

Public Disclosure Authorized

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GEF TRUST FUND GRANT NUMBER TF055042

Global Environment Facility Trust Fund Grant Agreement

(Integrated Natural Resources and Biodiversity Management Project)

between

REPÚBLICA ORIENTAL DEL URUGUAY

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

acting as an Implementing Agency of the Global Environment Facility

Dated June 16, 2005

Public Disclosure Authorized

GEF TRUST FUND GRANT NUMBER TF055042

GLOBAL ENVIRONMENT FACILITY TRUST FUND GRANT AGREEMENT

AGREEMENT, dated June 16, 2005, between REPÚBLICA ORIENTAL DEL URUGUAY (the Recipient) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) acting as an implementing agency of the Global Environment Facility (GEF) in respect of grant funds provided to the GEF Trust Fund by certain members of the Bank as participants of the GEF.

WHEREAS (A) the Bank, pursuant to Resolution No. 91-5 of March 14, 1991 of the Executive Directors of the Bank, established the GEF to assist in the protection of the global environment and promote thereby environmentally sound and sustainable economic development;

(B) following the restructuring of the GEF, such arrangements continued in place on the basis set forth in Resolution No. 94-2 of May 24, 1994, of the Executive Directors of the Bank which, *inter alia*, established the GEF Trust Fund and appointed the Bank as trustee of the GEF Trust Fund (Resolution 94-2);

(C) the Recipient, having satisfied itself as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project), has requested assistance from the resources of the GEF Trust Fund for funding the Project, and said request having been approved in accordance with the provisions of the Instrument for the Establishment of the Restructured Global Environment Facility approved under Resolution 94-2; and

(D) the Recipient has also requested the Bank to provide additional financing for the Project and by an agreement of even date herewith between the Recipient and the Bank (the Loan Agreement), the Bank is agreeing to provide such assistance in an aggregate principal amount equivalent to thirty million Dollars (\$30,000,000) (the Loan); and

WHEREAS the Bank has agreed, on the basis, *inter alia*, of the foregoing, to extend the GEF Trust Fund Grant to the Recipient 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 (a) The following provisions of the “General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans” of the Bank, dated May 30, 1995 (as amended through May 1, 2004), with the modifications set forth in paragraph (b) of this Section (the General Conditions) constitute an integral part of this Agreement:

- (i) Article I;
 - (ii) Sections 2.01 (2), (3), (4), (5), (6), (7), (8), (14), (15), (16), (18) and (21), 2.02 and 2.03;
 - (iii) Section 3.01;
 - (iv) Sections 4.01 and 4.06;
 - (v) Article V;
 - (vi) Sections 6.01, 6.02 (a), (c), (d), (e), (f), (i), (l), (m), (n), (o) and (p), 6.03, 6.04 and 6.06;
 - (vii) Section 8.01 (b);
 - (viii) Sections 9.01 (a) and (c), 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09;
 - (ix) Sections 10.01, 10.03 and 10.04;
 - (x) Article XI; and
 - (xi) Sections 12.01 (c), 12.03 and 12.04.
- (b) The General Conditions shall be modified as follows:
- (i) the term “Bank”, wherever used in the General Conditions, other than in Sections 2.01 (6), 6.02 (f) and 5.01 (a) thereof, means the Bank acting as an implementing agency of the GEF, except that in Section 6.02, the term “Bank” shall also include the Bank acting in its own capacity;
 - (ii) the term “Borrower”, wherever used in the General Conditions, means the Recipient;

- (iii) the term “Loan Agreement”, wherever used in the General Conditions, means this Agreement;
- (iv) the term “Loan” and “loan”, wherever used in the General Conditions, means the GEF Trust Fund Grant;
- (v) the term “Loan Account”, wherever used in the General Conditions, means the GEF Trust Fund Grant Account;
- (vi) 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 GEF Trust Fund Grant Agreement, the proceeds of the GEF Trust Fund Grant may be withdrawn to pay for taxes levied by, or in the territory of, the Recipient or the Guarantor on the goods or services to be financed under the GEF Trust Fund Grant, 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 GEF Trust Fund Grant is excessive or otherwise unreasonable, the Bank may, by notice to the Recipient, adjust the percentage for withdrawal set forth or referred to in respect of such item in the GEF Trust Fund Grant Agreement as required to be consistent with such policy of the Bank.”.

