Mr. Carlos Colacce  
President  
Administración de las Obras Sanitarias del Estado  
Carlos Roxlo 1275 Esquina Constituyente  
Montevideo, Uruguay  

Re: URUGUAY-Preparation for the Administración de las Obras Sanitarias del Estado Modernization & Rehabilitation Program (APL4): Construction of Wastewater Treatment Plants  
SFLAC Grant No. TF096016  

Dear Sir:  

In response to the request for financial assistance made on behalf of the Administración de las Obras Sanitarias del Estado ("Recipient"), for the benefit of the Oriental Republic of Uruguay (Member Country), I am pleased to inform you that the International Bank for Reconstruction and Development ("World Bank"), acting as administrator of grant funds provided by Spain under the Spanish Fund for Latin America and the Caribbean (SFLAC), proposes to extend to the Recipient a grant in an amount not to exceed four hundred fifty thousand United States Dollars (U.S. $450,000) ("Grant") on the terms and conditions set forth or referred to in this letter agreement ("Agreement"), which includes the attached Annex, to assist in the financing of the project described in the Annex ("Project"). This Grant is funded out of the abovementioned trust fund for which the World Bank receives periodic contributions. In accordance with Section 3.02 of the Standard Conditions (as defined in the Annex to this Agreement), the Recipient may withdraw the Grant proceeds subject to the availability of such funds.  

The Recipient represents, by confirming its agreement below, that it is authorized to enter into this Agreement and to carry out the Project in accordance with: (a) the terms and conditions set forth or referred to in this Agreement; and (b) the letter from the Minister of Economy and Finance dated May 20, 2010.  

Please confirm the Recipient’s agreement to the foregoing by having an authorized official of the Recipient sign and date the enclosed copy of this Agreement, and returning it to the World Bank.
Upon receipt by the World Bank of this countersigned copy, this Agreement shall become effective as of the date of the countersignature; provided, however, that the offer of this Agreement shall be deemed withdrawn if the World Bank has not received the countersigned copy of this Agreement within ninety (90) days after the date of signature of this Agreement by the World Bank, unless the World Bank shall have established a later date for such purpose.

Very truly yours,

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By /s/ Stefan Koeberle
Acting Country Director
Country Management Unit
Argentina, Paraguay and Uruguay

AGREED:

ADMINISTRACIÓN DE LAS OBRAS SANITARIAS DEL ESTADO

By: /s/ Carlos Colacce
Title: Presidente
Date: July 9, 2010

By: /s/ Dr. Daoiz G. Uriate
Title: Secretario General
Date: July 9, 2010

Enclosures:


Article I

Standard Conditions; Definitions

1.01. **Standard Conditions.** The Standard Conditions for Grants Made by the World Bank out of Various Funds dated July 1, 2008 (“Standard Conditions”), with the modifications set forth in Section I of the Appendix to this Agreement, constitute an integral part of this Agreement.

1.02. **Definitions.** Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Standard Conditions or in this Agreement, and the following terms have the following meanings:

   (a) “Law No. 11907” means Ley No. 11907 of the Member Country dated December 19, 1952, duly published in the Official Gazette (Diario Oficial) on May 20 and 21, 1953, which established OSE, including the regulations to such law, as amended to the date of this Agreement.

   (b) “Administración de las Obras Sanitarias del Estado” or “OSE” means the State Sanitary Works Administration of the Member Country.

Article II

Project Execution

2.01. **Project Objectives and Description.** The objective of the Project is to support the preparation of the fourth phase of the OSE Modernization & System Rehabilitation Adaptable Program Loan (the “Association Program”) which will build two wastewater treatment plants in the Member Country’s cities of Salto and Paysandú.

   The Project consists of the following parts:

   (a) Part A: Environmental and Social Impact Assessment

       Preparation of an integrated environmental and social impact assessment of the proposed Project in context of the Rio Uruguay watershed. Said assessment will focus on water quality, social and project specific impacts and mitigation measures during construction and operation of the plants.

