Loan Agreement

(Second Programmatic Public Sector, Competitiveness and Social Inclusion Development Policy Loan)

between

REPUBLICA ORIENTAL DEL URUGUAY

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Dated October 28, 2011
LOAN AGREEMENT

Agreement dated October 28, 2011, entered into between REPUBLICA ORIENTAL DEL URUGUAY (“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 adequate macroeconomic 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 this 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 two hundred sixty million Dollars ($260,000,000), 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 Front-end Fee payable by the Borrower shall be equal to three quarters of one percent (0.75%) of the Loan amount. The Borrower shall pay the Front-end Fee not later than sixty days after the Effective Date.

2.04. If, at the Borrower’s request and on such terms and conditions as the Bank may agree, the Closing Date is extended, the fee payable by the Borrower for each extension of the Closing Date shall be at the rate of one half of one percent (0.50%) of the amount of the Loan available for withdrawal upon such extension. If the Borrower elects to capitalize the fee from the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself such amounts required to pay such fee. If the Borrower elects to pay the fee from its own resources, the Borrower shall pay such fee not later than sixty days after the
date of the notice given by the Bank to the Borrower confirming the extension of the Closing Date.

2.05. The interest payable by the Borrower for each Interest Period shall be at a rate equal to the Reference Rate for the Loan Currency plus the Variable Spread; 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. Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the interest payable by the Borrower shall instead be calculated as provided in Section 3.02 (e) of the General Conditions.

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

2.07. (a) Except as otherwise provided in paragraph (b) of this Section, the principal amount of the Loan shall be repaid in accordance with the provisions of Schedule 2 to this Agreement.

(b) The Borrower may at the time of requesting a Withdrawal also request repayment provisions different from those set out in Schedule 2 to this Agreement, provided that: (i) the average maturity of such Withdrawal does not exceed 18 years from the Withdrawal Date and the final maturity of such Withdrawal does not exceed 30 years from the Withdrawal Date (or such other average maturity and/or final maturity as may be generally applicable to loans made by the Bank to the Borrower at the time of such agreement); and (ii) such repayment provisions have been agreed between the Borrower and the Bank prior to the Withdrawal Date of such Withdrawal.

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 withdrawn and outstanding from a Variable Rate to a Fixed Rate, or vice versa, or from a Variable Rate based on a Variable Spread to a Variable Rate based on a Fixed Spread; 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 5.08 of the General Conditions (renumbered as such pursuant to paragraph 3 of Section II of the Appendix to this Agreement and relating to Cooperation and Consultation), 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, and further to Section 5.08 of the General Conditions:

(a) the Borrower and the Bank shall from time to time, at the request of either party, exchange views on the Borrower’s macroeconomic policy framework and 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 promptly inform the Bank of any situation that 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 Event of Suspension consists of the following, namely, that a situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.

ARTICLE V — EFFECTIVENESS; TERMINATION

5.01. The Additional Condition of Effectiveness consists of the following, namely that the Bank is satisfied with the progress achieved by the Borrower in carrying out the Program and with the adequacy of the Borrower’s macroeconomic policy framework.
5.02. 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 (18) months after the Bank’s approval of the Loan which expire on April 25, 2013.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

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

6.02. The Borrower’s Address is:
Ministerio de Economía y Finanzas
Colonia No. 1089, Tercer Piso
Montevideo, Uruguay

Facsimile:
(59-82) 1712-2688

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: Telex: Facsimile:
INTBAFRAD 248423(MCI) or 1-202-477-6391
Washington, D.C. 64145(MCI)
AGREED at Asunción, Paraguay, as of the day and year first above written.

REPÚBLICA ORIENTAL DEL URUGUAY

By /s/ Fernando Lorenzo

Authorized Representative

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By /s/ Penelope J. Brook

Authorized Representative
SCHEDULE 1

Program Actions; Availability of Loan Proceeds

Section I. The actions taken by the Borrower under the Program include the following:

1. The Borrower, in support of its e-government agenda, has mandated all public entities to adopt the necessary measures to enable these agencies to exchange information that is electronically available, as evidenced by Articles 157 to 160 of the 2010-2014 Budget Law.

