

CONFORMED COPY

LOAN NUMBER 3697 UR

Loan Agreement

(Natural Resources Management and
Irrigation Development Project)

between

REPUBLICA ORIENTAL DEL URUGUAY

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated March 4, 1994

LOAN NUMBER 3697 UR

LOAN AGREEMENT

AGREEMENT, dated March 4, 1994, 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, has requested the Bank to assist in the financing of the Project;

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" of the Bank, dated January 1, 1985, with the

modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) The last sentence of Section 3.02 is deleted.

(b) In Section 6.02, subparagraph (k) is relettered as subparagraph (l) and a new subparagraph (k) is added to read:

"(k) An extraordinary situation shall have arisen under which any further withdrawals under the Loan would be inconsistent with the provisions of Article III, Section 3 of the Bank's Articles of Agreement.".

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Action Plan" means the Borrower's plan of action, included as an annex to the Implementation Letter, for the carrying out of Part A.5 of the Project, as referred to in Section 3.09 of this Agreement;

(b) "Beneficiary" means an individual or a group of individuals living in the area adjacent to the Santa Lucía River Basin engaged in agricultural production activities and to whom the Borrower proposes to make or has made a Subgrant under a Subgrant Agreement;

(c) "BROU" means the Borrower's Bank of the Oriental Republic of Uruguay (Banco de la República Oriental del Uruguay);

(d) "CHDCSL" means the National Commission for the Development of the Santa Lucia Basin (Comisión Honoraria para el Desarrollo de la Cuenca de Santa Lucía) of the Borrower;

(e) "Construction Agreement" means any of the agreements entered into or to be entered into between the Borrower and a Small Farmer, Medium Farmer or User Group pursuant to paragraph 3 (d)(ii)(A) of Schedule 1 to this Agreement;

(f) "Convenio" means any of the arrangements referred to in Section 3.04 (a) of this Agreement;

(g) "Decree No. 308/93" means Decreto No. 308/93 of the Borrower dated June 29, 1993;

(h) "DGRNR" means the General Directorate for Renewable Natural Resources (Dirección General de Recursos Naturales Renovables) of MGAP;

(i) "Executing Entity" means any of the entities referred to in the Annex to Schedule 2 to this Agreement;

(j) "Farmer" means any individual engaged in the production of agricultural products who has met the criteria set forth in the Project Manual;

(k) "Farm Subproject" means a specific project for the development of a soil-conservation and management demonstration farm which has met the criteria set forth in the Project Manual;

(l) "FD" means the Forestry Directorate (Dirección Forestal) of MGAP;

(m) "ICC" means the Interministerial Coordinating Commission (Comisión Coordinadora Interministerial) established pursuant to Decree No. 308/93;

(n) "Implementation Letter" means the letter of even date herewith from the Borrower to the Bank indicating the matters to be examined during the reviews referred to in Section 3.14 of this

Agreement, and including as annexes thereto, the performance indicators referred to in Section 3.08 of this Agreement and the Action Plan;

(o) "INIA" means the Institute of Agricultural Research (Instituto Nacional de Investigacion Agropecuaria) of the Borrower, established as a public entity with juridical personality pursuant to Law No. 16.065;

(p) "INIA Agreement" means the agreement referred to in Section 3.01 (b) of this Agreement;

(q) "Irrigation Subproject" means any of the irrigation projects to be carried out under Part B.1 of the Project;

(r) "Law No. 15.239" means Ley No. 15.239 of the Borrower dated December 23, 1981, duly published in the official gazette (Diario Oficial) on January 7, 1982, as amended to the date of this Agreement;

(s) "Law No. 16.065" means Ley No. 16.065 of the Borrower dated October 6, 1989, duly published in the official gazette (Diario Oficial) on October 31, 1989;

(t) "Medium Farmer" means an individual engaged in the production of agricultural products whose annual net farm income is \$6,000 or more;

(u) "MEF" means the Ministry of Economy and Finance (Ministerio de Economia y Finanzas) of the Borrower;

(v) "MGAP" means the Ministry of Livestock, Agriculture and Fishery (Ministerio de Ganaderia Agricultura y Pesca) of the Borrower;

(w) "Ministerial Resolution No. 450/93" means Resoluci>n Ministerial No. 450/93 of MGAP dated July 7, 1993;

(x) "MTOP" means the Ministry of Transport and Public Works (Ministerio de Transportes y Obras P blicas) of the Borrower;

(y) "NHD" means the National Directorate of Hydrography (Direcci>n Nacional de Hidrografia) of MTOP;

(z) "Non-Traditional Agricultural Export Promotion Program" means the program described in Part C.2 of Schedule 2 to the Loan Agreement dated November 20, 1989 between the Borrower and the Bank;

(aa) "On-farm Assessment" means the socio-economic, technical and environmental assessment carried out by the Borrower on each On-farm Investment;

(ab) "On-farm Investment" means a specific project to be financed under a Subgrant consisting of investments in small irrigation infrastructure (including irrigation and tillage equipment) to be made in each of the microcatchment areas of Cañada los Alamos, La Feliciano, Canel>n Grande and Tala, located within the Santa Lucía River Basin, for purposes of reducing soil degradation and erosion;

(ac) "OPP" means the Office of Planning and Budgeting (Oficina de Planeamiento y Presupuesto) of the Borrower;

(ad) "Pesos" means the currency of the Borrower;

(ae) "POA" means the operating annual plan (Programa Operativo Anual) referred to in Section 3.12 of this Agreement;

(af) "Project Account" means the account or accounts referred to in Section 3.16 (a) of this Agreement;

(ag) "Project Executing Unit" means the unit referred to in

Section 3.10 (a) of this Agreement, as established pursuant to Ministerial Resolution No. 450/93;

(ah) "Project Manual" means the Borrower's manual which: (i) describes the procedures to select each Farm Subproject and Irrigation Subproject, under Parts A.2 and B.1 of the Project, as well as the criteria to be met by such subprojects; and (ii) sets forth the terms and conditions of a Subgrant Agreement, Services Agreement, Rehabilitation Agreement and Construction Agreement;

