

Public Disclosure Authorized

CONFORMED COPY

LOAN NUMBER 7445-UR

Loan Agreement

(Promoting Innovation to Enhance Competitiveness Project)

between

REPÚBLICA ORIENTAL DEL URUGUAY

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated June 21, 2007

Public Disclosure Authorized

LOAN AGREEMENT

Agreement dated June 21, 2007, between REPÚBLICA ORIENTAL DEL URUGUAY (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”). The Borrower and the Bank hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — LOAN

- 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of twenty-six million Dollars (\$26,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.08 of this Agreement (“Loan”), to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Commitment Charge payable by the Borrower shall be equal to three-fourths of one percent (3/4 of 1%) per annum on the Unwithdrawn Loan Balance, subject to any waiver of a portion of such charge as may be determined by the Bank from time to time.
- 2.04. The Front-end Fee payable by the Borrower shall be equal to one percent (1.0%) of the Loan amount, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time. In the event that the Borrower selects not to capitalize the Front-end Fee, the Borrower shall pay the Front-end Fee not later than 60 days after the Effective Date.
- 2.05. The interest payable by the Borrower for each Interest Period shall be at a rate equal to LIBOR for the Loan Currency plus the Fixed Spread, subject to any waiver of a portion of such interest as may be determined by the Bank from time to time; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be

determined in accordance with the relevant provisions of Article IV of the General Conditions.

- 2.06. The Payment Dates are April 15 and October 15 in each year.
- 2.07. The principal amount of the Loan shall be repaid in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.
- 2.08. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management: (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency; (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan 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 the Variable Rate.
- (b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a “Conversion”, as defined in the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.
- (c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar for which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.04 (c) of the General Conditions up to the amount allocated from time to time for the purpose in the table in Section IV of Schedule 2 to this Agreement.

ARTICLE III — PROJECT

- 3.01. The Borrower declares its commitment to the objective of the Project. To this end, the Borrower shall carry out the Project through its Ministry of Education and Culture (acting through the DICYT) in coordination with the GMI, in accordance with the provisions of Article V of the General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV — REMEDIES OF THE BANK

- 4.01. The Additional Event of Suspension consists of the following, namely that CND or the Borrower shall have failed to perform any of their respective obligations under the Agency Agreement.

- 4.02. The Additional Event of Acceleration consists of the following, namely that the event specified in Section 4.01 of this Agreement occurs and is continuing for a period of 60 days after notice of the event has been given by the Bank to the Borrower.

ARTICLE V — TERMINATION

- 5.01. Without prejudice to the provisions of the General Conditions, the Effectiveness Deadline is the date ninety (90) days after the date of this Agreement, but in no case later than eighteen (18) months after the Bank's approval of the Loan which expire on November 3, 2008.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

- 6.01. The Borrower's Representative is its Minister of Economy and Finance.
6.02. The Borrower's Address is:

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

Cable:	Telex:	Facsimile:
MINECON	269 MICECON UY, Montevideo Uruguay	(598-2) 1712-2688

- 6.03. The Bank's Address is:

International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:	Telex:	Facsimile:
INTBAFRAD Washington, D.C.	248423(MCI) 64145(MCI)	1-202-477-6391

AGREED at Montevideo, República Oriental del Uruguay, as of the day and year first above written.

REPÚBLICA ORIENTAL DEL URUGUAY

By /s/ Danilo Astori

Authorized Representative

**INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT**

By /s/ Axel van Trotsenburg

Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to strengthen the Borrower's capacity to generate, transfer and adapt knowledge and technology by supporting: (a) the institutional framework for STI; (b) investments in human capital and high-quality research teams; (c) technology transfer and private sector innovation; and (d) cross-sectoral and international research collaboration and mobility of researchers between public institutions and the productive sector.

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

Part 1: Supporting STI Policies and Institutional Strengthening

(a) Supporting members of the GMI and the CONICYT or their delegates to develop policies on STI by:

- (i) carrying out analytical work for the formulation and updating of the Borrower's national strategy for STI;
- (ii) supporting the consultation processes among key stakeholders in the Borrower's national innovation system;
- (iii) disseminating the Borrower's national strategy for STI;
- (iv) conducting seminars and workshops to facilitate the coordination of the Borrower's initiatives on STI; and
- (v) facilitating international collaboration and exchange of best practices on STI policies.

