

CONFORMED COPY

LOAN NUMBER 3081 UR

(Second Structural Adjustment Loan)

between

REPUBLICA ORIENTAL DEL URUGUAY

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated July 19, 1989

LOAN NUMBER 3081 UR

LOAN AGREEMENT

AGREEMENT, dated July 19, 1989, between REPUBLICA ORIENTAL DEL URUGUAY (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Bank has received a letter dated May 18, 1989 from the Borrower to which it has been attached 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 the financing of urgently needed imports required during such execution; and

(B) 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 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" of the Bank, dated January 1, 1985, with the modifications thereof set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) Section 2.01, paragraph 11, shall be modified to read:

"'Project' means the imports and other activities that may be financed out of the proceeds of the Loan pursuant to the provisions of Schedule 1 to the Loan Agreement.";

(b) The last sentence of Section 3.02 is deleted;

(c) Section 5.04 shall be modified to read:

"Section 5.04. Notwithstanding the allocation of an amount of the Loan in a sub-category of withdrawal Category (3) of the Table (as the term is defined in the Loan Agreement), if the Borrower has notified the Bank that the Banco referred to in such sub-category has ceased to be involved in the Restructuring (as the term is defined in the Loan Agreement), the Bank may determine that the amount of the Loan then allocated to such sub-category may be reallocated to withdrawal Category (2) of the Table (as the term is defined in the Loan Agreement)."; and

(d) Section 9.07 (c) shall be 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.".

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) "SITC" means 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);

(b) "nuevo peso" and "N\$" mean the unit of currency of the Borrower;

(c) "BROU" means Banco de la Republica Oriental del Uruguay, a commercial bank wholly owned by the Borrower that as of April 1, 1989 was, or intended to be, the majority shareholder of the three commercial banks referred to in (d) below and that, after the paying-in by Corporacion (as the term is defined below) of the shares of each of said banks to be subscribed by Corporacion in meeting the conditions stipulated to in paragraph 5 (a) (i) of Schedule 1 to this Agreement, shall become the only, or the largest, as the case may be, minority shareholder of each of the said banks; and "Corporacion" means the Borrower's Corporacion Nacional para el Desarrollo, a public law entity established by the Borrower's Law No. 15785, as amended by Article 603 of Law No. 15,903, whose share of authorized capital stock may belong to the Borrower or other legal entities within the public sector in a proportion of not more than 60% of said authorized capital and that, after the paying-in of shares by Corporacion referred to

above, shall become the majority shareholder of each of the said banks; and

(d) "Restructuring" means a plan for the financial and managerial rehabilitation, and streamlining, of the three viable commercial banks operating in the Borrower's territory mentioned in Category 3 of the table set forth in paragraph 1 of Schedule 1 to this Loan Agreement and which are part of the banks mentioned in Chapter I, Paragraph 26 of the Program, with a view to their privatization, all as more substantially detailed in Annex II to the letter to the Bank from the Director of Planning and Budget Office of the Borrower's Presidency referred to in the Preamble to this Loan Agreement, and "First Phase" means the following initial actions pursuant to such plan, some of which have been already taken:

- (i) remission by the Borrower's Central Bank of all amounts owed thereto by Banco de la Caja Obrera on account of overdue interest payments (estimated to amount to the equivalent of about \$20,000,000) in consideration for, and conditioned to, the acquisition by BROU of the majority of shares of stock of the latter;
- (ii) enactment of a resolution of the Borrower's Central Bank reducing the mandatory legal cash reserve applicable to the banks included in the Restructuring;
- (iii) commitment from BROU to lend to Corporacion an amount equivalent in the aggregate to \$16,000,000, approximately, to be used by Corporacion only for the acquisition of shares of stock of each of the banks involved in the Restructuring; and
- (iv) grant by BROU to each of the banks referred to in (iii) above, in an aggregate amount of about \$32,000,000, to cover the operating losses of each of such banks estimated as of December 31, 1988;

(e) "Technical Assistance Project" means the Project described in Schedule 2 to the Loan Agreement between the Borrower and the Bank (Technical Assistance Project), dated September 2, 1987, as amended from time to time; and

(f) "Coordinator" means a person with qualifications and experience satisfactory to the Borrower and the Bank to be hired by Corporacion pursuant to paragraph 5 (a) (iv) of Schedule 1 to this Loan Agreement with the main function of coordinating the activities of the officers referred to in paragraph 5 (a) (ii) of Schedule 1 to this Loan Agreement, particularly in connection with the transfer, to a collection agency or agencies, of the administration of doubtful and uncollectible loans from the portfolio of each Banco mentioned under Category 3 of the table set forth in paragraph 1 of Schedule 1 to this Loan 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, various currencies, that shall have an aggregate value equivalent to the amount of one hundred forty million dollars (\$140,000,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

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.

