

Public Disclosure Authorized

**CONFORMED COPY**

**LOAN NUMBER 7165-UR**

# **Loan Agreement**

**(Special Structural Adjustment Loan)**

**between**

**REPUBLICA ORIENTAL DEL URUGUAY**

**and**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**Dated April 15, 2003**

Public Disclosure Authorized

**LOAN NUMBER 7165-UR**

**LOAN AGREEMENT**

AGREEMENT, dated April 15, 2003, 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 March 7, 2003 (the Letter of Development Policy), describing a program of actions, objectives and policies designed to achieve structural adjustment of the Borrower's economy (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 also requested the Bank to provide additional assistance in support of the Program and the Bank has agreed to provide such assistance in an amount equal to one hundred one million twenty thousand Dollars (\$101,020,000); 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 in three tranches 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, 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 2.01, paragraph 22, is modified to read:

“‘Fixed Spread’ means four hundred (400) basis points; provided that, upon a Currency Conversion of all or any portion of the unwithdrawn principal amount of the Loan, such fixed spread shall be adjusted on the Execution Date in the manner specified in the Conversion Guidelines.”;

- (c) 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.”;

- (d) 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.”;

- (e) the last sentence of Section 5.03 is deleted;

- (f) 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

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

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

(c) “FNR” means *Fondo Nacional de Recursos*, a non-state public entity (*persona pública no estatal*) that provides financial assistance to the Borrower’s population for the provision of highly specialized medical procedures, established pursuant to Law No. 16.343 of December 24, 1992, or any successor thereto;

(d) “MSP” means *Ministerio de Salud Pública*, the Borrower’s Ministry of Public Health;

(e) “Second Tranche Release Date” means the date on which the Bank sends the Borrower a notice to the effect that the conditions set forth or referred to in Section 2.02 (d) of this Agreement have been met; and

(f) “Third Tranche Release Date” means the date on which the Bank sends the Borrower a notice to the effect that the conditions set forth or referred to in Section 2.02 (e) of this Agreement have been met.

## 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 one hundred one million twenty thousand Dollars (\$101,020,000), 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), (c) and (d) of this Section, the Borrower shall be entitled to withdraw the amount of \$100,009,800 from the Loan Account in support of the Program.

(b) The Borrower shall open, prior to furnishing to the Bank the first request for withdrawal from the Loan Account, 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 after the aggregate of the proceeds of the Loan withdrawn from the Loan Account shall have reached the amount of \$26,020,000, unless the Bank shall be satisfied, after an exchange of views as described in Section 3.01 of this Agreement based on evidence satisfactory to the Bank:

- (i) with the progress achieved by the Borrower in the carrying out of the Program;
- (ii) that the macroeconomic policy framework of the Borrower is satisfactory; and
- (iii) that the actions described in Schedule 3 to this Agreement have been taken in a manner satisfactory to the Bank.

If, after said exchange of views, the Bank is not so satisfied, the Bank may give notice to the Borrower to that effect and, if within 90 days after such notice, the Borrower shall not have taken steps satisfactory to the Bank, in respect of (i), (ii), and (iii) above, as the case may be, then the Bank may, by notice to the Borrower, cancel the unwithdrawn amount of the Loan or any part thereof.

(e) No withdrawals shall be made from the Loan Account after the aggregate of the proceeds of the Loan withdrawn from the Loan Account shall have reached the amount of \$51,020,000, unless the Bank shall be satisfied, after an exchange of views as described in Section 3.01 of this Agreement based on evidence satisfactory to the Bank:

- (i) with the progress achieved by the Borrower in the carrying out of the Program;

- (ii) that the macroeconomic policy framework of the Borrower is satisfactory; and
- (iii) that the actions described in Schedule 4 to this Agreement have been taken in a manner satisfactory to the Bank.

If, after said exchange of views, the Bank is not so satisfied, the Bank may give notice to the Borrower to that effect and, if within 90 days after such notice, the Borrower shall not have taken steps satisfactory to the Bank, in respect of (i), (ii), and (iii) above, as the case may be, then the Bank may, by notice to the Borrower, cancel the unwithdrawn amount of the Loan or any part thereof.

Section 2.03. The Closing Date shall be December 31, 2004 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. 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 at the rate of three-fourths of one percent ( $3/4$  of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

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 April 15 and October 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. (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 and the actions specified in Schedule 3 to this Agreement.

(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. 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 Program.