   (b) Part B: Cost Benefit Analysis

       Carrying out of a cost benefit analysis through a financial, economic and risk evaluation, including distributive and sensitivity analysis, to ascertain the net benefits resulting from the construction of the wastewater treatment plans.

   (c) Part C: Evaluation of Technical Studies and Engineering Designs

       Carrying out of an assessment of the existing technical studies and engineering designs of two wastewater plants to evaluate environmental soundness and technical feasibility and thus investigate ways to improve design based on cost-effectiveness and operations.
(d) Part D: Interagency Consultation Workshops

Carrying out of at least four interagency workshops with international experts to discuss current water supply, sanitation, wastewater and urban drainage policies and regulations.

2.02. **Project Execution Generally.** The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project through its Gerencia de Programas con Financiamiento Externo Unit (“Project Implementing Entity” or “PIE”) in accordance with the provisions of: (a) Article II of the Standard Conditions; (b) the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 (“Anti-Corruption Guidelines”), with the modifications set forth in the Appendix to this Agreement; and (c) this Article II.

2.03. The Recipient shall promptly provide ground transportation within OSE service areas, as needed, during Grant implementation.

2.04. **Donor Visibility and Visit.** (a) The Member Country and the Recipient shall take or cause to be taken all such measures as the World Bank may reasonably request to identify publicly the Government of Spain’s support for the Project.

   (b) For the purposes of Section 2.09 of the Standard Conditions, the Member Country and the Recipient shall, upon the World Bank’s request, take all measures required on their part to enable the representatives of the Government of Spain to visit any part of the Member Country’s territory for purposes related to the Project.

2.05. **Project Monitoring, Reporting and Evaluation.** (a) The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of the indicators set forth below in paragraph (b) of this Section. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the World Bank not later than one month after the end of the period covered by such report.

   (b) The performance indicators referred to above in paragraph (a) are two folds: (i) outcome indicators: the Grant outputs will be used in the preparation of at least three World Bank documents during the APL4 evaluation and approval process; and (ii) output indicators: (A) environmental and social impact assessment report; (B) cost-benefit analysis report; (C) technical engineering assessment report; and (D) summary reports for the four interagency workshops by April 14, 2011.

   (c) The Recipient shall prepare the Completion Report in accordance with the provisions of Section 2.06 of the Standard Conditions. The Completion Report shall be furnished to the World Bank not later than five months after the Closing Date. In order to assist the Recipient in preparing the Completion Report, the Recipient shall employ consultants in accordance with the provisions of Section 2.06 of this Agreement.

2.06. **Financial Management.** (a) The Recipient shall ensure that a financial management system is maintained in accordance with the provisions of Section 2.07 of the Standard Conditions.
(b) The Recipient shall ensure that interim unaudited financial reports for the Project are prepared and furnished to the World Bank not later than forty-five days after the end of each calendar semester, covering the semester, in form and substance satisfactory to the World Bank.

(c) The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 2.07 (b) of the Standard Conditions. The single audit of the Financial Statements shall cover the entire period during which withdrawals from the Grant Account were made. The audited Financial Statements for such period shall be furnished to the World Bank not later than five months after the end of such period.

2.07. **Procurement**

(a) **General.** All goods, and services required for the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in:

(i) Section I (excluding paragraph 1.16) of the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the World Bank in May 2004 and revised in October 2006 and 2010 (“Procurement Guidelines”), in the case of goods; and

(ii) Sections I (excluding paragraph 1.24) and IV of the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the World Bank in May 2004 and revised in October 2006 and 2010 (“Consultant Guidelines”), in the case of consultants’ services.

(b) **Definitions.** The capitalized terms used in the following paragraphs of this Section to describe particular procurement methods or methods of review by the World Bank of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or the Consultant Guidelines, as the case may be.