Section 2.03. The Closing Date shall be December 31, 1990 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 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 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time at a rate per annum for each Interest Period equal to one-half of one percent per annum above the Cost of Qualified Borrowings for the last Semester ending prior to the commencement of such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Borrower the Cost of Qualified Borrowings for such Semester.

(c) For purposes of this Section:

- (i) "Interest Period" means the six-month period commencing on each date specified in Section 2.06 of this Agreement, including the Interest Period in which this Agreement is signed.
- (ii) "Cost of Qualified Borrowings" means the cost of the outstanding borrowings of the Bank drawn down after June 30, 1982, expressed as a percentage per annum, as reasonably determined by the Bank.
- (iii) "Semester" means the first six months or the second six months of a calendar year.

Section 2.06. Interest and other charges shall be payable semiannually on February 1 and August 1 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 2 to this Agreement.

Section 2.08. (a) The Borrower's Central Bank is designated as representative 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.

(b) Without limitation or restriction to the foregoing, the Borrower hereby entrusts its Central Bank with responsibility for the preparation of withdrawal applications under the Loan and for the collection of the documents and other evidence to be furnished to the Bank in support of such applications; such withdrawal applications shall to the extent practicable be consolidated so as to apply for withdrawal of aggregate amounts of not less than \$100,000 equivalent.

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 Restructuring, and the actions respectively specified in Schedule 4 to this Agreement and in paragraphs 4 and 5 of Schedule 1 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.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. (a) The Borrower shall maintain or cause to be maintained separate records and accounts adequate to reflect in accordance with consistently maintained sound accounting practices the expenditures financed out of the proceeds of the Loan.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section for each fiscal year audited, in accordance with appropriate auditing principles 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 four months after the end of each such year, 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 said records and accounts and the audit thereof as the Bank shall 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 statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and 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 audits 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 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 3.04. The Borrower shall enter with Corporacion into a loan agreement under which the Borrower shall lend to said entity an amount in nuevos pesos equivalent to not less than one hundred five million dollars (\$105,000,000), such amount: (i) to be utilized by Corporacion exclusively to pay-in the shares of stock of banks involved in the Restructuring subscribed by Corporacion pursuant to paragraph 5 (a) (i) of Schedule 1 to this Agreement; and (ii) to be made available to Corporacion by the Borrower promptly upon the making of withdrawals from the Loan Account.

ARTICLE IV

Additional Event of Suspension

Section 4.01. Pursuant to Section 6.02 (k) of the General Conditions, the following additional event is specified, namely, that 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 following event is specified as an additional condition to the effectiveness of the Loan Agreement within the meaning of Section 12.01 of the General Conditions, namely, that Banco Central shall have issued new superintendency regulatory norms satisfactory to the Borrower and the Bank.

Section 5.02. The date of September 19, 1989 is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Borrower; Addresses

Section 6.01. Except as provided in Section 2.08 (a) of this Agreement, the Minister of Economy 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 Economia y Finanzas
Colonia 1089
Montevideo, Uruguay

Cable address:

MINECON
Montevideo, Uruguay

Telex:

6269 MINWCON UY

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:

440098 (ITT)
248423 (RCA) or
64145 (WUI)

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 Steneri
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Shahid S. Hussain
Regional Vice President
Latin America and the Caribbean

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

1. Subject to the provisions set forth or referred to in this Schedule, the proceeds of the Loan may be withdrawn from the Loan Account for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods required during the execution of the Program and to be financed out of such proceeds in accordance with the allocation of the amounts of the Loan set forth in the table below (the Table).