(ai) "Rehabilitation Agreement" means any of the agreements entered into or to be entered into between the Borrower and a User Group pursuant to paragraph 3 (d)(ii)(A) of Schedule 1 to this Agreement;

(aj) "Research Agreements" means the agreements referred to in Section 3.01 (c) of this Agreement;

(ak) "Services Agreement" means any of the agreements entered into or to be entered into between the Borrower and a Farmer pursuant to paragraph 3 (c)(ii)(A) of Schedule 1 to this Agreement;

(al) "Small Farmer" means a farmer who lives in a farm which he or she exploits or a farmer who lives within a radio of about fifty kilometers of a farm which he or she exploits, and whose annual net farm income is less than \$6,000;

(am) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;

(an) "Subgrant" means a grant made or to be made by the Borrower to a Beneficiary;

(ao) "Subgrant Agreement" means any of the agreements entered into or to be entered into between the Borrower and a Beneficiary pursuant to paragraph 3 (b)(i) of Schedule 1 to this Agreement;

(ap) "User Group" means a group of agricultural producers duly associated in accordance with Uruguayan law; and

(aq) "Water Code" means the Water Code (Codigo de Aguas) of the Borrower created pursuant to Law No. 14.859 (Ley No. 14.859) of the Borrower dated December 15, 1978, duly published in the official gazette (Diario Oficial) on January 11, 1979, as amended to the date of this Agreement.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, various currencies that shall have an aggregate value equivalent to the amount of forty one million Dollars (\$41,000,000), 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. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower shall, for the purposes of the Project, open and maintain in Dollars a special deposit account in its Central Bank (Banco Central del Uruguay) on terms and conditions satisfactory to the Bank. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 1999 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 per cent ($3/4$ 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 for each Interest Period equal to the Cost of Qualified Borrowings determined in respect of the preceding Semester, plus one-half of one percent ($1/2$ of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rate applicable during such Interest Period.

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

(c) For the purposes of this Section:

(i) "Interest Period" means a six-month period ending on the date immediately preceding each date specified in Section 2.06 of this Agreement, beginning with the Interest Period in which this Agreement is signed.

(ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may be made by the Bank after July 1, 1989 bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.

(iii) "Semester" means the first six months or the second six months of a calendar year.

(d) On such date as the Bank may specify by no less than six months' notice to the Borrower, paragraphs (a), (b) and (c) (iii) of this Section shall be amended to read as follows:

"(a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Quarter equal to the Cost of Qualified Borrowings determined in respect of the preceding Quarter, plus one-half of one percent ($1/2$ of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rates applicable during such Interest Period."

"(b) As soon as practicable after the end of each Quarter, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Quarter."

"(c) (iii) 'Quarter' means a three-month period commencing on January 1, April 1, July 1 or October 1 in a calendar year."

Section 2.06. Interest and other charges shall be payable semiannually on January 15 and July 15 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 3 to this Agreement.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall:

- (i) through the Executing Entities, in coordination with the ICC and with the assistance of the Project Executing Unit, carry out the respective Parts of the Project as referred to in the Annex to Schedule 2 to this Agreement in accordance with the Project Manual, and with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, technical, agricultural, conservation, ecological, environmental and institutional practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for such Parts of the Project; and
- (ii) pursuant to the INIA Agreement, cause INIA to carry out Parts A.3 (excluding the portion to be carried out by the Borrower) and A.4 of the Project, in coordination with the ICC and with the assistance of the Project Executing Unit, in accordance with the Project Manual, and with due diligence and efficiency and in conformity with appropriate administrative, financial, technical, agricultural, ecological, conservation and environmental practices, and shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable INIA to carry out such Parts A.3 and A.4 of the Project, and shall not take or permit to be taken any action which would prevent or interfere with the carrying out of such Parts of the Project by INIA.

(b) The Borrower shall enter into an agreement with INIA (the INIA Agreement), satisfactory to the Bank, providing, inter alia, for: (i) the transfer, on a grant basis, to INIA of the portion of the proceeds of the Loan allocated to Parts A.3 (excluding the portion to be carried out by the Borrower) and A.4 of the Project; (ii) the obligation of INIA to carry out such Parts of the Project and to comply with all the other applicable provisions of this Agreement including, inter alia, those set forth in Sections 3.02, 3.03, 3.08, 3.12, 3.13, 3.14, 3.15, 4.01 and 5.01 of this Agreement; and (iii) the obligation of the Borrower to assist, through the Project Executing Unit, INIA in the carrying out of such Parts of the Project.

(c) The Borrower, through MGAP, shall enter into agreements, satisfactory to the Bank (the Research Agreements), with institutions acceptable to the Bank, specialized in agricultural research and with the capability of transferring agricultural technology, for purposes of governing: (i) the assistance to be provided by such institutions to MGAP in the carrying out of the portion of Part A.3 of the Project not carried out by INIA; and (ii) the annual provision of funds by the Borrower to such institutions for the carrying out of such assistance.

(d) The Borrower shall exercise its rights and comply with its obligations under the INIA Agreement and the Research Agreements in such manner as to protect the interests of the Borrower and the Bank, and to accomplish the purposes of the Loan, and except as the

Bank shall otherwise agree, the Borrower shall not assign, amend, suspend, terminate, waive or fail to enforce either the INIA Agreement or the Research Agreements or any provision thereof, respectively.

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

Section 3.03. The Bank and the Borrower hereby agree that the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of Parts A.3 (excluding the portion to be carried out by the Borrower) and A.4 of the Project shall be carried out by INIA.

Section 3.04. (a) Without limitation to the provisions of Section 3.01 (a)(i) of this Agreement, the Borrower, through the Project Executing Unit, shall enter into an arrangement with each of the agencies within each Executing Entity, as described in the Annex to Schedule 2 to this Agreement, (the Convenio), under terms and conditions satisfactory to the Bank, for purposes of assisting such agencies in the carrying out of Parts A.1 and A.2, A.5 through A.8 and B.1 and B.2 of the Project.

(b) The Borrower shall, and shall cause the other parties to each Convenio to comply with the provisions set forth therein.