(c) **Particular Methods of Procurement of Goods**

(i) International Competitive Bidding. Except as otherwise provided in paragraph 2 below, goods and Non-consultant services shall be procured under contracts awarded on the basis of International Competitive Bidding based on Standard Bidding Documents previously agreed with the World Bank.

(ii) Other Methods of Procurement of Goods, Works and Non-consultant services. The following the methods of procurement may be used for goods and Non-consultant services: International Competitive Bidding, Shopping and Direct Contracting, subject to the World Bank’s prior consent.

(d) **Particular Methods of Procurement of Consultants’ Services**

(i) Except as otherwise provided in item (ii) below, consultants’ services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.

(ii) The following methods may be used for the procurement of consultants’ services for those assignments which the Bank agrees meet the requirements set forth in the Consultant Guidelines for their use: (A) Quality-based Selection; (B) Selection under a Fixed Budget; (C) Least Cost Selection; (D) Selection based on Consultants’ Qualifications; (E) Single-
source Selection; (F) Selection of Individual Consultants; and (G) Sole Source Procedures for the Selection of Individual Consultants.

(e) **Review by the World Bank of Procurement Decisions.** Except as the World Bank shall otherwise determine by notice to the Recipient, the following contracts shall be subject to Prior Review by the World Bank: (i) each contract for goods or non-consultant services estimated to cost the equivalent of $250,000 or more procured on the basis of International Competitive Bidding; (ii) all contracts for goods or non-consultant services procured on the basis of Direct Contracting; (iii) each contract for consultants’ services provided by a firm estimated to cost the equivalent of $100,000 or more; and (iv) all contracts for consultants’ services provided by a firm selected on the basis of single-source selection. All other contracts shall be subject to Post Review by the World Bank.

### Article III
**Withdrawal of Grant Proceeds**

3.01. **Eligible Expenditures.** The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of: (a) the Standard Conditions; (b) this Section; and (c) such additional instructions as the World Bank may specify by notice to the Recipient (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the World Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the following table. The table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Grant (“Category”), the allocations of the amounts of the Grant to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Grant Allocated (expressed in USD)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Consultants’ services</td>
<td>407,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Training</td>
<td>31,500</td>
<td>100%</td>
</tr>
<tr>
<td>(3) Operating costs</td>
<td>11,500</td>
<td>100%</td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td><strong>450,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

For the purpose of this Section the term:

(a) “Training” means reasonable non-consultant costs incurred by the Recipient in connection with the provision of training conducted under the Project in the territory of the
Recipient, including purchase and publication of materials, rental of facilities, course fees, travel and subsistence of trainees.

(b) “Operating costs” means reasonable operating costs required for the Project including travel and *per diem*, communication, printing services, logistics for workshops and events directly related to the Project implementation.

3.02. **Withdrawal Conditions.** Notwithstanding the provisions of Section 3.01 of this Agreement, no withdrawal shall be made for payments made prior to the date of countersignature of this Agreement by the Recipient.

3.03. **Withdrawal Period.** The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is April 14, 2011.

**Article IV**

**Termination**

4.01. **Termination for Lack of Implementation or Disbursement.** This Agreement and all obligations of the parties under it shall terminate if: (a) the Grant has not been signed before July 12, 2010; (b) it has not been implemented or has not disbursed any funds after 6 months of its signature; (c) the Associated Program is approved by the World Bank’s Board; (d) the associated operation has been dropped, in which case signed contracts may be paid with SFLAC Secretariat’s approval; and/or (e) the SFLAC Secretariat has determined that there is lack of progress in the implementation of this Project, unless the World Bank, after consideration of the reason for the delay, establishes a later date for the purpose of this Section. The World Bank shall promptly notify the Recipient of such later date.

**Article V**

**Recipient’s Representative; Addresses**

5.01. **Recipient’s Representative.** The Recipient’s Representatives referred to in Section 7.02 of the Standard Conditions are, jointly, its President of the Board of Directors and its Secretary General.

