

LOAN NUMBER 7303-UR

Loan Agreement

(Transport Infrastructure Maintenance and Rural Access Project)

between

REPUBLICA ORIENTAL DEL URUGUAY

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated

, 200_

LOAN NUMBER 7303-UR

LOAN AGREEMENT

AGREEMENT, dated _____, 200_, between REPUBLICA ORIENTAL DEL URUGUAY (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

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 in the financing of the Project; and

WHEREAS the Bank has agreed, on the basis, *inter alia*, of the foregoing, to extend 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 Fixed-Spread Loans" of the Bank dated September 1, 1999 (as amended through May 1, 2004), with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement:

- (a) Section 5.08 of the General Conditions is amended to read as follows:

"Section 5.08. *Treatment of Taxes*

Except as otherwise provided in the Loan Agreement, the proceeds of the Loan may be withdrawn to pay for taxes levied by, or in the territory of, the Borrower on the goods or services to be financed under the Loan, or on their importation (with the exception of import tariffs above 28%), manufacture, procurement or supply. Financing of such taxes is subject to the Bank's policy of requiring economy and efficiency in the use of the proceeds of its loans. To that end, if the Bank shall at any time determine that the amount of any taxes levied on or in respect of any item to be financed out of the proceeds of the Loan is excessive or otherwise unreasonable, the Bank may, by notice to

the Borrower, adjust the percentage for withdrawal set forth or referred to in respect of such item in the Loan Agreement as required to be consistent with such policy of the Bank.”

(b) Section 6.03 (c) of the General Conditions is amended by replacing the words “corrupt or fraudulent” with the words “corrupt, fraudulent, collusive or coercive”.

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) “Annual Arrangement” means any of the arrangements mentioned in Section 3.05 (a) of this Agreement;

(b) “Annual Departmental Road Rehabilitation and Maintenance Subproject” means any of the annual investments referred to in Part C of the Project;

(c) “BCU” means *Banco Central del Uruguay*, the Borrower’s central bank;

(d) “CREMA Contract” means a multi-year contract under Part B of the Project, entered into by DNV (as defined below) with a private sector contractor, which contract obligates the private sector contractor to undertake all phases of road rehabilitation and maintenance work as a single package, from design and programming of the works, through the execution of such works, with respect to an identified portion of the Borrower’s national road network as referred to in said Part of the Project;

(e) “CREMA Subproject” means any of the investments referred to in Part B of the Project;

(f) “CVU” means the *Corporación Vial del Uruguay, S.A.*, an entity vested with legal personality, which pursuant to the terms of the Assignment Agreement (*Contrato de Cesión*) of February 18, 2003 entered into between CVU and *Corporación Nacional para el Desarrollo*, has been assigned the rights and obligations of *Corporación Nacional para el Desarrollo (CND)* under the Concession Agreement (*Convenio-Contrato*) entered into between the Borrower, through MTOP (as defined below) and CND dated October 5, 2001 (as amended) for purposes of, *inter alia*, granting to CND the administration of the Mega-Concession (as defined below);

(g) “CVU Subproject” means any of the investments referred to in Part A.2 of the Project;

(h) "DNH" means *Dirección Nacional de Hidrografía*, the Borrower's National Directorate of Hydrography within MTOP (as defined below);

(i) "DNH Subprojects" means any of the investments under Part A.3 of the Project;

(j) "DNV" means *Dirección Nacional de Vialidad*, the Borrower's National Directorate of Highways within MTOP (as defined below);

(k) "DNV Environmental Manual" means DNV's environmental manual, acceptable to the Bank, dated May 1998, as the same may be amended from time to time;

(l) "DNV Subprojects" means any of the investments referred to in Part A.1 of the Project;

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

(n) "Eligible Expenditures" means the expenditures for goods, works and consultants' services referred to in Section 2.02 of this Agreement;

(o) "Financial Monitoring Report" or "FMR" means each report prepared in accordance with Section 4.02 of this Agreement;

(p) "HDM-4 Model" means the Highway Development Management Model which is used to carry out technical and economic evaluations of road investments;

(q) "Implementation Letter" means the letter of even date herewith from the Borrower to the Bank setting forth: (i) the criteria for selecting Annual Departmental Road Rehabilitation and Maintenance Subprojects; (ii) the list of CREMA Subprojects, CVU Subprojects, DNH Subprojects and DNV Subprojects; (iii) the Project indicators; and (iv) the Resettlement Plan;