(b) Strengthening the ANII and supporting the DICYT and the GMI in the implementation of the Project through:

- (i) the provision of technical assistance, training and office equipment and software to facilitate their operation;
- (ii) the development of management information systems for the efficient and transparent implementation of innovation programs;
- (iii) the carrying out of minor works to adapt existing buildings to the needs of the ANII;
- (iv) the financing of travel costs associated with the implementation of the Project;
- (v) the conduct of activities for the dissemination of information related to the functions of the ANII and the implementation of the Project; and

- (vi) the financing of salaries of ANII staff and other operating expenditures which are necessary for the implementation of the Project.
- (c) Establishing and providing ongoing support to the Observatory through:
 - (i) the provision of technical assistance and training to facilitate the operation of the Observatory;
 - (ii) the carrying out of analytical work including the development of evaluation methodologies and the implementation of the same;
 - (iii) the conduct of activities to disseminate studies and raise awareness among the general public and the private sector;
 - (iv) the development of management information systems to support the aforementioned activities; and
 - (v) the financing of salaries of Observatory staff and other operating expenditures which are necessary for the implementation of the Project.

Part 2: Building Human Capital and High Quality Research Teams

- (a) Promoting excellence in science and technology research in priority areas by:
 - (i) providing grants to support, for a period of up to five years per grant, subprojects carried out by multidisciplinary research teams headed by a full time principal researcher;
 - (ii) providing grants to support, for a period of up to three years per grant, subprojects in underdeveloped areas of research of strategic importance to the Borrower;
 - (iii) providing grants to support, for a period of up to two years per grant, subprojects in the social sciences targeted at creating research capacities in areas related to the development of STI policies;
 - (iv) providing grants to support, for a period of up to 3 years per grant, science and technology subprojects targeted at improving the living conditions of low income families in Uruguay; and
 - (v) supporting reforms of the FNI to provide opportunities for young researchers and broaden incentives of researchers to collaborate with the productive sector, through the conduct of workshops and training, the provision of technical assistance and the financing of travel.
- (b) Increasing the stock of advanced human capital in priority areas identified by the Borrower and acceptable to the Bank by:

- (i) awarding stipends to non-university tertiary and undergraduate students to work in high quality research environments in order to stimulate the supply of young researchers;
 - (ii) awarding scholarships to young researchers to study in domestic masters and doctoral programs focused on developing research skills;
 - (iii) awarding scholarships to masters and doctoral students that undertake a substantial part of their thesis work in the productive sector;
 - (iv) awarding scholarships for the insertion of young researchers in the productive sector; and
 - (v) providing grants to support subprojects for developing and strengthening domestic masters and doctoral programs through, *inter alia*, curricula design, teacher training, and upgrading of the learning infrastructure.
- (c) Providing grants to support subprojects aimed at strengthening and establishing technical tertiary education programs of high priority for the productive sector by, *inter alia*:
- (i) designing curricula;
 - (ii) facilitating international staff exchange and international collaboration;
 - (iii) awarding scholarships to students;
 - (iv) providing learning and scientific equipment;
 - (v) carrying out minor works to adapt existing buildings; and
 - (vi) supporting collaboration with research institutions.

Part 3: Promoting Innovation and Technology Transfer to the Productive Sector

- (a) Providing grants for subprojects to create new technology centers or upgrade the capacity of existing ones to:
- (i) facilitate the transfer and adaptation of existing technologies to enterprises incorporated under the Borrower's law;
 - (ii) address sectoral quality issues;
 - (iii) identify bottlenecks and opportunities for further innovation of products and processes at the sectoral level;
 - (iv) conduct research and development to develop such products and processes;

- (v) facilitate the commercialization of new products; and
 - (vi) conduct training activities for the productive sector.
- (b) Providing grants to public-private research consortia comprised of at least one firm from the Borrower's productive sector and academic research centers/universities to carry out research and development subprojects in priority areas identified by the Borrower.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements.