- (vii) a new subparagraph is added after subparagraph (o) in Section 6.02 of the General Conditions, as follows: “an extraordinary situation shall have arisen in which any further disbursement under the GEF Trust Fund Grant would exceed the resources available for disbursement from the GEF.”; and
- (viii) the words “corrupt or fraudulent” in paragraph (c) of Section 6.03 are replaced with the words “corrupt, fraudulent, collusive or coercive”.

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

(a) “Biodiversity Beneficiary” means each farmer and/or livestock producer that meets the eligibility criteria set forth in the Operational Manual and has been selected to carry out a Biodiversity Subproject;

(b) “Biodiversity Subproject” means a specific set of activities under Part A.2 of the Project;

(c) “Biodiversity Subproject Agreement” means each agreement referred to in Section 3.03 (a) of this Agreement;

(d) “DINAMA” means *Dirección Nacional del Medio Ambiente*, the Borrower’s National Directorate for the Environment within MVOTMA;

(e) “Eligible Categories” means Categories (1) through (4) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(f) “Eligible Expenditures” means the expenditures for goods, works and consultants’ services referred to in Section 2.02 of this Agreement;

(g) “Financial Monitoring Report” or “FMR” means each report prepared in accordance with Section 4.02 of this Agreement.

(h) “Implementation Letter” means the letter of even date herewith, from the Borrower to the Bank, containing the performance indicators for Project monitoring and evaluation;

(i) “MEF” means *Ministerio de Economía y Finanzas*, the Borrower’s Ministry of Economy and Finance;

(j) “MGAP” means *Ministerio de Ganadería, Agricultura y Pesca*, the Borrower’s Ministry of Livestock, Agriculture and Fishery;

(k) “MVOTMA” means *Ministerio de Vivienda, Ordenamiento Territorial y Medio Ambiente*, the Borrower’s Ministry of Housing, Territorial Planning and the Environment;

(l) “NRM Beneficiary” means each farmer and/or livestock producer that meets the eligibility criteria set forth in the Operational Manual and has been selected to carry out an NRM Subproject;

(m) “NRM Subproject” or “Natural Resource Management Subproject” means a specific set of activities under Part A.1 of the Project;

(n) “NRM Subproject Agreement” means each agreement referred to in Section 3.03 (b) of this Agreement;

(o) “Operational Manual” means the manual referred to in Section 3.01 (b) of this Agreement;

(p) “OPP” means *Oficina de Planeamiento y Presupuesto*, the Borrower’s Office for Planning and Budget;

(q) “PEU” means the unit referred to in Section 3.04 (a) of this Agreement;

(r) “Pilot Area” means the areas selected in accordance with the procedures set forth in the Operational Manual for the execution of Part B of the Project;

(s) “Pilot Area Beneficiary” means each farmer and/or livestock producer that meets the eligibility criteria set forth in the Operational Manual and has been selected to carry out a Pilot Area Subproject;

(t) “Pilot Area Subproject” means a specific set of activities under Part B of the Project;

(u) “Pilot Area Subproject Agreement” means each agreement referred to in Section 3.03 (c) of this Agreement;

(v) “PRENADER” means the Borrower’s Natural Resources Management and Irrigation Development Project financed under a loan agreement between the Borrower and the Bank, dated March 4, 1994 (Loan Number 3697-UR);

(w) “Procurement Plan” means the Borrower’s procurement plan, dated April 21, 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) “RENARE” means *Dirección General de Recursos Naturales Renovables*, the Borrower’s General Office for Renewable Natural Resources within MGAP;

(y) “Report-based Disbursements” means the Borrower’s option for withdrawal of funds from the Loan Account referred to in Part A.5 of Schedule 1 to this Agreement;

(z) “Resettlement” means the impact of involuntary taking of land under the Project which taking causes the 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; and

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

ARTICLE II

The GEF Trust Fund Grant

Section 2.01. The Bank agrees to make available to the Recipient, on the terms and conditions set forth or referred to in this Agreement, the GEF Trust Fund Grant in an amount equal to seven million Dollars (\$7,000,000).