(r) "Mega-Concession" means the public road concession, which is currently administered by CVU (as defined above), to carry out construction, rehabilitation and maintenance works in respect of a number of national roads and bridges;

(s) "MTOP" means *Ministerio de Transporte y Obras Públicas*, the Borrower's Ministry of Transport and Public Works;

(t) "Operational Manual" means the manual referred to in Section 3.06 (a) (i) of this Agreement, as the same may be amended from time to time with the agreement of the Bank;

(u) "Participating *Departamento*" means a political subdivision of the Borrower which is vested with legal personality and that has been selected by the Borrower (in a manner acceptable to the Bank) to participate in the carrying out of Annual Departmental Road Rehabilitation and Maintenance Subprojects (as defined above);

(v) "PCU" means the Project coordination unit established in MTOP (as defined above) pursuant to the Borrower's resolution dated September 19, 1989;

(w) "Procurement Plan" means the Borrower's procurement plan, dated April 13, 2005 covering the initial 18 month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement, to cover succeeding 18 month periods (or longer) of Project implementation;

(x) "Report-based Disbursements" means the Borrower's option for withdrawal of funds from the Loan Account referred to in Part A.4 of Schedule 1 to this Agreement;

(y) "Resettlement" means the impact of an involuntary taking of land under the Project which taking causes affected persons to have their: (i) standard of living adversely affected; or (ii) right, title or interest in any house, land (including premises, agricultural and grazing land) or any other fixed or movable asset acquired or possessed, temporarily or permanently; or (iii) access to productive assets adversely affected, temporarily or permanently; or (iv) business, occupation, work or place of residence or habitat adversely affected, temporarily or permanently;

(z) "Resettlement Plan" means the Borrower's plan (acceptable to the Bank) dated April 1, 2005 which sets forth, *inter alia*, the legal framework for the expropriation of affected land, the lots of affected land to be subject to expropriation, the timing for the expropriation of said land, the estimated amount of compensation to be paid to the affected population and the socio-economic situation of the same;

(aa) "Road Safety Subproject" means any of the investments referred to in Part D of the Project;

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

(ac) "Subproject" means an Annual Departmental Road Rehabilitation and Maintenance Subproject, a CVU Subproject, a DNH Subproject, a DNV Subproject, a CREMA Subproject, and/or a Road Safety Subproject (as the case may be); and

(ad) "Subsidiary Agreement" means the agreement referred to in Section 3.04 (a) of this Agreement, as the same may be amended from time to time with the agreement of the Bank.

Section 1.03. Each reference in the General Conditions to the Project implementation entity shall be deemed as a reference to CVU in respect of Part A.2 of the Project.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount equal to seventy million Dollars (\$70,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.09 of this Agreement.

Section 2.02. 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, works and services required for the Project and to be financed out of the proceeds of the Loan, the front-end fee referred to in Section 2.04 of this Agreement and any premium in respect of an Interest Rate Cap or Interest Rate Collar payable by the Borrower in accordance with Section 4.04 (c) of the General Conditions.

Section 2.03. The Closing Date shall be July 31, 2011 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 front-end fee in an amount equal to one percent (1%) of the amount of the Loan, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of such fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge on the principal amount of the Loan not withdrawn from time to time, at a rate equal to: (i)

eighty five one-hundredths of one per cent (0.85%) per annum from the date on which such charge commences to accrue in accordance with the provisions of Section 3.02 of the General Conditions to but not including the fourth anniversary of such date; and (ii) seventy five one-hundredths of one per cent (0.75%) per annum thereafter.

Section 2.06. The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, in respect of each Interest Period at the Variable Rate; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the Borrower shall, during the Conversion Period, pay interest on such amount in accordance with the relevant provisions of Article IV of the General Conditions.

Section 2.07. Interest and commitment charges shall be payable semiannually in arrears on April 15 and October 15 in each year.

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

Section 2.09. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management:

- (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency;
- (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan from a Variable Rate to a Fixed Rate, or vice versa; and
- (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on said Variable Rate.

(b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a "Conversion", as defined in Section 2.01(7) of the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

(c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar in respect of 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 such purpose in the table in paragraph 1 of Schedule 1 to this Agreement.

