H.E. Mauricio Cárdenas Santamaría  
Minister of Finance and Public Credit  
Ministry of Finance and Public Credit  
Carrera 7a. No. 6-45  
Edificio San Agustín  
Bogota, DC, Republic of Colombia

H. E. Simón Gaviria Muñoz  
General Director  
National Planning Department  
Calle 26 No. 13-19, Edificio Fonade  
Bogota, D.C., Republic of Colombia

Re: Republic of Colombia  
Subnational Institutional Strengthening Project  
Loan No. 8320-CO  
Second Amendment to the Loan Agreement

Excellencies:

We refer to the above-referenced Loan Agreement between the Republic of Colombia ("Borrower") and the International Bank for Reconstruction and Development ("Bank") dated December 24, 2013, as amended (“Loan Agreement”). We also refer to the letter from the Ministry of Finance and Public Credit, dated March 18, 2016 requesting a restructuring of the above-mentioned Project.

In view of the above and our recent discussions, the Bank proposes to amend the Loan Agreement to: (a) modify the description of the Project; and (b) reallocate funds between categories of expenditures.

Accordingly, the Loan Agreement is amended as follows:

1. Schedule 1 to the Loan Agreement is hereby amended and replaced in its entirety by Schedule 1 to this amendment letter.
2. The table under paragraph 2 of Section IV.A of Schedule 2 to the Loan Agreement is hereby amended and replaced in its entirety to read as follows:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Loan Allocated (expressed in USD)</th>
<th>Percentage of Expenditures to be financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods, non-consulting services, consultants’ services, Training and Operating Costs for Component 1 of the Project</td>
<td>28,249,035</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Goods, non-consulting services, consultants’ services, Training and Operating Costs for Component 2 of the Project</td>
<td>150,000</td>
<td>100%</td>
</tr>
<tr>
<td>(3) Goods, non-consulting services, consultants’ services, Training and Operating Costs for Component 3 of the Project</td>
<td>32,530,000</td>
<td>100%</td>
</tr>
<tr>
<td>(4) Goods, non-consulting services, consultants’ services, Training and Operating Costs for Component 4 of the Project</td>
<td>306,000</td>
<td>100%</td>
</tr>
<tr>
<td>(5) Goods, non-consulting services, consultants’ services, Training and Operating Costs for Component 5 of the Project</td>
<td>8,764,965</td>
<td>100%</td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td><strong>70,000,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

All other terms and conditions of the Loan Agreement remain in full force and effect.

Please confirm your agreement with the foregoing amendment, on behalf of the Borrower, by signing and dating this letter in the spaces provided below. This amendment letter shall be executed in two counterparts each of which shall be an original and one of which shall be returned to us. The provisions set forth in this amendment letter will become effective as of the date of the countersignature, upon receipt by the Bank of one fully executed original of this letter.

Please also note that the Restructuring Paper dated June 29, 2016 a copy of which is enclosed herewith, will be disclosed on the Bank’s external website as per the Bank’s policy on Access to Information.

Very truly yours,

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By

Gerardo Corrochano
Country Director
Colombia and Mexico Country Unit
Latin America and the Caribbean Region
AGREED:

REPUBLIC OF COLOMBIA

By: [Signature]
Authorized Representative
Title: [Ministro de Hacienda y Crédito Público]
Date: 3 AGO 2016

By: [Signature]
Authorized Representative
Title: [Director General]
Date: 19 JUL 2016

Enclosures
SCHEDULE 1

Project Description

The objectives of the Project are to: (i) improve SNGs’ performance in core public management areas; and (ii) strengthen the capacity of the Borrower’s central government to manage the Decentralization and Territorial Management Framework.

The Project consists of the following parts:

Component 1: Structuring Regional and Local Projects and Designing Long-term Territorial Strategic Planning Tools

1. Providing support to DNP to strengthen the Borrower’s capacity to: (i) establish territorial strategic planning mechanisms, including land registry and land use planning; and (ii) formulate policies that reconcile sectoral and territorial objectives, including, *inter alia*, the following activities: (A) the identification and analysis of existing trends, challenges and opportunities so as to identify methods for achieving a more balanced and equal regional development; (B) the design of different models of territorial development under a long term perspective; and (C) the definition of alternative regional development strategies for the purpose of, *inter alia*, improving efficiency and reducing socioeconomic conflicts; and (D) the establishment, at the national level, of permanent coordination mechanisms for territorial strategic planning so as to ensure harmonization and consistency of the Borrower’s actions over its territory.