Section 2.02. The amount of the GEF Trust Fund Grant may be withdrawn from the GEF Trust Fund Grant 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 GEF Trust Fund Grant.

Section 2.03. The Closing Date shall be August 31, 2011 or such later date as the Bank shall establish. The Bank shall promptly notify the Recipient of such later date.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Recipient declares its commitment to the objective of the Project, and, to this end, shall carry out the Project through MGAP with the collaboration of DINAMA with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, technical, agricultural, conservation, social, ecological, environmental and institutional practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) above and except as the Bank and the Recipient shall otherwise agree, the Recipient shall carry out the Project in accordance with the provisions of an operational manual (the Operational Manual), satisfactory to the Bank, which shall include, *inter alia*:

- (i) requirements regarding functions, staffing and organization of the PEU;

- (ii) the draft terms of reference of key personnel of the PEU, including, *inter alia*: an agronomist as PEU Director, two agronomists to coordinate the execution of agricultural sustainable development activities and biodiversity conservation activities, an accountant and an assistant accountant responsible for the financial management of the Project, an information technology expert to operate the Project's monitoring and evaluation system, two technical assistants, and one secretary;
- (iii) financial management system arrangements for the Project;
- (iv) disbursement arrangements for the Project;
- (v) flow of funds and monitoring and evaluation procedures in respect of the Project;
- (vi) the criteria for the selection of the Pilot Areas;
- (vii) requirements and procedures for the selection and approval of activities and beneficiaries for Biodiversity Subprojects, NRM Subprojects, and Pilot Area Subprojects;
- (viii) model agreements for Biodiversity Subprojects, NRM Subprojects and Pilot Area Subprojects;
- (ix) environmental screening procedures for Biodiversity Subprojects, NRM Subprojects and Pilot Area Subprojects;
- (x) measures to ensure that Biodiversity Subprojects, NRM Subprojects, and Pilot Area Subprojects will only have positive environmental impacts;
- (xi) negative list of activities that cannot be included in Biodiversity Subprojects, NRM Subprojects and Pilot Area Subprojects;
- (xii) institutional arrangements for Project implementation;
- (xiii) the draft terms of reference for studies to be carried out under Part C of the Project during the first year of Project implementation; and

(xiv) the Procurement Plan.

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

Section 3.02. (a) 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 GEF Trust Fund Grant shall be governed by the provisions of Schedule 3 to this Agreement, as said provisions may be further elaborated in the Procurement Plan.

(b) The Recipient 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. (a) The Recipient shall enter into an agreement (a Biodiversity Subproject Agreement) with each of the Biodiversity Beneficiaries on terms and conditions which shall have been approved by the Bank for purposes of carrying out Part A.2 of the Project. The Biodiversity Subproject Agreement shall specify: (i) that the Biodiversity Beneficiary shall carry out a specific set of activities under Part A.2 of the Project in accordance with the provisions of this Agreement and the procedures set forth in the Operational Manual; (ii) that the Recipient and the Biodiversity Beneficiary shall each pay the percentage set forth in the Operational Manual of the cost of goods, works, services, and operating costs (in an amount not to exceed the limit per party set forth in the Operational Manual) to carry out a specific set of activities under Part A.2 of the Project; and (iii) that all procurement of goods, works and services for Biodiversity Subprojects shall be carried out in accordance with the procedures set forth in this Agreement, the Procurement Plan and the Operational Manual.