(b) An action has been taken or a policy has been adopted to materially reverse any action or policy under the Program in a manner that would, in the opinion of the Bank, adversely affect the achievements of the objectives of the Program.

(c) An action has been taken or a policy has been adopted to materially reverse any action listed in Schedules 3 and 4 to this Agreement.

(d) A situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

#### **ARTICLE V**

##### **Effective Date; Termination**

Section 5.01. The date July 14, 2003 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) 2 900-0186

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                      Facsimile: (202) 477-6391  
Washington, D.C.                      64145 (MCI)

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 District of Columbia, United States of America, as of the day and year first above written.

REPUBLICA ORIENTAL DEL URUGUAY

By /s/ Carlos Sténeri

Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ John Redwood

Acting Regional Vice President  
Latin America and the Caribbean

## 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:

<u>Group</u>	<u>Subgroup</u>	<u>Description of Items</u>
112	-	Alcoholic beverages
121	-	Tobacco, unmanufactured, tobacco refuse
122	-	Tobacco, manufactured (whether or not containing tobacco substitutes)
525	-	Radioactive and associated materials
667	-	Pearls, precious and semiprecious stones, unworked or worked

718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971	-	Gold, non-monetary (excluding gold ores and concentrates)

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.

<u>Payment Date</u>	<u>Installment Share (Expressed as a %)</u>
On each April 15 and October 15 beginning April 15, 2006 through October 15, 2007	25%

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 subparagraph (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 subparagraph 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 Section 2.02 (d) of this Agreement

##### Education Sector

1. For the period from January 1, 2003 to the to the date falling two months prior to the Second Tranche Release Date, the Borrower has timely executed its budget at least at levels of expenditure specified in its monthly budget execution schedules and satisfactory to the Bank (including without limitation the monthly levels of expenditure for 2003 included in the Borrower's integrated financial information system (*Sistema Integrado de Información Financiera –SIIF-*)) for each of the following programs: (a) basic school supplies and maintenance program; (b) the bilingual education program; and (c) the textbook program for primary schools.

##### Health Sector

2. (a) ASSE's beneficiary database identifies at least 40% of the uninsured population of the Borrower; and

(b) the MSP, through ASSE, has completed initial simulations of new budget allocation formulas based on the database referred to in (a) above.

3. (a) The FNR has been in 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) for the 12 month period immediately preceding the Second Tranche Release Date, ); and

(b) the FNR has determined unitary costs and utilization rates for medical procedures that account for no less than 60% of its expenditures.

4. The Borrower has fulfilled all of the conditions set forth in Schedule 3 to the Structural Adjustment Loan Agreement of even date herewith (Loan 7164-UR).

## SCHEDULE 4

### Actions Referred to in Section 2.02 (e) of this Agreement

#### Education Sector

1. For the period from January 1, 2003 to the date falling two months prior to the Third Tranche Release Date, the Borrower has timely executed its budget at least at levels of expenditure specified in its monthly budget execution schedules and satisfactory to the Bank (including without limitation the monthly levels of expenditure for 2003 included in the Borrower's integrated financial information system (*Sistema Integrado de Información Financiera –SIIF-*)) for each of the following programs: (a) basic school supplies and maintenance program; (b) the bilingual education program; and (c) the textbook program for primary schools.

2. The Borrower has included in its 2004 budget agreed minimum levels of expenditures for each of the following programs: (a) basic school supplies and maintenance program; (b) the bilingual education program; and (c) the textbook program for primary schools.

#### Health Sector

3. (a) ASSE has completed its beneficiary database;

(b) at least 30% of ASSE's 2004 hospital budget is allocated based on per capita criteria; and

(c) during the quarter immediately preceding the Third Tranche Release Date, seven public hospitals of the Borrower have billed at least 20% of in-patients (patients who need to stay overnight at the hospitals), provided, however, that bills issued to uninsured patients may be for information purposes only.

4. The FNR has been in 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) for the 12 month period immediately preceding the Third Tranche Release Date.

5. (a) The menu of eligible procedures to be financed by FNR has been redefined to eliminate the procedures that do not involve high costs or are not highly complex; and



(b) new tariffs have been put into effect for the procedures financed by FNR, and utilization rates are being used to control the volume of procedures being financed by FNR.

6. The Borrower has fulfilled all of the conditions set forth in Schedule 4 to the Structural Adjustment Loan Agreement of even date herewith (Loan 7164-UR).