1. Unless otherwise agreed by the Bank, the Borrower shall maintain, throughout Project implementation:
 - (a) the DICYT, with functions, staffing and responsibilities satisfactory to the Bank for the purposes of the Project; and
 - (b) the GMI, with composition and functions acceptable to the Bank for the purposes of the Project.
2.
 - (a) The Borrower shall comply with the terms of an agreement (the Agency Agreement) with the CND under terms and conditions satisfactory to the Bank, including, *inter alia*, the obligation of the CND to assist the Borrower in procurement, disbursement and financial management of the Loan proceeds, consistent with the specific procedures set out in the Operational Manual.
 - (b) The Borrower shall exercise its rights under the Agency Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan. Except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Agency Agreement or any provisions thereof.
3. (a) The Borrower shall carry out the Project in accordance with an operational manual satisfactory to the Bank (the Operational Manual), such manual to include, *inter alia*:
 - (i) the procedures for carrying out, monitoring and evaluating the Project;
 - (ii) the final format of the financial statements, chart of accounts and the interim unaudited financial reports for the Project;
 - (iii) with respect to the grants under Parts 2(a)(i) through (iv), 2(b)(v), 2(c) and 3 of the Project:
 - (A) the criteria for the approval, and procedures for the implementation and monitoring of subprojects supported by such grants;
 - (B) the criteria for the eligibility of the beneficiaries of the grants; and
 - (C) the model grant agreement for the provision of funds and the implementation of the subprojects; and

(iv) with regard to scholarships and stipends under Part 2 (b)(i) through (iv) of the Project:

(A) the criteria for the eligibility and procedures for the competitive selection of scholarship and stipend recipients, and the determination of the value of the awards; and

(B) the model agreement for the award of scholarships and stipends.

(b) The Operational Manual may be amended by the Borrower from time to time with the prior approval of the Bank. In the case of any conflict between the terms of the Operational Manual and those of this Agreement, the terms of this Agreement shall prevail.

4. No later than September 30, 2007, the Borrower shall present to the Bank a transition plan to transfer Project implementation to the ANII, including staffing and other requirements to ensure that the ANII will have the capacity to assume the Project implementation responsibilities of the Borrower under this Agreement. Subject to the Bank's approval of the transition plan, the Borrower shall take all actions necessary to implement the transition in a timely manner.

Section II. Project Monitoring Reporting and Evaluation

A. Project Reports

1. The Borrower shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of the performance indicators agreed with the Bank. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Bank not later than one month after the end of the period covered by such report.

B. Financial Management, Financial Reports and Audits

1. The Borrower shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 5.09 of the General Conditions.

2. Without limitation on the provisions of Part A of this Section, the Borrower shall prepare and furnish to the Bank as part of the Project Report, interim unaudited financial reports for the Project covering the calendar semester, in form and substance satisfactory to the Bank.

3. The Borrower shall have its Financial Statements audited in accordance with the provisions of Section 5.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Borrower, commencing with the fiscal year in which the first withdrawal under the Project Preparation Advance was made. The audited Financial Statements for each such period shall be furnished to the Bank not later than six months after the end of such period.

Section III. Procurement

A. General

1. **Goods, Works and Non-Consultants' Services.** All goods, works and non-consultant services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines and with the provisions of this Section.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Bank of particular contracts refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods, Works and Non-Consultant Services

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods, works and non-consultants' services shall be procured under contracts awarded on the basis of International Competitive Bidding procedures.
2. **Other Methods of Procurement of Goods, Works and Non-Consultants' Services.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods, works and non-consultant's services. The Procurement Plan shall specify the circumstances under which such methods may be used.

<u>Procurement Method</u>
(a) National Competitive Bidding
(b) Shopping
(c) Direct Contracting
(d) Established Private or Commercial Practices which have been found acceptable to the Bank (through analogy to paragraph 3.12 of the Procurement Guidelines)

C. Particular Methods of Procurement of Consultants' Services

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.
2. **Other Methods of Procurement of Consultants' Services.** The following table specifies the methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants' services. The Procurement Plan shall specify the circumstances under which such methods may be used.

<u>Procurement Method</u>
(a) Least-Cost Selection
(b) Quality-Based Selection
(c) Selection Based on the Consultant's Qualifications
(d) Single-Source Selection
(e) Procedures set forth in Paragraphs 5.2 and 5.3 of the Consultant's Guidelines for the Selection of Individual Consultants
(f) Sole Source Procedures for the Selection of Individual Consultants

D. Review by the Bank of Procurement Decisions

1. Except as the Bank shall otherwise determine by notice to the Borrower, the following contracts shall be subject to Prior Review by the Bank:

(a) the first contract for works estimated to cost the equivalent of \$50,000 or less procured on the basis of Shopping;

(b) (i) each contract for goods estimated to cost more than \$250,000, procured on the basis of International Competitive Bidding; (ii) the first contract for goods to be procured by public institutions estimated to cost the equivalent of \$250,000 or less procured on the basis of National Competitive Bidding; (iii) the first contract for goods to be procured by public institutions estimated to cost the equivalent of \$50,000 or less procured on the basis of Shopping; (iv) each contract for goods to be procured by public institutions on the basis of Direct Contracting; and (v) each contract for goods estimated to cost more than \$10,000 to be procured by private sector beneficiaries on the basis of Direct Contracting;