Section 3.05. (a) The Borrower shall exercise its rights and comply with its obligations under each Subgrant Agreement in such manner as to: (i) protect the interests of the Bank and the Borrower; (ii) comply with its obligations under this Agreement; and (iii) achieve the objectives of the Project.

(b) Except as the Bank shall otherwise agree, the Borrower shall not assign, amend, suspend, terminate, waive or fail to enforce any Subgrant Agreement or any provision thereof.

Section 3.06. (a) The Borrower shall exercise its rights and comply with its obligations under each Services Agreement in such manner as to: (i) protect the interests of the Bank and the Borrower; (ii) comply with its obligations under this Agreement; and (iii) achieve the objectives of the Project.

(b) Except as the Bank shall otherwise agree, the Borrower shall not assign, amend, suspend, terminate, waive or fail to enforce any Services Agreement or any provision thereof.

Section 3.07. (a) The Borrower shall present to the Bank: (i) for approval, each Irrigation Subproject; (ii) the corresponding draft Rehabilitation Agreement or Construction Agreement to be entered into with the Small Farmer, Medium Farmer or User Group, as the case may be, if the estimated cost included in the Irrigation Subproject exceeds an amount equivalent to \$250,000; and (iii) information of such scope and in such detail as the Bank may reasonably request, if the estimated cost included in the Irrigation Subproject is below the amount referred to in (ii) herein.

(b) The Borrower shall exercise its rights and comply with its obligations under each Rehabilitation Agreement or Construction Agreement in such manner as to: (i) protect the interests of the Bank and the Borrower; (ii) comply with its obligations under this Agreement; and (iii) achieve the objectives of the Project.

(c) Except as the Bank shall otherwise agree, the Borrower shall not assign, amend, suspend, terminate, waive or fail to enforce any Rehabilitation Agreement or Construction Agreement, or any provision thereof.

Section 3.08. Without limitation to the provisions of Section

3.01 (a)(i) and (ii) of this Agreement, the Borrower shall, and shall cause INIA to carry out the Project in accordance with performance indicators satisfactory to the Bank.

Section 3.09. Without limitation to the provisions of Section 3.01 (a)(i) of this Agreement, the Borrower shall carry out Part A.5 of the Project in accordance with the Action Plan, in a manner satisfactory to the Bank.

Section 3.10. (a) For the purposes of assisting the: (i) Borrower and INIA in the carrying out of the Project; and (ii) ICC, in coordinating the implementation of the Project, the Borrower shall maintain until the completion of the Project, the Project Executing Unit, with functions and responsibilities satisfactory to the Bank, including, inter alia, the responsibility to assist the Borrower and INIA in the carrying out of the procurement of the works, goods and consultants' services required under the Project.

(b) The Borrower shall ensure that the Project Executing Unit is at all times headed by a qualified professional and assisted by staff in adequate numbers and with qualifications satisfactory to the Bank.

Section 3.11. (a) Without limitation to the provisions of Section 3.01 (a)(ii) of this Agreement, the Borrower shall cause INIA to establish not later than June 30, 1994, the unit referred to in Part A.4 of the Project in a manner satisfactory to the Bank, and with functions and responsibilities satisfactory to the Bank.

(b) After the unit mentioned above has been established, the Borrower shall cause INIA to: (i) operate and maintain, at all times, such unit, with functions and responsibilities satisfactory to the Bank; and (ii) appoint a qualified professional to head such unit and staff in adequate numbers and with qualifications satisfactory to the Bank.

Section 3.12. (a) Without limitation to the provisions of Section 9.06 of the General Conditions, the Borrower with the participation of INIA, shall not later than September 30 of each year, starting in 1994, furnish to the Bank, for its review, an operating annual plan (the POA) for the following calendar year, which shall include inter alia: (i) the Project's budget (including the Project Executing Unit's budget) for the year in question; and (ii) a description of all the activities related to the execution of the Project for the year in question.

(b) As part of the review referred to in paragraph (a) above, the Bank may recommend to the Borrower to make adjustments in the POA in question. The Borrower shall, not later than 60 days after the conclusion of the review in question, furnish to the Bank the revised POA, which shall include the Bank's recommendations and shall thereafter carry out, or cause to be carried out such revised POA in accordance with its terms.

Section 3.13. Without limitation to the provisions of Section 9.07 of the General Conditions, the Borrower, through the Project Executing Unit, shall not later than May 31 and December 31 of each year, starting in May 1994 until the completion of the Project, prepare and furnish to the Bank, a report of such scope and in such detail as the Bank may reasonably request, on the progress achieved by: (a) the Borrower, through the Executing Entities; and (b) INIA, in carrying out their respective Parts of the Project.

Section 3.14. (a) Without limitation to the provisions of Section 9.01 of the General Conditions, the Borrower shall, and shall cause INIA to review jointly with the Bank by not later than June 30 of each year, starting in 1994, the progress made by the Borrower and INIA in: (i) carrying out their respective Parts of the Project in accordance with the performance indicators referred to in Section 3.08 of this Agreement and the POA for the year in question; and (ii) achieving the objectives of the Project. Such review shall, inter alia, focus on discussing the topics referred to in the

Implementation Letter with regard to annual reviews and on analyzing the progress reports referred to in Section 3.13 of this Agreement. As part of each such review the Bank may require that the Borrower prepare an action plan, satisfactory to the Bank, to make adjustments in Project implementation. The Borrower shall furnish such action plan to the Bank not later than 30 days after the conclusion of the review in question and shall thereafter carry out, or cause to be carried out, such action plan in accordance with its terms.

(b) The Borrower shall, and shall cause INIA to participate in a Project implementation mid-term review to be held with the Bank as part of the annual review to be held not later than June 30, 1996. During such mid-term review, attention shall particularly be focused on the topics referred to in the Implementation Letter with regard to the mid-term review and on analyzing the progress reports referred to in Section 3.13 of this Agreement.

Section 3.15. (a) Without limitation to the provisions of Section 9.07 of the General Conditions, the Borrower, through the Project Executing Unit, shall prepare quarterly reports (starting in the first quarter of 1994) of such scope and such detail as the Bank may reasonably request on the expenditures incurred in the carrying out of the Project during the quarter preceding the date of presentation of such report.