(b) The Recipient shall enter into an agreement (a NRM Subproject Agreement) with each of the NRM Beneficiaries on terms and conditions which shall have been approved by the Bank for purposes of carrying out Part A.1 of the Project. The NRM Subproject Agreement shall specify: (i) that the NRM Beneficiary shall carry out a specific set of activities under Part A.1 of the Project in accordance with the provisions of this Agreement and the procedures set forth in the Operational Manual; (ii) that the Recipient and the NRM Beneficiary shall each pay the percentage set forth in the Operational Manual of the cost of goods, works, services, and operating costs (in an amount not to exceed the limit per party set forth in the Operational Manual) to carry out a specific set of activities under Part A.1 of the Project; and (iii) that all procurement of goods, works and services for NRM Subprojects shall be carried out in accordance with the procedures set forth in this Agreement, the Procurement Plan and the Operational Manual.

(c) The Recipient shall enter into an agreement (a Pilot Area Subproject Agreement) with each of the Pilot Area Beneficiaries on terms and conditions which shall

have been approved by the Bank for purposes of carrying out Part B of the Project. The Pilot Area Subproject Agreement shall specify: (i) that the Pilot Area Beneficiary shall carry out a specific set of activities under Part B of the Project in accordance with the provisions of this Agreement and the procedures set forth in the Operational Manual; (ii) that the Recipient and the Pilot Area Beneficiary shall each pay the percentage set forth in the Operational Manual of the cost of goods, works, services, and operating costs (in an amount not to exceed the limit per party set forth in the Operational Manual) to carry out a specific set of activities under Part B of the Project; and (iii) that all procurement of goods, works and services for Pilot Area Subprojects shall be carried out in accordance with the procedures set forth in this Agreement, the Procurement Plan and the Operational Manual.

(d) The Recipient shall exercise its rights and carry out its obligations under each Biodiversity Subproject Agreement, NRM Subproject Agreement and Pilot Area Subproject Agreement, in such a manner as to protect the interests of the Bank and the Recipient and to accomplish the purposes of the Loan. Except as the Bank shall otherwise agree, the Recipient shall not assign, amend, abrogate, repeal, terminate, waive or fail to enforce any Biodiversity Subproject Agreement, NRM Subproject Agreement and Pilot Area Subproject Agreement or any provision thereof.

Section 3.04. (a) The Recipient, through MGAP, shall establish, operate and maintain during Project execution a unit (the PEU) with organizational structure, staff, functions and responsibilities satisfactory to the Bank for the implementation, coordination and supervision of the Project.

(b) Without limitation to paragraph (a) above, the Recipient shall ensure that any change of the PEU structure, staff, personnel, functions and responsibilities shall be effected only with the prior approval of the Bank.

Section 3.05. The Recipient shall establish an inter-ministerial coordination committee (the ICC), led by the Minister of MGAP, and including the Director of OPP, Minister of MEF, and the Minister of MVTOMA to coordinate Project activities with other MGAP programs, define the policy framework within which Project implementation will take place and discuss main policy and budget issues related to the Project.

Section 3.06. The Recipient, through the PEU, 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 furnish to the Bank, not later than twelve months after the Effective Date and each semester

thereafter during the period of Project implementation, 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 period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank, shortly after each such report's preparation, each report referred to in paragraph (b) of this Section, and thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter.

Section 3.07. Without limitation to the provisions in Section 3.06 of this Agreement, the Recipient, through the PEU, shall:

(a) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, no later than September 2008, a report integrating the results of the monitoring and evaluation activities performed pursuant to Section 3.06 of this Agreement, on the progress achieved in the carrying out of the Project during the period from the Effective Date to the date 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 period following such date; and

(b) review with the Bank, by November 30, 2008, or such later date as the Bank shall request, the report referred to in paragraph (a) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter.