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:

(a) carry out: (i) Parts A.1, B and D of the Project through DNV; (ii) Part A.3 of the Project through DNH; and (iii) Part E of the Project through MTOP, all with due diligence and efficiency and in conformity with appropriate administrative, financial, technical, social, engineering, public utility, ecological and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for said Parts of the Project;

(b) cause CVU (pursuant to the terms of the Subsidiary Agreement) to carry out Part A.2 of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, technical, social, engineering, public utility, ecological and environmental practices, shall take and/or cause to be taken (as the case may be) all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable CVU to carry out said Part of the Project, and shall not take or permit to be taken any action which would prevent or interfere with the carrying out of said Part of the Project; and

(c) cause each Participating *Departamento* (pursuant to the terms of the corresponding Annual Arrangement, as said term is defined in Section 1.02 (a) of this Agreement) to carry out the corresponding Annual Departmental Road Rehabilitation and Maintenance Subproject (as said term is defined in Section 1.02 (b) of this Agreement) with due diligence and efficiency and in conformity with appropriate administrative, financial, technical, social, engineering, municipal, ecological and environmental practices, shall take and/or cause to be taken (as the case may be) all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable each Participating *Departamento* to carry out the corresponding Annual Departmental Road Rehabilitation and Maintenance Subproject, and shall not take or permit to be taken any action which would prevent or interfere with the carrying out of said Annual Departmental Road Rehabilitation and Maintenance Subproject.

Section 3.02. (a) Except as the Bank shall otherwise agree, procurement of the goods, works 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, as said provisions may be further elaborated in the Procurement Plan.

(b) The Borrower shall update the Procurement Plan in accordance with guidelines acceptable to the Bank, and furnish such update to the Bank not later than 12 months after the date of the preceding Procurement Plan, for the Bank's approval.

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 for the future operation 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 Part A.2 of the Project, the Borrower shall make the proceeds of the Loan (allocated to Category (1) (b) set forth in Part A.1 of Schedule 1 to this Agreement) available to CVU under a subsidiary agreement (the Subsidiary Agreement) to be entered into between the Borrower and CVU (as referred to in paragraph (b) below), under terms and conditions which shall have been approved by the Bank which shall include, *inter alia*, those set forth in Schedule 5 to this Agreement.

(b) The Borrower shall, and shall cause CVU to, prior to the commencement of any works under Part A.2 of the Project: (i) enter into the Subsidiary Agreement; and (ii) furnish to the Bank an opinion or opinions, acceptable to the Bank, of counsel acceptable to the Bank, providing that the Subsidiary Agreement has been duly authorized or ratified by the Borrower and CVU and is legally binding upon the Borrower and CVU in accordance with its terms.

(c) (i) The Borrower shall exercise its rights and carry out its obligations under the Subsidiary Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan; and (ii) except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate, terminate, waive or fail to enforce the Subsidiary Agreement or any provision thereof.

Section 3.05. (a) For purposes of carrying out each Annual Departmental Road Rehabilitation and Maintenance Subproject within the territorial jurisdiction of a given Participating *Departamento*, the Borrower shall make a portion of the proceeds of the Loan (allocated to Category (1) (e) set forth in Part A.1 of Schedule 1 to this Agreement) available to said Participating *Departamento* under the pertinent annual arrangement (the Annual Arrangement) to be entered into between the Borrower and each Participating *Departamento* (prior to the carrying out of the pertinent Annual Departmental Road Rehabilitation and Maintenance Subproject), under terms and conditions which shall have been approved by the Bank which shall include, *inter alia*, those set forth in Schedule 6 to this Agreement.

(b) (i) The Borrower shall exercise its rights and carry out its obligations under each Annual Arrangement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan; and (ii) except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate, terminate, waive or fail to enforce any Annual Arrangement or any provision thereof.

Section 3.06. (a) Without limitation upon the provisions of Section 3.01 of this Agreement, the Borrower shall:

- (i) not later than three months after the Effective Date, approve a manual (the Operational Manual), acceptable to the Bank, said manual to include, *inter alia*: (A) the institutional and administrative structure of the PCU and its functions and responsibilities; (B) the terms of reference for the professional and administrative staff of PCU; (C) the Project's chart of accounts, internal controls, and budgeting, accounting and financial reporting systems; (D) the FMR formats; (E) the terms of reference for carrying out the Project audits under Section 4.01 (b) (i) of this Agreement; (F) the Project disbursement and procurement procedures; (G) the Project's standard bidding documents (which shall include, in respect of the works to be carried under the Subprojects, a provision whereby the contractor must comply with the pertinent provisions of the pertinent environmental management plan (referred to in Sections 3.08, 3.09 and 3.10 of this Agreement) in carrying out said works); and (H) the terms of reference for the progress reports referred to in Section 3.12 of this Agreement; and
- (ii) thereafter carry out Parts A.1, A.3, B, D and E of the Project, and cause CVU and each Participating *Departamento* to carry out the Parts of the Project under their responsibility, in accordance with the provisions of the Operational Manual.