(b) The quarterly reports referred to in paragraph (a) above, shall be furnished to the Bank within thirty days of the conclusion of each quarter.

Section 3.16. (a) Without limitation to the provisions of Section 3.01 (a)(i) of this Agreement, the Borrower shall open, and thereafter operate and maintain in a commercial bank, a project account or accounts (the Project Account) under terms and conditions satisfactory to the Bank, for purposes of depositing in such account or accounts the Borrower's counterpart funds for the implementation of the Project.

(b) The Borrower shall maintain in the Project Account, at all times during Project implementation, a positive balance equal to at least \$400,000 equivalent.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower, through the Project Executing Unit, shall: (i) maintain or cause to be maintained in accordance with the procedures referred to in Section 7.01 (b) of this Agreement records and separate accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of Parts A.1 through A.3 and A.5 through A.8 of the Project (excluding the operations, resources and expenditures of the activities to be carried out by INIA under Part A.3 of the Project) of the departments or agencies of the Borrower responsible for carrying out such Parts of the Project or any part thereof; and (ii) cause INIA, to maintain in accordance with the procedures referred to in Section 7.01 (c) of this Agreement, records and separate accounts adequate to reflect in accordance with consistently maintained sound accounting practices, the operation, resources and expenditures in respect of the activities to be carried out by INIA under Part A.3 and Part A.4 of the Project.

(b) The Borrower shall and shall cause INIA to:

- (i) have the records and accounts referred to in paragraph (a) of this Section including those for the Project Account, Special Account and INIA's financial statements (balance sheets, statements of income and expenses and related statements) 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 six months after the end of each such year: (A) a certified copy of the report of such audits by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and (B) a certified copy of INIA's financial statements for such year as so audited; and
- (iii) furnish to the Bank such other information concerning said records and accounts and the audits 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, and shall cause INIA to:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account or payment out of the Special 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 audits 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.

ARTICLE V

Other Covenants

Section 5.01. The Borrower shall cause INIA:

(a) to take out and maintain with responsible insurers, or to make other provision satisfactory to the Bank for, insurance against such risks and in such amounts as shall be consistent with appropriate practices;

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

(c) at all times to operate and maintain its plants, machinery, equipment and other property, and from time to time, promptly as needed, to make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial, technical, agricultural, ecological, conservation and environmental practices.

ARTICLE VI

Remedies of the Bank

Section 6.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified:

(a) as a result of events which have occurred after the date of this Agreement, a situation shall have arisen which shall make it improbable that INIA will be able to perform its obligations under the INIA Agreement;

(b) INIA shall have failed to comply with any of its obligations under the INIA Agreement;

(c) the Borrower or any authority having jurisdiction shall have taken any action for the dissolution or disestablishment of INIA or for the suspension of its operations;

(d) Law No. 16.065 or any provision thereof shall have been amended, suspended, abrogated, repealed, waived or not enforced in such manner so as to affect, in the opinion of the Bank, the ability of INIA to: (i) carry out Parts A.3 (excluding the portion to be carried out by the Borrower) and A.4 of the Project; and (ii) to perform its obligations under the INIA Agreement;

(e) Decree No. 308/93 or any provision thereof shall have been amended, suspended, abrogated, repealed, waived or not enforced in such manner so as to affect, in the opinion of the Bank, the ability of the Borrower to carry out the Project;

(f) Ministerial Resolution No. 450/93 or any provision thereof shall have been amended, suspended, abrogated, repealed, waived or not enforced in such a manner so as to affect, in the opinion of the Bank, the ability of the Borrower to carry out the Project;

(g) the Water Code or any provision thereof shall have been amended, suspended, abrogated, repealed, waived or not enforced in such a manner so as to affect in the opinion of the Bank, the ability of the Borrower to carry out Part B.1 of the Project;

(h) Law No. 15.239 or any provision thereof shall have been amended, suspended, abrogated, repealed, waived or not enforced in such a manner so as to affect in the opinion of the Bank, the ability of the Borrower to carry out the Project;

(i) the Project Manual or any provision thereof shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely, in the opinion of the Bank, the ability of the Borrower to carry out Parts A.1, A.2 and B.1 of the Project or any of such Parts of the Project; and

(j) the decrees referred to in Section 7.01 (d) of, and paragraph 3 (e) of Schedule 1 to, this Agreement or any provision thereof shall have been amended, suspended, abrogated, repealed, waived or not enforced.

Section 6.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified:

(a) any event specified in paragraphs (b) or (d) or (e) or (f) or (g) or (h) or (i) or (j) of Section 6.01 of this Agreement shall occur and shall continue for a period of thirty days after notice thereof shall have been given by the Bank to the Borrower; and

(b) any event specified in paragraph (c) of Section 6.01 of this Agreement shall occur.

ARTICLE VII

Effective Date; Termination

Section 7.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions:

(a) that the: (i) INIA Agreement; (ii) Research Agreements; and (iii) Convenio, have been duly executed and delivered by the respective parties thereto;

(b) that MGAP, MTOP and the Project Executing Unit, have adopted accounting procedures, satisfactory to the Bank, for the maintenance of the records and accounts referred to in Section 4.01 (a)(i) of this Agreement;

(c) that INIA has adopted accounting procedures, satisfactory to the Bank, for the maintenance of the records and accounts referred to in Section 4.01 (a)(ii) of this Agreement;

(d) that the Borrower has duly issued a decree which authorizes it to use special procedures to transfer to the User Groups the use, administration and maintenance of the irrigation and drainage schemes referred to under Part B.1 (a) of the Project;

(e) that the Project Manual has been approved by the Borrower in terms satisfactory to the Bank; and

(f) that the Project Account has been opened under terms and conditions satisfactory to the Bank.

Section 7.02. The following are specified as additional matters, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank:

(a) that the INIA Agreement has been duly authorized or ratified by, and is legally binding upon the respective parties to such agreement in accordance with its terms; and

(b) that the decree referred to in Section 7.01 (d) of this Agreement has been duly issued and is in full force and effect.

