

CONFORMED COPY

LOAN NUMBER 4598-UR

Loan Agreement

(Public Services Modernization Technical Assistance Project)

between

REPUBLICA ORIENTAL DEL URUGUAY

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated August 22, 2001

LOAN NUMBER 4598-UR

LOAN AGREEMENT

AGREEMENT, dated August 22, 2001, between REPUBLICA ORIENTAL DEL URUGUAY (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS the Borrower has furnished the Bank with a policy letter dated March 9, 2001, in which letter the Borrower has laid out its objectives with respect to the Project (as defined below);

WHEREAS the Borrower, having satisfied itself as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project), has requested the Bank to assist it in the financing of the Project; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the loan provided for in Article II of this Agreement (the Loan) to the Borrower upon the terms and conditions set forth in this Agreement;

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 Single Currency Loans" of the Bank, dated May 30, 1995 (as amended through October 6, 1999) (the General Conditions) constitute an integral part of this Agreement.

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) "Eligible Categories" means Categories (1) through (3) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(b) "Eligible Expenditures" means the expenditures for goods and services referred to in Section 2.02 of this Agreement;

(c) "Implementation Letter" means the letter dated March 9, 2001, from the Borrower to the Bank setting forth the Project monitoring and evaluation indicators;

(d) "OPP" means Oficina de Planeamiento y Presupuesto, the Borrower's Office of Planning and Budgeting, as established by Section 230 of the Borrower's constitution;

(e) "PMU" means the unit referred to in Section 3.05 (a) of this Agreement;

(f) "Project Management Report" means each report prepared in accordance with Section 4.02 of this Agreement;

(g) "PS" or "Public Services" means all of the following public sector services rendered in Uruguay, water and sanitation, electric power, natural gas, petroleum, railways, ports, telecommunications and postal;

(h) "Special Account" means the account referred to in Part B to Schedule 1 to this Agreement;

(i) "UNDP" means United Nations Development Programme; and

(j) "UNDP Agreement" means the agreement to be entered into between UNDP and the Borrower for assistance in the execution of the Project, referred to in Section 3.04 (a) of this Agreement.

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 six million Dollars (\$6,000,000).

Section 2.02. The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan and in respect of the fee referred to in Section 2.04 of this Agreement.

Section 2.03. The Closing Date shall be December 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 fee in the 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. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

(i) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period,

each period from and including an Interest Payment Date to, but excluding the next following Interest Payment Date.

- (ii) "Interest Payment Date" means any date specified in Section 2.07 of this Agreement.
- (iii) "LIBOR Base Rate" means, for each Interest Period, the London interbank offered rate for six-month deposits in Dollars for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.
- (iv) "LIBOR Total Spread" means, for each Interest Period: (A) three-fourths of one percent ($3/4$ of 1%); (B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

(c) The Bank shall notify the Borrower of LIBOR Base Rate and LIBOR Total Spread for each Interest Period, promptly upon the determination thereof.

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.06. the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the interest rates applicable to the Loan upon not less than six (6) months' notice to the Borrower of the new basis. The new basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

Section 2.07. Interest and other charges shall be payable semiannually in arrears on February 15 and August 15 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

Section 2.09. Unless otherwise instructed in writing by the Minister of Economy and Finance of the Borrower, the Director of OPP and any person or persons whom such Director shall designate in writing are designated as representatives of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. The Borrower declares its commitment to the objectives of the Project, and, to this end, shall carry out the Project through OPP with the assistance of UNDP, with due diligence and efficiency and in conformity with appropriate financial, administrative, technical and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods and services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.03. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

- (a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan designed to ensure the sustainability of the Project; and

(b) afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan.

Section 3.04. (a) For purposes of carrying out the Project, the Borrower shall enter into an agreement with UNDP under terms and conditions satisfactory to the Bank, whereby: (i) the Borrower will authorize UNDP to undertake, on behalf of the Borrower, the procurement of goods and services under the Project in accordance with the procedures set forth or referred to in this Loan Agreement, and the issuance of bidding documents and requests for proposals prepared by the Borrower; (ii) UNDP will undertake to keep separate records and accounts in respect of such goods and services, and to assist the Borrower in all other aspects of the carrying out of the Project and in complying with the Borrower's obligations under this Loan Agreement; and (iii) the Borrower will undertake to transfer to UNDP the proceeds of the Loan and the counterpart funds as required to effect the payments for goods and services under the Project.