Section 3.08. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Recipient 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 Recipient and the Bank, a plan designed to ensure the continued achievement of the Project's objectives; and

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

Section 3.09. Without limitation to the provisions of Section 3.01 of this Agreement, the Recipient shall:

(a) prior to the commencement of any actions under each Biodiversity Subproject, NRM Subproject, and Pilot Area Subproject: (i) carry out an environmental screening and/or an environmental assessment (as the case may be) of the respective actions; and (ii) if required by the Bank, approve an environmental management plan, acceptable to the Bank, for such actions (which plan shall be based on the results of the environmental screening and/or environmental assessment, if any), all in accordance with the provisions of the Operational 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. The Recipient shall ensure that Biodiversity Subprojects, NRM Subprojects and Pilot Area Subprojects do not include any activity that may cause Resettlement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Recipient, through MGAP, shall establish and 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 Recipient, through MGAP, 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 GEF Trust Fund Grant Account were made on the basis of the reports referred to in Part A.5 of Schedule 1 to this Agreement (Report-based Disbursements) or on the basis of statements of expenditure (as the case may be), the Recipient 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 GEF Trust Fund Grant 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 Recipient's progress reporting obligations set out in Sections 3.06 and 3.07 of this Agreement, the Recipient, through MGAP, shall prepare and furnish to the Bank a financial monitoring report (FMR), 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 GEF Trust Fund Grant, 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 semester, and shall cover such calendar semester.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (p) of the General Conditions, the following additional events are specified:

- (a) (i) Subject to subparagraph (ii) of this paragraph:
 - (A) the right of the Recipient to withdraw the proceeds of the Loan made to the Recipient for the financing of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the Loan Agreement; or
 - (B) the Loan Agreement shall have become due and payable prior to the agreed maturity thereof.
- (ii) Subparagraph (i) of this paragraph shall not apply if the Recipient establishes to the satisfaction of the Bank that:
 - (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Recipient to perform any of its obligations under any of such agreement; and
 - (B) adequate funds for the Project are available to the Recipient from other sources on terms and conditions consistent with the obligations of the Recipient under this Agreement.
- (b) The Recipient shall have failed to perform any of its obligations under the Loan Agreement.
- (c) As a result of events which have occurred after the date of this Agreement, an extraordinary situation shall have arisen which shall make it improbable that the Recipient will be able to perform its obligations under the Loan Agreement.

ARTICLE VI

Effectiveness, Termination

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

(a) the Loan Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Recipient to make withdrawals thereunder, except only the effectiveness of the Grant Agreement, have been fulfilled;

(b) the Operational Manual, satisfactory to the Bank, has been adopted by the Recipient;

(c) the PEU has been established and staffed as set forth in Section 3.04 of this Agreement; and

(d) the Recipient has established, and made operational, financial management arrangements satisfactory to the Bank, and the format for FMRs has been agreed with the Bank.

Section 6.02. The date September 14, 2005 is hereby specified for the purposes of Section 12.04 of the General Conditions.

Section 6.03. This Agreement shall continue in effect until the GEF Trust Fund Grant has been fully disbursed and the parties to this Agreement have fulfilled their obligations hereunder.

ARTICLE VII

Representative of the Recipient; Addresses

Section 7.01. The Minister of MGAP of the Recipient is designated as representative of the Recipient for the purposes of Section 11.03 of the General Conditions.

Section 7.02 The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Constituyente 1476
Tercer Piso
11200 Montevideo
Uruguay

Facsimile:

(59-82) 419-8175

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 Montevideo, Uruguay, as of the day and year first above written.

REPÚBLICA ORIENTAL DEL URUGUAY

By /s/ Danilo Astori

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
acting as an Implementing Agency of the Global Environment
Facility

By /s/ Pamela Cox

Authorized Representative

Honorary Witness:

By /s/ José Mujica
Minister of Agriculture, Livestock and Fisheries

SCHEDULE 1

Withdrawal of the Proceeds of the GEF Trust Fund Grant

A. General

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

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be financed</u>
(1) Biodiversity Subprojects	5,800,000	95% of the cost of goods, works, services and operating costs needed for Biodiversity Subprojects and Pilot Area Subprojects
(2) Consultants' Services under Part C.1(b), C.2(b), C.2(c), C.3(a)(i), C.3(b) of the Project	400,000	100%
(3) Operating costs (other than those included in Category (1) above)	300,000	30%
(4) Unallocated	500,000	
TOTAL	<u>7,000,000</u>	

2. For the purposes of this Schedule the term "operating costs" means reasonable expenditures, which would not have been incurred absent the Project, for the maintenance and leasing of vehicles and equipment, for fuel, office supplies and other consumables, utilities and travel and accommodations.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.