Section 7.03. The date June 2, 1994 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 MGAP 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 Ganaderia, Agricultura y Pesca
Constitucion No. 1476
Montevideo, Uruguay

Cable address:

Telex:

MAP
Montevideo, Uruguay

26503 MAP 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:

248423 (RCA)
82987 (FTCC)
64145 (WUI) or
197688 (TRT)

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 Javed Burki
Regional Vice President
Latin America and the Caribbean

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Works under Parts A.1 through A.3 and B.1 of the Project	7,900,000	60%
(2) Goods:		
(a) Irrigation, tillage and laboratory equipment under the Project	13,100,000	80%
(b) Vehicles	175,000	100%
(c) Office Tech- nology Equip-	525,000	100%

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(3) Consultants' services:		
(a) Technical assistance other than under Part A.3 of the Project	8,500,000	100%
(b) Studies and related activities under Parts A.6, A.7 and B.2 of the Project	3,600,000	100%
(c) Technical assistance under Part A.3 of the Project	1,000,000	50%
(4) Training	1,800,000	100%
(5) Administrative Costs of the Project Executing Unit	400,000	100%
(6) Unallocated	4,000,000	
TOTAL	41,000,000 =====	

2. For purposes of this Schedule: (a) the term "Office Technology Equipment" means processing (including software) reproduction and communications equipment; and

(b) the term "Administrative Costs" means any office and travel expenditure (excluding office rent) incurred by the staff of the Project Executing Unit during the carrying out of the Project.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of: (a) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not to exceed \$3,000,000, may be made in respect of Categories (1) through (5) set forth in the table in paragraph 1 of this Schedule on account of payments made for expenditures before that date but after June 30, 1993;

(b) payments made for expenditures under an On-farm Investment under Part A.1 of the Project unless the Borrower has: (i) entered into a subgrant agreement with the corresponding Beneficiary under terms and conditions satisfactory to the Bank, including those set forth in Section I of Schedule 6 to this Agreement; and (ii) furnished to the Bank a copy of the corresponding Subgrant Agreement immediately after such Subgrant Agreement has been entered into;

(c) payments made for expenditures under a Farm Subproject under Part A.2 of the Project unless: (i) the Farm Subproject has been selected in accordance with the procedures and eligibility criteria set forth in the Project Manual; and (ii) the Borrower has: (A) entered into a services agreement with the corresponding Farmer under terms and conditions satisfactory to the Bank, including those set forth in Section II of Schedule 6 to this Agreement; and (B)

furnished to the Bank a copy of the corresponding Services Agreement immediately after such Services Agreement has been entered into;

(d) payments made for expenditures under an Irrigation Subproject under Part B.1 of the Project unless: (i) the Irrigation Subproject has been selected in accordance with the procedures and eligibility criteria set forth in the Project Manual; and (ii) the Borrower has: (A) entered into a rehabilitation agreement (for purposes of transferring the use, administration and maintenance of the irrigation and drainage schemes to be rehabilitated under Part B.1 (a) of the Project) or construction agreement (for purposes of constructing irrigation and drainage schemes under Parts B.1 (b) through (d) of the Project), as the case may be, with the corresponding Small Farmer, Medium Farmer or User Group under terms and conditions satisfactory to the Bank, including those set forth in Section III of Schedule 6 to this Agreement; and (B) furnished to the Bank a copy of the corresponding Rehabilitation Agreement or Construction Agreement, for an Irrigation Subproject whose cost exceeds an amount equivalent to \$50,000, immediately after such Rehabilitation Agreement or Construction Agreement has been entered into;

(e) payments made for expenditures under Part B.1 (b) through (d) of the Project, unless the Borrower has issued: (i) a decree which declares that the corresponding Irrigation Subproject is considered to be within the Borrower's policy on water supply for the agriculture sector; and (ii) a decree which declares that the water supply to be used by the Small Farmer, Medium Farmer or User Group, as the case may be, under the corresponding Irrigation Subproject, is reserved for such subproject;

(f) payments made for expenditures under Part B.1 (c) of the Project for each Irrigation Subproject to be carried out in the area located above the aquifers of Raigón and Salto, unless the Bank shall have received satisfactory evidence that the recommendations resulting from the assessment referred to in Part A.7 (a) of the Project are being implemented in a manner satisfactory to the Bank;

(g) payments made for expenditures under Part B.1 (d) of the Project, unless the Bank shall have received satisfactory evidence that the assessment referred to in Part A.7 (e) of the Project has been carried out in a manner satisfactory to the Bank; and

(h) payments made for expenditures under Part B.3 of the Project, unless the Bank shall have received evidence that the Borrower has prepared an action plan, satisfactory to the Bank, as a result of the assessment of the Non-Traditional Agricultural Export Promotion Program.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditures for expenditures under contracts for goods and works to cost less than \$200,000 and \$500,000 equivalent under such terms and conditions as the Bank shall specify by notice to the Borrower, respectively.

SCHEDULE 2

Description of the Project

The objective of the Project is to develop and implement a soil and water management strategy which shall focus, inter alia, on irrigation development in order to increase, diversify and sustain agricultural output and exports, by: (a) increasing the level of sector investment through the rehabilitation and development of irrigation-drainage schemes and related service infrastructure; (b) strengthening the technical foundation and regulatory framework of the use of water; (c) establishing a policy on the operation and maintenance and capital cost recovery of the sector investment referred to in (a) above; (d) supporting agricultural diversification; and (e) establishing the framework to improve the management of natural resources.