(b) The Borrower shall exercise its rights under the UNDP Agreement in such a manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and, except as the Bank shall otherwise agree, the Borrower shall not assign, amend, terminate, abrogate or waive the UNDP Agreement or any provision thereof.

Section 3.05. (a) The Borrower shall establish, operate and maintain within OPP, during the implementation of the Project, a Project management unit (the PMU) with functions and responsibilities satisfactory to the Bank.

(b) The Borrower shall ensure that the PMU is at all times headed by a Project coordinator and assisted by staff and consultants in adequate numbers, all with qualifications and experience satisfactory to the Bank. Staff of the PMU shall include representatives of regulatory agencies and ministries of the Executive Branch of the Borrower related to the Project. Consultants shall include at least an international consultant specialized in the regulation of public services and the reform of public utilities).

Section 3.06. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in the Implementation Letter, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, not later than January 31, April 30, July 31 and October 31 during Project implementation, starting on January 31, 2002, a progress report of such scope and in such detail as the Bank shall reasonably request which, inter alia, integrates the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, with regard to the progress achieved in the carrying out of the Project during the calendar quarter preceding the date of said report and sets out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank, by December 31, 2002, or such later date as the Bank shall request, the pertinent reports referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said reports and the Bank's views on the matter.

Section 3.07. Notwithstanding the provisions of Section 3.01 above, and in the event of granting concessions for the provision of public services supported by this Project, the Borrower shall carry out environmental audits, acceptable to the Bank, of the facilities to be granted in concession, include in the relevant bidding documents the results of said audits, and require concessionaires to mitigate the undesirable environmental impacts identified in the audits in accordance with an environmental mitigation plan satisfactory to the Bank.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall establish and thereafter maintain a

financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

- (i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and those for the Special Account for each fiscal year audited, in accordance with auditing standards acceptable to the Bank, consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year: (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited; and (B) an opinion on such statements, records and accounts and report of such audit, by said auditors, of such scope and in such detail as the Bank shall have reasonably requested, including as part of the information to be provided in each such report, a management letter concerning the Borrower's internal controls; and
- (iii) furnish to the Bank such other information concerning such records and accounts, and the audit thereof, and concerning said auditors, as the Bank may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of Project Management Reports or statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the Project Management Reports or statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. (a) Without limitation upon the provisions of Section 4.01 of this Agreement, the Borrower shall carry out a time-bound action plan acceptable to the Bank for the strengthening of the financial management system referred to in paragraph (a) of said Section 4.01 in order to enable the Borrower, not later than January 31, 2002 or such later date as the Bank shall agree, to prepare quarterly Project management reports, acceptable to the Bank, each of which:

- (i) (A) sets forth actual sources and applications of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for the Project for the six-month period following the period covered by said report; and
- (B) shows separately expenditures financed out of the proceeds of the Loan during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Loan during the six-month period following the period covered by said report;
- (ii) (A) describes physical progress in Project implementation, both cumulatively and for the period covered by said report; and

- (B) explains variances between the actual and previously forecast implementation targets; and
- (iii) sets forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the Loan, as at the end of the period covered by said report.

(b) Upon the completion of the action plan referred to in paragraph (a) of this Section, the Borrower shall prepare, in accordance with guidelines acceptable to the Bank, and furnish to the Bank not later than January 31, April 30, July 31 and October 31 during Project implementation a Project Management Report for each calendar quarter ending on December 31, March 31, June 30 and September 30.