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)
(1) Amount of the Loan to be disbursed on or after the Effective Date	35,000,000
(2) Amount of the Loan to be disbursed on or after the Effective Date subject to the stipulations set forth in paragraph 3 of this Schedule	35,000,000
(3) Amounts of the Loan to be disbursed on or after the Effective Date subject to the stipulations set forth in paragraphs 4 and 5 of this Schedule	
(a) Banco Pan de Azucar	26,385,000
(b) Banco Comercial	19,815,000
(c) Banco La Caja Obrera	23,800,000
TOTAL	140,000,000

2. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) expenditures for goods included in the following SITC groups or sub-groups, or any successor groups or sub-groups under future revisions to the SITC, as designated by the Bank by notice to the Borrower:

Group	Sub-group	Description of Items
112	-	Alcoholic beverages
121	-	Tobacco, unmanu- factured, tobacco refuse

122	-	Tobacco, manufactured (whether or not containing tobacco substitutes)
525	-	Radioactive and associated materials
667	-	Pearls, precious and semi-precious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof, fuel elements (cartridges), non-irradiated for nuclear reactors
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)

(b) expenditures in nuevos pesos or for goods supplied from the territory of the Borrower;

(c) payments made for expenditures prior to the date of this Agreement, except that withdrawals in an aggregate amount not exceeding the equivalent of \$28,000,000 may be made on account of payments made for such expenditures before that date but after January 15, 1989;

(d) expenditures for goods procured under contracts costing less than \$5,000 equivalent;

(e) expenditures for goods supplied under a contract which any national or international financing institution or agency other than the Bank shall have financed or agreed to finance; and

(f) expenditures for goods intended for a military or para-military purpose or for luxury consumption.

3. (a) Without limitation or restriction to the provisions of paragraph 2 above, no withdrawal shall be made and no commitment shall be entered into to pay amounts to or on the order of the Borrower in respect of expenditures to be financed out of the proceeds of the Loan allocated to Category (2) of the Table, 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, including maintaining and deepening the results of actions already taken and described in paragraphs 2 and 4 of the Program as well as taking new actions, if required, other than those referred to in (ii) herein; and (ii) that the actions described in Schedule 4 to this Agreement have been taken.

4. Without limitation or restriction upon the provisions of paragraph 2 above, and subject to the provisions of paragraph 5 below, no withdrawal shall be made and no commitment shall be entered into to pay amounts to or on the order of the Borrower in respect of expenditures to be financed out of the proceeds allocated to Category (3) of the Table, 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, in general, and of the Restructuring, in particular, including any pending action under the First Phase and any follow-up measure to the First Phase that may be required at the time of the exchange of views in question; (ii) that a Resolution shall have been issued by the Borrower Executive Branch authorizing the increase of the paid-up capital of Corporation to the maximum amount permitted under Articles 14 and 17 (b) of the Borrower's Law No. 15,785 of December 4, 1985, as modified by Article 603 of the Borrower's Law No. 15,903, of November 10, 1987; and (iii) that bonds have been issued by the Borrower with the purpose of materializing the aforesaid capital increase.

5. (a) Further to the provisions of paragraph 4 above, withdrawals under Sub-categories (a), (b) or (c) of Category (3) of the Table shall be made only if 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 that: (i) Corporation has subscribed the number of shares of stock of the applicable Banco stipulated in 5 (b) below and has taken all steps required to be taken to pay-in, promptly thereafter, the capital so subscribed; (ii) the Banco in question has entered into a contract, on terms and conditions satisfactory to the Borrower and the Bank, with a person with qualifications and experience acceptable to the Borrower and the Bank, who will discharge the functions of chief executive officer of such Banco during the Restructuring; (iii) persons with adequate qualifications and experience have been selected to form a new Board of Directors of the Banco in question after the capital increase pursuant to 5 (a) (i) above has taken place; and (iv) Corporation has entered into a contract on terms and conditions satisfactory to the Borrower and the Bank to hire the services of the Coordinator.

(b) For purposes of 5 (a) (i) above, the shares of stock of each Banco mentioned under Category (3) of the Table shall be equivalent to the following amounts: (i) Banco Pan de Azucar \$73,200,000; (ii) Banco Comercial \$46,400,000; and (iii) Banco La Caja Obrera \$37,400,000.

6. If any exchange of views as described in Section 3.01 of this Agreement has taken place after a date nine months after the Effective Date and, after such exchange of views the Bank shall have given notice to the Borrower that the progress achieved or actions taken, or both, as the case may be, are not satisfactory and, within 90 days after such notice, the Borrower shall not have achieved progress or taken actions, or both, as the case may be, satisfactory to the Bank, then the Bank may, by notice to the Borrower, cancel the unwithdrawn amount of the Loan or any part thereof.