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

Part A: Natural Resources Management

1. Carrying out of On-farm Investments.
2. Carrying out of Farm Subprojects to develop about five soil-conservation and management demonstration farms (of about less than 1,000 hectares each) located in Chapicuy, Young, Cañada Nieto, Ombes de Lavalle and Tarariras for purposes of providing to such demonstration farms, improved soil, crop and livestock management technology.
3. Carrying out of an applied research and transfer of technology program with respect to the management and conservation of natural resources, irrigated agriculture, and practices on the appropriate use of land and soil and water conservation for the benefit of agricultural producers in Uruguay.
4. Provision of technical assistance to INIA in order to: (i) establish a soil conservation and management unit for purposes of creating a new program on soil conservation and management; and (ii) carry out the program referred to in (i) herein, including the training of its staff required therefor.
5. Development of a computerized data base of the geographical distribution of renewable natural resources and their characteristics for purposes of providing the basis for agro-ecological zoning and recommending an appropriate use of the land in the Borrower's territory.
6. Provision of technical assistance and training to MGAP in strengthening its institutional capacity (including the acquisition and utilization of equipment and vehicles required therefor) for purposes of: (a) carrying out the Project; (b) carrying out economic sectors analyses; (c) preparing internal budgets; (d) improving its financial management; (e) designing sector policy; (f) monitoring projects and programs within the agricultural sector in Uruguay; and (g) carrying out a forestry development program consisting, inter alia, of: (i) strengthening the FD in order to improve its capacity to monitor the activities under its jurisdiction; (ii) improving an applied forestry research program for the benefit of agricultural producers, including the carrying out of studies on forestry matters; and (iii) provision of technical assistance and training to agricultural producers in order to assist such producers in forestry activities.
7. Carrying out of the following activities: (a) an assessment of the resource availability and exploitation potential of the aquifers of Raigón and Salto; (b) an evaluation of the quality of water for irrigation; (c) a study of the water management plans with respect to the micro-catchment areas where agricultural producers intend to construct small earthfills; (d) an evaluation of the efficiency on the use of water under different irrigation practices; (e) an environmental and economic assessment of the works to be carried out under Part B.1 (d) of the Project; and (f) a study concerning the preparation of a future agricultural project.
8. Provision of technical assistance to MTOP (NDH) in strengthening its institutional capacity for purposes of carrying out the Parts of the Project described in the Annex to this Schedule.

Part B: Irrigation Development

1. Carrying out of Irrigation Subprojects, consisting of: (a) rehabilitation of the Borrower's irrigation and drainage schemes located in the Uruguay, Santa Lucía and Rio Negro River Basins for purposes of transferring their use, administration and maintenance to User Groups living in the areas adjacent to such basins

(including the provision of technical assistance to such User Groups);

(b) construction of medium-size irrigation and drainage schemes (including the acquisition and utilization of irrigation equipment, up to the farm gate, necessary for the operation of such schemes) for the benefit of User Groups, including the provision of technical assistance to such groups to improve soil and water management practices;

(c) construction of small scale earthfills, tubewells and irrigation and drainage canals (including the acquisition and utilization of small pumping stations at the farm level) for the benefit of Small Farmers, including the provision of technical assistance to such farmers to improve soil and water management practices at the farm level; and

(d) construction of on-farm earthfills at the farm level (on a pilot basis) within the Uruguay River Basin and the Yaguarò stream for the benefit of Medium Farmers, including the provision of technical assistance to such farmers to improve soil and water management practices at the farm level.

2. Carrying out of: (a) studies on the feasibility of each work to be carried out under Part B.1 of the Project; (b) a study on the legal framework concerning the use of irrigation water in Uruguay; and (c) an analysis of the water management policies in Uruguay.

3. Provision of technical assistance and training to agricultural producers to strengthen their capabilities in identifying, producing, processing and marketing non-traditional agricultural export activities.

* * *

The Project is expected to be completed by June 30, 1999.

ANNEX TO SCHEDULE 2

Parts of the Project	Executing Entities (Agencies of Executing Entities in parenthesis)
A.1	MGAP (DGRNR) and OPP (CHDCSL)
A.2	MGAP (DGRNR)
A.3 (portion to be carried out by the Borrower)	MGAP
A.5	MGAP (DGRNR)
A.6	MGAP (DGRNR and FD)
A.7	MGAP and MTOP (NDH)
A.8	MTOP (NDH)
B.1	MGAP (DGRNR) and MTOP (NDH)
B.2	MGAP and MTOP (NDH)
B.3	MGAP

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
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On each January 15
and July 15

beginning July 15, 1999
through January 15, 2009 2,050,000

* 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

Pursuant to Section 3.04 (b) of the General Conditions, the premium payable on the principal amount of any maturity of the Loan to be prepaid shall be the percentage specified for the applicable time of prepayment below:

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to 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 11 years before maturity	0.73
More than 11 years but not more than 13 years before maturity	0.87
More than 13 years before maturity	1.00

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

1. Except as provided in Part C hereof, goods and works shall be procured under contracts awarded 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 1992 (the Guidelines).

(a) For fixed-price contracts, the invitation to bid referred to in paragraph 2.13 of the Guidelines shall provide that, when contract award is delayed beyond the original bid validity period, the successful bidder's bid price will be increased for each week of delay by two predisclosed correction factors acceptable to the Bank, one to be applied to all foreign currency components and the other to the local currency component of the bid price. Such increase shall not be taken into account in the bid evaluation.

(b) In the procurement of goods and works in accordance with this Part A, the Borrower shall and shall cause INIA to use the relevant standard bidding documents issued by the Bank, with such modifications thereto as the Bank shall have agreed to be necessary for the purposes of the Project. Where no relevant standard bidding documents have been issued by the Bank, the Borrower shall use bidding documents based on other internationally recognized standard forms agreed with the Bank.

2. To the extent practicable, contracts for goods and works shall be grouped into bid packages estimated to cost the equivalent of \$250,000 or more, and more than \$3,000,000, respectively.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A.1 of this Section, goods manufactured in Uruguay may be granted a margin of preference in accordance with, and subject to the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Other Procurement Procedures

1. Goods estimated to cost the equivalent of \$50,000 or more but less than \$250,000 per contract, up to an aggregate amount equivalent to \$9,300,000, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank.

2. Works estimated to cost the equivalent of \$250,000 but not more than \$3,000,000 per contract, up to an aggregate amount equivalent to \$10,800,000, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank.

3. Goods estimated to cost the equivalent of less than \$50,000 per contract, up to an aggregate amount not to exceed the equivalent of \$700,000, may be procured under contracts awarded on the basis of comparison of price quotations solicited from a list of at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Bank.

4. Works estimated to cost the equivalent of less than \$250,000 per contract, up to an aggregate amount not to exceed the equivalent of \$7,700,000, may be procured under contracts awarded on the basis of comparison of price quotations solicited from at least three contractors eligible under the Guidelines, in accordance with procedures acceptable to the Bank.