Section 4.03. The Borrower, through OPP, shall not later than six months after the Effective Date furnish to the Bank a management letter, acceptable to the Bank, reflecting the results of an examination carried out by independent auditors, acceptable to the Bank, concerning the OPP's internal controls.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (p) of the General Conditions, the following additional event is specified, namely, that UNDP shall have failed to comply with any of its obligations under the UNDP Agreement, provided however, that the provisions of this Section shall not apply if upon the occurrence of the event mentioned herein the Borrower establishes to the satisfaction of the Bank that: (a) such event will not materially and adversely affect the carrying out of the Project by the Borrower; or (b) adequate arrangements have been made to enable the Borrower to continue the carrying out of the Project by the Borrower without the assistance of UNDP.

Section 5.02. Pursuant to Section 7.01 (k) of the General Conditions, the following additional event is specified, namely, that the event specified in Section 5.01 of this Agreement shall occur, provided however, that the provisions of this Section shall not apply if upon the occurrence of the event mentioned herein the Borrower establishes to the satisfaction of the Bank that: (a) such event will not materially and adversely affect the carrying out of the Project by the Borrower; or (b) adequate arrangements have been made to enable the Borrower to continue the carrying out of the Project by the Borrower without the assistance of UNDP.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions:

- (a) a financial management system, satisfactory to the Bank, has been established as provided in Section 4.01 (a) of this Agreement;
- (b) the UNDP Agreement has been executed by the parties thereto; and
- (c) the auditors mentioned in Section 4.01 (b) of this Agreement have been appointed.

Section 6.02. The date November 22, 2001 is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. Except as provided in Section 2.09 of this Agreement, 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 7.02. 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 1089, piso 3
CP 11100
Montevideo, Uruguay

Cable address:

MINECON
Montevideo, Uruguay

Facsimile:

9000186

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
Washington, D.C.

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/ Ariel Davrieux

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Myrna Alexander

Acting Regional Vice President
Latin America and the Caribbean

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

A. General

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Loan Allocated (Expressed in Dollars)	% of Expenditures to be Financed
(1) Goods	200,000	100% of foreign expenditures, and 82% of local expenditures

(2)	Consultants' services and Training	5,640,000	100% of foreign expenditures and 82% of local expenditures
(3)	Travel Costs	100,000	100%
(4)	Front-end Fee	60,000	Amount due under Section 2.04 of this Agreement
	TOTAL	6,000,000	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;

(c) the term "Training" means expenditures incurred by the Borrower to finance the transportation costs, rental facilities, lodging, per-diem of trainees, study tours and other training-related expenditures under the Project, as approved by the Bank; and

(d) the term "Travel Costs" means expenditures incurred by the Borrower to finance the travel costs and per-diem of its personnel, other than under training, in connection with the carrying out of the Project, as approved by the Bank.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding \$500,000, may be made in respect of Categories (1), (2), and (3) set forth in the table in paragraph 1 of this Schedule on account of payments made for expenditures before that date but after February 22, 2001.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under: (a) contracts for goods estimated to cost less than \$50,000 equivalent per contract; (b) contracts for the employment of consulting firms costing less than \$200,000 equivalent per contract; (c) contracts for the employment of individual consultants costing less than \$50,000 equivalent per contract; and (d) expenditures for Training and Travel Costs, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

B. Special Account

1. The Borrower shall open and maintain in Dollars a special deposit account in the Central Bank of the Borrower on terms and conditions satisfactory to the Bank.

2. After the Bank has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Loan Account of amounts to be deposited into the Special Account shall be made as follows:

(a) until the Bank shall have received: (i) the first Project Management Report referred to in Section 4.02 (b) of this Agreement; and (ii) a request from the Borrower for withdrawal on the basis of Project Management Reports, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) upon receipt by the Bank of a Project Management Report pursuant to Section 4.02 (b) of this Agreement, accompanied by a request from the Borrower for withdrawal on the basis of Project Management Reports, all further withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for Eligible Expenditures.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if the Bank determines at any time that any Project Management Report does not adequately provide the information required pursuant to Section 4.02 of this Agreement;

(b) if the Bank determines at any time that all further withdrawals should be made by the Borrower directly from the Loan Account; or

(c) if the Borrower shall have failed to furnish to the Bank within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of: (i) the records and accounts for the Special Account; or (ii) the records and accounts reflecting expenditures with respect to which withdrawals were made on the basis of Project Management Reports.