2. The Borrower has adopted output and outcome indicators for thirty one selected expenditure programs in seven priority areas, as evidenced by the updated Volume II of the 2010-2014 Budget Law.

3. The Borrower has introduced a risk management system for selecting customs operations that shall be subject to physical inspection and ex-post audit, which systems permitted the Borrower’s customs control system to be more effective and streamlined.

4. The Borrower has further implemented the Capital Markets Law, as evidenced by the issuance of the Executive Decree No. 322-011, dated September 16, 2011, which includes, *inter alia:* (a) provisions on promoting market development, including tax incentives such as reductions on capital gains taxes for stock issuers and the abolition of the withholding tax for pension funds; (b) the establishment of the capital market promotion commission with private sector participation; and (c) measures to adopt additional aspects of IOSCO standards, such as establishing minimum requirements for stock offerings related to public availability of business information and accounting and corporate government standards.

5. The Borrower has: (a) as of January 2011, doubled the amount transferred to the poorest 15,000 families via the *Tarjeta Alimentaria* program with respect to the total amount transferred as of December 2010, under said program; and (b) formally established SIIAS under the overall coordination of the Borrower’s Ministry of Social Development.
6. The Borrower has expanded health insurance coverage to: (a) spouses and domestic partners of public and private sector workers with health insurance coverage and who have three or more children; (b) public and private sector workers from lowest income groups that retired from their employment before January 1, 2008; and (c) all public and private workers that retired from their employment before January 1, 2008, as evidenced by the Borrower’s Decree No. 318-010, dated October 26, 2010 and published in the Borrower’s official gazette on November 1, 2010, and the Borrower’s Law No. 18.731, dated January 7, 2011, and published in the Borrower’s official gazette on January 25, 2011.

7. The Borrower has: (a) expanded the Plan Ceibal by delivering laptops to: (i) students in grades 1 to 3 of secondary public schools in the Borrower’s territory other than in Montevideo and Canelones (94.4% of such students as of July 2011, from a baseline of 30.3% of such students as of July 2009); and (ii) students of public secondary schools in grades 1 and 2 in Montevideo and Canelones (93% of such students as of July 2011 from a baseline of 0% of such students as of July 2009); and (b) provided WIFI connections to 248 of the secondary schools mentioned in (i) and (ii) herein (96.1% of said schools as of August 2011 from a baseline of 44.6% of said schools as of November 2009).

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 is allocated in a single withdrawal tranche, from which the Borrower may make withdrawals of the Loan proceeds. The allocation of the amounts of the Loan to this end is set out in the table below:

<table>
<thead>
<tr>
<th>Allocations</th>
<th>Amount of the Loan Allocated (expressed in Dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single Withdrawal Tranche</td>
<td>260,000,000</td>
</tr>
<tr>
<td>Fee payable pursuant to Section 2.04 of this Agreement</td>
<td></td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>260,000,000</td>
</tr>
</tbody>
</table>
C. **Payment of 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. **Payment of Fee Pursuant to Section 2.04 of Agreement.** If the Closing Date is extended pursuant to Section 2.04 of this Agreement and the Borrower elects to finance from its own resources the fee set forth in said Section, no withdrawal shall be made from the Loan Account until the Bank has received payment in full of such fee.

E. **Withdrawal of Loan Proceeds.** If, at any time prior to the receipt by the Bank of a request for withdrawal of an amount of the Loan, the Bank determines that a review of the Borrower’s macroeconomic policy framework or of its progress in carrying out the Program is warranted, the Bank shall give notice to the Borrower to that effect. Upon the giving of such notice, no withdrawals shall be made of the Unwithdrawn Loan Balance unless and until the Bank has notified the Borrower of its satisfaction, after an exchange of views as described in paragraphs (a) and (b) of said Section 3.01, with: (1) the progress achieved by the Borrower in carrying out the Program; and (2) the adequacy of the Borrower’s macroeconomic policy framework.