Part D: Review by the Bank of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to: (i) each contract for goods and works to be awarded pursuant to the provisions of Part A of this Section; (ii) each contract for goods estimated to cost the equivalent of \$200,000 or more; (iii) each contract for works estimated to cost the equivalent of \$500,000 or more; (iv) the first contract for goods estimated to cost the equivalent of less than \$200,000; and (v) the first contract for works estimated to cost the equivalent of less than \$500,000, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Bank pursuant to said paragraph 2 (d) shall be furnished to the Bank prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, said procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Bank pursuant to said paragraph 3 shall be furnished to the Bank as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 5 to this Agreement.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Part E:

All procurement of goods and works to which local competitive bidding applies shall be carried out using bidding documents satisfactory to the Bank.

Section II. Employment of Consultants

1. In order to assist the Borrower and INIA in carrying out their respective parts of the Project, the Borrower shall, and shall cause INIA to employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981 (the Consultants Guidelines). For complex, time-based assignments, the Borrower shall, and shall cause INIA to employ such consultants under contracts using the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, the Borrower shall, and shall cause INIA to use other standard forms agreed with the Bank.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultants Guidelines requiring prior Bank review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts shall not apply to contracts estimated to cost less than \$100,000 equivalent each, up to an aggregate amount equivalent to \$2,600,000. However, this exception to prior Bank review shall not apply to the terms of reference for such contracts nor to the employment of individuals, to single source selection of firms, to assignments of a critical nature as reasonably determined by the Bank and to amendments of contracts raising the contract value to \$100,000 equivalent or above.

Section III. Special Provisions

A. In addition and without limitation to any other provisions set forth in this Schedule or the Guidelines, the following principles and rules of procurement shall expressly govern all procurement of goods and works referred to in Parts A, C.1 and C.2 of Section I of this Schedule, except that the principle and rule of procurement referred to in paragraph 3 below shall not apply to the procurement of goods and works referred to in Part A of Section I of this Schedule, respectively.

1. Foreign bidders shall not, as a condition for submitting bids, be required to enter into a joint venture agreement with local bidders.

2. The lowest evaluated bid shall be selected for contract award.

3. Foreign bidders shall be allowed to participate in competitive bidding advertised locally.

4. Foreign bidders shall not be required to be registered with local authorities as a prerequisite for bidding, except that, under the procurement procedures set forth in Parts C.1 and C.2 of Section I of this Schedule, foreign bidders may be required as a prerequisite for bidding, to be registered with local authorities, provided, however, that the information to be requested by the Borrower to such bidders is of such nature that it will not discourage their participation.

5. Contracts prices for goods and works may be adjusted even if such prices have increased by less than 15% of the bid price.

6. There will be no prescribed minimum number of bids to be submitted in order for a contract to be subsequently awarded.

7. Foreign bidders shall not be required to legalize their bidding documents with Uruguayan authorities as a prerequisite for bidding.

8. Foreign bidders shall not be required to hire local personnel, except for unskilled personnel.

B. In addition and without limitation to any other provisions set forth in this Schedule or the Consultants Guidelines, the following principles and rules of procurement shall expressly govern all procurement of consultants' services referred to in Section II of this Schedule:

1. Foreign consultants shall not, as a condition for participating in the selection process, be required to enter into a joint venture agreement with local consultants.

2. Foreign consultants shall be selected from those included in a short list on the basis of evaluation criteria and terms of reference, both satisfactory to the Bank.

3. The prices of contracts over one year duration may be adjusted.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (5) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$2,500,000 to be withdrawn from the Loan Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

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

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

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

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or

(b) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, less the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to

the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

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

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

SCHEDULE 6

Procedures for and Terms and Conditions for Subgrants, Farm Subprojects, and Irrigation Subprojects

Section I. Subgrants (On-farm Investments)

1. The aggregate amount of the portion of the Subgrants to be financed with the proceeds of the Loan shall not exceed an amount equivalent to \$3,000,000.

2. Each Subgrant shall be made and disbursed in Pesos or in Dollars, as the case may be.

3. No expenditures for goods, works or consultants' services required for a On-farm Investment shall be eligible for financing out of the proceeds of the Loan unless such expenditures shall have been made not earlier than one hundred and eighty days prior to the date on which the Bank shall have received the request and information required under paragraph 4 of this Section in respect of such On-farm Investment (except for the withdrawals under paragraph 3 (a) of Schedule 1 to this Agreement).

4. The first request by the Borrower for authorization to make withdrawals from the Loan Account in respect of each On-farm Investment shall contain a summary description of the Beneficiary and the On-farm Investment including a description of the expenditures proposed to be financed out of the proceeds of the Loan.

5. Each Subgrant shall be made pursuant to a Subgrant Agreement under terms and condition satisfactory to the Bank, whereby the Borrower shall obtain rights adequate to protect the interests of the Bank and the Borrower, including the right to:

(a) require the Beneficiary to carry out and operate the On-

farm Investment with due diligence and efficiency and in accordance with sound technical, financial, agricultural, conservation, environmental, ecological and managerial standards and to maintain adequate records;

(b) require that: (i) the goods, works and consultants' services to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Schedule 4 to this Agreement; (ii) such goods, works and consultants' services shall be used exclusively in the carrying out of the On-farm Investment; and (iii) the Beneficiary comply with the recommendations resulting from the corresponding On-farm Assessment;

(c) inspect, by itself or jointly with representatives of the Bank if the Bank shall so request, such goods and the sites, works, plants and constructions included in the On-farm Investment, the operation thereof, and any relevant records and documents;

(d) require that: (i) the Beneficiary shall take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound agricultural practices; and (ii) without any limitation upon the foregoing, such insurance shall cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Loan to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the Beneficiary to replace and repair such goods;

(e) obtain all such information as the Bank or the Borrower shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Beneficiary and to the benefits to be derived from the On-farm Investment; and

(f) suspend or terminate the right of the Beneficiary to the use of the proceeds of the Loan upon failure by such Beneficiary to perform its obligations under the Subgrant Agreement.