(b) During the period before the Borrower has approved the Operational Manual, the Borrower shall ensure that the Project's chart of accounts, internal controls, and budgeting, accounting and financial reporting systems have been established, and are in operation, all in a manner acceptable to the Bank.

(c) In case of any conflict between the terms of the Operational Manual and those of this Agreement, the terms of this Agreement shall prevail.

Section 3.07. (a) Without limitation to the provisions of Section 3.01 of this Agreement, the Borrower shall, and shall cause CVU and each Participating *Departamento* to, carry out the Parts of the Project under their responsibility, in accordance with the provisions of the DNV Environmental Manual, which manual sets forth, *inter alia*, the environmental norms, guidelines and procedures for carrying out the environmental screenings and/or environmental assessments referred to in Sections 3.08, 3.09 and 3.10 of this Agreement.

(b) In case of any conflict between the terms of the DNV Environmental Manual and those of this Agreement, the terms of this Agreement shall prevail.

Section 3.08. Without limitation to the provisions of Section 3.01 (a) of this Agreement, the Borrower shall: (a) prior to the commencement of any works for a particular DNV Subproject, DNH Subproject, CREMA Subproject, and/or Road Safety Subproject: (i) carry out an environmental screening and/or an environmental assessment (as the case may be) of the pertinent works; and (ii) if determined by the Bank, approve an environmental management plan, acceptable to the Bank, for each said works (which plan shall be based on the results of the environmental screening and/or environmental assessment mentioned in (i) herein, and the Bank comments on the results of said screening and/or assessment, if any), all in accordance with the provisions of the DNV Environmental Manual; and (b) immediately after said approval, implement and/or cause to be implemented (as the case may be) the corresponding environmental management plan in accordance with its terms.

Section 3.09. Without limitation to the provisions of Sections 3.01 (b) and 3.04 (b) of this Agreement, the Borrower shall cause CVU to: (a) prior to the commencement of any works under each CVU Subproject: (i) carry out an environmental screening and/or an environmental assessment (as the case may be) of the pertinent works; and (ii) if determined by the Bank, approve an environmental management plan, acceptable to the Bank, for each said works (which plan shall be based on the results of the environmental screening and/or environmental assessment mentioned in (i) herein, and the Bank comments on the results of said screening and/or assessment, if any), all in accordance with the provisions of the DNV Environmental Manual; and (b) immediately after said approval, implement and/or cause to be implemented (as the case may be) the corresponding environmental management plan in accordance with its terms.

Section 3.10. Without limitation to the provisions of Section 3.01 (c) of this Agreement, the Borrower shall cause each Participating *Departamento* to: (a) prior to the commencement of any works for a particular road within an Annual Departmental Road Rehabilitation and Maintenance Subproject: (i) carry out an environmental screening and/or an environmental assessment (as the case may be) of the pertinent works; and (ii) if determined by the Bank, approve an environmental management plan, acceptable to the Bank, for each said works (which plan shall be based on the results of the environmental screening and/or environmental assessment mentioned in (i) herein, and the Bank comments on the results of said screening and/or assessment, if any), all in accordance with the provisions of the DNV Environmental Manual; and (b) immediately after said approval, implement and/or cause to be implemented (as the case may be) the corresponding environmental management plan in accordance with its terms.

Section 3.11. (a) The Borrower shall operate and maintain, at all times during Project implementation, the PCU with a structure, functions and responsibilities acceptable to the Bank, including, *inter alia*, the responsibility of the PCU to assist the Borrower in the coordination, monitoring and supervision of the carrying out of the Project.

(b) The Borrower shall ensure that the PCU is, at all times during Project implementation, headed by a Project coordinator and assisted by professional and administrative staff, all in numbers and with qualifications and experience acceptable to the Bank.