(c) (i) each contract for consultants' services provided by a firm estimated to cost more than or equal to \$100,000 procured on the basis of Quality- and Cost-based Selection; (ii) each contract for consultants' services provided by a firm estimated to cost more than or equal to \$100,000 procured on the basis of Quality-Based Selection; (iii) each contract for consultants' services provided by a firm procured on the basis of Single-Source Selection; (iv) the first contract for consultant's services provided by a firm estimated to cost less than \$100,000 procured on the basis of Least-Cost Selection; and (v) the first contract for consultant's services provided by a firm estimated to cost less than \$100,000 procured on the basis of Selection Based on the Consultant's Qualifications; and

(d) all contracts (including terms of reference and curriculum vitae) for consultants' services provided by individual consultants estimated to cost more than \$100,000 or to be procured on the basis of the Sole Source Procedures for the Selection of Individual Consultants.

2. All other contracts shall be subject to Post Review by the Bank.

E. Special Provisions

In addition and without limitation or restriction to any other provisions set forth in this Section, the Procurement Guidelines or the Consultant Guidelines, the following provisions shall govern the procurement of goods, works, non-consultant services and consultants' services, where applicable, under this Section.

- (a) The lowest evaluated bid shall be selected for contract award.
- (b) Foreign bidders shall be allowed to participate in national competitive bidding.
- (c) Foreign bidders may be required as a prerequisite for bidding to be registered with local authorities, provided, however, that the information to be requested from such bidders is of such nature that it will not discourage their participation.
- (d) There shall be no prescribed minimum number of bids to be submitted in order for a contract to be subsequently awarded.
- (e) After the public opening of bids, information relating to the examination, clarification, and evaluation of bids and proposals and recommendations concerning awards shall not be disclosed to bidders or consultants or other persons not officially concerned with this process until the publication of contract award (except as provided in paragraphs 2.20 and 2.27 of the Consultant Guidelines).
- (f) Foreign bidders shall not be required to authenticate (*legalizar*) their bidding documents or any documentation related to such bidding documents with Uruguayan authorities as a prerequisite for participating in the selection procedure.
- (g) There shall be no preference for domestic contractors.
- (h) The prices of contracts for consultants' services over one year duration may be adjusted.
- (i) 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 criteria.
- (j) The invitations to bid, bidding documents, minutes of bid openings, requests for expressions of interest, the evaluation report of bids and proposals, and contract awards of all goods, works, and consultants' services, as the case may be, shall be published in a web page acceptable to the Bank, and in a manner acceptable to the Bank.

Section IV. Withdrawal of Loan Proceeds

A. General

1. The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of: (a) Article II of the General Conditions, (b) this Section, and (c) such additional instructions as the Bank shall specify by notice to the Borrower (including the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.

2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Loan (“Category”), the allocation of the amounts of the Loan to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category.

Category	Amount of the Loan Allocated (expressed in USD)	Percentage of Expenditures to be financed (inclusive of Taxes)
(1) Goods, works, Training and consultants’ services for the Project (except those covered in Categories 2 or 3 below)	2,600,000	100%
(2) Grants	21,400,000	85%
(3) Operating Costs	750,000	100%
(4) Refund of the Project Preparation Advance	500,000	Amount payable pursuant to Section 2.07 (a) of the General Conditions
(5) Front-end Fee	0	Amount payable pursuant to Section 2.04 of this Agreement in accordance with Section 2.07 (b) of the General Conditions
(6) Premium for Interest Rate Caps and Interest Rate Collars	0	Amount payable pursuant to Section 2.08 (c) of this Agreement
(7) Unallocated	750,000	
TOTAL AMOUNT	26,000,000	

For the purposes of this schedule, the term:

(a) “Training” means the reasonable non-consultant expenditures incurred by the Borrower in connection with the carrying out of training activities (including workshops, conferences and seminars) under the Project, including travel costs, per diem of trainers, facilitators and stakeholders, and training materials.

(b) “Operating Costs” means the reasonable costs of specialized staff, including procurement staff in the CND, small refurbishing and sundry recurrent expenses directly related to the performance of the Project activities, which would not have been incurred absent the Project.

(c) “Grants” means: (i) expenditures for goods, works, non-consultant services and consultant services under Parts 2(a)(i) through (iv), 2(b)(v), 2(c), and 3 of the Project; and (ii) expenditures for scholarships and stipends under Part 2 (b)(i) through (iv) of the Project.