5. The Bank shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Bank shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

6. (a) If the Bank determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank, provide such additional evidence as the Bank may request or deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the three-month period following such determination, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Bank made pursuant to sub-paragraph (a), (b) or (c) of this paragraph 6 shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Loan Agreement.

Annex A to SCHEDULE 1

Operation of Special Account When Withdrawals Are Not Made On the Basis of Project Management Reports

1. For the purposes of this Annex the term "Authorized Allocation" means an amount equal to \$500,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 2 of this Annex; provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equal to \$150,000 until the aggregate amount of withdrawals from the Loan Account, plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall equal or exceed an amount equal to \$450,000.

2. Withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for deposit into the Special Account of an amount or amounts which in the aggregate do not exceed the Authorized Allocation. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall

have requested.

(b) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposit into the Special Account at such intervals as the Bank shall specify. Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to Part B.3 of Schedule 1 to this Agreement for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for Eligible Expenditures. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Special Account's Eligible Categories.

3. The Bank shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Loan minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

Annex B to SCHEDULE 1

Operation of the Special Account When Withdrawals Are Made On the Basis of Project Management Reports

1. Except as the Bank may otherwise specify by notice to the Borrower, all withdrawals from the Loan Account shall be deposited by the Bank into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Eligible Categories.

2. Each application for withdrawal from the Loan Account for deposit into the Special Account shall be supported by a Project Management Report.

3. Upon receipt of each application for withdrawal of an amount of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Bank has determined, based on the Project Management Report accompanying said application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such report; provided, however, that the amount so deposited, when added to the amount indicated by said Project Management Report to be remaining in the Special Account, shall not exceed an amount equal to \$700,000.

SCHEDULE 2

Description of the Project

The objective of the Project is to increase the efficiency and sustainability of, and the access to, public services in Uruguay by developing sector policies, strengthening legal and regulatory frameworks, and designing appropriate regulatory instruments; increasing competition among service providers; expanding and deepening private sector participation in the provision of public services; promoting stronger commercial orientation of public utilities; and ensuring the efficient delivery of services to the poor.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Bank may agree upon from time to time to achieve such objectives:

Part A: Policy Definition, Legal and Regulatory Frameworks for PS

1. Development of regulation and control norms for the provision of PS by private and public operators through, inter alia: (a) the development of costs and financial

models, regulatory accounting and audited information systems; (b) analyses of the economic and environmental aspects of such regulation; (c) the establishment and strengthening of independent agencies to regulate the provision of PS; (d) the review of the institutional structure of the Borrower's regulatory agencies and their relationships; (e) the assessment of the impact of PS reform on the Borrower's fiscal accounts; (f) the design and implementation of a public information campaign on said PS reform; (g) the carrying out of training programs, study tours, seminars and workshops for Borrower officials to get acquainted with said PS reform; (h) the development of concession frameworks for the provision of PS by private operators (including, the design of standard public bidding documents, the carrying out of environmental audits of existing facilities prior to their concession to private operators, and the establishment of risk allocation parameters related to the provision of PS); (i) the support of a competitive environment in the provision of PS through the establishment of a performance benchmarking system; (j) the design of strategies to increase access and affordability of services to the poor; (k) the development of conflict resolution mechanisms and appropriate sanctions for non-compliance of providers of PS; (l) the evaluation and revision of tariff structures and rate levels; and (m) the preparation of a customer service and quality standards strategy for the provision of PS.

2. Development of institutional capacity within OPP and the relevant ministries of the Borrower to structure private sector participation in the provision of PS.

Part B: Water and Sanitation Sector

Without limitation to the activities listed under Part A above:

1. Development for the water and sanitation sector of: (a) policies to provide incentives for coverage expansion (in particular of sewage collection and treatment), rural services and service quality improvements; and (b) regulations for granting licenses to private operators.
2. Revision of existing tariffs and subsidies in the water and sanitation sector.
3. Identification and development of projects for potential private sector participation in the provision of water and sanitation services, including: (a) the preparation of medium sized concessions; (b) the supervision of the concessionaire providing water and sanitation services in the Borrower's department of Maldonado; and (c) training of Borrower officials in concession management.