Section 3.12. 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 objective thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and to furnish to the Bank, not later than thirty days after the end of each calendar semester during Project implementation (starting with the report due in January 2006), a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the calendar semester preceding the date of presentation of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objective thereof during the following calendar semester; and

(c) review with the Bank, CVU and the Participating *Departamentos* not later than July 30 of each year of Project implementation (starting in the year 2006), the

pertinent reports referred to in paragraph (b) of this Section, and, thereafter, take and/or cause to be taken, as the case may be, all measures required to ensure the efficient completion of the Project and the achievement of the objective thereof, based on the conclusions and recommendations of the said reports and the Bank's views on the matter. As part of the annual review to be carried out in the year 2007 (the mid-term review), the Borrower shall also review with the Bank the progress achieved by MTCP in the carrying out of the Project activity referred to in Part E.1 of the Project.

Section 3.13. Without limitation to the provisions of Section 3.01 (a) (i) and (ii) of this Agreement, the Borrower shall not later than December 31 of each year of Project implementation (starting in the year 2005), prepare and furnish to the Bank an annual investment plan, acceptable to the Bank (each such plan to include, *inter alia*, a complete description of: (a) DNV's annual national road maintenance investments; and (b) DNH's annual national maintenance investments, the expenditures to be incurred in respect of said works and the source of financing of said expenditures).

Section 3.14. (a) The Borrower shall ensure that any Subproject (with the exception of the CVU Subproject to be carried out under Part A.2 (a) (i) of the Project) does not involve any Resettlement.

(b) The Borrower shall: (i) cause CVU to implement, prior to the commencement of any works under the CVU Subproject to be carried out under Part A.2 (a) (i) of the Project, the Resettlement Plan in accordance with its terms; and (ii) take and/or cause to be taken, all necessary actions to enable CVU to comply with its obligation referred to in (i) herein.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to the Project.

- (b) The Borrower shall:
- (i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Bank), audited, in accordance with consistently applied auditing standards acceptable to the Bank, 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 (or such other period agreed to by the Bank): (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Bank), as so audited; and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Bank; and
- (iii) furnish to the Bank such other information concerning such records and accounts, and the audit of such financial statements, 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 reports referred to in Part A.4 of Schedule 1 to this Agreement (Report-based Disbursements) or on the basis of statements of expenditure (as the case may be), the Borrower shall:

- (i) retain, until at least one year after the Bank has received the audit report for, or covering, 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;
- (ii) enable the Bank's representatives to examine such records; and
- (iii) ensure that such reports and statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Bank), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in Section 3.12 of this Agreement, the Borrower shall prepare and furnish to the Bank a financial monitoring report, in form and substance satisfactory to the Bank, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Loan, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and

explains variances between the actual and planned Project implementation; and

- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Bank not later than 45 days after the end of the first calendar semester after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar semester; thereafter, each FMR shall be furnished to the Bank not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

ARTICLE V

Other Covenants

Section 5.01. The Borrower shall cause CVU:

(a) to make a provision satisfactory to the Bank for insurance against such risks and in such amounts as shall be consistent with appropriate practice; and

(b) to carry on its operations and conduct its affairs in accordance with sound administrative, financial, technical, social, engineering, public utility, ecological and environmental practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

ARTICLE VI

Remedies of the Bank

Section 6.01. Pursuant to Section 6.02(p) of the General Conditions, the following additional events are specified:

(a) That CVU shall have failed to perform one or more of its obligations under the Subsidiary Agreement, so as to materially and adversely affect, in the opinion of the Bank, the ability of CVU to carry out Part A.2 of the Project, and/or to assist the Borrower in complying with its obligations related to said Part of the Project (as referred to in paragraph (b) of Schedule 5 to this Agreement).

(b) As a result of events which have occurred after the date of the Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable that CVU will be able to perform any of its obligations under the Subsidiary Agreement.

Section 6.02. Pursuant to Section 7.01(k) of the General Conditions, the following additional event is specified, namely, that the event specified in paragraph (a) of Section 6.01 of this Agreement shall occur and shall continue for a period of sixty calendar days after notice thereof shall have been given by the Bank to the Borrower.

ARTICLE VII

Termination

Section 7.01. The date _____ is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VIII

Representative of the Borrower; Addresses

Section 8.01. The Minister of MTOP is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 8.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministerio de Transportes y Obras Públicas
Rincón 561, piso 8, esq. Ituzaingo
Montevideo, Uruguay

Cable address:

Telex:

Facsimile:

MINTRANSP

39822071

598-2-916-2883

For the Bank:

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) or
64145 (MCI)

(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 _____, as of the day and year first above written.

REPUBLICA ORIENTAL DEL URUGUAY

By

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By

Authorized Representative