4. The Bank may require withdrawals from the GEF Trust Fund Grant Account to be made on the basis of statements of expenditure for expenditures under contracts not subject to prior review by the Bank pursuant to Section IV of Schedule 3 to this Agreement.

5. Upon written notification from the Bank, the Recipient may request withdrawals from the GEF Trust Fund Grant Account to be made on the basis of reports to be submitted to the Bank in form and substance satisfactory to the Bank, such reports to include the FMR and any other information as the Bank shall specify by notice to the Recipient (Report-based Disbursements). In the case of the first such request submitted to the Bank before any withdrawal has been made from the GEF Trust Fund Grant Account, the Recipient shall submit to the Bank only a statement with the projected sources and applications of funds for the Project for the six-month period following the date of such request.

B. Special Account

1. The Recipient may open and maintain in Dollars a special deposit account in its Central Bank, on terms and conditions satisfactory to the Bank.

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

(a) if the Recipient is not making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) if the Recipient is making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

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

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

(a) if the Bank, at any time, is not satisfied that the reports referred to in Part A.5 of this Schedule 1 adequately provide the information required for Report-based Disbursements;

(b) if the Bank determines at any time that all further withdrawals for payment of Eligible Expenditures should be made by the Recipient directly from the GEF Trust Fund Grant Account; or

(c) if the Recipient shall have failed to furnish to the Bank, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of: (A) the records and accounts for the Special Account; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were Report-based Disbursements or were made on the basis of statements of expenditure, as the case may be.

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

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

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

(c) The Recipient 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 subparagraph (a), (b) or (c) of this paragraph 6 shall be credited to the GEF Trust Fund Grant Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Loan Agreement.

**Annex A
to
SCHEDULE 1**

**Operation of Special Account
When Withdrawals Are Not
Report-based Disbursements**

1. For the purposes of this Annex, the term “Authorized Allocation” means the amount of \$700,000 to be withdrawn from the GEF Trust Fund Grant Account and deposited into the Special Account pursuant to paragraph 2 of this Annex.
2. Withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:
 - (a) For withdrawals of the Authorized Allocation, the Recipient shall furnish to the Bank a request or requests for deposit into the Special Account of an amount or amounts which in the aggregate do not exceed the Authorized Allocation. On the basis of each such request, the Bank shall, on behalf of the Recipient, withdraw from the GEF Trust Fund Grant Account and deposit into the Special Account such amount as the Recipient shall have requested.
 - (b) For replenishment of the Special Account, the Recipient shall furnish to the Bank requests for deposit into the Special Account at such intervals as the Bank shall specify. Prior to or at the time of each such request, the Recipient shall furnish to the Bank the documents and other evidence required pursuant to Part B.3 of Schedule 1 to this Agreement for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Recipient, withdraw from the GEF Trust Fund Grant Account and deposit into the Special Account such amount as the Recipient shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for Eligible Expenditures. Each such deposit into the Special Account shall be withdrawn by the Bank from the GEF Trust Fund Grant Account under one or more of the Eligible Categories.
3. The Bank shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Loan minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the GEF Trust Fund Grant Account of the remaining unwithdrawn amount of the Loan shall follow such procedures as the Bank shall specify by notice to the Recipient. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

**Annex B
to
SCHEDULE 1**

**Operation of Special Account
When Withdrawals Are
Report-based Disbursements**

1. Withdrawals from the GEF Trust Fund Grant Account shall be deposited by the Bank into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Bank from the GEF Trust Fund Grant Account under one or more of the Eligible Categories.