Section II. Farm Subprojects

In each Services Agreement, the Borrower shall obtain rights adequate to protect the interests of the Bank and the Borrower, including the right to:

(a) require the Farmer to carry out and operate the Farm Subproject with due diligence and efficiency and in accordance with sound technical, financial, agricultural, conservation, environmental, ecological and managerial standards and to maintain adequate records;

(b) require that: (i) the goods, works and consultants' services to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Schedule 4 to this Agreement; and (ii) such goods, works and consultants' services shall be used exclusively in the carrying out of the Farm Subproject;

(c) inspect, by itself or jointly with representatives of the Bank if the Bank shall so request, such goods and the sites, works, plants and constructions included in the Farm Subproject, the operation thereof, and any relevant records and documents;

(d) require that: (i) the Farmer shall take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound agricultural practices; and (ii) without any limitation upon the foregoing, such insurance shall cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Loan to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the Farmer to replace and repair such goods;

(e) obtain all such information as the Bank or the Borrower shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Farmer and to the benefits to be derived from the Farm Subproject; and

(f) suspend or terminate the right of the Farmer to the use of the proceeds of the Loan upon failure by such Farmer to perform its obligations under the Services Agreement.

Section III. Irrigation Subprojects

1. In each Rehabilitation Agreement and Construction Agreement, the Borrower shall obtain rights adequate to protect the interests of the Bank and the Borrower, including the right to:

(a) require the Small Farmer, Medium Farmer or User Group, as the case may be, to carry out and operate the Irrigation Subproject with due diligence and efficiency and in accordance with sound technical, financial, agricultural, conservation, environmental, ecological and managerial standards and to maintain adequate records;

(b) require that: (i) the goods, works and consultants' services to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Schedule 4 to this Agreement; and (ii) such goods, works and consultants' services shall be used exclusively in the carrying out of the Irrigation Subproject;

(c) inspect, by itself or jointly with representatives of the Bank if the Bank shall so request, such goods and the sites, works, plants and constructions included in the Irrigation Subproject, the operation thereof, and any relevant records and documents;

(d) require that: (i) the Small Farmer, Medium Farmer or User Group, as the case may be, shall take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound agricultural practices; and (ii) without any limitation upon the foregoing, such insurance shall cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Loan to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the Small Farmer, Medium Farmer or the User Group, as the case may be, to replace and repair such goods;

(e) obtain all such information as the Bank or the Borrower shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Small Farmer, Medium Farmer or User Group, as the case may be, and to the benefits to be derived from the Irrigation Subproject;

(f) require the User Group (to whom the use, administration and maintenance of the irrigation and drainage scheme has been transferred under a Rehabilitation Agreement) to pay for any expenditures incurred by such User Group in using, administering and maintaining the Irrigation Subproject;

(g) require that the Small Farmer, Medium Farmer or User Group, as the case may be, provide to the Borrower the guarantee or guarantees necessary to protect the Borrower in case of a default of the obligation referred to in paragraph 3 and 4 of this Section; and

(h) suspend or terminate the right of the Small Farmer, Medium Farmer or User Group, as the case may be, to the use of the proceeds of the Loan upon failure by such Small Farmer, Medium Farmer or User Group to perform its obligations under the Rehabilitation Agreement or Construction Agreement, as the case may be.

3. Each Rehabilitation Agreement and Construction Agreement shall

also provide for the obligation of the Small Farmer, Medium Farmer or User Group, as the case may be:

(a) to repay to the Borrower the Irrigation Subproject's capital costs (the Capital Costs), as indicated in paragraph 4 hereof, within a period not exceeding 25 years from the completion of the Irrigation Subproject, including a grace period not exceeding: (i) four years, in the case of Small Farmers, Medium Farmers and User Groups involved in production of fruit trees; and (ii) two years for Small Farmers, Medium Farmers and User Groups involved in production activities other than in the production activity referred to in (i) herein, such Capital Costs to be adjusted in the same proportion as the wholesale price index in Uruguay is adjusted as such price index is published by the MEF;

(b) pay interest on the amount of the Capital Costs outstanding from time to time at a rate at least equal to the rate calculated by the Central Bank on medium-term certificates of deposit in Pesos in Uruguay.

4. Each Rehabilitation Agreement and Construction Agreement shall provide for the amount of the Capital Costs to be repaid, which amount, except as the Bank shall otherwise agree, shall not be less than 30% of the total Capital Costs' amount, in the case of Small Farmers or User Groups, as the case may be, and not less than 70% thereof, in the case of Medium Farmers.

5. If the level of overall recovery of the Capital Costs agreed between the Borrower and the Small Farmer, Medium Farmer or User Group, as the case may be, with respect to each Irrigation Subproject differs in more than 15% in relation to the level included in the draft Rehabilitation Agreement or Construction Agreement or the information presented to the Bank, as referred to in Section 3.07 (a) of this Agreement, the Borrower shall not enter into such agreements with the Small Farmer, Medium Farmer or User Group, as the case may be, without the prior Bank's approval thereto.

6. The amounts corresponding to the principal of, and interest on, the Capital Costs shall be collected by the Borrower, through BROU, in a manner satisfactory to the Bank.

7. Each Rehabilitation Agreement shall provide for the obligation of the Borrower to grant a concession to such User Group to use, administer and maintain such scheme (including the transfer of the accessory rights necessary for the User Group to use, administer and maintain such scheme) for a period of at least equal to the period stipulated in the corresponding Rehabilitation Agreement to repay the Capital Costs of the Irrigation Subproject in question, as referred to in paragraphs 3 and 4 of this Section.

8. Each Rehabilitation Agreement and Construction Agreement shall provide for the obligation of the Borrower to grant to the Small Farmer, Medium Farmer or User Group, as the case may be, a concession for the use of water (including the right to use the volume of water necessary to sustain agricultural production in the area benefitted or to be benefitted by the corresponding Irrigation Subproject) for a period of at least equal to the period stipulated in the corresponding Rehabilitation Agreement or Construction Agreement, as the case may be, to repay the Capital Costs of the Irrigation Subproject in question, as referred to in paragraphs 3 and 4 of this Section.