2. Providing support to DNP to improve its access to information relevant for regional planning decisions through, *inter alia*: (i) the compilation of an inventory of basic territorial information, including statistics, administrative registries data and census surveys; and (ii) the definition of strategies for making information available in a timely and user-friendly manner at the subnational level.

3. Providing support to DNP and SNGs to identify potential sources of regional development financing, through, *inter alia*: (i) the creation of mechanisms (including public-private partnership schemes) to identify and structure regional investment strategic projects; (ii) the assessment of options to prioritize financing resources based on territorial strategic plan’s objectives; and (iii) the creation of mechanisms to develop and implement new methodologies and models of intervention in various areas of territorial planning such as land registry and land use planning.

Component 2: Applying Incentives for Territorial Management

Establishing of good practice standards in several areas of subnational public management (including tax administration, strategic planning, public financial management, administrative control, financial reporting and procurement) through, *inter alia*: (i) the analysis and compilation of successful cases and ‘good practice’ examples (both at the national and international level); (ii) the definition and implementation of methodologies to document said standards and to make them operational at the SNGs level; and (iii) the definition of a horizontal cooperation framework to promote and disseminate said standards.
Component 3: Providing Technical Assistance Support to SNGs

1. Strengthening SNGs’ management capacity through, *inter alia*: (i) the provision of support in selected aspects of territorial management (including investment action plan formulation and monitoring and evaluation); (ii) the design and development of a standard methodology for carrying out investment action plans and assessments in selected SNGs; (iii) the definition of a large-scale implementation strategy for the standard methodology referred to in (ii) herein; (iv) the implementation of the standard methodology referred to in (ii) herein in selected SNGs; and (v) the carrying out of an impact evaluation of the implementation referred to in (iv) herein.

2. Design and implementation of the TMM through, *inter alia*: (i) the conceptual design of the TMM, including the design and development of technical tools (including methodologies, procedures and information systems) to be used for its implementation and monitoring; (ii) the definition of a relevant service delivery scheme; (iii) the implementation of the TMM in selected SNGs, based on an on-site support strategy; and (iv) the definition of methodologies for carrying out assessments, management and training activities on the TMM.

3. Strengthening DNP’s and MHCP’s technical, operational and managerial capacity to ensure full implementation and adequate maintenance of the TMM through, *inter alia*: (i) the signing and implementation of inter-institutional collaboration agreements with SNGs to ensure proper and efficient operation of the TMM; and (ii) the integration of the TMM (including its information and reporting systems) with DNP’s and MHCP’s current management systems.

4. Improving citizen participation and social control in the public management cycle’s processes through, *inter alia*: (i) the development of a repository of successful (national and international) methodologies and approaches to achieve greater citizen participation and social control in said processes; and (ii) the development of tools and applications to increase transparency and facilitate citizen participation and control in territorial management.

Component 4: Strengthening Control and Monitoring of Territorial Management

1. Strengthening DNP and MHCP’s administrative control over budget spending through, *inter alia*, the following activities: (i) the review and assessment of DNP’s and MHCP’s current internal control management system; and (ii) the issuance of recommendations to the Borrower’s Comptroller’s Office (*Contraloría General de la Nación*), the Borrower’s Audit Office (*Auditoría General de la Nación*) to enable the adaptation of their processes to the new TMM.

2. Strengthening DNP’s and MHCP’s public management capacity through, *inter alia*, the following activities: (i) the definition of risk maps to ensure appropriate use of public resources; and (ii) the identification of good practices and quality standards for territorial management.
Component 5: Project Management and Administration

Providing support to DNP and FONADE for the carrying out of Project coordination and management activities, including *inter alia*: administrative, financial management, procurement, monitoring and evaluation, reporting, auditing and other operational activities required for effective Project implementation.