2. Upon receipt of each application for withdrawal of an amount of the Loan, the Bank shall, on behalf of the Recipient, withdraw from the GEF Trust Fund Grant Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Bank has determined, based on the reports referred to in Part A.5 of this Schedule 1 applicable to such withdrawal application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such reports.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Recipient in its efforts to promote: (a) the adoption of economically and environmentally viable integrated production systems among farmers and livestock producers, within a context of holistic ecosystem and natural resources management; and (b) an increased understanding of the role of biodiversity in agricultural landscapes and the potential impact of the various land use practices upon biodiversity and their economic and ecological sustainability.

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

Part A: Natural Resources and Biodiversity Management

1. Carrying out demand-driven sub-projects (Natural Resource Management Subprojects or NRM Subprojects) consisting of investments and technical assistance to promote the adoption of:

(a) improved natural resources management practices in livestock production systems, with special reference to improved management of natural pastures;

(b) improved cultural practices in dryland agriculture that may improve the conservation and management of soil and water resources; and

(c) improved soil and water resources management systems in irrigated areas, which could include investments to consolidate and expand irrigation development under PRENADER.

2. Carrying out demand-driven sub-projects (Biodiversity Subprojects) to promote biodiversity initiatives, consisting of investments and technical assistance which may include, *inter alia*:

(a) financing of incremental costs of biodiversity conservation and management, with special reference to native grass species;

(b) engaging in sustainable management of timber and non-timber products from native forests;

(c) engaging in management and conservation of native fauna;

(d) generating silvo-pastoral initiatives; and

- (e) developing rural tourism based on native species.

Part B: Establishment of Pilot Areas

Carrying out sub-projects (Pilot Area Subprojects) in Pilot Areas with demonstration farms on the Recipient's savanna and native forest ecosystems (grasslands and *serranías*), for sustainable use of natural resources in key micro-catchments which are of importance for biodiversity, combining sound practices for natural resources management with the creation of increased public awareness of the significance and socioeconomic importance of biodiversity.

Part C: Support Services

Developing support services that contribute to the efficient implementation of Biodiversity Subprojects, NRM Subprojects and Pilot Area Subprojects, including:

1. Institutional strengthening of MGAP, focused on RENARE: (a) to increase its efficiency in the field of natural resources, as well as to strengthen its support to the PEU in the same field; and (b) to increase its efficiency in the field of biodiversity conservation and management, as well as to strengthen its support to the PEU in the same field;
2. (a) upgrading the Recipient's geographical information system developed under PRENADER; (b) promoting a better knowledge of the biodiversity in Pilot Areas; and (c) carrying out eco-regional planning activities in the territory of the Recipient;
3. carrying out training activities, including, *inter alia*: (a) specialized training for professionals who will provide technical assistance to: (i) Biodiversity Beneficiaries and Pilot Area Beneficiaries for Biodiversity Subproject and Pilot Area Subproject preparation and execution, respectively; and (ii) NRM Beneficiaries for NRM Subproject preparation and execution; (b) training for producers (final beneficiaries) in innovative forms of biodiversity use and improved natural resource management techniques, certification, easements and land tax exemptions; (c) training for employees of RENARE and the PEU; and (d) training for employees of other Recipient agencies; and
4. (a) carrying out studies to improve the Recipient's natural resources management policy framework and to cover other subjects relevant to the Project identified by MGAP; and (b) financing applied research proposals to develop improved natural resource management practices in areas with particularly difficult conditions.

Part D: Project Coordination

1. Supporting the establishment and operation of the PEU.

2. Supporting the establishment and operation of a monitoring and evaluation system for the Project.

3. Supporting the design and implementation of a public information and dissemination program of Project activities, with the objective of informing the general public, political leaders, beneficiaries and their associations, and the media regarding the rules of the Project, the value of biodiversity and the necessity for conserving and maintaining the quality and the quantity of natural resources.