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made:

- (a) from the Loan Account (other than to repay the Project Preparation Advance) until the Bank has received payment in full of the Front-end Fee, if the Borrower selects not to capitalize the Front-end Fee; or
 - (b) for payments made prior to the date of this Agreement.
2. The Closing Date is December 15, 2012.

SCHEDULE 3

Amortization Schedule

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (“Installment Share”). If the proceeds of the Loan have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) Withdrawn Loan Balance as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayable amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

Principal Payment Date	Installment Share (Expressed as a Percentage)
On each April 15 and October 15 Beginning October 15, 2012 through April 15, 2022	5%

2. If the proceeds of the Loan have not been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:
 - (a) To the extent that any proceeds of the Loan have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the Withdrawn Loan Balance as of such date in accordance with paragraph 1 of this Schedule.
 - (b) Any amount withdrawn after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which is the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (“Original Installment Share”) and the denominator of which is the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such amounts repayable to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.
3. (a) Amounts of the Loan withdrawn within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

- (b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph, if at any time the Bank adopts a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.
- 4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the Withdrawn Loan Balance to an Approved Currency, the amount so converted in the Approved Currency that is repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to the Conversion by either: (i) the exchange rate that reflects the amounts of principal in the Approved Currency payable by the Bank under the Currency Hedge Transaction relating to the Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.
- 5. If the Withdrawn Loan Balance is denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.

APPENDIX

Definitions

1. “ANII” means *Agencia Nacional de Investigación e Innovación*, the Borrower’s National Research and Innovation Agency, a legal person under public law established pursuant to the Borrower’s law no. 18.084 of December 28, 2006.
2. “Agency Agreement” means the agreement dated March 9 and referred to in paragraph 2(a) of Part A of Section I of Schedule 2 of this Agreement.
3. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
4. “CND” means *Corporación Nacional para el Desarrollo*, the Borrower’s National Development Corporation, established by the Borrower’s Law no. 15.785 of December 4, 1985.
5. “CONICYT” means *Consejo Nacional de Innovación, Ciencia y Tecnología*, the Borrower’s National Innovation, Science and Technology Council established by the Borrower’s law no. 17.296 of February 21, 2001 as amended by the Borrower’s law no. 18.084 of December 28, 2006.
6. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004.
7. “DICYT” means *Dirección de Innovación, Ciencia y Tecnología para el Desarrollo*, the Borrower’s Directorate of Innovation, Science and Technology for Development established by Article 262 of the Borrower’s Budget Law no. 17.930 of December 19, 2005.
8. “FNI” means *Fondo Nacional de Investigadores*, the Borrower’s National Fund for Researchers established by Borrower’s Budget Law of January 5, 1996.
9. “GMI” means *Gabinete Ministerial de la Innovación*, the Borrower’s Interministerial Innovation Cabinet established pursuant to a Presidential Resolution of April 14, 2005 and comprised of its Ministers of Education and Culture; Economy and Finance; Livestock, Agriculture and Fisheries; Industry, Energy and Mining; and its Director of the Office of Budget and Planning.
10. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005.
11. “Observatory” means the Science Technology and Innovation Observatory, the entity to be established by the Borrower pursuant to Part 1(c) of the Project, to provide technically sound information on: (a) the status of and trends in key indicators of innovation, advanced human capital and scientific production within the Borrower; (b) the impact and effectiveness of publicly funded instruments to stimulate innovation; (c) key sector

issues related to innovation in the Borrower and possible policy responses; (d) international experiences and tendencies in support of innovation; and (e) prospective areas where enterprises incorporated under the Borrower's law can develop a competitive advantage through process and product innovation and clustering.

12. "Operational Manual" means the manual, dated March 9, 2007, for the operation of the Project referred to in paragraph 3(a) of Part A, Section I of Schedule 2 to this Agreement as the same may be amended from time to time.
13. "Procurement Guidelines" means the "Guidelines: Procurement under IBRD Loans and IDA Credits" published by the Bank in May 2004.
14. "Procurement Plan" means the Borrower's procurement plan for the Project, dated December 15, 2006 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
15. "Project Preparation Advance" means the advance referred to in Section 2.07 (a) of the General Conditions, granted by the Bank to the Borrower pursuant to the letter agreement signed on behalf of the Bank on June 28, 2006 and on behalf of the Borrower on July 5, 2006.
16. "STI" means science, technology and innovation.