Part C: Electric Power Sector

Without limitation to the activities listed under Part A above:

1. Development and implementation of operational norms, regulations, structure and quality standards for the wholesale market of electricity generation, transmission -including access and tolls - and distribution.
2. Design of a system of controls for service providers in the electricity sector, and a control center for the dispatch of electrical energy.
3. Carrying out of a study on the cost of rationing the supply of electricity.

Part D: Natural Gas Sector

Without limitation to the activities listed under Part A above:

Preparation of operational norms and regulations for technical and commercial coordination, access, use, transportation, distribution and expanded provision of natural gas services.

Part E: Petroleum Sector

Without limitation to the activities listed under Part A above:

1. Definition of the market structure for petroleum products.
2. Design of regulatory practices that address conflict of interest issues in the marketing of petroleum products.
3. Liberalization of the downstream market to increase competition.

Part F: Telecommunications Sector

Without limitation to the activities listed under Part A above:

1. Preparation for the telecommunications sector of regulations on concessions and licenses, interconnection, tariffs and subsidies, fundamental technical planning, use of the electromagnetic spectrum and quality of service.
2. Design of a system for monitoring the electromagnetic spectrum.
3. Strengthening of the regulatory oversight of anti-competitive and market foreclosure practices.

Part G: Postal Sector

Without limitation to the activities listed under Part A above:

1. Revision of current tariffs and financial options for the universal provision of postal services in the area assigned to the relevant service provider.
2. Preparation of rules and regulations for granting licenses to private postal service operators.

Part H: Railways and Ports Sector

Without limitation to the activities listed under Part A above:

1. Supporting the business-oriented reform of Administración de Ferrocarriles del Estado (AFE, as created by the Borrower's Law No. 11.859 - as amended), separating, operational and infrastructure maintenance issues.
2. Preparation of regulations for railways interconnection, access, service quality, price setting and customer service.

Part I: Project Management

Strengthening the operational capacity of the PMU to manage, coordinate and audit the Project.

* * *

The Project is expected to be completed by June 30, 2005.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (Expressed in Dollars)*
On each February 15 and August 15	
beginning August 15, 2006 through February 15, 2016	300,000

* The figures in this column represent the amount in Dollars to be repaid, except as provided in Section 4.04 (d) of the General Conditions.

SCHEDULE 4

Procurement

Section I. Procurement of Goods

Part A: General

Goods shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the following provisions of Section I of this Schedule.

Part B: Shopping

Goods shall be procured under contracts awarded on the basis of international or national shopping procedures, at the option of the Borrower, in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

Part C: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of requests for price quotations, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Post Review

The procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply to all contracts.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997 and January 1999 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

Part C: Other Procedures for the Selection of Consultants

1. Least-cost Selection

Consultants' services estimated to cost less than \$200,000 equivalent per contract up to an aggregate amount of \$2,000,000 may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines and paragraph 3 of Appendix 1 thereto.

2. Selection Based on Consultants' Qualifications

Consultants' services estimated to cost less than \$100,000 equivalent per contract up to an aggregate amount of \$1,500,000 may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines and paragraph 3 of Appendix 1 thereto.

3. Individual Consultants

Consultants' services for specialized activities under the Project, as approved by the Bank, which meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Bank of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Bank, and with the provisions of said paragraph.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of consulting firms estimated to cost less than the equivalent of \$200,000, the terms of reference and short list of the consulting firms shall be furnished to the Bank for its prior review and approval.

(c) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

(d) With respect to each contract for the employment of individual consultants estimated to cost less than the equivalent of \$50,000, the terms of reference and short list of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

Part E: Special Provision

In addition and without limitation to any other provisions set forth in Section II of this Schedule or the Consultant Guidelines, the following rule of procurement shall expressly govern all procurement of consultants' services referred to in Section II of this Schedule: foreign consultants shall not be required to authenticate (legalizar) their proposals or any documentation related to such proposals with Uruguayan authorities as a prerequisite for participating in the selection procedure.

