support of the Second Phase 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.

(d) No withdrawals shall be made from the Loan Account unless the Bank has received the payment of the fee referred to in Section 2.04 of this Agreement.

Section 2.03. The Closing Date shall be March 31, 2005 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, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time. Such fee shall be payable not later than 60 days after the Effective Date.

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.

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 Second Phase 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 Second Phase 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 February 2, 2005 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 3
Bogotá, D.C.
Colombia

Cable address: MINHACIENDA
Facsimile: (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: INTBAFRAD
Facsimile: (202) 477-6391
Washington, D.C.
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 city of Bogotá, Colombia, as of the day and year first above written.

REPUBLIC OF COLOMBIA

By /s/ Alberto Carrasquilla

Authorized Representative

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By /s/ Alberto Chueca Mora

Authorized Representative

WITNESS:

By /s/ Santiago Montenegro Trujillo
General Director
National Planning Department
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:

<table>
<thead>
<tr>
<th>Group</th>
<th>Subgroup</th>
<th>Description of Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>112</td>
<td></td>
<td>Alcoholic beverages</td>
</tr>
<tr>
<td>121</td>
<td></td>
<td>Tobacco, unmanufactured, 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>Code</td>
<td>Code Description</td>
<td>Description</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>

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.

<table>
<thead>
<tr>
<th>Payment Date</th>
<th>Installment Share (Expressed as a %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>September 15, 2013</td>
<td>12.50%</td>
</tr>
<tr>
<td>March 15, 2014</td>
<td>12.50%</td>
</tr>
<tr>
<td>September 15, 2014</td>
<td>12.50%</td>
</tr>
<tr>
<td>March 15, 2015</td>
<td>13.75%</td>
</tr>
<tr>
<td>September 15, 2015</td>
<td>12.50%</td>
</tr>
<tr>
<td>March 15, 2016</td>
<td>12.50%</td>
</tr>
<tr>
<td>September 15, 2016</td>
<td>12.50%</td>
</tr>
<tr>
<td>March 15, 2017</td>
<td>6.25%</td>
</tr>
<tr>
<td>September 15, 2017</td>
<td>5.00%</td>
</tr>
</tbody>
</table>

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

Second Phase of the Program

1. ICBF has: (a) increased coverage of nutritional programs (by causing 300,000 additional children younger than 6 years old from families belonging to SISBEN 1 and SISBEN 2 to benefit from ICBF nutritional programs in 2003-2004); and (b) started evaluation of at least two of ICBF major assistance programs.

2. The Borrower, through PAI, has increased vaccine coverage for year 2003 to reach 90% DPT, 90% Triple Viral, and 90% polio coverage levels for the targeted infant population.

3. The Borrower has expanded the subsidized health insurance coverage (Régimen Subsidiado) by at least 500,000 new affiliates, when compared to the number of said affiliates as of August, 2003.

4. The Borrower has issued a CONPES establishing the policy framework and a plan of action for a national skills formation system which: (a) allows for more competition; and (b) separates the roles of regulation, accreditation and actual service provision within said system.

5. The Borrower has attained an increase in the number of students enrolled in public basic and secondary education (grades 0 to 11) by at least 500,000 new students, when compared to the number of students so enrolled as of July 2002.

6. The Borrower has: (a) started evaluating teacher performance; and (b) completed testing of student learning achievement in grade 9 covering competency in civics and science in at least 90% of the Borrower’s municipalities.

7. The Borrower has started applying the “Bogotá Como Vamos” model in two national social programs selected by DNP.