F. **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.

G. **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.

H. **Closing Date.** The Closing Date is June 25, 2015.
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 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 on February 15, 2027 through August 15, 2031</td>
<td>9.09%</td>
</tr>
<tr>
<td>On February 15, 2032</td>
<td>9.10%</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: (i) 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 (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

5. If the Withdrawn Loan Balance is 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.
APPENDIX

Section I. Definitions

1. “Capital Markets Law” means Ley del Mercado de Valores, the Borrower’s Law No. 18.627 providing for the organization and regulation of its capital markets, dated November 24, 2009 and published in the Borrower’s official gazette on December 16, 2009.

2. “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>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) 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, without the Borrower (or other such recipient) having taken timely and appropriate action satisfactory to the Bank to address such practices when they occur.

3. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 31, 2010 with the modifications set forth in Section II of this Appendix.


5. “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 September 16, 2011 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.

6. “SIIAS” means Sistema de Información Integrada del Área Social, the Borrower’s Integrated System of Social Information.

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

8. “Tarjeta Alimentaria” means the Borrower’s program designed to provide food support to households in extreme poverty, pursuant to article 255 of the Borrower’s Law No. 18.172, dated August 31, 2007, and in accordance with operating guidelines issued, inter alia, by the Borrower’s Ministry of Social Development.


**Section II. Modifications to the General Conditions**

The modifications to the General Conditions 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.
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 are deleted in their entirety.

(c) The term “Fixed Spread” is modified to read as follows:

“‘Fixed Spread’ means, for each Withdrawal, the Bank’s fixed spread for the Loan Currency of the Withdrawal in effect at 12:01 a.m. Washington, D.C. time, on the Withdrawal Date, and expressed as a percentage per annum; provided, that: (a) for purposes of determining the Default Interest Rate, pursuant to Section 3.02 (e), that is applicable to an amount of theWithdrawn Loan Balance on which interest is payable at a Fixed Rate, the “Fixed Spread” means the Bank’s fixed spread in effect at 12:01 a.m. Washington, D.C. time, one calendar day prior to the date of the Loan Agreement, for the Currency of denomination of such amount; (b) for purposes of a Conversion of the Variable Rate based on a Variable Spread to a Variable Rate based on the Fixed Spread, and for purposes of fixing the Variable Spread pursuant to Section 4.02, “Fixed Spread” means the Bank’s fixed spread for the Loan Currency in effect at 12:01 a.m. Washington, D.C. time on the Conversion Date; and (c) upon a Currency Conversion of all or any amount of the Unwithdrawn Loan Balance, the Fixed Spread shall be adjusted on the Execution Date in the manner specified in the Conversion Guidelines.

(d) The term “Project” is modified to read “Program” and its definition is modified to read as follows (and all references to “Project” throughout these General Conditions are deemed to be references to “Program”):

“‘Program’ means the program referred to in the Loan Agreement in support of which the Loan is made.”
(e) The term “Variable Spread” is modified to read as follows:

“Variable Spread” means, for each Withdrawal and each Interest Period:
(1) the Bank’s standard lending spread for Loans in effect at 12:01 a.m.
Washington, D.C. time, on the Withdrawal Date; (2) minus (or plus) the
weighted average margin, for the Interest Period, below (or above) the
Reference Rate, for six-month deposits, in respect of the Bank’s
outstanding borrowings or portions thereof allocated by it to fund loans
that carry interest at a rate based on the Variable Spread; as reasonably
determined by the Bank and expressed as a percentage per annum. In the
case of a Loan denominated in more than one Currency, “Variable
Spread” applies separately to each of such Currencies.

(f) A new term “Withdrawal” is added to read as follows:

“Withdrawal” means each amount of the Loan withdrawn by the
Borrower from the Loan Account pursuant to Section 2.01.

(g) A new term “Withdrawal Date” is added to read as follows:

“Withdrawal Date” means, for each Withdrawal, the date on which the
Bank pays the Withdrawal.