5.02. **Recipient’s Address.** The Recipient’s Address referred to in Section 7.01 of the Standard Conditions is:

Administración de las Obras Sanitarias del Estado (OSE)
Carlos Roxlo 1275 Esquina Constituyente
Montevideo, Uruguay
Fax: (598-2) 418 8069

5.03. **World Bank’s Address.** The World Bank’s Address referred to in Section 7.01 of the Standard Conditions is:

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

Modifications to the Standard Conditions and the Anti-Corruption Guidelines

Section I. The Standard Conditions are modified as follows:

1. The provisions of Section 4.02 (j) of the Standard Conditions are modified to read as follows:

   (j) Ineligibility. IBRD or IDA has declared the Recipient (other than the Member Country) ineligible to receive proceeds of any financing made by IBRD or IDA or otherwise to participate in the preparation or implementation of any project financed in whole or in part by IBRD or IDA, as a result of: (i) a determination by IBRD or IDA that the Recipient has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of any financing made by IBRD or IDA; and/or (ii) a declaration by another financier that the Recipient is ineligible to receive proceeds of financings made by such financier or otherwise to participate in the preparation or implementation of any project financed in whole or in part by such financier as a result of a determination by such financier that the Recipient has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

Section II. The modifications to the Anti-Corruption Guidelines are as follows:

1. Section 5 is re-numbered as Section 5(a) and a new Section 5(b) is added to read as follows:

   “…(b) These Guidelines also provide for the sanctions and related actions to be imposed by the Bank on Borrowers (other than the Member Country) and all other individuals or entities who are recipients of Loan proceeds, in the event that the Borrower or the individual or entity has been debarred by another financier as a result of a determination by such financier that the Borrower or the individual or entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

2. Section 11(a) is modified to read as follows:

   “…(a) Sanction in accordance with prevailing Bank’s sanctions policies and procedures (fn13) a Borrower (other than a Member Country) (fn 14) or an individual or entity, including (but not limited to) declaring such Borrower, individual or entity ineligible publicly, either indefinitely or for a stated period of time: (i) to be awarded a Bank-financed contract; (ii) to benefit from a Bank-financed contract, financially or otherwise, for example as a sub-contractor; and (iii) to otherwise participate in the preparation or implementation of the project or any other project financed, in whole or in part, by the Bank, if at any time the Bank determines (fn 15) that such Borrower, individual or entity has engaged in corrupt, fraudulent, collusive, coercive or obstructive practices in connection with the use of loan proceeds, or if another financier with which the Bank has
entered into an agreement for the mutual enforcement of debarment decisions has declared such person or entity ineligible to receive proceeds of financings made by such financier or otherwise to participate in the preparation or implementation of any project financed in whole or in part by such financier as a result of a determination by such financier that the Borrower or the individual or entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

Footnotes:

“13. An individual or entity may be declared ineligible to be awarded a Bank financed contract upon completion of sanctions proceedings pursuant to the Bank’s sanctions policies and procedures, or under the procedures of temporary suspension or early temporary suspension in connection with an ongoing sanctions proceeding, or following a sanction by another financier with whom the Bank has entered into a cross debarment agreement, as a result of a determination by such financier that the firm or individual has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

“14. Member Country includes officials and employees of the national government or of any of its political or administrative subdivisions, and government owned enterprises and agencies that are not eligible to bid under paragraph 1.8(b) of the Procurement Guidelines or participate under paragraph 1.11(c) of the Consultant Guidelines.”

“15. The Bank has established a Sanctions Board, and related procedures, for the purpose of making such determinations. The procedures of the Sanctions Board sets forth the full set of sanctions available to the Bank. In addition, the Bank has adopted an internal protocol outlining the process to be followed in implementing debarments by other financiers, and explaining how cross-debarments will be posted on the Bank’s website and otherwise be made known to staff and other stakeholders.”