SCHEDULE 2

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each February 1 and August 1 beginning February 1, 1995 through August 1, 2004	7,000,000

* The figures in this column represent dollar equivalents determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

Premiums on Prepayment

The following premiums are specified for the purposes of Section 3.04 (b) of the General Conditions:

Time of Prepayment	Premium
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The interest rate (expressed as a percentage per annum) applicable to the balance outstanding on the Loan on the day of prepayment multiplied by:

Not more than three years before maturity	0.20
More than three years but not more than six years before maturity	0.40
More than six years but not more than eleven years before maturity	0.73
More than eleven years but not more than thirteen years before maturity	0.87
More than thirteen years before maturity	1.00

SCHEDULE 3

Procurement

1. Contracts for the procurement of goods estimated to cost the equivalent of \$5,000,000 or more each shall be awarded through international competitive bidding in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines), subject to the following modifications:

(a) Paragraph 2.8 of the Guidelines is deleted and the following is substituted therefor:

"2.8 Notification and Advertising

The international community should be notified in a timely manner of the opportunity to bid. This will be done by advertising invitations to apply for inclusion in a bidder's invitation list, to apply for prequalification, or to bid; such advertisements should be placed in at least one newspaper of general circulation in the Borrower's country and, in addition, in at least one of the following forms:

- (i) a notice in the United Nations publication, Development Business; or
- (ii) an advertisement in a newspaper, periodical or technical journal of wide international circulation; or
- (iii) a notice to local representatives of countries and territories referred to in the Guidelines, that are potential suppliers of the goods required."

(b) The following is added at the end of paragraph 2.21 of the Guidelines:

"As a further alternative, bidding documents may require the bidder to state the bid price in a single currency widely used in international trade and specified in the bidding documents."

(c) Paragraphs 2.55 and 2.56 of the Guidelines are deleted.

2. Contracts for goods estimated to cost the equivalent of less than \$5,000,000 each shall be awarded on the basis of the normal procurement procedures of the purchaser of such goods.

3. With respect to each contract referred to in paragraph 1 of this Schedule, the Borrower shall furnish to the Bank, prior to the submission to the Bank of the first application for withdrawal of funds from the Loan Account in respect of such contract, two conformed copies of such contract, together with the analysis of the respective bids and recommendations for award, a description of the advertising and tendering procedures followed and such other information as the Bank shall reasonably request.

4. With respect to each contract referred to in paragraph 2 of this Schedule, the Borrower shall furnish to the Bank, prior to the submission to the Bank of the first application for withdrawal of funds from the Loan Account in respect thereof, such documentation and information as the Bank may reasonably request to support withdrawal applications in respect of such contract.

5. The provisions of the preceding paragraphs 3 and 4 shall not apply to contracts on account of which the Bank has authorized withdrawals from the Loan Account on the basis of statements of expenditure.

SCHEDULE 4

Actions Referred to in Paragraph 3 (a) (ii) of Schedule 1 to this Agreement

(a) Reduction of the public sector deficit, through strict control of real expenditure levels or real revenue increases, to a point where the consolidated public sector accounts (including the accounts of the Borrower's Central Bank) show revenues exceeding expenditures (net of payments of interest and other charges on external debt attributable to the sector) by a margin of not less than 1.5% of the Borrower's gross domestic product;

(b) Updating of the Borrower's public investment program for years 1989 and 1990 without substantially departing from the current public investment program for such years as shown in paragraph 30 and table 2 of the Program;

(c) Streamlining, including acquisition and installation of computer equipment and starting up of computerized operations, of the revenue collection unit of Banco de Prevision Social (BPS), the Borrower's Social Security Bank, and submission to the Bank of a plan of action, satisfactory to the Bank, for rationalizing further the benefits of the old-age, survivors and disability program, one of the social welfare programs administered by BPS, and balancing the finances of said program by 1992, including preparation of draft administrative measures and, if required, draft legislation, for these purposes;

(d) Preparation of a plan of action, satisfactory to the Bank, to implement reforms of the tax system, and to increase effectiveness of tax collection; and

(e) Separation of BROU's accounts in respect of its banking and non-banking activities such as customs and tax collection.

