Loan Agreement

(Social Program Development Policy Loan)

between

REPUBLICA ORIENTAL DEL URUGUAY

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated June 16, 2005
AGREEMENT, dated June 16, 2005, between REPUBLICA ORIENTAL DEL URUGUAY (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Bank has received from the Borrower a letter, dated May 4, 2005, describing a program of actions, objectives, and policies designed to improve equity and efficiency in health, education and social protection (hereinafter called the Program), declaring the Borrower’s commitment to the execution of the Program, and requesting assistance from the Bank in support of the Program during the execution thereof;

(B) the Borrower has carried out the measures and taken the actions described in Schedule 3 to this Agreement to the satisfaction of the Bank and 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 Program to provide such assistance to the Borrower by making 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. The Bank, at the request and acting as an agent of the Borrower, shall purchase with the Loan Currency withdrawn
from the Loan Account such currencies as shall be required to meet payments to be financed out of the proceeds of the Loan.”;

(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 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 in its entirety 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) “ANEP” means Administración Nacional de Educación Pública, the Borrower’s National Administration of Public Education;

(b) “ASSE” means Administración de Servicios de Salud del Estado, the Borrower’s executing unit within the MSP in charge of health services;

(c) “BPS” means Banco de Previsión Social, the Borrower’s Social Security Bank;

(d) “CODICEN” means Consejo Directivo Central, ANEP’s National Directive Council;

(e) “FNR” means Fondo Nacional de Recursos, a non-state public entity (persona pública no estatal) that provides financial assistance to the Borrower’s
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 seventy five million three hundred and eighty thousand Dollars ($75,380,000), 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 $75,003,100 from the Loan Account in support of the Program.

(b) Except as the Bank may otherwise agree: (i) 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 (ii) the Borrower shall ensure that upon each deposit of an amount of the Loan into said account, an equivalent amount is accounted for in the Borrower’s budget management system, in a manner acceptable to the Bank.

(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 determines at any time that an amount of the Loan was used to make a payment for an expenditure so excluded, the Borrower shall, promptly upon notice from the Bank, refund an amount equal to the amount of said payment to the Bank. Amounts refunded to the Bank upon such request shall be cancelled.

Section 2.03. The Closing Date shall be June 30, 2006 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 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. 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: (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 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.
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 provision of the Conversion Guidelines, the interest rate basis applicable to consecutive withdrawals from the Loan Account which in the aggregate equal to $75,380,000 shall be converted from the initial Variable Rate to a Fixed Rate for the full maturity of such amount in accordance with the provisions 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 3 to this Agreement.

Section 3.02. (a) Without limitation upon the provisions of Section 9.01(a) of the General Conditions, the Borrower shall promptly furnish to the Bank such information relating to the provisions of Article II of this Agreement as the Bank may, from time to time, reasonably request.

(b) Upon the Bank’s request, the Borrower shall:

(i) have the deposit account referred to in Section 2.02 (b) of this Agreement audited by independent auditors acceptable to the Bank, in accordance with consistently applied auditing standards acceptable to the Bank;

(ii) 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
(iii) furnish to the Bank such other information concerning such 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 3 to this Agreement.

ARTICLE V

Termination

Section 5.01. The date September 14, 2005 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 Economy and Finance 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:

Ministerio de Economía y Finanzas  
Colonia No. 1089  
Montevideo, Uruguay

Cable address: MINECON  
Telex: 269 MICECON UY, Montevideo, Uruguay

Facsimile: (598) 2 1712-2919

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  
Telex: 248423 (MCI) or 64145 (MCI)  
Facsimile: (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 Montevideo, Uruguay, as of the day and year first above written.

REPUBLICA ORIENTAL DEL URUGUAY

By /s/ Danilo Astori

Authorized Representative

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By /s/ Pamela Cox

Authorized Representative
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 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, credit, or grant;

2. 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, unmanufac-</td>
</tr>
<tr>
<td></td>
<td></td>
<td>tured, tobacco</td>
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<tr>
<td></td>
<td></td>
<td>refuse</td>
</tr>
<tr>
<td>122</td>
<td>-</td>
<td>Tobacco, manufactured</td>
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<tr>
<td></td>
<td></td>
<td>(whether or not</td>
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<tr>
<td></td>
<td></td>
<td>containing tobacco</td>
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<tr>
<td></td>
<td></td>
<td>substitutes)</td>
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<tr>
<td>525</td>
<td>-</td>
<td>Radioactive and</td>
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<tr>
<td></td>
<td></td>
<td>associated materials</td>
</tr>
<tr>
<td>667</td>
<td>-</td>
<td>Pearls, precious and</td>
</tr>
<tr>
<td></td>
<td></td>
<td>semiprecious stones,</td>
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<tr>
<td></td>
<td></td>
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</tr>
<tr>
<td>718</td>
<td>718.7</td>
<td>Nuclear reactors, and</td>
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<tr>
<td></td>
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<td>parts thereof; fuel</td>
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<tr>
<td></td>
<td></td>
<td>elements (cartridges),</td>
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<tr>
<td></td>
<td></td>
<td>non-irradiated, for</td>
</tr>
<tr>
<td></td>
<td></td>
<td>nuclear reactors</td>
</tr>
<tr>
<td>Code</td>
<td>Description</td>
<td></td>
</tr>
<tr>
<td>------</td>
<td>-------------</td>
<td></td>
</tr>
<tr>
<td>728</td>
<td>Tobacco processing machinery</td>
<td></td>
</tr>
<tr>
<td>897</td>
<td>Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths’ or silversmiths’ wares (including set gems)</td>
<td></td>
</tr>
<tr>
<td>971</td>
<td>Gold, non-monetary (excluding gold ores and concentrates)</td>
<td></td>
</tr>
</tbody>
</table>

3. expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;

4. 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);

5. expenditures 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

6. expenditures under a contract in respect of which the Bank determines that corrupt, fraudulent, collusive or coercive 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>On each March 15 and September 15</td>
<td></td>
</tr>
<tr>
<td>Beginning September 15, 2010 through March 15, 2020</td>
<td>5%</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 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

Actions Referred to in Recital (B) of the Preamble to this Agreement

Health

1. (a) MSP has issued Directive (Circular) No. 12, dated April 27, 2005, authorizing a system for the allocation of budget amounts to its executing agencies based on per capita and production criteria, and started the application of such system.

   (b) ASSE is operating a budget administration system, satisfactory to the Bank, in its health facilities.

2. (a) MSP is operating a program of database maintenance which includes an identification of its beneficiaries, and enables MSP to identify coverage duplications.

   (b) ASSE has been implementing since January 2002 a billing system for insured in-patients satisfactory to the Bank, and has authorized through the Borrower’s Decree, dated February 13, 2003, the utilization by the public health providers of the proceeds of the fees charged by such providers.

3. (a) FNR has maintained a financial equilibrium (regular revenues, not including any amounts attributable to the increase in contribution rates mandated by a decree of the Executive, have been equal to or greater than regular expenditures – any extraordinary, not operationally-related revenues and expenditures excluded) in its 2003 and 2004 financial statements.

   (b) FNR’s Board of Directors approved on April 14, 2005 reforms in its administration procedures which include:

      (i) setting of unitary costs for medical procedures and utilization rates of principal medical procedures satisfactory to the Bank; and

      (ii) validation of service authorizations made by FNR against RUCAF’s and ASSE’s consolidated beneficiary databases.

   (c) FNR’s Board of Directors approved on May 30, 2002 reforms in its administration procedures setting forth adjustment of tariffs for medical procedures based on variations of unitary costs.

Education

1. The Borrower has, as needed to protect critical education programs:
1. ANEP has executed budgets for the calendar years 2003 and 2004 at the following minimum yearly amounts: (i) $900,000 for basic school supplies; (ii) $250,000 for bilingual education; and (iii) $300,000 for books and materials; and 

(b) approved a budget for calendar year 2005 at least in the yearly amounts mentioned in paragraph 1 (a) above, for each of the three programs mentioned therein.

2. ANEP has implemented a series of management information systems, satisfactory to the Bank and described in the annexes to the letter from ANEP to the Bank dated April 29, 2005, which include:

(a) a file management system;
(b) a filing system for CODICEN’s resolutions;
(c) an information management system each for the primary and secondary education systems; and
(d) the incorporation of ANEP’s human resource database into the central database of public servants of the Planning and Budgeting Office of the Borrower’s Presidency.

3. ANEP has:

(a) through its resolution dated May 27, 2003 staffed its internal auditing unit; and
(b) through its resolution dated October 9, 2003 approved the operational procedures of such unit.

4. The Borrower has prepared a plan, satisfactory to the Bank, to expand to 80% school coverage of four-year-old students during the 2006 school year.

5. CODICEN has decided:

(a) through its resolution dated August 24, 2004 to continue implementing national assessments of student learning; and
(b) through its resolution dated November 16, 2004 to participate in 2006 in the Organization of Economic Cooperation and Development (OECD) Programme for International Student Assessment (PISA 2006).
Social Protection

1. BPS has delivered a report dated April 22, 2005 indicating that the number of beneficiaries of family allowances under Laws No. 17139 and No. 17758 published in the Official Gazette on July 29, 1999 and May 10, 2004 respectively, reached 184,252 in December 2004.

2. BPS has issued Resolutions No. 8-5/2005, 8-6/2005 and 8-7/2005, all dated March 31, 2005, and Resolution No. 10-26/2005, dated April 13, 2005, improving its disclosure policies, including access to statistical information, access of BPS’ directors to databases, authorization to regional managers to provide information to local media, and publication of general resolutions through the internet and the Official Gazette.

3. The Borrower’s Ministry of Social Development has created a Directorate for Programs Evaluation, named its director, and designed an impact evaluation and monitoring system for implementation by such Ministry.