* * *

The Project is expected to be completed by February 28, 2011.

SCHEDULE 3

Procurement

Section I. General

A. All goods, works and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants' services shall be procured in accordance with Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

C. Without limitation to the provisions in Parts A and B of this Section, the following additional provisions shall govern the procurement of goods, works and consultants' services under the Project (as the case may be):

1. The lowest evaluated bid shall be selected for contract award.
2. Foreign bidders shall be allowed to participate in national competitive bidding.
3. Foreign bidders may be required, as a prerequisite for bidding, to be registered with local authorities, provided, however, that the information to be requested from such bidders is of such nature that it will not discourage their participation.
4. There shall be no prescribed minimum number of bids to be submitted in order for a contract to be subsequently awarded.
5. After the public opening of bids, information relating to the examination, clarification and evaluation of bids and proposals and recommendations concerning awards shall not be disclosed to bidders or consultants or other persons not officially concerned with this process until the publication of the contract award (except as provided in paragraphs 2.20 and 2.27 of the Consultant Guidelines).
6. Foreign bidders shall not be required to authenticate (*legalizar*) their bidding documents or any documentation related to such bidding documents with Uruguayan authorities as a prerequisite for bidding.
7. There shall be no preference for domestic contractors.

8. The prices of contracts for consultants' services over one year duration may be adjusted.

9. Foreign consultants shall not be required to authenticate (*legalizar*) their proposals or any documentation related to such proposals with Uruguayan authorities as a prerequisite for participating in the selection procedure.

10. The invitations to bid, bidding documents, minutes of bid openings, requests for expressions of interest, the evaluation reports of bids and proposals, and contract awards of all goods, works and consultants' services, as the case may be, shall be published in a web page acceptable to the Bank, and in a manner acceptable to the Bank.

D. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Bank of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

Section II. Particular Methods of Procurement of Goods, Works and Services (other than Consultants' Services)

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Recipient.

B. Other Procurement Procedures

1. National Competitive Bidding.

(a) Goods estimated to cost less than \$250,000 equivalent per contract and works estimated to cost less than \$3,000,000 equivalent per contract, may be procured under contracts awarded on the basis of National Competitive Bidding.

(b) Procurement of goods and works under this Part shall be carried out using standard bidding documents acceptable to the Bank.

2. Shopping. Goods and non-consultant services estimated to cost less than \$50,000 equivalent per contract and works estimated to cost less than \$250,000 equivalent per contract, may be procured under contracts awarded on the basis of Shopping.

3. Direct Contracting. Goods and works which the Bank agrees meet the requirements for Direct Contracting may be procured in accordance with the provisions of said procurement method.

4. Commercial Practices. Items estimated to cost less than \$200,000 equivalent per contract and to be financed for Biodiversity Subprojects, NRM Subprojects and/or Pilot Area Subprojects under Parts A.1, A.2 and B of the Project, may be procured in accordance with commercial practices acceptable to the Bank.

Section III. Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection. Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than \$200,000 equivalent per contract may comprise entirely national consultants.

B. Other Procedures

1. Selection Based on Consultants' Qualifications. Services estimated to cost less than \$200,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines.

2. Single Source Selection. Services for tasks in circumstances which meet the requirements of paragraph 3.10 of the Consultant Guidelines for Single Source Selection, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.

3. Commercial Practices. Services estimated to cost less than \$200,000 equivalent per contract and to be financed for Biodiversity Subprojects, NRM Subprojects and/or Pilot Area Subprojects under Parts A.1, A.2 and B of the Project, may be procured in accordance with commercial practices acceptable to the Bank.

4. Individual Consultants. Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis.

Section IV. Review by the Bank of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Bank's Prior Review. If the Procurement Plan provides for prior review of contracts for the employment of individual consultants, the record of justification for such contracts, referred to in paragraph 5 of Appendix 1 to the Consultant Guidelines, shall be subject to

prior approval of the Bank. All other contracts shall be subject to Post Review by the Bank.